NOTE 1 Significant accounting policies

These consolidated financial statements have been prepared in accordance with Subsection 308 of the *Bank Act* (Canada), which states that, except as otherwise specified by the Superintendent of Financial Institutions Canada (OSFI), the consolidated financial statements are to be prepared in accordance with Canadian generally accepted accounting principles (GAAP). The significant accounting policies used in the preparation of these financial statements, including the accounting requirements of the OSFI, are summarized below. These accounting policies conform, in all material respects, to Canadian GAAP.

GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements. Actual results could differ from those estimates.

Certain comparative amounts have been reclassified to conform with the current year's presentation.

The significant accounting policies followed in the preparation of these consolidated financial statements are summarized below:

Basis of consolidation

The consolidated financial statements include the assets and liabilities and results of operations of all subsidiaries after elimination of intercompany transactions and balances. The equity method is used to account for investments in associated corporations in which we have significant influence. These investments are reported in Other assets. Our share of earnings, gains and losses realized on dispositions and writedowns to reflect other than temporary impairment in value of these investments are included in Non-interest income. The proportionate consolidation method is used to account for investments in which we exercise joint control, whereby our pro rata share of assets, liabilities, income and expenses are consolidated.

Translation of foreign currencies

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at rates prevailing on the balance sheet date; income and expenses are translated at average rates of exchange for the year.

The effects of translating operations of our subsidiaries, foreign branches and associated corporations with a functional currency other than the Canadian dollar are included in Retained earnings along with related hedge and tax effects. On disposal of such investments, the accumulated net translation gain or loss is included in Non-interest income. Other foreign currency translation gains and losses (net of hedging activities) are included in Non-interest income.

Securities

Securities are classified, based on management's intentions, as Trading account or Investment account.

Trading account securities, which are purchased for sale in the near term, are reported at estimated fair value. Obligations to deliver trading account securities sold but not yet purchased are recorded as liabilities and carried at fair value. Realized and unrealized gains and losses on these securities are recorded as Trading revenues in Non-interest income. Dividend and interest income accruing on Trading account securities is recorded in Interest income. Interest expense accruing on interest-bearing securities sold short is recorded in Interest expense.

Investment account securities include securities that may be sold in response to or in anticipation of changes in interest rates and resulting prepayment risk, changes in foreign currency risk, changes in funding sources or terms, or to meet liquidity needs. Investment account equity securities are carried at cost and investment account debt securities at amortized cost. Dividend and interest income is recorded in Interest income. Premiums and discounts on debt securities are amortized to Interest income using the effective yield method over the term to maturity of the related securities. Gains and losses realized on disposal of investment account securities, which are calculated on an average cost basis, and writedowns to reflect other than temporary impairment in value are included in Gain (loss) on sale of investment account securities in Non-interest income.

Loan substitute securities are client financings that have been structured as after-tax investments rather than conventional loans in order to provide the issuers with a borrowing rate advantage. Such securities are accorded the accounting treatment applicable to loans and, if required, are reduced by an allowance for credit losses.

Assets purchased under reverse repurchase agreements and sold under repurchase agreements

We purchase securities under agreements to resell (reverse repurchase agreements) and sell securities under agreements to repurchase (repurchase agreements). Reverse repurchase agreements are treated as collateralized lending transactions and are carried on the Consolidated balance sheet at the amounts at which the securities were initially acquired. Repurchase agreements are treated as collateralized borrowing transactions and are carried on the Consolidated balance sheet at the amounts at which the securities were initially sold, plus accrued interest on interest-bearing securities. Interest earned on reverse repurchase agreements and interest incurred on repurchase agreements are included in Interest income and Interest expense, respectively.

Loans

Loans are stated net of an allowance for loan losses and unearned income, which comprises unearned interest and unamortized loan fees.

Loans are classified as impaired when there is no longer reasonable assurance of the timely collection of the full amount of principal or interest. Whenever a payment is 90 days past due, loans other than credit card balances and Canadian government guaranteed loans are classified as impaired unless they are fully secured and collection efforts are reasonably expected to result in repayment of debt within 180 days past due. Credit card balances are written off when a payment is 180 days in arrears. Canadian government guaranteed loans are classified as impaired when the loan is contractually 365 days in arrears. When a loan is identified as impaired, the accrual of interest is discontinued and any previously accrued but unpaid interest on the loan is charged to the Provision for credit losses. Interest received on impaired loans is credited to the Allowance for loan losses on that loan. Impaired loans are returned to performing status when all amounts including interest have been collected, all charges for loan impairment have been reversed and the credit quality has improved such that there is reasonable assurance of timely collection of principal and interest.

When a loan has been identified as impaired, the carrying amount of the loan is reduced to its estimated realizable amount, measured by discounting the expected future cash flows at the effective interest rate inherent in the loan. In subsequent periods, recoveries of amounts previously written off and any increase in the carrying value of the loan is credited to the Provision for credit losses on the Consolidated income statement. Where a portion of a loan is written off and the remaining balance is restructured, the new loan is carried on an accrual basis when there is no longer any reasonable doubt regarding the collectibility of principal or interest, and payments are not 90 days past due.

Collateral is obtained if, based on an evaluation of the client's creditworthiness, it is considered necessary for the client's overall borrowing facility.

Assets acquired in respect of problem loans are recorded at their fair value less costs to sell. Any excess of the carrying value of the loan over the recorded fair value of the assets acquired is recognized by a charge to the Provision for credit losses.

Fees that relate to activities such as originating, restructuring or renegotiating loans are deferred and recognized as Interest income over the expected term of such loans. Where there is reasonable expectation that a loan will result, commitment and standby fees are also recognized as Interest income over the expected term of the resulting loan. Otherwise, such fees are recorded as Other liabilities and amortized to Non-interest income over the commitment or standby period.

Allowance for credit losses

The allowance for credit losses is maintained at a level that management considers adequate to absorb identified credit related losses in the portfolio as well as losses that have been incurred, but are not yet identifiable. The allowance relates primarily to loans but also to deposits with banks, derivatives, loan substitute securities and other credit instruments such as acceptances, guarantees and letters of credit. The allowance is increased by the Provision for credit losses, which is charged to income, and decreased by the amount of write-offs, net of recoveries.

The allowance is determined based on management's identification and evaluation of problem accounts, estimated probable losses that exist on the remaining portfolio, and on other factors including the composition and quality of the portfolio, and changes in economic conditions.

Specific

Specific allowances are maintained to absorb losses on both specifically identified borrowers and other more homogeneous loans that have become impaired. The losses relating to identified large business and government debtors are estimated based on the present value of expected payments on an account-by-account basis. The losses relating to other portfolio-type products, excluding credit cards, are based on net write-off experience. For credit cards, no specific allowance is maintained as balances are written off if no payment has been received after 180 days. Personal loans are generally written off at 150 days past due. Write-offs for other loans are generally recorded when there is no realistic prospect of full recovery.

General allocated

The general allocated allowance represents the best estimate of probable losses within the portion of the portfolio that has not yet been specifically identified as impaired. This amount is established quarterly through the application of expected loss factors to outstanding and undrawn facilities. The general allocated allowance for large business and government loans and acceptances is based on the application of expected default and loss factors, determined by loss migration analysis, delineated by loan type and rating. For more homogeneous portfolios, such as residential mortgages, small business loans, personal loans and credit cards, the determination of the general allocated allowance is done on a product portfolio basis. The losses are determined by the application of loss ratios determined through the analysis of loss migration and write-off trends, adjusted to reflect changes in the product offerings and credit quality of the pool.

General unallocated

The general unallocated allowance is based on management's assessment of probable, unidentified losses in the portfolio that have not been captured in the determination of the specific or general allocated allowances. This assessment, evaluated quarterly, includes consideration of general economic and business conditions and regulatory requirements affecting key lending operations, recent loan loss experience, and trends in credit quality and concentrations. This allowance also reflects model and estimation risks and does not represent future losses or serve as a substitute for other allowances.

Acceptances

Acceptances are short-term negotiable instruments issued by our customers to third parties, which we guarantee. The potential liability under acceptances is reported as a liability in the Consolidated balance sheet. The recourse against the customer in the case of a call on these commitments is reported as a corresponding asset of the same amount in Other assets. Fees earned are reported in Non-interest income.

Derivatives

Derivatives are primarily used in sales and trading activities. Derivatives are also used to manage our exposures to interest, currency and other market risks. The most frequently used derivative products are foreign exchange forward contracts, interest rate and currency swaps, foreign currency and interest rate futures, forward rate agreements, foreign currency and interest rate options and credit derivatives.

When used in sales and trading activities, the realized and unrealized gains and losses on derivatives are recognized in Non-interest income. Market values are determined using pricing models that incorporate current market and contractual prices of the underlying instruments, time value of money, yield curve and volatility factors. A portion of the market value is deferred within Derivative-related amounts in liabilities and amortized to income over the life of the instruments to cover credit risk and ongoing direct servicing costs. Unrealized gains and losses are reported on a gross basis as Derivative-related amounts in assets and liabilities, except where we have both the legal right and intent to settle these amounts simultaneously in which case they are presented on a net basis. Margin requirements and premiums paid are also included in Derivative-related amounts in assets, while premiums received are shown in Derivative-related amounts in liabilities.

When derivatives are used to manage our own exposures, we determine for each derivative whether hedge accounting can be applied. Where hedge accounting can be applied, a hedge relationship is designated as a fair value hedge, a cash flow hedge, or a hedge of foreign currency exposure of a net investment in a foreign operation. The hedge is documented at inception detailing the particular risk management objective and the strategy for undertaking the hedge transaction. The documentation identifies the specific asset or liability being hedged, the risk that is being hedged, the type of derivative used and how effectiveness will be measured. The derivative must be highly effective in accomplishing the objective of offsetting either changes in the fair value or cash flows attributable to the risk being hedged both at inception and over the life of the hedge.

Fair value hedge transactions predominantly use interest rate swaps to hedge the changes in the fair value of an asset, liability or firm commitment. Cash flow hedge transactions predominantly use interest rate swaps to hedge the variability in cash flows related to a variable rate asset or liability. When a non-trading derivative is designated and functions effectively as a fair value or cash flow hedge, the income or expense of the derivative is recognized over the life of the hedged asset or liability as an adjustment to Interest income or Interest expense.

Foreign exchange forward contracts and U.S. dollar liabilities are used to manage exposures from subsidiaries, branches and associated companies having a functional currency other than the Canadian dollar. Foreign exchange gains and losses on these hedging instruments are recorded in Retained earnings.

Hedge accounting is discontinued prospectively when the derivative no longer qualifies as an effective hedge or the derivative is terminated or sold. The fair value of the derivative is recognized in Derivative-related amounts in assets or liabilities at that time and the gain or loss is deferred and recognized in Net interest income in the periods that the hedged item affects income. Hedge accounting is also discontinued on the sale or early termination of the hedged item. The fair value of the derivative is recognized in Derivative-related amounts in assets or liabilities at that time and the gain or loss is recognized in Non-interest income.

Non-trading derivatives that do not qualify for hedge accounting are carried at fair value on a gross basis as Derivative-related amounts in assets and liabilities with changes in fair value recorded in Non-interest income. These non-trading derivatives are still eligible for designation in future hedging relationships. Upon a designation, any previously recorded fair value on the Consolidated balance sheet is amortized to Non-interest income.

NOTE 1 Significant accounting policies (continued)

Premises and equipment

Premises and equipment are stated at cost less accumulated depreciation. Depreciation is recorded principally on the straight-line basis over the estimated useful lives of the assets, which are 25 to 50 years for buildings, 3 to 10 years for computer equipment, 7 to 10 years for furniture, fixtures and other equipment, and lease term plus first option period for leasehold improvements. Gains and losses on disposal are recorded in Non-interest income.

Business combinations, goodwill and other intangibles

All business combinations are accounted for using the purchase method. Identifiable intangible assets are recognized separately from Goodwill and included in Other intangibles. Goodwill represents the excess of the price paid for the acquisition of subsidiaries over the fair value of the net assets acquired. Effective November 1, 2001, goodwill and indefinite life intangibles are no longer amortized but are subject to fair value impairment tests on at least an annual basis. Goodwill impairment is assessed at the reporting unit level on at least an annual basis on August 1. Reporting units comprise business operations with similar economic characteristics and strategies and may represent either a business segment or a business unit within a business segment.

If the carrying value of a reporting unit, including the allocated goodwill, exceeds its fair value, goodwill impairment is measured as the excess of the carrying amount of the reporting unit's allocated goodwill over the implied fair value of the goodwill, based on the fair value of the assets and liabilities of the reporting unit.

Any impairment of goodwill or intangibles will be recognized as Non-interest expense in the period of impairment. Other intangibles with a finite life are amortized over their estimated useful lives and also tested for impairment.

Income taxes

We use the asset and liability method whereby income taxes reflect the expected future tax consequences of temporary differences between the carrying amounts of assets or liabilities for book purposes compared with tax purposes. Accordingly, a deferred income tax asset or liability is determined for each temporary difference based on the tax rates that are expected to be in effect when the underlying items of income and expense are expected to be realized. Income taxes on the Consolidated statement of income include the current and deferred portions of the expense. Income taxes applicable to items charged or credited to Shareholders' equity are netted with such items.

Net deferred income taxes accumulated as a result of temporary differences are included in Other assets. A valuation allowance is established to reduce deferred income tax assets to the amount more likely than not to be realized. In addition, the Consolidated statement of income contains items that are non-taxable or non-deductible for income tax purposes and, accordingly, cause the income tax provision to be different than what it would be if based on statutory rates.

Pensions and other postretirement benefits

We offer a number of benefit plans which provide pension and other benefits to qualified employees. These plans include statutory pension plans, supplemental pension plans, defined contribution plans and health, dental and life insurance plans.

We fund our statutory pension plans and health, dental and life insurance plans annually based on actuarially determined amounts needed to satisfy employee benefit entitlements under current pension regulations. These pension plans provide benefits based on years of service, contributions and average earnings at retirement.

Actuarial valuations are performed on a regular basis to determine the present value of the accrued pension benefits, based on projections of employees' compensation levels to the time of retirement. Investments held by the pension funds primarily comprise equity securities, bonds and debentures. Pension fund assets are valued at fair value.

Pension benefit expense consists of the cost of employee pension benefits for the current year's service, interest cost on the liability, expected investment return on the market-related value of plan assets and the amortization of both unrecognized prior service costs and unrecognized net actuarial gains or losses. Amortization is charged over the expected average remaining service life of employee groups covered by the plan.

The cumulative excess of pension fund contributions over the amounts recorded as expenses is reported as a prepaid pension benefit cost in Other assets. The cumulative excess of pension expense over pension fund contributions is reported as accrued pension benefit expense in Other liabilities. In addition, other postretirement benefits are also reported in Other liabilities.

Defined contribution plan costs are recognized in income for services rendered by employees during the period.

