Risk Management
at
RBC Financial Group

Presentation to Institutional Investors
on September 4, 2002
by Suzanne Labarge, Vice Chairman & Chief Risk Officer

Good afternoon

•The purpose of this presentation is to provide an overview of how we assess and manage the various risks the Bank is exposed to.

•I have divided the presentation into two parts:

(1) How we look at the various risks and how we mitigate and manage them.

(2) How we look at the management of risk from an organizational perspective.

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- Economic Outlook

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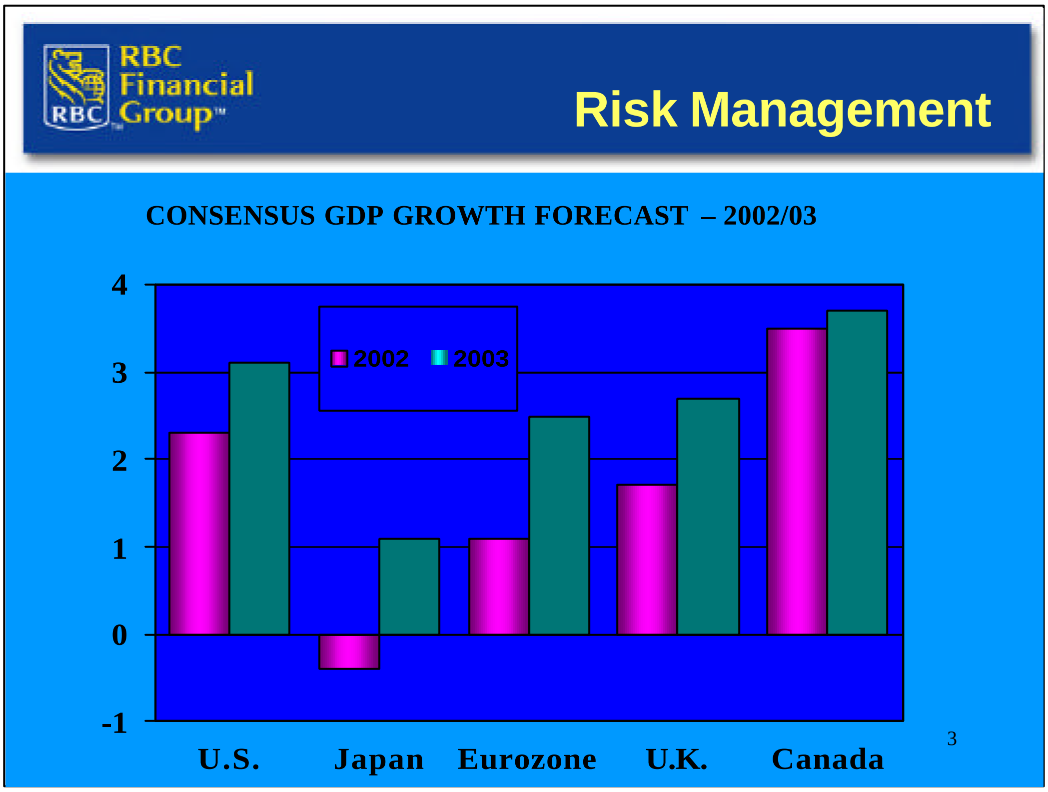
First the context in which we look at risk . I thought it worthwhile to give you our economists' perspective on the economic outlook.

It is a lot brighter than most of us would have thought a year ago.



Canada seems ready to continue to outperform the US which will grow slowly at least through this year.

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OUTLOOK FOR CANADA'S FINANCIAL SERVICES INDUSTRY

Year-over-year % change unless otherwise indicated

	FY2002	FY2003
Household lending	6.7	5.6
Consumer Credit	6.0	8.0
Residential mortgages	7.0	4.5
Household savings		
Personal deposits	6.0	-2.0
Mutual fund sales ($bln)	20.0	58.0
Business lending	-7.0	6.0
Current accounts	8.0	9.0