Assets under administration and assets under management

We administer and manage assets owned by clients that are not reflected on the Consolidated balance sheet. Asset management fees are earned for providing investment management services and mutual fund products. Asset administration fees are earned for providing trust, estate administration, custodial services and administration of assets securitized. Fees are recognized and reported in Non-interest income as the services are provided.

Loan securitization

We periodically securitize loans by selling loans to independent special purpose entities or trusts that issue securities to investors. These transactions are accounted for as sales, and the loans removed from the Consolidated balance sheet when we are deemed to have surrendered control over such assets and have received in exchange consideration other than beneficial interests in these transferred loans. For a surrender of control to occur, the transferred loans must be isolated from the seller, even in bankruptcy or other receivership; the purchaser must have the legal right to sell or pledge the transferred loans, or if the purchaser is a Qualifying Special Purpose Entity meeting certain restrictions established by CICA Accounting Guideline 12, *Transfers of Receivables* (AcG 12), its investors have the right to sell or pledge their ownership interest in the entity; and the seller must not continue to control the transferred loans through an agreement to repurchase them or have a right to cause the loans to be returned. If the conditions are not met, the transfer is considered to be a secured borrowing, the loans remain on the Consolidated balance sheet and the proceeds are recognized as a liability.

We often retain interests in the securitized loans, such as interest-only strips or servicing rights, and in some cases cash reserve accounts. Gains on these transactions are recognized in Non-interest income and are dependent in part on the previous carrying amount of the loans involved in the transfer, which is allocated between the loans sold and the retained interests, based on their relative fair value at the date of transfer.

To obtain fair values, quoted market prices are used, if available. When quotes are not available for retained interests, we generally determine fair value based on the present value of expected future cash flows using management's best estimates of key assumptions such as payment rates, excess spread, credit losses and discount rates commensurate with the risks involved.

Generally, the loans are transferred on a fully serviced basis. Retained interests in securitizations that can be contractually prepaid or otherwise settled in such a way that we would not recover substantially all of our recorded investment, are classified as Investment account securities.

Insurance operations

Investments are included in Investment account securities. Premiums from long-duration contracts, primarily life insurance, are recognized in Insurance premiums, investment and fee income under Non-interest income when due. Premiums from short-duration contracts, primarily property and casualty, and fees for administrative services are recognized in Insurance premiums, investment and fee income over the related contract period.

Insurance claims and policy benefit liabilities represent current claims and estimates for future insurance policy benefits. Liabilities for life insurance contracts are determined using the Canadian Asset Liability Method (CALM), which incorporates assumptions for mortality, morbidity, policy lapses and surrenders, investment yields, policy dividends, operating and policy maintenance expenses, and provisions for adverse deviation. These assumptions are updated to reflect the results of actual experience and market conditions. Liabilities for property and casualty insurance include unearned premiums, representing the unexpired portion of premiums, and estimated provisions for reported and unreported claims incurred.

Realized gains and losses on disposal of fixed income investments that support life insurance liabilities are deferred and amortized to Insurance premiums, investment and fee income over the remaining term to maturity of the investments sold to a maximum period of 20 years. For equities, the realized gains and losses are deferred and brought into Insurance premiums, investment and fee income at the quarterly rate of 5% of unamortized deferred gains and losses. The differences between the market value and adjusted carrying cost of equity securities investments are reduced quarterly by 5%. Specific investments are written down to market or the net realizable value if it is determined that any impairment in value is other than temporary. The writedown is recorded against Insurance premiums, investment and fee income in the period the impairment is recognized.

Acquisition costs for insurance consist of commissions, certain underwriting costs and other costs that vary with and are primarily related to the acquisition of new business. Deferred acquisition costs for life insurance are implicitly recognized in Insurance claims and policy benefit liabilities by CALM. For property and casualty insurance these costs are classified as Other assets and amortized over the policy term.

Segregated funds are lines of business in which the company issues a contract where the benefit amount is directly linked to the market value of the investments held in the underlying fund. The contractual arrangement is such that the underlying assets are registered in our name but the segregated fund policyholder bears the risk and rewards of the fund's investment performance. We provide minimum death benefit and maturity value guarantees on segregated funds. The liability associated with these minimum guarantees is recorded in Insurance claims and policy benefit liabilities.

Segregated funds are not included in the consolidated financial statements. We derive only fee income from segregated funds, reflected in Insurance premiums, investment and fee income. Fee income includes management fees, mortality, policy, administration and surrender charges.

Significant accounting changes

Derivatives

We early adopted CICA Accounting Guideline 13, *Hedging Relationships*, on November 1, 2002, the details of which are described earlier in the Derivatives section and in note 21.

Guarantees

In January 2003, the CICA issued Accounting Guideline 14, *Disclosure of Guarantees* (AcG 14), which clarifies disclosure requirements for certain guarantees. The effective date is for financial statements of interim and annual periods beginning on or after January 1, 2003.

Stock-based compensation

We adopted the fair value method of accounting recommended by the CICA in Section 3870, *Stock-based Compensation and Other Stock-based Payments*, prospectively for new stock-based compensation awards granted after November 1, 2002. The impact of this adoption is included in note 18.

Significant future accounting changes

Consolidation of Variable Interest Entities

In June 2003, the CICA issued Accounting Guideline 15, *Consolidation of Variable Interest Entities* (AcG 15). The Guideline is harmonized with Financial Accounting Standards Board (FASB) Interpretation No. 46, *Consolidation of Variable Interest Entities*, and provides guidance for applying the principles in Section 1590, *Subsidiaries*, to those entities (defined as Variable Interest Entities (VIEs) and more commonly referred to as special purpose entities (SPEs)), in which either the equity at risk is not sufficient to permit that entity to finance its activities without additional subordinated financial support from other parties, or equity investors lack either voting control, an obligation to absorb expected losses, or the right to receive expected residual returns. AcG 15 requires consolidation of VIEs by the Primary Beneficiary. The Primary Beneficiary is defined as the party who has exposure to the majority of a VIE's expected losses and/or expected residual returns. The Guideline will be effective for all annual and interim periods beginning on or after November 1, 2004. Following is a summary of the anticipated impact of adopting AcG 15 for the major categories of VIEs that we are involved with.

Securitization of client financial assets

We administer multi-seller asset-backed commercial paper conduit programs (multi-sellers), which purchase financial assets from our clients (totalling $26.8 billion as at October 31, 2003) and finance those purchases by issuing asset-backed commercial paper. Clients utilize multisellers to diversify their financing sources and to reduce funding costs. We provide backstop liquidity facilities and partial credit enhancement to the multi-sellers. These are included in our disclosure on guarantees in note 20 and represent our maximum possible exposure to loss, which was $25.7 billion as at October 31, 2003. The commercial paper is non-recourse to us, except through our participation in liquidity and/or credit enhancement facilities, and we have no rights to the assets owned by the multi-sellers. We are currently in the process of restructuring these multi-sellers and as a result we do not expect to consolidate the assets and liabilities of these vehicles on our Consolidated balance sheet.

Securitization of our financial assets

We employ VIEs in the process of securitizing our assets. We do not expect to consolidate these VIEs under AcG 15 either because such a VIE is a qualifying SPE under AcG 12 which is specifically exempt from consolidation under AcG 15 or because we are not the Primary Beneficiary. For details on our securitization activities please refer to note 7.

Mutual funds

We sponsor several open-end mutual funds, some of which may be VIEs. We are involved with their ongoing management and administration for which we earn a fee based on asset value. We do not guarantee either principal or returns to the investors in these funds. We may be the Primary Beneficiary of the VIE mutual funds that experience low volatility of returns, such as money market funds, due to our role as trustee and fund manager, which entails decision-making and results in our fees being included in expected residual returns. Consolidating these funds would increase the Consolidated balance sheet by approximately $13 billion as estimated at October 31, 2003. Our maximum exposure to loss from our involvement with the VIE funds is $23 million as at October 31, 2003, primarily as a result of our investments in seed capital. Our rights to the assets of these mutual funds are restricted to this seed capital. The other investors in these funds do not have recourse to us.

NOTE 1 Significant accounting policies (continued)

Asset management
We act as collateral manager for several Collateralized Debt Obligation (CDO) entities, which invest in leveraged bank-initiated term loans, high yield bonds and mezzanine corporate debt. The notional amount of the assets within the CDOs we managed at the end of October 31, 2003, is $1.1 billion and our maximum exposure to loss is $13 million which represents our investment in a first-loss tranche. We currently consolidate a CDO with assets of $.4 billion. We are evaluating these CDOs and it is possible that we are the Primary Beneficiary. We have no rights to the assets of these CDOs and the creditors of these CDOs have no recourse to us, except as a result of our investment in the first-loss tranche.

Creation of investment products
We use repackaging entities, which generally transform credit derivatives into cash instruments, to distribute credit risk and create unique credit products to meet investors' specific requirements. We may enter into derivative contracts with these entities in order to convert various risk factors such as yield, currency or credit risk of underlying assets to meet the needs of the investors. We transfer assets to these entities as collateral for notes issued, which do not meet sale recognition criteria under AcG 12. We retain all the economic risks and rewards of these assets, which are already accounted for on our Consolidated balance sheet and amounted to $1.5 billion as at October 31, 2003. In addition, we also invest in the notes issued by these entities and held $.5 billion as at October 31, 2003. We are the Primary Beneficiary where we hold notes that expose us to a majority of the expected losses. Since the assets are already included on our Consolidated balance sheet pursuant to AcG 12, the impact of consolidation is not expected to be material.

Compensation vehicles
We offer certain employees stock-based compensation plans and co-investment opportunities in investment portfolios. Where we are entitled to forfeitures or unvested shares or where we have financed the employees' investment, we are generally considered the Primary Beneficiary of the vehicles used for this purpose due to our relationship with the employees. These vehicles had total assets of $.2 billion as at October 31, 2003, which represent our maximum exposure to loss.

Assets administered in trust
We act as trustee administering assets settled by clients, on behalf of designated beneficiaries. Clients use these arrangements primarily for asset protection, intergenerational wealth transfer, and estate and financial planning. Where we have lending relationships with the trust, they are fully collateralized with secure assets, thereby our exposure to loss is nil. We may have to consolidate trust arrangements with assets approximating $.6 billion as at October 31, 2003. We have no rights to these assets except for our fees and recovery of expenses. The beneficiaries do not have recourse to us.

Capital trusts
This year we established an open-ended trust which issued $.9 billion of innovative Tier 1 capital, and we also issued a senior deposit note of the same amount to the trust. We currently consolidate this trust. However, under AcG 15 we would not consolidate this trust as it would be a VIE and we would not be its Primary Beneficiary. OSFI has confirmed that this issuance will continue to receive innovative Tier 1 regulatory capital treatment, regardless of the final accounting effects of AcG 15.

We are involved in various capacities – such as lender, derivative counterparty, investor, manager, trustee – with several other entities that may potentially be VIEs. These include entities set up for or by clients for structured finance, securitization and other purposes. We continue to evaluate our involvement with potential VIEs, explore restructuring opportunities and monitor developments from the CICA and the FASB that affect our current interpretation of AcG 15.

Liabilities and equity
In November 2003, the Accounting Standards Board (AcSB) approved a revision to CICA Section 3860, *Financial Instruments: Disclosure and Presentation*, to require certain obligations that must or could be settled with a variable number of the issuer's own equity instruments to be presented as a liability. The implication of the proposed revision is that securities issued by us that give us the unrestricted right to settle the principal amount in cash or in the equivalent value of our own equity instruments will no longer be presented as equity in our financial statements. The AcSB determined that the revisions should be effective for all fiscal years beginning on or after November 1, 2004.

Financial instruments
On March 31, 2003, the CICA issued three exposure drafts: *Financial Instruments – Recognition and Measurement*, *Hedges* and *Comprehensive Income*, which will increase harmonization with U.S. accounting standards. Although they are not final, these exposure drafts are expected to require primarily the following:

Financial assets will be classified as either Held to maturity, Loans and receivables, Held for trading or Available for sale. Held to maturity classification will be restricted to fixed maturity instruments that we intend and are able to hold to maturity. Loans and receivables and Held to maturity investments will be accounted for at amortized cost. In addition to the securities acquired for selling in the near term, Held for trading classification will be permitted for any financial instrument on its initial recognition. Instruments Held for trading will be accounted for at fair value with realized and unrealized gains and losses reported in Net income. The remaining securities will be classified as Available for sale. These will be measured at fair value with unrealized gains and losses, not affecting net income, but reported in a new category in Shareholders' equity called Other comprehensive income.

Derivatives will be classified as Held for trading unless designated as hedging instruments. All derivatives, including embedded derivatives that are not closely related to the host contract, will be measured at fair value. For derivatives that hedge the changes in fair value of an asset or liability, changes in the derivatives' fair value will be reported in net income and offset by changes in the fair value of the hedged asset or liability attributable to the risk being hedged. For derivatives that hedge variability in cash flows, the effective portion of changes in the derivatives' fair value will be initially recognized in the new category, Other comprehensive income. These will subsequently be reclassified to Net income in the periods Net income is affected by the variability in the cash flows of the hedged item.

Other comprehensive income will be a new category in Shareholders' equity including, in addition to the items mentioned above, unrealized foreign currency translation gains and losses, net of hedging activities.

The final accounting standards are expected to be effective for fiscal years beginning on or after October 1, 2005.

NOTE 2 Significant acquisitions

2003

During 2003, we completed the acquisitions of Admiralty Bancorp, Inc. (Admiralty), Business Men's Assurance Company of America (BMA) and Sterling Capital Mortgage Company (SCMC). The details of these acquisitions are as follows:

	Admiralty	BMA	SCMC
Acquisition date	January 29, 2003	May 1, 2003	September 30, 2003
Business segment	RBC Banking	RBC Insurance/RBC Investments	RBC Banking
Percentage of shares acquired	100%	100%	100%
Purchase consideration	Cash payment of US$153	Cash payment of US$207 (1)	Cash payment of US$100
Fair value of tangible assets acquired	$ 942	$ 3,099	$ 470
Fair value of liabilities assumed	(866)	(2,822)	(437)
Fair value of identifiable net tangible assets acquired	76	277	33
Core deposit intangibles (2)	23	–	–
Goodwill	134	19	103
Total purchase consideration	$ 233	$ 296	$ 136

(1) Includes the related acquisition of Jones & Babson Inc. by RBC Dain Rauscher for cash purchase consideration of US$19 million in exchange for net tangible assets with a fair value of $9 million and goodwill of $19 million.
(2) Core deposit intangibles for Admiralty are amortized on a straight-line basis over an estimated average useful life of 10 years.

2002

During 2002, we completed the acquisitions of the private banking business of Barclays PLC in the Americas (Barclays) and Eagle Bancshares, Inc. (Eagle Bancshares). The details of these acquisitions are as follows:

	Barclays	Eagle Bancshares
Acquisition date	June 28, 2002	July 22, 2002
Business segment	RBC Investments	RBC Banking
Percentage of shares acquired	–	100%
Purchase consideration	Cash payment of US$120	Each Eagle Bancshares common share was purchased for US$26 cash
Fair value of tangible assets acquired	$ 741	$ 1,844
Fair value of liabilities assumed	(640)	(1,764)
Fair value of identifiable net tangible assets acquired	101	80
Core deposit intangibles (1)	–	22
Customer lists and relationships (1)	80	–
Goodwill	–	133
Total purchase consideration	$ 181	$ 235

(1) Core deposit intangibles and customer lists and relationships are amortized on a straight-line basis over an estimated average useful life of 10 and 15 years, respectively.

NOTE 3 Results by business and geographic segment

2003	**RBC Banking**	**RBC Insurance**	**RBC Investments**	**RBC Capital Markets**	**RBC Global Services**	**Other**	**Total**	**Canada**	**United States**	**Other International**
Net interest income	**$ 5,546**	**$ –**	**$ 419**	**$ 409**	**$ 166**	**$ 102**	**$ 6,642**	**$ 5,186**	**$ 1,188**	**$ 268**
Non-interest income	**2,127**	**2,356**	**3,110**	**2,247**	**824**	**112**	**10,776**	**5,382**	**3,618**	**1,776**
Total revenues	**7,673**	**2,356**	**3,529**	**2,656**	**990**	**214**	**17,418**	**10,568**	**4,806**	**2,044**
Provision for credit losses	**554**	**–**	**(2)**	**195**	**2**	**(28)**	**721**	**527**	**106**	**88**
Insurance policyholder benefits, claims and acquisition expense	**–**	**1,696**	**–**	**–**	**–**	**–**	**1,696**	**679**	**580**	**437**
Non-interest expense	**4,650**	**460**	**2,912**	**1,671**	**714**	**2**	**10,409**	**5,992**	**3,511**	**906**
Net income before income taxes	**2,469**	**200**	**619**	**790**	**274**	**240**	**4,592**	**3,370**	**609**	**613**
Income taxes	**900**	**(16)**	**209**	**278**	**97**	**(8)**	**1,460**	**1,202**	**209**	**49**
Non-controlling interest	**8**	**–**	**–**	**4**	**–**	**115**	**127**	**114**	**8**	**5**
Net income	**$ 1,561**	**$ 216**	**$ 410**	**$ 508**	**$ 177**	**$ 133**	**$ 3,005**	**$ 2,054**	**$ 392**	**$ 559**
Total average assets (1)	**$ 162,400**	**$ 6,700**	**$ 17,600**	**$ 198,500**	**$ 2,100**	**$ 9,100**	**$ 396,400**	**$ 230,000**	**$ 81,200**	**$ 85,200**

2002	RBC Banking	RBC Insurance	RBC Investments	RBC Capital Markets	RBC Global Services	Other	Total	Canada	United States	Other International
Net interest income	$ 5,557	$ –	$ 371	$ 532	$ 137	$ 338	$ 6,935	$ 5,472	$ 1,106	$ 357
Non-interest income	2,073	2,043	3,274	2,112	820	(2)	10,320	4,969	3,682	1,669
Total revenues	7,630	2,043	3,645	2,644	957	336	17,255	10,441	4,788	2,026
Provision for credit losses	626	–	(1)	465	10	(35)	1,065	529	440	96
Insurance policyholder benefits, claims and acquisition expense	–	1,535	–	–	–	–	1,535	498	502	535
Non-interest expense	4,528	437	3,146	1,627	668	14	10,420	5,920	3,676	824
Net income before income taxes	2,476	71	500	552	279	357	4,235	3,494	170	571
Income taxes	937	(46)	157	135	108	74	1,365	1,308	14	43
Non-controlling interest	8	–	–	–	–	100	108	100	2	6
Net income	$ 1,531	$ 117	$ 343	$ 417	$ 171	$ 183	$ 2,762	$ 2,086	$ 154	$ 522
Total average assets (1)	$ 156,500	$ 5,600	$ 15,100	$ 178,200	$ 2,500	$ 9,400	$ 367,300	$ 225,700	$ 72,600	$ 69,000

2001	RBC Banking	RBC Insurance	RBC Investments	RBC Capital Markets	RBC Global Services	Other	Total	Canada	United States	Other International
Net interest income	$ 5,343	$ –	$ 385	$ 409	$ 147	$ 27	$ 6,311	$ 5,512	$ 371	$ 428
Non-interest income	1,869	1,824	2,861	2,346	851	14	9,765	5,548	2,792	1,425
Total revenues	7,212	1,824	3,246	2,755	998	41	16,076	11,060	3,163	1,853
Provision for credit losses	732	–	2	407	(2)	(20)	1,119	757	379	(17)
Insurance policyholder benefits, claims and acquisition expense	–	1,344	–	–	–	–	1,344	504	325	515
Non-interest expense	4,389	375	2,507	1,804	599	81	9,755	6,326	2,715	714
Net income before income taxes	2,091	105	737	544	401	(20)	3,858	3,473	(256)	641
Income taxes	900	(28)	224	208	138	(102)	1,340	1,410	(85)	15
Non-controlling interest	10	–	–	–	–	97	107	97	2	8
Net income (loss)	$ 1,181	$ 133	$ 513	$ 336	$ 263	$ (15)	$ 2,411	$ 1,966	$ (173)	$ 618
Total average assets (1)	$ 143,100	$ 5,300	$ 11,200	$ 156,400	$ 2,400	$ 8,700	$ 327,100	$ 210,500	$ 50,200	$ 66,400

(1) Calculated using methods intended to approximate the average of the daily balances for the period.

For management reporting purposes, our operations are grouped into the main business segments of RBC Banking, RBC Insurance, RBC Investments, RBC Capital Markets and RBC Global Services. The Other segment mainly comprises Corporate Treasury, Corporate Resources, Systems & Technology, and Real Estate Operations.

The management reporting process measures the performance of these business segments based on our management structure and is not necessarily comparable with similar information for other financial services companies.

We use a management reporting model that includes methodologies for funds transfer pricing, attribution of economic capital and cost transfers to measure business segment results. Operating revenues and expenses directly associated with each segment are included in the business segment results. Transfer pricing of funds and inter-segment goods and services are generally at market rates. Overhead costs, indirect expenses and capital are attributed to the business segments based on allocation and risk-based methodologies which are subject to ongoing review.

For geographic reporting, our segments are grouped into Canada, United States and Other International. Transactions are recorded based on client location and local residing currency and are subject to foreign exchange rate fluctuations with respect to the movement in the Canadian dollar.

NOTE 4 Goodwill and Other intangibles

We have completed the annual test for goodwill impairment in all reporting units and have determined that goodwill is not impaired.

The projected amortization of Other intangibles for each of the years ending October 31, 2004, to October 31, 2008, is approximately $70 million.

The following table discloses the changes in goodwill over 2003 and 2002.

Goodwill

	RBC Banking	RBC Insurance	RBC Investments	RBC Capital Markets	RBC Global Services	Total
Balance at October 31, 2001	$ 2,105	$ 204	$ 1,782	$ 711	$ 117	$ 4,919
Goodwill acquired during the year	179	–	–	–	2	181
Other adjustments (1)	(55)	(8)	(21)	(14)	2	(96)
Balance at October 31, 2002	2,229	196	1,761	697	121	5,004
Goodwill acquired during the year	256	–	43	–	–	299
Other adjustments (1)	(347)	(28)	(258)	(84)	1	(716)
Balance at October 31, 2003	$ 2,138	$ 168	$ 1,546	$ 613	$ 122	$ 4,587

(1) Other adjustments include primarily foreign exchange translations on non-Canadian dollar denominated goodwill.

Other intangibles

	2003			2002		
	Gross carrying amount	**Accumulated amortization**	**Net carrying amount**	Gross carrying amount	Accumulated amortization	Net carrying amount
Core deposit intangibles	**$ 381**	**$ (93)**	**$ 288**	$ 423	$ (50)	$ 373
Customer lists and relationships	**314**	**(71)**	**243**	318	(52)	266
Mortgage servicing rights	**75**	**(27)**	**48**	41	(18)	23
Other intangibles	**3**	**(2)**	**1**	5	(2)	3
Total	**$ 773**	**$ (193)**	**$ 580**	$ 787	$ (122)	$ 665

The following table discloses a reconciliation of reported Net income, Earnings per share and Diluted earnings per share to the amounts adjusted for the exclusion of Amortization of goodwill, net of related income taxes, as goodwill is no longer amortized, but assessed for impairment effective November 1, 2001.

	2003	2002	2001
Net income:			
Reported net income	**$ 3,005**	$ 2,762	$ 2,411
Amortization of goodwill, net of related income taxes	**–**	–	246
Adjusted net income	**$ 3,005**	$ 2,762	$ 2,657
Earnings per share:			
Reported earnings per share	**$ 4.44**	$ 3.96	$ 3.55
Amortization of goodwill, net of related income taxes	**–**	–	.38
Adjusted earnings per share	**$ 4.44**	$ 3.96	$ 3.93
Diluted earnings per share:			
Reported diluted earnings per share	**$ 4.39**	$ 3.93	$ 3.52
Amortization of goodwill, net of related income taxes	**–**	–	.38
Adjusted diluted earnings per share	**$ 4.39**	$ 3.93	$ 3.90

NOTE 5 Securities

	Term to maturity (1) Under 1 year	1 to 5 years	Over 5 years to 10 years	Over 10 years	With no specific maturity	2003 Total	2002 Total
Trading account							
Canadian government debt	$ 6,024	$ 5,235	$ 1,218	$ 1,194	$ –	$ 13,671	$12,950
U.S. Treasury and other U.S. agencies	1,645	1,876	319	458	–	4,298	1,679
Other OECD government debt	1,266	957	878	475	–	3,576	3,833
Mortgage-backed securities	107	272	135	375	–	889	583
Asset-backed securities	73	91	2,807	3,334	–	6,305	6,540
Corporate debt	4,109	4,086	1,884	1,419	–	11,498	9,786
Other debt	5,426	6,459	1,071	741	767	14,464	9,214
Equities	–	–	–	–	27,126	27,126	23,743
	18,650	18,976	8,312	7,996	27,893	81,827	68,328
Investment account							
Canadian government debt							
Amortized cost	4,151	4,840	524	308	–	9,823	5,519
Estimated fair value	4,158	4,902	554	338	–	9,952	5,613
Yield (2)	2.9%	4.1%	5.0%	6.4%	–	3.7%	4.5%
U.S. Treasury and other U.S. agencies							
Amortized cost	1,481	2,972	308	67	–	4,828	2,068
Estimated fair value	1,481	2,960	281	67	–	4,789	2,188
Yield (2)	1.0%	2.2%	1.3%	4.9%	–	1.8%	4.6%
Other OECD government debt							
Amortized cost	4,375	326	74	–	–	4,775	2,605
Estimated fair value	4,378	329	74	–	–	4,781	2,633
Yield (2)	.1%	.8%	–	–	–	.1%	.7%
Mortgage-backed securities							
Amortized cost	115	3,546	536	1,315	–	5,512	8,308
Estimated fair value	120	3,570	536	1,317	–	5,543	8,465
Yield (2)	6.7%	4.2%	4.8%	4.9%	–	4.5%	4.8%
Asset-backed securities							
Amortized cost	48	125	104	48	–	325	358
Estimated fair value	48	125	104	45	–	322	375
Yield (2)	2.0%	7.3%	6.4%	2.9%	–	5.6%	7.2%
Corporate debt							
Amortized cost	1,068	1,155	290	543	–	3,056	3,447
Estimated fair value	1,079	1,172	304	552	–	3,107	3,511
Yield (2)	1.4%	2.7%	6.3%	5.7%	–	3.1%	4.3%
Other debt							
Amortized cost	4,103	869	200	266	188	5,626	1,501
Estimated fair value	4,085	879	207	279	186	5,636	1,504
Yield (2)	.5%	5.1%	5.8%	6.5%	4.2%	3.1%	2.7%
Equities							
Cost	–	–	51	–	1,242	1,293	1,272
Estimated fair value	–	–	40	–	1,290	1,330	1,240
Amortized cost	15,341	13,833	2,087	2,547	1,430	35,238	25,078
Estimated fair value	15,349	13,937	2,100	2,598	1,476	35,460	25,529
Loan substitute							
Cost	–	–	8	–	317	325	394
Estimated fair value	–	–	8	–	323	331	394
Total carrying value of securities	$33,991	$32,809	$10,407	$10,543	$29,640	$117,390	$93,800
Total estimated fair value of securities	$33,999	$32,913	$10,420	$10,594	$29,692	$117,618	$94,251

(1) Actual maturities may differ from contractual maturities shown above, since borrowers may have the right to prepay obligations with or without prepayment penalties.
(2) The weighted average yield is based on the carrying value at the end of the year for the respective securities.

Unrealized gains and losses on Investment account securities

	2003 Amortized cost	2003 Gross unrealized gains	2003 Gross unrealized losses	2003 Estimated fair value	2002 Amortized cost	2002 Gross unrealized gains	2002 Gross unrealized losses	2002 Estimated fair value
Canadian government debt	$ 9,823	$ 135	$ (6)	$ 9,952	$ 5,519	$ 97	$ (3)	$ 5,613
U.S. Treasury and other U.S. agencies	4,828	16	(55)	4,789	2,068	120	–	2,188
Other OECD government debt	4,775	6	–	4,781	2,605	28	–	2,633
Mortgage-backed securities	5,512	59	(28)	5,543	8,308	158	(1)	8,465
Asset-backed securities	325	5	(8)	322	358	28	(11)	375
Corporate debt	3,056	71	(20)	3,107	3,447	137	(73)	3,511
Other debt	5,626	12	(2)	5,636	1,501	8	(5)	1,504
Equities	1,293	45	(8)	1,330	1,272	28	(60)	1,240
	$35,238	$ 349	$ (127)	$35,460	$25,078	$ 604	$ (153)	$25,529

Realized gains and losses on sale of Investment account securities

	2003	2002	2001
Realized gains	$ 87	$ 82	$ 103
Realized losses	(56)	(193)	(233)
Gain (loss) on sale of Investment account securities	$ 31	$ (111)	$ (130)

NOTE 6 Loans (1)

	2003	2002
Canada		
Residential mortgage	$ 73,978	$ 67,700
Personal	28,262	25,918
Credit card	4,663	4,740
Business and government	26,765	29,778
	133,668	128,136
United States		
Residential mortgage	4,094	4,351
Personal	5,015	5,269
Credit card	107	125
Business and government	17,414	21,412
	26,630	31,157
Other International		
Residential mortgage	745	789
Personal	726	769
Credit card	46	49
Business and government	10,634	10,561
	12,151	12,168
Total loans (2)	172,449	171,461
Allowance for loan losses	(2,055)	(2,203)
Total loans net of allowance for loan losses	$ 170,394	$ 169,258

(1) Includes all loans booked by location, regardless of currency or residence of borrower.
(2) Loans are net of unearned income of $113 million (2002 – $131 million).