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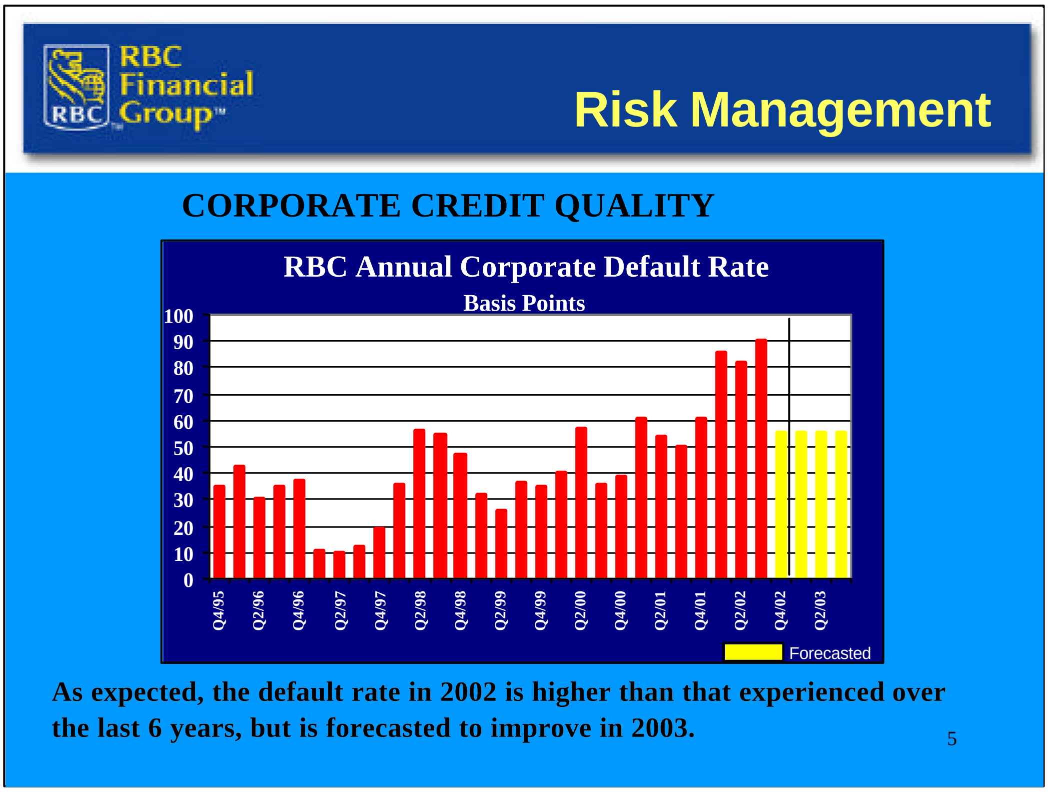
Source: Bank of Canada, IFIC, RBC Financial Group

• We expect to see a strong demand for credit over the next year.

• New money demand this year has been running about half of 2001 levels.



•Along with the improvement in the economy comes an expected improvement in the level of defaults.

•While these are based on our portfolio they track S&P's and Moody's default probabilities.

•A note of caution – these charts only predict the default rates – actual losses are a factor not only of default rates but also of the amount outstanding at default and the loss in event of default

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- Approach to Risk

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Business is about taking and managing risk. What is bad is risk that is mismanaged, misunderstood, mispriced or unintended.

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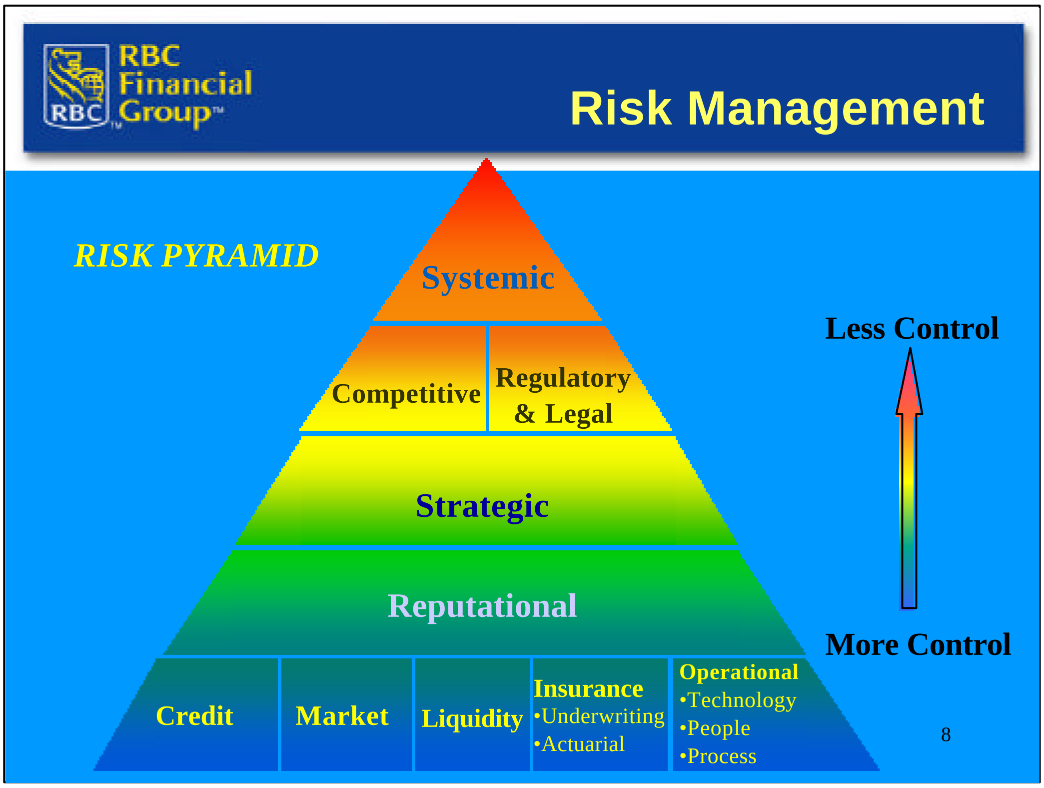

- The Risk Pyramid is the framework we use for assessing risk – whether it be at the business unit level or product level.

- It attempts to classify risks from the perspective of how much control we have over their management and mitigation.

- We use it throughout the organization to ensure consistency in our way of defining and assessing the various risks we are exposed to. It helps to ensure that we have a common language of risk across our multiple platforms.

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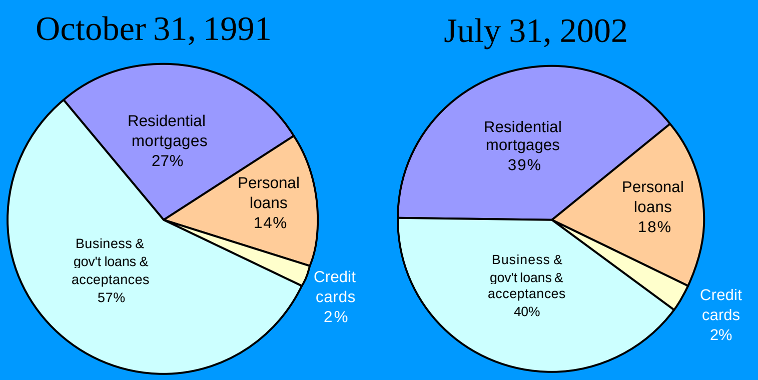
PORTFOLIO MIX



Significant change in portfolio mix

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- Given the size of our balance sheet, credit risk will always be the largest source of risk.

- What we have tried to do over the past decade is to shift the nature of these risks.
  - Residential mortgages and personal lending have become a larger part of our portfolio.
  - The level of loan losses in these portfolios are relatively stable and more predictable.

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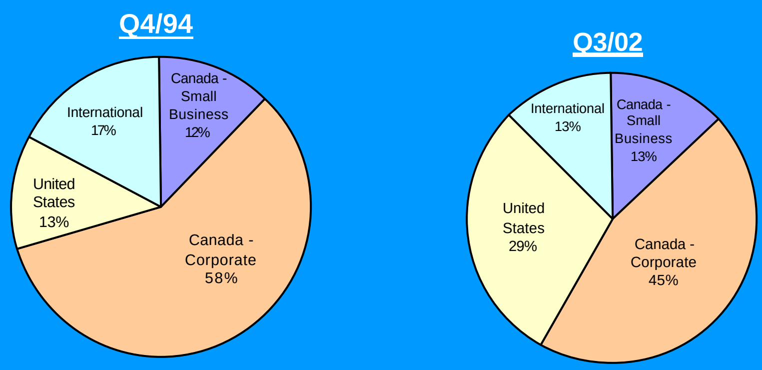
BUSINESS AND GOVERNMENT



Since 1994 the Business & Government portfolio has seen a reduction in International and Canadian Corporate exposure and an increase in US exposure.