Loan maturities and rate sensitivity

	Maturity term (1)				Rate sensitivity			
As at October 31, 2003	Under 1 year	1 to 5 years	Over 5 years	Total	Floating	Fixed rate	Non-rate-sensitive	Total
Residential mortgage	$ 20,940	$ 52,889	$ 4,988	$ 78,817	$ 7,571	$ 71,115	$ 131	$ 78,817
Personal	24,726	6,982	2,295	34,003	20,320	13,448	235	34,003
Credit card	4,816	–	–	4,816	–	2,977	1,839	4,816
Business and government	40,273	10,674	3,866	54,813	18,552	34,882	1,379	54,813
Total loans	$ 90,755	$ 70,545	$ 11,149	172,449	$ 46,443	$ 122,422	$ 3,584	172,449
Allowance for loan losses				(2,055)				(2,055)
Total loans net of allowance for loan losses				$ 170,394				$ 170,394

(1) Based on the earlier of contractual repricing or maturity date.

Impaired loans

	2003			2002
	Gross	Specific allowance	Net	Net
Residential mortgage	$ 131	$ (13)	$ 118	$ 113
Personal	235	(139)	96	129
Business and government (1)	1,379	(605)	774	1,152
	$ 1,745	$ (757)	$ 988	$ 1,394

(1) Includes specific allowances of nil (2002 – $2 million) related to loan substitute securities.

NOTE 6 Loans (continued)

Allowance for loan losses

	2003							2002
	Balance at beginning of year	Write-offs	Recoveries	Provision for credit losses	Admiralty Bancorp, Inc. at acquisition date	Other	Balance at end of year	Balance at end of year
Residential mortgage	$ 41	$ (10)	$ –	$ 7	$ –	$ (1)	$ 37	$ 41
Personal	465	(373)	68	269	–	8	437	465
Credit card	152	(192)	37	155	–	(1)	151	152
Business and government (1)	1,405	(407)	65	296	8	(66)	1,301	1,405
General unallocated allowance	251	–	–	(6)	–	(7)	238	251
Total allowance for credit losses	$ 2,314	$ (982)	$ 170	$ 721	$ 8	$ (67)	$ 2,164	$ 2,314
Specific allowances	$ 894	$ (982)	$ 170	$ 721	$ –	$ (46)	$ 757	$ 894
General allowance								
General allocated	1,169	–	–	6	8	(14)	1,169	1,169
General unallocated	251	–	–	(6)	–	(7)	238	251
Total general allowance for credit losses	1,420	–	–	–	8	(21)	1,407	1,420
Total allowance for credit losses	$ 2,314	$ (982)	$ 170	$ 721	$ 8	$ (67)	$ 2,164	$ 2,314
Allowance for off-balance sheet and other items (2)	(109)	–	–	–	–	–	(109)	(109)
Allowance for loan substitute securities	(2)	–	–	2	–	–	–	(2)
Total allowance for loan losses	$ 2,203	$ (982)	$ 170	$ 723	$ 8	$ (67)	$ 2,055	$ 2,203

(1) Includes nil (2002 – $2 million) related to loan substitute securities and $109 million (2002 – $109 million) related to off-balance sheet and other items.
(2) The allowance for off-balance sheet and other items was reported separately under Other liabilities.

NOTE 7 Securitizations

The following table summarizes our new securitization activity for 2003, 2002 and 2001:

New Securitization activity

	2003			2002			2001		
	Credit card loans	Residential mortgage loans (1)	Commercial mortgage loans	Credit card loans	Residential mortgage loans (1)	Commercial mortgage loans	Credit card loans	Residential mortgage loans (1)	Commercial mortgage loans
Securitized and sold	$ 1,000	$ 610	$ 131	$ –	$ 1,708	$ –	$ 1,000	$ 723	$ –
Net cash proceeds received	1,000	607	135	–	1,691	–	1,000	720	–
Retained rights to future excess interest	9	24	–	–	71	–	7	25	–
Pre-tax gain on sale	9	21	4	–	54	–	7	22	–

(1) Government guaranteed residential mortgage loans securitized during the year through the creation of mortgage-backed securities and retained were $3,473 million (2002 – $2,026 million; 2001 – $77 million). Retained mortgage-backed securities are classified as Investment account securities.

The key assumptions used to value the retained interests at the date of securitization, for activity in 2003, are as follows:

Key assumptions

	Credit card loans	Residential mortgage loans
Payment rate (1)	37.69%	12.00%
Excess spread, net of credit losses	5.74	1.17
Expected credit losses	1.64	–
Discount rate	10.00	4.11

(1) Represents monthly payment rate for credit card loans.

Static pool credit losses include actual incurred and projected credit losses divided by the original balance of the loans securitized. The expected static pool credit loss ratio for securitized credit card loans at October 31, 2003, was .41%.

The following table summarizes the loan principal, impaired and net write-offs for total loans reported on our Consolidated balance sheet and securitized loans that we manage as at October 31, 2003 and 2002:

Loans reported and securitized

	2003			2002		
	Loan principal	**Impaired (1)**	**Net write-offs**	Loan principal	Impaired (1)	Net write-offs
Residential mortgage	**$ 85,029**	**$ 233**	**$ 10**	$ 78,321	$ 228	$ 12
Personal	**34,003**	**287**	**305**	31,956	371	328
Credit card	**7,491**	**46**	**184**	6,589	41	172
Business and government	**54,813**	**1,401**	**342**	61,751	1,865	779
Total loans managed (2)	**181,336**	**1,967**	**841**	178,617	2,505	1,291
Less: Loans securitized and managed (3)	**8,887**	**–**	**29**	7,156	–	32
Total loans reported on the Consolidated balance sheet	**$ 172,449**	**$ 1,967**	**$ 812**	$ 171,461	$ 2,505	$ 1,259

(1) Includes past due loans greater than 90 days not classified as impaired.
(2) Excludes any assets we have temporarily acquired with the intent at acquisition to sell to special purpose entities.
(3) Loan principal includes credit card loans of $2,675 million (2002 – $1,675 million), mortgage-backed securities created and sold of $2,936 million (2002 – $2,416 million), mortgage-backed securities created and retained of $3,276 million (2002 – $3,065 million).

At October 31, 2003, key economic assumptions and the sensitivity of the current fair value of our retained interests to immediate 10% and 20% adverse changes in key assumptions are shown in the first table below.

These sensitivities are hypothetical and should be used with caution. As the figures indicate, changes in fair value based on a variation in assumptions generally cannot be extrapolated because the relationship of the change in assumption to the change in fair value may not be linear. Also, the effect of a variation in a particular assumption on the fair value of the retained interests is calculated without changing any other assumption; generally, changes in one factor may result in changes in another, which may magnify or counteract the sensitivities.

The second table below summarizes certain cash flows received from securitizations in 2003, 2002 and 2001.

Sensitivity of key assumptions to adverse changes (1)

	Impact on fair value	
	Credit card loans	Residential mortgage loans
Fair value of retained interests	$ 15.6	$ 95.4
Weighted average remaining service life (in years)	.2	3.3
Payment rate	37.69%	12.00%
Impact on fair value of 10% adverse change	$ (.9)	$ (2.2)
Impact on fair value of 20% adverse change	(1.8)	(4.4)
Excess spread, net of credit losses	5.02%	1.14%
Impact on fair value of 10% adverse change	$ (1.5)	$ (9.5)
Impact on fair value of 20% adverse change	(3.0)	(19.1)
Expected credit losses	1.64%	–
Impact on fair value of 10% adverse change	$ (.4)	–
Impact on fair value of 20% adverse change	(.9)	–
Discount rate	10.00%	3.79%
Impact on fair value of 10% adverse change	$ –	$ (.4)
Impact on fair value of 20% adverse change	–	(.8)

(1) All rates are annualized except for the credit card loans payment rate, which is monthly.

Cash flows from securitizations (1)

	2003		2002		2001	
	Credit card loans	**Residential mortgage loans**	Credit card loans	Residential mortgage loans	Credit card loans	Residential mortgage loans
Proceeds reinvested in revolving securitizations	**$ 7,843**	**$ 1,268**	$ 8,512	$ 303	$ 6,972	$ 13
Cash flows from retained interests in securitizations	**64**	**13**	64	15	60	10

(1) Not applicable to commercial mortgages.

NOTE 8 Premises and equipment

	2003			2002
	Cost	Accumulated depreciation	Net book value	Net book value
Land	$ 154	$ –	$ 154	$ 172
Buildings	625	294	331	319
Computer equipment	1,860	1,309	551	456
Furniture, fixtures and other equipment	948	668	280	326
Leasehold improvements	889	535	354	380
	$ 4,476	$ 2,806	$ 1,670	$ 1,653

The depreciation expense for premises and equipment amounted to $398 million and $407 million in 2003 and 2002, respectively.

NOTE 9 Other assets

	2003	2002
Receivable from brokers, dealers and clients	$ 2,568	$ 3,229
Accrued interest receivable	1,460	1,319
Investment in associated corporations	1,343	92
Insurance-related assets (1)	1,024	936
Net deferred income tax asset	724	999
Prepaid pension benefit cost (2)	693	429
Other	5,202	4,109
	$ 13,014	$ 11,113

(1) Insurance-related assets include policy loan balances, premiums outstanding, amounts due from other insurers in respect of reinsurance contracts and pooling arrangements, and deferred acquisition costs.
(2) Prepaid pension benefit cost represents the cumulative excess of pension fund contributions over pension benefit expense.

NOTE 10 Deposits

	2003				2002
	Demand (1)	Notice (2)	Term (3)	Total	Total
Personal	$ 11,368	$ 31,812	$ 63,529	$ 106,709	$ 101,892
Business and government	40,536	8,906	80,418	129,860	119,591
Bank	1,819	63	20,694	22,576	22,003
	$ 53,723	$ 40,781	$ 164,641	$ 259,145	$ 243,486
Non-interest-bearing					
Canada				$ 24,029	$ 21,843
United States				2,076	2,078
Other International				1,107	891
Interest-bearing					
Canada				129,197	119,737
United States				36,285	35,320
Other International				66,451	63,617
				$ 259,145	$ 243,486

(1) Deposits payable on demand include all deposits for which we do not have the right to notice of withdrawal. These deposits are primarily chequing accounts.
(2) Deposits payable after notice include all deposits for which we can legally require notice of withdrawal. These deposits are for the most part, savings accounts.
(3) Term deposits include deposits payable on a fixed date. These deposits include term deposits, guaranteed investment certificates and similar instruments. At October 31, 2003, the balance of term deposits also includes senior deposit notes we have issued to provide long-term funding of $11.9 billion (2002 – $11.3 billion) and other notes and similar instruments in bearer form we have issued of $27.3 billion (2002 – $21.7 billion).

NOTE 11 Other liabilities

	2003	2002
Short-term borrowings of subsidiaries	$ 7,814	$ 10,173
Payable to brokers, dealers and clients	3,241	3,630
Accrued interest payable	1,640	1,399
Accrued pension and other postretirement benefit expense (1)	702	574
Insurance-related liabilities	386	599
Dividends payable	313	289
Other	7,222	6,708
	$ 21,318	$ 23,372

(1) Accrued pension and other postretirement benefit expense represents the cumulative excess of pension and other postretirement benefit expense over pension fund contributions.

NOTE 12 Subordinated debentures

The debentures are unsecured obligations and are subordinated in right of payment to the claims of depositors and certain other creditors. All redemptions, cancellations and exchanges of subordinated debentures are subject to the consent and approval of the Superintendent of Financial Institutions Canada.

Maturity	Earliest par value redemption date		Interest rate		Denominated in foreign currency	2003	2002
September 3, 2008		(1)	5.45%			$ –	$ 100
March 15, 2009			6.50%		US$125	165	195
April 12, 2009	April 12, 2004	(2)	5.40%	(3)		350	350
June 11, 2009	June 11, 2004	(2)	5.10%	(3)		350	350
July 7, 2009	July 7, 2004	(2)	6.05%	(3)		175	175
October 12, 2009	October 12, 2004	(2)	6.00%	(3)		150	150
August 15, 2010	August 15, 2005	(2)	6.40%	(3)		700	700
February 13, 2011	February 13, 2006	(4)	5.50%	(3)		125	125
April 26, 2011	April 26, 2006	(5)	8.20%	(3)		100	100
September 12, 2011	September 12, 2006	(2)	6.50%	(3)		350	350
October 24, 2011	October 24, 2006	(6)	6.75%	(7)	US$300	396	467
November 8, 2011	November 8, 2006	(8)		(9)	US$400	526	625
June 4, 2012	June 4, 2007	(2)	6.75%	(3)		500	500
January 22, 2013	January 22, 2008	(10)	6.10%	(3)		500	500
November 14, 2014			10.00%			200	200
January 25, 2015	January 25, 2010	(11)	7.10%	(3)		500	500
April 12, 2016	April 12, 2011	(12)	6.30%	(3)		400	400
June 8, 2023			9.30%			110	110
October 1, 2083		(13)		(14)		250	250
June 6, 2085		(13)		(15)	US$300	396	467
						$ 6,243	$ 6,614

(1) Redeemed on September 3, 2003, at par value.
(2) Redeemable at any time prior to the earliest par value redemption date at the greater of (i) the fair value of the subordinated debentures based on the yield on Government of Canada bonds plus 5 basis points and (ii) par value, and thereafter at any time at par value.
(3) Interest at stated interest rate until earliest par value redemption date, and thereafter at a rate of 1.00% above the 90-day Bankers' Acceptance rate.
(4) Redeemable at any time prior to the earliest par value redemption date at the greater of (i) the fair value of the subordinated debentures based on the yield on Government of Canada bonds plus 8 basis points and (ii) par value, and thereafter at any time at par value.
(5) Redeemable at any time prior to the earliest par value redemption date at the greater of (i) the fair value of the subordinated debentures based on the yield on Government of Canada bonds plus 10 basis points and (ii) par value, and thereafter at any time at par value.
(6) Redeemable at any time prior to the earliest par value redemption date at the greater of (i) the fair value of the subordinated debentures based on the yield on U.S. Treasury notes plus 10 basis points and (ii) par value, and thereafter at any time at par value.
(7) Interest at a rate of 6.75% until earliest par value redemption date, and thereafter at a rate of 1.00% above the U.S. dollar 6-month LIBOR.
(8) Redeemable on the earliest par value redemption date at par value.
(9) Interest at a rate of 50 basis points above the U.S. dollar 3-month LIBOR until earliest par value redemption date, and thereafter at a rate of 1.50% above the U.S. dollar 3-month LIBOR.
(10) Redeemable at any time prior to the earliest par value redemption date at the greater of (i) the fair value of the subordinated debentures based on the yield on Government of Canada bonds plus 18 basis points and (ii) par value, and thereafter at any time at par value.
(11) Redeemable at any time prior to the earliest par value redemption date at the greater of (i) the fair value of the subordinated debentures based on the yield on Government of Canada bonds plus 12.5 basis points and (ii) par value, and thereafter at any time at par value.
(12) Redeemable at any time prior to the earliest par value redemption date at the greater of (i) the fair value of the subordinated debentures based on the yield on Government of Canada bonds plus 22 basis points and (ii) par value, and thereafter at any time at par value.
(13) Redeemable on any interest payment date at par value.
(14) Interest at a rate of 40 basis points above the 30-day Bankers' Acceptance rate.
(15) Interest at a rate of 25 basis points above the U.S. dollar 3-month LIMEAN. In the event of a reduction of the annual dividend we declare on our common shares, the interest payable on the debentures is reduced pro rata to the dividend reduction and the interest reduction is payable with the proceeds from the sale of newly issued common shares.