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- We have reduced our Canadian concentration by diversifying corporate exposure internationally
  - Different risk profile
  - Different opportunities for mitigating risk

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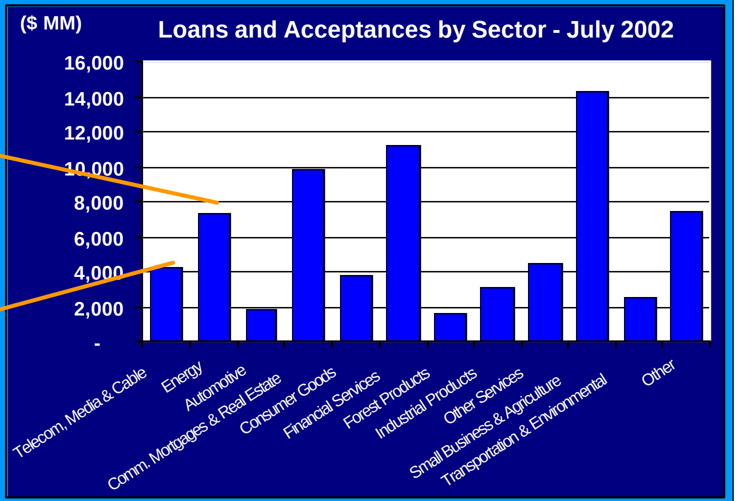
SECTOR EXPOSURE

Energy	($MM)
Power & Power Generation	2,022
Natural Gas	1,521
Oil and Gas	3,809
	7,352

Telecom, Media & Cable	($MM)
Telecom	1,836
Media	1,544
Cable	882
	4,262



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• What we have also done over the past decade is to shift our industry risk profile.

• While real estate continues to be our largest industry exposure it is still smaller in absolute terms than it was in the early 90's – despite the growth in our balance sheet and capital.

• It is also a very different profile as much of the portfolio has been acquired as part of our US expansion.

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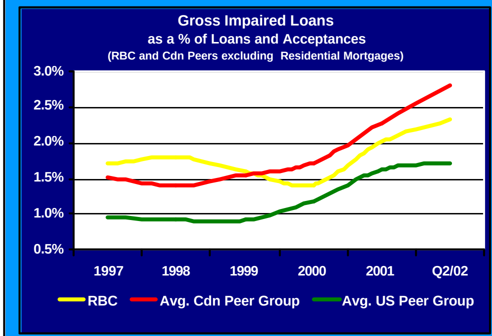
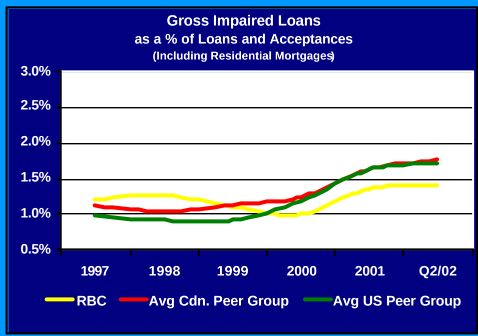
PEER COMPARISON





- RBC has outperformed its Canadian peers, but lags its US peers.
- When residential mortgages are included, the Canadian average improves and RBC continues to outperform its Canadian peers.

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- One of the ways we measure ourselves is by peer comparison.
- Not always apples and apples but it does help us focus on some of the key elements analysts and rating agencies use.
- As we become more North American we have included a number of US peers in our comparisons. We have included approximately 15 of the largest US banks with broad based banking operations.

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PEER COMPARISON – Q2 YTD

	RBC Rank in Canada	RBC Rank in US	RBC	Canadian Average (excl. RBC)	US Average
PCL as a % of pre-provision income	1	4	19%	49%	26%
PCL as a % of gross revenues	1	3	7%	16%	11%
PCL as a % of NII (Q2 YTD)	1	3	15%	58%	21%
NII as a % of average earning assets	3	10	2.4%	2.3%	3.8%

- PCL as a % of pre-provision income in the US is lower than the Canadian percentage as a result of (i) large provisions taken by the Canadian banks and (ii) an increase in pre-provision income in the US.
- Wider spreads in the US allow US banks more flexibility in their Risk/Reward equation.

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- Operational risk has become a major focus of both regulators and bank management partly because of a number of large losses in various institutions and partly because of a concern about controls following a number of years of downsizing in the industry.

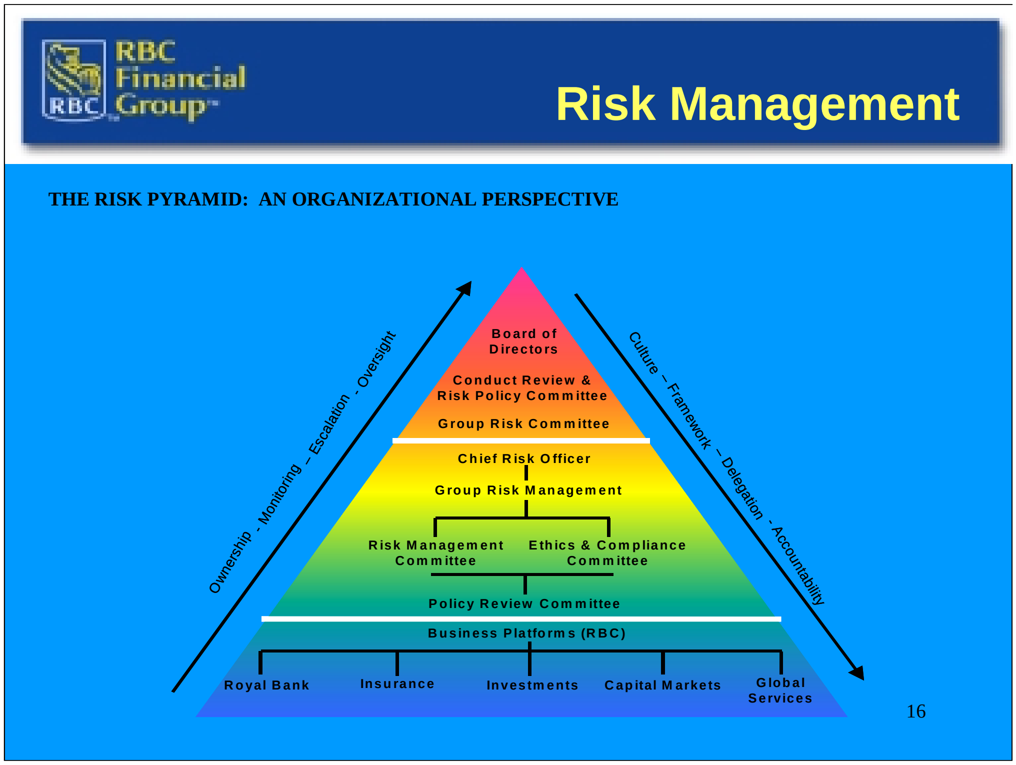
- We are implementing a Risk Control and Self Assessment process throughout the organization. It is designed to provide a more rigorous and uniform way of assessing the risks in various operations and ensuring that the right controls are in place at all levels.

The long term success of RBC Financial Group hinges on the need to:

- ensure that the Corporate Strategy of the organization is well communicated and that Business Unit strategies are aligned with the Corporate Strategy;

- ensure that the Bank's Risk Appetite is aligned with and is an integral part of the Corporate strategy;

- and that Business Unit Strategy and Risk Appetite go hand in hand.



- One of our priorities has been to assign clear responsibility for risk management throughout the organization.

- The basic premise is that the business unit owns the risks it takes on in its platform and is responsible for managing them.