Maturity schedule

The aggregate maturities of subordinated debentures, based on the maturity dates under the terms of issue, are as follows:

2004–2008	$ –
2009–2013	4,387
Thereafter	1,856
	$ 6,243

NOTE 13 Non-controlling interest in subsidiaries

	2003	2002
Trust Capital Securities issued by RBC Capital Trust (1)	$ 1,434	$ 1,434
Trust Capital Securities issued by RBC Capital Trust II (1)	914	–
Other	40	35
	$ 2,388	$ 1,469

(1) Including accrued distribution amounts.

NOTE 13 Non-controlling interest in subsidiaries (continued)

We issue RBC Trust Capital Securities (RBC TruCS) through our consolidated subsidiaries RBC Capital Trust, a closed-end trust; and RBC Capital Trust II, an open-end trust (the Trusts), established under the laws of the Province of Ontario. The proceeds of the RBC TruCS are used to fund the Trusts' acquisition of trust assets. Upon consolidation, these RBC TruCS are reported as Non-controlling interest in subsidiaries. Holders of RBC TruCS are eligible to receive semi-annual non-cumulative fixed cash distributions. Should the Trusts fail to pay the semi-annual distributions in full, we will not declare dividends of any kind on any of our preferred or common shares.

The terms of the RBC TruCS outstanding at October 31, 2003, were as follows:

Issuer	Issuance date	Distribution date	Annual yield	Redemption date At the option of the Trust	Conversion date At the option of the holder (3)	Principal amount
RBC Capital Trust (1), (4)						
650,000 Trust Capital Securities – Series 2010	July 24, 2000	June 30, December 31	7.288%	December 31, 2005	December 31, 2010	$ **650**
750,000 Trust Capital Securities – Series 2011	December 6, 2000	June 30, December 31	7.183%	December 31, 2005	December 31, 2011	**750**
RBC Capital Trust II (2), (4)						
900,000 Trust Capital Securities – Series 2013	July 23, 2003	June 30, December 31	5.812%	December 31, 2008	Any time	**900**
Total included in Non-controlling interest in subsidiaries						$ **2,300**

(1) Subject to the approval of the Superintendent of Financial Institutions Canada (OSFI), the Trust may, in whole (but not in part), on the Redemption date specified above, and on any Distribution date thereafter, redeem the RBC TruCS Series 2010 and Series 2011, without the consent of the holders.
(2) Subject to the approval of OSFI, the Trust may, in whole or in part, on the Redemption date specified above, and on any Distribution date thereafter, redeem any outstanding RBC TruCS Series 2013, without the consent of the holders.
(3) Holders of RBC TruCS Series 2010 and Series 2011 may exchange, on any Distribution date on or after the conversion date specified above, RBC TruCS Series 2010 and Series 2011 for 40 non-cumulative redeemable First Preferred Shares, Series Q and Series R, respectively. Holders of RBC TruCS Series 2013 may, at any time, exchange all or part of their RBC TruCS Series 2013 for 40 non-cumulative redeemable First Preferred Shares Series U per RBC TruCS Series 2013.
(4) The RBC TruCS may be redeemed for cash equivalent to (i) the Early Redemption Price if the redemption occurs earlier than six months prior to the conversion date at the holder's option or (ii) the Redemption Price if the redemption occurs on or after the date that is six months prior to the conversion date at the holder's option, as indicated above. Redemption Price refers to an amount equal to $1,000 plus the unpaid distributions to the Redemption date. Early Redemption Price refers to an amount equal to the greater of (i) the Redemption Price and (ii) the price calculated to provide an annual yield, equal to the yield on a Government of Canada bond issued on the Redemption date with a maturity date of June 30, 2010 and 2011, plus 33 basis points and 40 basis points, for Series 2010 and Series 2011, respectively, and a maturity date of December 31, 2013, plus 23 basis points, for Series 2013.

NOTE 14 Capital stock

Authorized capital stock

Preferred – An unlimited number of First Preferred Shares and Second Preferred Shares without nominal or par value, issuable in series; the aggregate consideration for which all the First Preferred Shares and all the Second Preferred Shares that may be issued may not exceed $10 billion and $5 billion, respectively.

Common – An unlimited number of shares without nominal or par value may be issued.

Issued and outstanding capital stock

	2003			2002			2001		
	Number of shares (000s)	**Amount**	**Dividends declared per share**	Number of shares (000s)	Amount	Dividends declared per share	Number of shares (000s)	Amount	Dividends declared per share
First Preferred									
Non-cumulative Series E (1)	–	$ –	$ –	–	$ –	$ 3.06	1,500	$ 150	$ 5.16
Non-cumulative Series H (1)	–	–	–	–	–	–	–	–	1.69
US$ Non-cumulative Series I (1)	–	–	–	–	–	US .02	8,000	318	US 1.91
Non-cumulative Series J (1)	–	–	**.90**	12,000	300	1.78	12,000	300	1.78
US$ Non-cumulative Series K (1)	–	–	**US .80**	10,000	389	US 1.58	10,000	397	US 1.58
Non-cumulative Series N	**12,000**	**300**	**1.18**	12,000	300	1.18	12,000	300	1.18
Non-cumulative Series O	**6,000**	**150**	**1.38**	6,000	150	1.38	6,000	150	1.38
US$ Non-cumulative Series P	**4,000**	**132**	**US 1.44**	4,000	156	US 1.44	4,000	159	US 1.44
Non-cumulative Series S	**10,000**	**250**	**1.53**	10,000	250	1.53	10,000	250	.65
		$ 832			$ 1,545			$ 2,024	
Common									
Balance at beginning of year	**665,257**	**$ 6,979**		674,021	$ 6,940		602,398	$ 3,076	
Issued	–	–		–	–		12,305	576	
Issued under the stock option plan (2)	**5,303**	**193**		5,211	176		2,819	81	
Issued on the acquisition of Centura Banks, Inc.	–	–		–	–		67,413	3,317	
Issued on the acquisition of Richardson Greenshields Limited (3)	–	–		318	15		13	2	
Purchased for cancellation	**(14,539)**	**(154)**		(14,293)	(152)		(10,927)	(112)	
Balance at end of year	**656,021**	**$ 7,018**	**$ 1.72**	665,257	$ 6,979	$ 1.52	674,021	$ 6,940	$ 1.38

(1) On May 26, 2003, we redeemed First Preferred Shares Series J and K. On November 26, 2001, and October 11, 2002, we redeemed First Preferred Shares Series I and E, respectively. On August 24, 2001, we redeemed First Preferred Shares Series H.
(2) Includes the exercise of stock options from tandem stock appreciation rights (SARs) awards, resulting in a reversal of the accrued liability, net of related income taxes, of $4 million (2002 – $9 million); and from renounced tandem SARs, net of related income taxes, of $6 million.
(3) During 2002, we exchanged nil (2001 – 36,527) Class B shares and 1,846,897 (2001 – 77,956) Class C shares issued by our wholly owned subsidiary, Royal Bank DS Holding Inc., on the acquisition of Richardson Greenshields Limited for 318,154 (2001 – 13,621) common shares.

Terms of preferred shares

	Dividend per share (1)	Redemption date (2)	Redemption price (3)	Conversion dates: At the option of the bank (2), (4)	Conversion dates: At the option of the holder (5)
First Preferred					
Non-cumulative Series N	$ .293750	August 24, 2003	$ 26.00	August 24, 2003	August 24, 2008
Non-cumulative Series O	.343750	August 24, 2004	26.00	August 24, 2004	Not convertible
US$ Non-cumulative Series P	US .359375	August 24, 2004	US 26.00	August 24, 2004	Not convertible
Non-cumulative Series S	.381250	August 24, 2006	26.00	August 24, 2006	Not convertible

(1) Non-cumulative preferential dividends on Series N, O, P and S are payable quarterly, as and when declared by the Board of Directors, on or about the 24th day of February, May, August and November.

(2) Subject to the consent of the Superintendent of Financial Institutions Canada (OSFI) and the requirements of the *Bank Act* (Canada) (the act), we may, on or after the dates specified above, redeem First Preferred Shares. These may be redeemed for cash, in the case of Series N at a price per share of $26, if redeemed during the 12 months commencing August 24, 2003, and decreasing by $.25 each 12-month period thereafter to a price per share of $25 if redeemed on or after August 24, 2007, and in the case of Series O and P at a price per share of $26 if redeemed during the 12 months commencing August 24, 2004, and decreasing by $.25 each 12-month period thereafter to a price per share of $25 if redeemed on or after August 24, 2008, and in the case of Series S at a price per share of $26 if redeemed during the 12 months commencing August 26, 2006, and decreasing by $.25 each 12-month period thereafter to a price per share of $25 if redeemed on or after August 24, 2010.

(3) Subject to the consent of OSFI and the requirements of the the act, we may purchase First Preferred Shares for cancellation at a purchase price, in the case of the Series N, O, P and S at the lowest price or prices at which, in the opinion of the Board of Directors, such shares are obtainable.

(4) Subject to the approval of the Toronto Stock Exchange, we may, on or after the dates specified above, convert First Preferred Shares Series N, O, P and S into our common shares. First Preferred Shares may be converted into that number of common shares determined by dividing the then-applicable redemption price by the greater of $2.50 and 95% of the weighted average trading price of common shares at such time.

(5) Subject to our right to redeem or to find substitute purchasers, the holder may, on or after the dates specified above, convert First Preferred Shares into our common shares. Series N may be converted, quarterly, into that number of common shares determined by dividing the then-applicable redemption price by the greater of $2.50 and 95% of the weighted average trading price of common shares at such time.

Restrictions on the payment of dividends

We are prohibited by the *Bank Act* (Canada) from declaring any dividends on our preferred or common shares when we are, or would be placed as a result of the declaration, in contravention of the capital adequacy and liquidity regulations or any regulatory directives issued under the act. We may not pay dividends on our common shares at any time unless all dividends to which preferred shareholders are then entitled have been declared and paid or set apart for payment.

In addition, we may not declare or pay a dividend without the approval of the Superintendent of Financial Institutions Canada (OSFI) if, on the day the dividend is declared, the total of all dividends in that year would exceed the aggregate of our net income up to that day and of our retained net income for the preceding two years.

We have agreed that if RBC Capital Trust or RBC Capital Trust II fail to pay any required distribution on the capital trust securities in full, we will not declare dividends of any kind on any of our preferred or common shares.

Currently, these limitations do not restrict the payment of dividends on our preferred or common shares.

Normal course issuer bid

Commencing in June 2001, pursuant to a one-year normal course issuer bid, we repurchased through the facilities of the Toronto and Montreal stock exchanges 15,401,100 common shares at an average price of $49.32 per share. Under this bid, 10,927,200 common shares were repurchased during fiscal 2001 at a cost of $509 million and 4,473,900 common shares were repurchased during fiscal 2002 at a cost of $251 million.

On June 24, 2002, we renewed our one-year normal course issuer bid to purchase, for cancellation, up to 20 million of our common shares through the facilities of the Toronto and Montreal stock exchanges, representing approximately 3% of our outstanding common shares. During fiscal 2002, a total of 14,292,800 common shares were repurchased for $764 million at an average cost of $53.45 per share. Under this renewed bid, 9,818,900 common shares were purchased, at an average cost of $52.27 per share, for $513 million and 8,629,337 common shares were repurchased during fiscal 2003 at an average cost of $58.09 per share, for $502 million.

On June 24, 2003, we renewed our normal course issuer bid to purchase, for cancellation, up to 25 million of our common shares, representing approximately 3.8% of our outstanding common shares. Under this renewed bid, 5,910,200 common shares were purchased, at an average cost of $59.30 per share for $350 million. During fiscal 2003, a total of 14,539,537 common shares were repurchased for $852 million at an average cost of $58.58 per share.

Regulatory capital

We are subject to the regulatory capital requirements defined by OSFI, which includes the use of Canadian GAAP. Two measures of capital strength established by OSFI, based on standards issued by the Bank for International Settlements (BIS), are risk-adjusted capital ratios and the assets-to-capital multiple.

OSFI requires Canadian banks to maintain a minimum Tier 1 and Total capital ratio of 4% and 8%, respectively. However, OSFI has also formally established risk-based capital targets for deposit-taking institutions in Canada. These targets are a Tier 1 capital ratio of at least 7% and a Total capital ratio of at least 10%. At October 31, 2003, our Tier 1 and Total capital ratios were 9.7% and 12.8%, respectively (2002 – 9.3% and 12.7%, respectively).

In the evaluation of our assets-to-capital multiple, OSFI specifies that total assets, including specified off-balance sheet financial instruments, should be no greater than 23 times Total capital. At October 31, 2003, our assets-to-capital multiple was 18.2 times (2002 – 17.3 times).

NOTE 15 Income taxes

	2003	2002	2001
Income taxes in Consolidated statement of income			
Current			
Canada – Federal	$ **741**	$ 703	$ 845
Provincial	**326**	272	360
International	**279**	155	103
	1,346	1,130	1,308
Deferred			
Canada – Federal	**75**	167	16
Provincial	**29**	57	1
International	**10**	11	15
	114	235	32
	1,460	1,365	1,340
Income taxes (recoveries) in Consolidated statement of changes in shareholders' equity			
Unrealized foreign currency translation gains and losses, net of hedging activities	**1,064**	100	(472)
Issuance costs	**(3)**	–	(15)
Stock appreciation rights	**4**	25	–
Cumulative effect of initial adoption of *Employee Future Benefits* accounting standard	**–**	–	(157)
	1,065	125	(644)
Total income taxes	$ **2,525**	$ 1,490	$ 696

Deferred income taxes

	2003	2002
Deferred income tax asset (1)		
Allowance for credit losses	$ **505**	$ 512
Deferred compensation	**348**	339
Pension related	**12**	43
Tax loss carryforwards	**35**	35
Deferred income	**166**	60
Other	**299**	259
	1,365	1,248
Valuation allowance	**(16)**	(13)
	1,349	1,235
Deferred income tax liability		
Premises and equipment	**(14)**	(9)
Deferred expense	**(178)**	(77)
Other	**(433)**	(150)
	(625)	(236)
Net deferred income tax asset	$ **724**	$ 999

(1) We have determined that it is more likely than not that the deferred income tax asset net of the valuation allowance will be realized through a combination of future reversals of temporary differences and taxable income.