- These risks, however, can only be taken on in the context of a risk appetite set by the Board, a risk framework set by Risk Management, and within delegated authorities.

- One of the key roles of Risk Management has been to develop appropriate reporting so that risks can be assessed at the enterprise level and steps taken if the overall risk profile begins to deteriorate.

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KEY QUESTIONS

- have we identified all the risks?
- do we understand their impact?
- can we limit our risk cost?
- how do we influence judgment?
- how can we measure performance?
- how much shareholder value is at risk?

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These are the key questions we ask as we review strategies or new products.

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LINKING STRATEGY AND CREDIT RISK

Focus on Single Name Limits:

RBC limits should take the following objectives into account:

1. Earnings Volatility:
   - An average rated name should not destroy the quarterly earnings for RBCCM
2. PCL Target:
   - An average rated name should not put our corporate PCL goal at risk
3. Peer Comparison:
   - Our risk tolerance should be in line with that of our peers and commensurate with our size
4. Capital at Risk:
   - Economic capital should guide our SNL

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A primary link between business strategy and credit risk appetite is management of single name limits. Canadian banks have been viewed as having higher limits than their US peers. In setting new, reduced limits we considered the following elements:

- To minimize earnings volatility, and therefore protect shareholder value; the default of an average rated company (BBB) should not wipe out the quarterly earnings of RBC Capital Markets.

- Our Asset Quality target, which is currently Specific Provisions as a % of Loans, BAs and Reverse Repos of 45 to 55 basis points, should not be put at risk by an average rated name.

- Peer Comparison should serve as a valuable guide to ensure that our limits are consistent with our peers on a relative size basis.

- As Capital is a primary driver of our profitability models (ie Economic Profit, NIACC, ROE) it is important that we know and understand how much capital we are placing at risk for our given limits.

Market risk is another area where we need to limit volatility and attempt to get the highest revenue for the risk we take. We have a very good track record in this area.

The chart on the left titled: “Ratio of Daily Trading Revenue to Value at Risk” shows the extent to which market risk exposure is incurred to generate trading revenues. More efficient banks have a higher ratio of trading revenue to Value at Risk. RBC ranks 1st out of 19 banks surveyed.

The chart on the right titled: “Standard and Poor’s Revenue Volatility Index” is based on reports released recently by Standard and Poor’s on trading revenue volatility at major U.S. and Canadian banks.

Bank of Montreal has the highest degree of volatility while RBC has the lowest degree of volatility. RBC’s low volatility is a reflection of the bank’s risk appetite and composition of trading revenues. Royal Bank has a relatively high proportion of trading revenues sourced from foreign exchange which tends to be less volatile and fewer significant positions in high yield bonds are held in the trading book.

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LINKING STRATEGY AND OPERATIONAL RISK

- **Key Objectives:**
  1. To enhance our ability to achieve our business objectives
  2. To enable us to demonstrate externally that we are "in control"
- **Key Initiatives:**
  1. Development and implementation of Risk and Control Self-Assessment methodology and technology
  2. Implementation of Loss Event database

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Under our new Risk Control Self Assessment methodology Operational risk is viewed as any risk other than credit or market trading risk that would stop us from meeting our objectives. Since financial results are always part of our objectives identifying those areas where we could lose money through lack of controls is part of the process. But our objectives are usually more than financial and being able to ensure that we have aligned our people, technology and processes to meet these objectives is what aligning strategy and risk appetite is all about.

Getting this right has a number of benefits:

-we improve our efficiency,

-we reduce our sundry losses; and

- we demonstrate to our stakeholders that we are in control.

To develop and ultimately strengthen this link we:

- are in the implementation phase of the Risk and Control Self Assessment methodology, and

- have now implemented the loss event database.

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ENTERPRISE-WIDE RISK MANAGEMENT

- understand the risks
- create appropriate risk culture
- support with quantitative tools
- strike the right risk-reward equation
- establish roles and responsibilities

= Enhance shareholder value

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- Risk Management at RBC is enterprise-wide driven by the Board and the CEO throughout the organization.

- The primary focus is to balance the risk/reward equation to enhance shareholder value.