Reconciliation to statutory tax rate

	2003		2002		2001	
Income taxes at Canadian statutory tax rate	$ **1,672**	**36.4%**	$ 1,630	38.5%	$ 1,601	41.5%
Increase (decrease) in income taxes resulting from						
Lower average tax rate applicable to subsidiaries	**(204)**	**(4.4)**	(276)	(6.5)	(253)	(6.5)
Tax-exempt income from securities	**(19)**	**(.4)**	(7)	(.2)	(7)	(.2)
Tax rate change	**31**	**.7**	33	.8	63	1.6
Other	**(20)**	**(.5)**	(15)	(.4)	(64)	(1.7)
Income taxes reported in Consolidated statement of income/effective tax rate	$ **1,460**	**31.8%**	$ 1,365	32.2%	$ 1,340	34.7%

International earnings of certain subsidiaries would be taxed only upon their repatriation to Canada. We have not recognized a deferred tax liability for these undistributed earnings as we do not currently expect them to be repatriated. Taxes that would be payable if all foreign subsidiaries' accumulated unremitted earnings were repatriated are estimated at $728 million as at October 31, 2003 (2002 – $841 million; 2001 – $772 million).

NOTE 16 Insurance operations

Insurance claims and policy benefit liabilities

	2003	2002
Claims liabilities	**$ 374**	$ 149
Future policy benefit liabilities	**4,882**	2,676
Insurance claims and policy benefit liabilities	**$ 5,256**	$ 2,825

The effects of changes in Insurance claims and policy benefit liabilities are included in the Consolidated statement of income within Insurance policyholder benefits, claims and acquisition expense in the period in which the estimates are changed. For non-life short-duration contract liabilities carried at present value, the interest rates used for discounting range from 3% to 10%.

Reinsurance

In the ordinary course of business, our insurance operations reinsure risks to other insurance and reinsurance companies in order to provide greater diversification, limit loss exposure to large risks, and provide additional capacity for future growth. These ceding reinsurance arrangements do not relieve our insurance subsidiaries from their direct obligation to the insureds. We evaluate the financial condition of the reinsurers and monitor our concentrations of credit risks to minimize our exposure to losses from reinsurer insolvency.

Reinsurance amounts included in Non-interest income for the years ended October 31 are shown in the table below:

Net premiums

	2003	2002	2001
Gross premiums	**$ 2,979**	$ 2,297	$ 2,026
Ceded premiums	**(1,014)**	(530)	(478)
Net premiums	**$ 1,965**	$ 1,767	$ 1,548

Reinsurance recoverables

	2003	2002
Claims paid	**$ 230**	$ 302
Future policy benefits	**489**	395
Reinsurance recoverables	**$ 719**	$ 697

NOTE 17 Pensions and other postretirement benefits

We sponsor a number of defined benefit and defined contribution plans providing pension and other postretirement benefits to eligible employees.

The following tables present information related to our benefit plans, including amounts recorded on the Consolidated balance sheet and the components of net benefit expense:

Plan assets, benefit obligation and funded status

	Pension plans (1)		Other postretirement plans (2)	
	2003	2002	**2003**	2002
Change in fair value of plan assets (3), (4)				
Opening fair value of plan assets	**$ 3,747**	$ 4,049	**$ –**	$ 1
Actual return on plan assets	**415**	(133)	**–**	–
Company contributions	**670**	99	**27**	23
Plan participant contributions	**23**	19	**1**	1
Benefits paid	**(263)**	(258)	**(28)**	(25)
Plan settlements	**–**	(52)	**–**	–
Business acquisitions	**97**	–	**–**	–
Change in foreign currency exchange rate	**(32)**	17	**–**	–
Transfers from other plans	**–**	6	**–**	–
Closing fair value of plan assets	**$ 4,657**	$ 3,747	**$ –**	$ –
Change in benefit obligation (3)				
Opening benefit obligation	**$ 4,590**	$ 4,044	**$ 1,067**	$ 693
Service cost	**120**	113	**39**	22
Interest cost	**306**	297	**80**	51
Plan participant contributions	**23**	19	**1**	1
Actuarial loss	**443**	280	**214**	318
Benefits paid	**(263)**	(258)	**(28)**	(25)
Transfers from other plans	**–**	3	**–**	–
Plan amendments and curtailments	**–**	59	**1**	7
Business acquisitions	**123**	2	**18**	–
Change in foreign currency exchange rate	**(60)**	31	**(13)**	–
Closing benefit obligation	**$ 5,282**	$ 4,590	**$ 1,379**	$ 1,067
Funded status				
(Deficit) excess of plan assets over benefit obligation	**$ (625)**	$ (843)	**$ (1,379)**	$ (1,067)
Unrecognized net actuarial loss	**1,071**	792	**549**	360
Unrecognized transition (asset) obligation	**(19)**	(26)	**174**	190
Unrecognized prior service cost	**181**	211	**13**	13
Contributions between the measurement date and October 31	**25**	222	**2**	3
Other	**(1)**	(1)	**–**	1
Net amount recognized as at October 31	**$ 632**	$ 355	**$ (641)**	$ (500)
Weighted average assumptions				
Discount rate	**6.25%**	6.75%	**6.50%**	7.00%
Assumed long-term rate of return on plan assets	**7.00%**	7.00%	**–**	–
Rate of increase in future compensation	**4.40%**	4.40%	**4.40%**	4.40%

Pension benefit expense (5)

	2003	2002	2001
Service cost	**$ 120**	$ 113	$ 104
Interest cost	**306**	297	268
Expected return on plan assets	**(300)**	(300)	(306)
Amortization of transition asset	**(2)**	(2)	(2)
Amortization of prior service cost	**31**	32	17
Amortization of net actuarial loss (gain)	**15**	(27)	(45)
Settlement loss	**–**	52	–
Other	**–**	(45)	(14)
Defined benefit pension expense	**170**	120	22
Defined contribution pension expense	**67**	61	30
Pension benefit expense	**$ 237**	$ 181	$ 52

Other postretirement benefit expense (2)

	2003	2002	2001
Service cost	**$ 39**	$ 22	$ 64
Interest cost	**80**	51	49
Expected return on plan assets	**–**	–	(1)
Amortization of transition obligation	**17**	17	17
Amortization of net actuarial loss	**24**	–	–
Amortization of prior service cost	**1**	2	2
Other postretirement benefit expense	**$ 161**	$ 92	$ 131

2003 sensitivity of key assumptions

Pensions	**Change in obligation**	**Change in expense**
Impact of .25% change in discount rate assumption	**$ 179**	**$ 21**
Impact of .25% change in rate of increase in future compensation assumption	**22**	**5**
Impact of .25% change in the long-term rate of return on plan assets assumption	**–**	**11**

Postretirement	**Change in obligation**	**Change in expense**
Impact of .25% change in discount rate assumption	**$ 65**	**$ 8**
Impact of .25% change in rate of increase in future compensation assumption	**8**	**2**

(1) Included in these amounts are $4,328 million (2002 – $3,239 million) of plan assets and $4,991 million (2002 – $4,131 million) of benefit obligations for plans that are not fully funded.
(2) Includes postretirement health, dental and life insurance. The assumed health care cost trend rates for the next year used to measure the expected cost of benefits covered for the postretirement health and life plans were 8% for medical and 4.5% for dental, decreasing to an ultimate rate of 4.5% in 2009. A one percentage point increase in assumed health care cost trend rates would have increased the service and interest costs and obligation by $21 million and $182 million, respectively. A one percentage point decrease in assumed health care cost trends would have lowered the service and interest costs and the obligation by $14 million and $143 million, respectively.
(3) For the 12-month period beginning October 1 to the measurement date, September 30.
(4) Plan assets includes 525,342 (2002 – 818,597) of Royal Bank of Canada common shares having a fair value of $31 million (2002 – $43 million). In addition, dividends amounting to $1.1 million (2002 – $1 million) were received on Royal Bank of Canada common shares held in the plan assets during the year.
(5) Discount rate assumption of 6.75% (2002 – 7.00%; 2001 – 7.00%) was used to determine pension benefit expense.

NOTE 18 Stock-based compensation

Stock option plans

We have two stock option plans – one for certain key employees and one for non-employee directors. On November 19, 2002, the Board of Directors permanently discontinued all further grants of options under the Director Stock Option Plan. Under the employee plans, options are periodically granted to purchase common shares at prices not less than the market price of such shares on the day of grant. The options vest over a 4-year period for employees and are exercisable for a period not exceeding 10 years from the grant date.

For options issued prior to October 31, 2002, that were not accompanied by tandem stock appreciation rights (SARs), no compensation expense was recognized as the option's exercise price was not less than the market price of the underlying stock on the day of grant. When the options are exercised, the proceeds received are credited to common shares.

Between November 29, 1999, and June 5, 2001, grants of options under the employee stock option plan were accompanied by tandem SARs. With SARs, participants could choose to exercise a SAR instead of the corresponding option. In such cases, the participants received a cash payment equal to the difference between the closing price of common shares on the day immediately preceding the day of exercise and the exercise price of the option. During the last quarter of 2002 and first quarter of 2003, certain executive participants voluntarily renounced their SARs while retaining the corresponding options.

The compensation expense for these grants, which is amortized over the associated option's vesting period, was $34 million for the year ended October 31, 2003 (2002 – $44 million; 2001 – $23 million).

Stock options

	2003		2002		2001	
	Number of options (000s)	**Weighted average exercise price**	Number of options (000s)	Weighted average exercise price	Number of options (000s)	Weighted average exercise price
Outstanding at beginning of year	**28,479**	**$ 39.54**	30,158	$ 36.84	25,880	$ 33.61
Granted	**1,985**	**58.03**	4,215	49.12	7,949	44.46
Exercised – Common shares	**(5,303)**	**34.48**	(5,211)	32.07	(2,819)	28.77
– SARs	**(170)**	**37.35**	(291)	34.01	(259)	33.55
Cancelled	**(188)**	**47.55**	(392)	38.37	(593)	37.82
Outstanding at end of year	**24,803**	**$ 42.06**	28,479	$ 39.54	30,158	$ 36.84
Exercisable at end of year	**15,415**	**$ 38.24**	14,050	$ 36.07	12,895	$ 32.62
Available for grant	**14,309**		16,105		20,289	

Range of exercise prices

	Options outstanding			Options exercisable	
	Number outstanding (000s)	**Weighted average exercise price**	**Weighted average remaining contractual life**	**Number exercisable (000s)**	**Weighted average exercise price**
$14.46–$15.68	**349**	**$ 15.56**	**2.9**	**349**	**$ 15.56**
$24.80–$28.25	**1,673**	**26.13**	**6.0**	**1,673**	**26.13**
$30.00–$39.64	**11,450**	**36.66**	**6.1**	**9,866**	**37.20**
$43.59–$49.36	**9,354**	**49.14**	**8.4**	**3,513**	**49.11**
$50.00–$59.35	**1,977**	**57.92**	**10.0**	**14**	**50.71**
Total	**24,803**	**$ 42.06**	**7.3**	**15,415**	**$ 38.24**

Fair value method

CICA 3870, *Stock-based Compensation and Other Stock-based Payments*, recommends the recognition of an expense for option awards using the fair value method of accounting. It permits the use of other methods, including the intrinsic value based method, provided pro forma disclosures of net income and earnings per share applying the fair value method are made. We adopted the recommendations of CICA 3870 prospectively for new awards granted after November 1, 2002. The fair value compensation expense recorded for the year ended October 31, 2003, in respect of these awards was $6 million.

We have provided pro forma disclosures, which demonstrate the effect as if we had adopted the recommended recognition provisions of CICA 3870 in 2003, 2002 and 2001 for awards granted before 2003 as indicated below:

Pro forma net income and earnings per share

	As reported			Pro forma (1)		
	2003	2002	2001	**2003**	2002	2001
Net income	**$ 3,005**	$ 2,762	$ 2,411	**2,970**	$ 2,730	$ 2,375
Earnings per share	**4.44**	3.96	3.55	**4.39**	3.91	3.49
Diluted earnings per share	**4.39**	3.93	3.52	**4.35**	3.89	3.47

(1) Compensation expense under the fair value based method is recognized over the vesting period of the related stock options. Accordingly, the pro forma results of applying this method may not be indicative of future amounts.

The fair value of options granted during 2003 was estimated on the date of grant using an option pricing model with the following assumptions: (i) risk-free interest rate of 4.61% (2002 – 4.89%; 2001 – 5.86%), (ii) expected option life of 6 years (2002 – 6 years; 2001 – 10 years), (iii) expected volatility of 20% (2002 – 20%; 2001 – 24%) and (iv) expected dividends of 2.95% (2002 – 2.9%; 2001 – 2.67%). The fair value of each option granted was $11.60 (2002 – $10.02; 2001 – $14.78).

NOTE 18 Stock-based compensation (continued)

Employee share ownership plans

We offer many employees an opportunity to own stock through RBC savings and share ownership plans. Under these plans, the employee can generally contribute between 1% and 10% of their annual salary or benefit base for commissioned employees. For each contribution between 1% and 6%, we will match 50% of the employee contributions in common shares. For the RBC Dominion Securities Savings Plan our maximum annual contribution is $4,500 per employee. For the RBC UK Share Incentive Plan our maximum annual contribution is £1,500 per employee. We contributed $55 million (2002 – $49 million; 2001 – $47 million), under the terms of these plans, towards the purchase of common shares. As at October 31, 2003, an aggregate of 17,544,654 common shares were held under these plans.

Deferred share and other plans

We offer deferred share unit plans to executives and non-employee directors. Under these plans, each executive or director may choose to receive all or a percentage of their annual incentive bonus or directors fee in the form of deferred share units (DSUs). The executives or directors must elect to participate in the plan prior to the beginning of the fiscal year. DSUs earn dividend equivalents in the form of additional DSUs at the same rate as dividends on common shares. The participant is not allowed to convert the DSUs until retirement, permanent disability or termination of employment/directorship. The cash value of the DSUs is equivalent to the market value of common shares when conversion takes place. The value of the DSUs as at October 31, 2003, was $105 million (2002 – $73 million; 2001 – $52 million). The share appreciation and dividend-related compensation expense recorded for the year ended October 31, 2003, in respect of these plans, was $16 million (2002 – $16 million; 2001 – $8 million).

We have a deferred bonus plan for certain key employees within RBC Capital Markets. Under this plan, a percentage of each employee's annual incentive bonus is deferred and accumulates dividend equivalents at the same rate as dividends on common shares. The employee will receive the deferred bonus in equal amounts paid within 90 days of the following three year-end dates. The value of the deferred bonus paid will be equivalent to the original deferred bonus adjusted for dividends and changes in the market value of common shares at the time the bonus is paid. The value of the deferred bonus as at October 31, 2003, was $215 million (2002 – $187 million; 2001 – $128 million). The share appreciation and dividend-related compensation expense for the year ended October 31, 2003, in respect of this plan, was $22 million (2002 – $20 million; 2001 – $5 million recovery).

We offer deferred share plans to certain key employees within RBC Investments with various vesting periods up to a maximum of five years. Awards under some of these plans may be deferred in the form of common shares, which are held in trust, or DSUs. The participant is not allowed to convert the DSU until retirement, permanent disability or termination of employment. The cash value of DSUs is equivalent to the market value of common shares when conversion takes place. Certain plans award share units that track the value of common shares with payout in cash at the end of a maximum five-year term. The value of deferred shares held in trust as at October 31, 2003, was $58 million (2002 – $34 million; 2001 – $14 million). The value of the various share units as at October 31, 2003, was $26 million (2002 – $10 million; 2001 – $4 million). The stock-based compensation expense recorded for the year ended October 31, 2003, in respect of these plans, was $30 million (2002 – $32 million; 2001 – $16 million).

We offer a performance deferred share plan to certain key employees. The performance deferred share award is made up of 50% regular shares and 50% performance shares all of which vest at the end of three years. At the time the shares vest, the performance shares can be increased or decreased by 50% depending on our total shareholder return compared to 15 North American financial institutions. The value of common shares held as at October 31, 2003, was $102 million (2002 – $34 million; 2001 – nil). Compensation expense of $33 million (2002 – $11 million; 2001 – nil) was recognized for the year ended October 31, 2003, in respect of this award.

We offer a mid-term compensation plan to certain senior executive officers. Awards under this program are converted into share units equivalent to common shares. The share units vest over a three-year period in equal installments of one-third per year. The units have a value equal to the market value of common shares on each vesting date and are paid in either cash or common shares at our option. The value of the share units as at October 31, 2003, was $9 million (2002 – $16 million; 2001 – $21 million). The compensation expense recorded for the year ended October 31, 2003, in respect of this plan, was $5 million (2002 – $12 million; 2001 – $8 million).

Dain Rauscher maintains a non-qualified deferred compensation plan for key employees under an arrangement called the wealth accumulation plan. This plan allows eligible employees to make deferrals of their annual income and allocate the deferrals among various fund choices, which include an RBC share unit fund that tracks the value of our common shares. Certain deferrals may also be eligible for matching contributions from us. All matching contributions are allocated to the RBC share unit fund. The value of the RBC share units held under the plan as at October 31, 2003, was $111 million (2002 – $70 million; 2001 – $7 million). The compensation expense recorded for the year ended October 31, 2003, in respect of the matching contributions, was $10 million (2002 – $12 million; 2001 – $7 million).

On the acquisition of Dain Rauscher, certain key employees of Dain Rauscher were offered retention unit awards totalling $318 million in award value to be paid out evenly over expected service periods of between three and four years. Payments to participants of the plan are based on the market value of common shares on the vesting date. The liability under this plan was $100 million as at October 31, 2003 (2002 – $151 million; 2001 – $135 million). The compensation expense recorded for the year ended October 31, 2003, in respect of this plan was $95 million (2002 – $92 million; 2001 – $143 million).

For other stock-based plans, compensation expense of $8 million was recognized for the year ended October 31, 2003 (2002 – $19 million; 2001 – $14 million). The value of the share units and shares held under these plans as at October 31, 2003, was $13 million (2002 – $10 million; 2001 – $3 million).

NOTE 19 Earnings per share

	2003	2002	2001
Earnings per share			
Net income	$ 3,005	$ 2,762	$ 2,411
Preferred share dividends	(68)	(98)	(135)
Net income available to common shareholders	$ 2,937	$ 2,664	$ 2,276
Average number of common shares (in thousands)	662,080	672,571	641,516
	$ 4.44	$ 3.96	$ 3.55
Diluted earnings per share			
Net income available to common shareholders	$ 2,937	$ 2,664	$ 2,276
Effect of assumed conversions (1)	–	–	1
Net income adjusted for diluted computation	$ 2,937	$ 2,664	$ 2,277
Average number of common shares (in thousands)	662,080	672,571	641,516
Convertible Class B and C shares (1)	–	14	363
Stock options (2)	6,936	5,535	5,337
Average number of diluted common shares (in thousands)	669,016	678,120	647,216
	$ 4.39	$ 3.93	$ 3.52

(1) The convertible shares included the Class B and C shares issued by our wholly owned subsidiary Royal Bank DS Holding Inc., on the acquisition of Richardson Greenshields Limited on November 1, 1996. The outstanding Class B shares were all exchanged into Royal Bank of Canada common shares in 2001 and the remaining Class C shares were exchanged for common shares on November 9, 2001. The price of the Class C shares was determined based on our average common share price during the 20 days prior to the date the exchange was made. During the year we exchanged nil (2002 – nil; 2001 – 36,527) Class B shares and nil (2002 – 1,846,897; 2001 – 77,956) Class C shares for nil (2002 – 318,154; 2001 – 13,621) common shares.

(2) The dilutive effect of stock options was calculated using the treasury stock method. This method calculates the number of incremental shares by assuming the outstanding stock options are (i) exercised and (ii) then reduced by the number of shares assumed to be repurchased from the issuance proceeds, using the average market price of our common shares for the period. Excluded from the calculation of diluted earnings per share were average options outstanding of 25,205 with an exercise price of $59.35 (2002 – 9,761 at $53.76; 2001 – 7,862 at $50.72; 1,956 at $49.03) as the options' exercise price was greater than the average market price of our common shares.

NOTE 20 Guarantees, commitments and contingencies

Guarantees

In the normal course of business, we enter into numerous agreements that may contain features which meet the definition of a guarantee pursuant to Accounting Guideline 14, *Disclosure of Guarantees* (AcG 14). AcG 14 defines a guarantee to be a contract (including an indemnity) that contingently requires us to make payments (either in cash, financial instruments, other assets, shares of our stock or provision of services) to a third party based on (i) changes in an underlying interest rate, foreign exchange rate, equity or commodity instrument, index or other variable, that is related to an asset, a liability or an equity security of the counterparty, (ii) failure of another party to perform under an obligating agreement or (iii) failure of another third party to pay its indebtedness when due. The maximum potential amount of future payments represents the maximum risk of loss if there were a total default by the guaranteed parties, without consideration of possible recoveries under recourse provisions, insurance policies or from collateral held or pledged.

The table below summarizes significant guarantees we have provided to third parties.

Maximum potential amount of future payments

	2003
Backstop liquidity facilities	$ 22,162
Credit derivatives/written put options (1)	15,470
Financial standby letters of credit/performance guarantees	12,482
Credit enhancements	6,791
Stable value products (1)	3,251
Mortgage loans sold with recourse	520

(1) The notional amount of the contract approximates maximum potential amount of future payments.

Backstop liquidity facilities are provided to asset-backed commercial paper conduit programs (programs) administered by us and third parties, as an alternative source of financing in the event that such programs are unable to access commercial paper markets, or in limited circumstances, when predetermined performance measures of the financial assets owned by these programs are not met. The liquidity facilities' term can range up to 1 year. The terms of the backstop liquidity facilities do not require us to advance money to these programs in the event of bankruptcy or to purchase non-performing or defaulted assets. None of the backstop liquidity facilities that we have provided have been drawn upon.

Our clients may enter into credit derivatives or written put options for speculative or hedging purposes. AcG 14 defines guarantees to include derivative contracts that contingently require us to make payments to a guaranteed party based on changes in an underlying that relate to an asset, liability or equity security of a guaranteed party. We have only disclosed amounts for transactions where it would be probable, based on the information available to us, that the client would use the credit derivative or written put option to protect against changes in an underlying that is related to an asset, a liability or an equity security held by the client. We enter into written credit derivatives that are over-the-counter contractual agreements to compensate another party, a corporate or government entity, for their financial loss following the occurrence of a credit event in relation to a specified reference obligation, such as a bond or loan. The term of these credit derivatives varies based on the contract and can range up to 15 years. We enter into written put options that are contractual agreements under which we grant the purchaser, a corporate or government entity, the right, but not the obligation to sell, by or at a set date, a specified amount of a financial instrument at a predetermined price. Written put options that typically qualify as guarantees include foreign exchange contracts, equity based contracts, and certain commodity based contracts. The term of these options varies based on the contract and can range up to 5 years.

Financial standby letters of credit and performance guarantees represent irrevocable assurances that we will make payments in the event that a client cannot meet its obligations to third parties. The term of these guarantees can range up to 8 years. Our policy for requiring collateral security with respect to these instruments and the types of collateral security held is generally the same as for loans.

We provide partial credit enhancement to multi-seller programs administered by us to protect commercial paper investors in the event that the third-party credit enhancement supporting the various asset pools proves to be insufficient to prevent a default of one or more of the asset pools. Each of the asset pools is structured to achieve a high investment grade credit profile through credit enhancement related to each transaction. The term of these credit facilities is between 1 and 4 years.

We sell stable value products that offer book value protection primarily to plan sponsors of ERISA-governed pension plans such as 401(k) plans, 457 plans, etc. The book value protection is provided on portfolios of intermediate/short-term investment grade fixed income securities and is intended to cover any shortfall in the event that plan participants withdraw funds when market value is below book value. We retain the option to exit the contract at any time.

NOTE 20 Guarantees, commitments and contingencies (continued)

Through our various agreements with investors, we may be required to repurchase U.S. originated mortgage loans sold to an investor if the loans are uninsured for greater than one year, or refund any premium received where mortgage loans are prepaid or in default within 120 days. The mortgage loans are fully collateralized by residential properties.

In the normal course of our operations, we provide indemnifications which are often standard contractual terms to counterparties in transactions such as purchase and sale contracts, service agreements, director/officer contracts and leasing transactions. These indemnification agreements may require us to compensate the counterparties for costs incurred as a result of changes in laws and regulations (including tax legislation) or as a result of litigation claims or statutory sanctions that may be suffered by the counterparty as a consequence of the transaction. The terms of these indemnification agreements will vary based upon the contract. The nature of the indemnification agreements prevents us from making a reasonable estimate of the maximum potential amount we could be required to pay to counterparties. Historically, we have not made any significant payments under such indemnifications.

Financial instruments with contractual amounts representing credit risk

The primary purpose of these commitments is to ensure that funds are available to a client as required. Our policy for requiring collateral security with respect to these instruments and the types of collateral security held is generally the same as for loans.

Documentary and commercial letters of credit, which are written undertakings by us on behalf of a client authorizing a third party to draw drafts on us up to a stipulated amount under specific terms and conditions, are collateralized by the underlying shipment of goods to which they relate.

In securities lending transactions, we act as an agent for the owner of a security, who agrees to lend the security to a borrower for a fee, under the terms of a pre-arranged contract. The borrower must fully collateralize the security loan at all times.

Commitments to extend credit represent unused portions of authorizations to extend credit in the form of loans, bankers' acceptances, guarantees or letters of credit.

Uncommitted amounts represent an amount for which we retain the option to extend credit to a borrower.

A note issuance facility represents an underwriting agreement that enables a borrower to issue short-term debt securities. A revolving underwriting facility represents a renewable note issuance facility that can be accessed for a specified period of time.

Financial instruments with contractual amounts representing credit risk

	2003	2002
Documentary and commercial letters of credit	**$ 2,014**	$ 772
Securities lending	**17,520**	23,967
Commitments to extend credit		
Original term to maturity of 1 year or less	**40,432**	40,931
Original term to maturity of more than 1 year	**28,182**	34,115
Uncommitted amounts	**59,801**	45,978
Note issuance/revolving underwriting facilities	**24**	23
	$ 147,973	$ 145,786

Lease commitments

Minimum future rental commitments for premises and equipment under long-term non-cancellable operating and capital leases for the next five years and thereafter are shown below.

Lease commitments

2004	$ 388
2005	355
2006	310
2007	260
2008	224
Thereafter	681
Total	$ 2,218

Litigation

On June 21, 2002, a week before it was due to pay Royal Bank of Canada US$517 million plus interest under the terms of a total return swap, which is recorded in Other assets, Cooperatieve Centrale Raiffeisen-Boerenleenbank B.A. (Rabobank) initiated an action against us in New York state court in an effort to nullify its obligation under the swap. On June 24, 2002, we instituted proceedings against Rabobank in the High Court in London, alleging that Rabobank had repudiated its obligation under the total return swap. At present, both the New York and the London actions are proceeding.

In October 2003, we received a settlement valued at approximately US$195 million plus interest, which was in accordance with the terms of a settlement agreement reached with Enron Corporation, the Enron Creditors' Committee and Rabobank. The settlement received has reduced the amount owing by Rabobank to US$322 million plus interest but will not otherwise affect the ongoing litigation with Rabobank. Management expects to recover the amount owing from Rabobank in its entirety and accordingly a provision for loss has not been recorded.

Various other legal proceedings are pending that challenge certain of our practices or actions. Management considers that the aggregate liability resulting from these proceedings will not be material.

Pledged assets

Details of assets pledged against liabilities, including amounts that cannot be sold or repledged by the secured party, are shown in the following table:

Pledged assets

	2003	2002
Assets pledged to:		
Foreign governments and central banks	**$ 1,220**	$ 1,418
Clearing systems, payment systems and depositories	**1,055**	1,075
Assets pledged in relation to:		
Derivative transactions	**2,415**	1,828
Securities borrowing and lending	**29,489**	20,840
Obligations related to securities sold under repurchase agreements	**23,735**	21,109
Other	**2,575**	3,389
Total	**$ 60,489**	$ 49,659

Collateral
At October 31, 2003, the approximate market value of collateral accepted that may be sold or repledged by us was $63.1 billion (2002 – $55.9 billion). This collateral was received in connection with reverse repurchase agreements, securities borrowings and loans, and derivative transactions. Of this amount, $40.4 billion (2002 – $36.4 billion) has been sold or repledged, generally as collateral under repurchase agreements or to cover short sales.

NOTE 21 Derivative financial instruments

Derivative financial instruments are financial contracts whose value is derived from an underlying interest rate, foreign exchange rate, equity or commodity instrument or index.

Derivative product types
Interest rate derivatives
Interest rate futures and forwards (forward rate agreements) are contractual obligations to buy or sell an interest-rate sensitive financial instrument on a future date at a specified price. Forward contracts are effectively tailor-made agreements that are transacted between counterparties in the over-the-counter market, whereas futures are standardized with respect to amount and settlement dates, and are traded on regulated exchanges.

Interest rate swaps are over-the-counter contracts in which two counterparties exchange interest payments based on rates applied to a notional amount.

Interest rate options are contractual agreements under which the seller (writer) grants the purchaser the right, but not the obligation, either to buy (call option) or sell (put option), by or at a set date, a specified amount of an interest-rate sensitive financial instrument at a predetermined price or to receive the cash settlement value of such right. The seller receives the premium from the purchaser for this right.

Foreign exchange derivatives
Foreign exchange forwards are contractual obligations in which two counterparties agree to exchange one currency for another at a specified price for settlement at a predetermined future date. Forward contracts are effectively tailor-made agreements that are transacted between counterparties in the over-the-counter market, whereas futures are standardized with respect to amount and settlement dates, and are traded on regulated exchanges.

Cross currency swaps involve the exchange of fixed payments in one currency for the receipt of fixed payments in another currency. Cross currency interest rate swaps involve the exchange of both interest and principal amounts in two different currencies.

Foreign currency options are contractual agreements under which the seller (writer) grants the purchaser the right, but not the obligation, either to buy (call option) or sell (put option), by or at a set date, a specified quantity of one foreign currency in exchange for another at a predetermined price or to receive the cash settlement value of such right. The seller receives the premium from the purchaser for this right.

Credit derivatives
Credit derivatives are over-the-counter contracts that transfer credit risk related to an underlying financial instrument (referenced asset) from one counterparty to another. Examples of credit derivatives include credit default swaps, credit default baskets and total return swaps.

Credit default swaps provide protection against the decline in value of the referenced asset as a result of credit events such as default or bankruptcy. It is similar in structure to an option whereby the purchaser pays a premium to the seller of the credit default swap in return for payment related to the deterioration in the value of the referenced asset. Credit default baskets are similar to credit default swaps except that the underlying referenced financial instrument is a group of assets instead of a single asset.

Total return swaps are contracts where one counterparty agrees to pay or receive from the other cash flows based on changes in the value of the referenced asset.

Equity derivatives
Equity index futures and forwards are contractual obligations to buy or sell a fixed value (the contracted price) of an equity index, a basket of stocks or a single stock at a specified future date. Forward contracts are effectively tailor-made agreements that are transacted between counterparties in the over-the-counter market, whereas futures are standardized with respect to amount and settlement dates, and are traded on regulated exchanges.

Equity swaps are over-the-counter contracts in which one counterparty agrees to pay or receive from the other cash flows based on changes in the value of an equity index, a basket of stocks or a single stock.

Equity options are contractual agreements under which the seller (writer) grants the purchaser the right, but not the obligation, either to buy (call option) or sell (put option), by or at a set date, a specified quantity of an underlying equity index, a basket of stocks or a single stock at a predetermined price or to receive the cash settlement value of such right. The seller receives the premium from the purchaser for this right.

Other derivative products
We also transact in other derivative products including precious metal and commodity derivative contracts in both the over-the-counter and exchange markets.

Derivatives held or issued for trading purposes
Most of our derivative transactions relate to sales and trading activities. Sales activities include the structuring and marketing of derivative products to clients to enable them to transfer, modify or reduce current or expected risks. Trading involves market-making, positioning and arbitrage activities. Market-making involves quoting bid and offer prices to other market participants with the intention of generating revenues based on spread and volume. Positioning involves managing market risk positions with the expectation of profiting from favourable movements in prices, rates or indices. Arbitrage activities involve identifying and profiting from price differentials between markets and products. We do not deal, to any significant extent, in leveraged derivative transactions. These transactions contain a multiplier which, for any given change in market prices, could cause the change in the transaction's fair value to be significantly different from the change in fair value that would occur for a similar derivative without the multiplier.

Derivatives held or issued for non-trading purposes
We also use derivatives in connection with our own asset/liability management activities, which include hedging and investment activities.

Interest rate swaps are used to adjust exposure to interest rate risk by modifying the repricing or maturity characteristics of existing and/or anticipated assets and liabilities. Purchased interest rate options are used to hedge redeemable deposits and other options embedded in consumer products. We manage our exposure to foreign currency risk with cross currency swaps and foreign exchange forward contracts. We use credit derivatives to manage our credit exposures and for risk diversification in our lending portfolio.

Certain derivatives are specifically designated and qualify for hedge accounting. The purpose of hedge accounting is to minimize significant unplanned fluctuations in earnings and cash flows caused by changes in interest rates or exchange rates. Interest rate and currency fluctuations will either cause assets and liabilities to appreciate or depreciate in market value or cause variability in cash flows. When a derivative functions effectively as a hedge, gains, losses, revenues and expenses on the derivative will offset the gains, losses, revenues and expenses on the hedged item.

NOTE 21 Derivative financial instruments (continued)

We may also choose to enter into derivative transactions to economically hedge certain business strategies that do not otherwise qualify for hedge accounting, or where hedge accounting is not considered economically feasible to implement. In such circumstances, changes in fair value are reflected in Non-interest income.

We did not hedge any anticipated transactions for the year ended October 31, 2003.

Adoption of AcG 13

We early adopted Accounting Guideline 13, *Hedging Relationships* (AcG 13), on November 1, 2002. Non-trading derivatives that did not qualify for hedge accounting under AcG 13 on November 1, 2002, were carried at fair value on the balance sheet. This resulted in assets and liabilities increasing by $428 million and $395 million, respectively. The resulting transition gain of $33 million was deferred and is being recognized in Net interest income as the original hedged items affect net income.

Derivatives – Notional amounts

Notional amounts, which are off-balance sheet, serve as a point of reference for calculating payments and are a common measure of business volume. The following table provides the notional amounts of our derivative transactions by term to maturity:

Notional amount of derivatives by term to maturity (1)

	Term to maturity				2003		2002	
	Within 1 year	1 to 5 years	Over 5 years (2)	Total	Trading	Other than trading	Trading	Other than trading
Over-the-counter contracts								
Interest rate contracts								
Forward rate agreements	$ 71,434	$ 3,381	$ –	$ 74,815	$ 71,845	$ 2,970	$ 194,537	$ 4,308
Swaps	263,446	477,903	213,426	954,775	855,482	99,293	794,961	67,303
Options purchased	20,346	12,567	10,675	43,588	43,585	3	55,289	4
Options written	22,404	13,180	11,425	47,009	47,009	–	56,080	94
Foreign exchange contracts								
Forward contracts	452,447	23,701	2,440	478,588	463,561	15,027	522,035	22,684
Cross currency swaps	1,266	4,250	5,289	10,805	10,805	–	9,907	–
Cross currency interest rate swaps	17,704	45,165	33,183	96,052	91,990	4,062	71,050	3,098
Options purchased	72,446	2,139	13	74,598	74,391	207	56,160	44
Options written	76,487	2,896	–	79,383	79,383	–	61,209	627
Credit derivatives (3)	2,452	39,111	13,224	54,787	53,693	1,094	50,928	1,223
Other contracts (4)	6,818	7,209	12,906	26,933	26,489	444	22,085	534
Exchange-traded contracts								
Interest rate contracts								
Futures – long positions	24,857	14,087	61	39,005	39,005	–	26,761	–
Futures – short positions	28,216	5,793	175	34,184	33,878	306	36,500	293
Options purchased	56,711	10,798	–	67,509	67,311	198	640	779
Options written	28,253	2	–	28,255	28,057	198	2,059	311
Foreign exchange contracts								
Futures – long positions	546	–	–	546	546	–	27	–
Futures – short positions	670	–	–	670	670	–	321	–
Other contracts (4)	22,382	3,874	–	26,256	26,256	–	18,811	–
	$1,168,885	$ 666,056	$ 302,817	$2,137,758	$2,013,956	$ 123,802	$1,979,360	$ 101,302

(1) As of November 1, 2002, certain warrants and loan commitments disclosed as derivatives are recorded at fair value. The notional amount of $1,096 million is excluded from these amounts.
(2) Includes contracts maturing in over 10 years with a notional value of $48,935 million (2002 – $37,322 million). The related gross positive replacement cost is $1,407 million (2002 – $1,291 million).
(3) Comprises credit default swaps, total return swaps and credit default baskets.
(4) Comprises precious metal, commodity and equity-linked derivative contracts.

Derivative-related credit risk

Credit risk from derivative transactions is generated by the potential for the counterparty to default on its contractual obligations when one or more transactions have a positive market value to us. This market value is referred to as replacement cost since it is an estimate of what it would cost to replace transactions at prevailing market rates if a default occurred.

For internal risk management purposes, the credit equivalent amount arising from a derivative transaction is defined as the sum of the replacement cost plus an add-on that is an estimate of the potential change in the market value of the transaction through to maturity. The add-on is determined by statistically based models that project the expected volatility of the variable(s) underlying the derivative, whether interest rate, foreign exchange rate, equity or commodity price. Both the replacement cost and the add-on are continually re-evaluated over the life of each transaction to ensure that sound credit risk valuations are used. The risk-adjusted amount is determined by applying standard measures of counterparty risk to the credit equivalent amount.

Netting is a technique that can reduce credit exposure from derivatives and is generally facilitated through the use of master netting agreements. The two main categories of netting are close-out netting and settlement netting. Under the close-out netting provision, if the counterparty defaults, we have the right to terminate all transactions covered by the master netting agreement at the then-prevailing market values and to sum the resulting market values, offsetting negative against positive values, to arrive at a single net amount owed by either the counterparty or us. Under the settlement netting provision, all payments and receipts in the same currency and due on the same day between specified branches are netted, generating a single payment in each currency, due either by us or the counterparty. We actively encourage counterparties to enter into master netting agreements. However, measurement of our credit exposure arising out of derivative transactions is not reduced to reflect the effects of netting unless the enforceability of that netting is supported by appropriate legal analysis as documented in our policy.

To further manage derivative-related counterparty credit exposure, we enter into agreements containing mark-to-market cap provisions with some counterparties. Under such provisions, we have the right to request that the counterparty pay down or collateralize the current market value of its derivatives position with us. The use of collateral is a significant credit mitigation technique for managing bank and broker-dealer derivative-related credit risk.

We subject our derivative-related credit risks to the same credit approval, limit and monitoring standards that we use for managing other transactions that create credit exposure. This includes evaluation of counterparties as to creditworthiness, and managing the size, diversification and maturity structure of the portfolio. Credit utilization for all products is compared with established limits on a continual basis and is subject to a standard exception reporting process. We utilize a single internal rating system for all credit risk exposure. In most cases, these internal ratings approximate the external risk ratings of public rating agencies. The tables below show replacement cost, credit equivalent and risk-adjusted amounts of our derivatives both before and after the impact of netting. During 2003 and 2002, neither our actual credit losses arising from derivative transactions nor the level of impaired derivative contracts were significant.

Replacement cost of derivative financial instruments by risk rating and by counterparty type (1)

	Risk rating (2)					Counterparty type (3)			
As at October 31, 2003	AAA, AA	A	BBB	BB or lower	Total	Banks	OECD governments	Other	Total
Gross positive replacement cost (4)	$ 15,591	$ 15,246	$ 3,587	$ 2,263	$ 36,687	$ 24,867	$ 3,279	$ 8,541	$ 36,687
Impact of master netting agreements	(9,895)	(9,916)	(2,124)	(1,267)	(23,202)	(18,569)	–	(4,633)	(23,202)
Replacement cost (after netting agreements)	$ 5,696	$ 5,330	$ 1,463	$ 996	$ 13,485	$ 6,298	$ 3,279	$ 3,908	$ 13,485
Replacement cost (after netting agreements) – 2002	$ 4,804	$ 3,800	$ 1,279	$ 707	$ 10,590	$ 5,084	$ 2,068	$ 3,438	$ 10,590

(1) As of November 1, 2002, certain warrants and loan commitments disclosed as derivatives are recorded at fair value. The replacement cost of $10 million is excluded from these amounts.
(2) The bank's internal risk ratings for major counterparty types approximate those of public rating agencies. Ratings of AAA, AA, A and BBB represent investment grade ratings and ratings of BB or lower represent non-investment grade ratings.
(3) Counterparty type is defined in accordance with the capital adequacy requirements of the Superintendent of Financial Institutions Canada.
(4) Represents the total current replacement cost of all outstanding contracts in a gain position, before factoring in the impact of master netting agreements. Exchange-traded instruments are subject to daily margin requirements and are excluded as they are deemed to have no additional credit risk. The fair value of these instruments at October 31, 2003, is $82 million (2002 – $194 million).

Derivative-related credit risk (1)

	2003			2002		
	Replacement cost (2)	**Credit equivalent amount** (3)	**Risk-adjusted balance** (4)	Replacement cost (2)	Credit equivalent amount (3)	Risk-adjusted balance (4)
Interest rate contracts						
Forward rate agreements	**$ 51**	**$ 68**	**$ 19**	$ 178	$ 299	$ 64
Swaps	**17,138**	**22,682**	**5,258**	19,608	24,357	6,323
Options purchased	**753**	**976**	**346**	563	914	258
	17,942	**23,726**	**5,623**	20,349	25,570	6,645
Foreign exchange contracts						
Forward contracts	**10,201**	**15,148**	**4,137**	6,802	13,049	3,685
Swaps	**5,559**	**11,105**	**2,428**	1,781	6,341	1,445
Options purchased	**1,220**	**2,052**	**527**	809	1,491	439
	16,980	**28,305**	**7,092**	9,392	20,881	5,569
Credit derivatives (5)	**713**	**2,343**	**744**	861	2,963	858
Other contracts (6)	**1,052**	**1,949**	**633**	849	1,701	529
Derivatives before master netting agreements	**36,687**	**56,323**	**14,092**	31,451	51,115	13,601
Impact of master netting agreements	**(23,202)**	**(29,671)**	**(7,772)**	(20,861)	(26,930)	(7,132)
Total derivatives after master netting agreements	**$ 13,485**	**$ 26,652**	**$ 6,320**	$ 10,590	$ 24,185	$ 6,469

(1) As of November 1, 2002, certain warrants and loan commitments disclosed as derivatives are recorded at fair value. The replacement cost of $10 million is excluded from these amounts.
(2) Represents the total current replacement cost of all outstanding contracts in a gain position, before factoring in the impact of master netting agreements. Exchange-traded instruments are subject to daily margin requirements and are excluded as they are deemed to have no additional credit risk. The fair value of these instruments at October 31, 2003, is $82 million (2002 – $194 million).
(3) Consists of (i) the total positive replacement cost of all outstanding contracts, and (ii) an amount for potential future credit exposure as defined by the Superintendent of Financial Institutions Canada (OSFI).
(4) Using guidelines issued by OSFI.
(5) Comprises credit default swaps, total return swaps and credit default baskets.
(6) Comprises precious metal, commodity and equity-linked derivative contracts.

NOTE 22 Concentrations of credit risk

Concentrations of credit risk exist if a number of clients are engaged in similar activities, or are located in the same geographic region or have comparable economic characteristics such that their ability to meet contractual obligations would be similarly affected by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of our performance to developments affecting a particular industry or geographic location. The concentrations described below are within limits as established by management.

	2003									2002								
	Canada	**%**	**United States**	**%**	**Europe**	**%**	**Other International**	**%**	**Total**	Canada	%	United States	%	Europe	%	Other International	%	Total
On-balance sheet assets (1)	**$157,751**	**73%**	**$ 30,861**	**14%**	**$ 21,930**	**10%**	**$ 4,139**	**3%**	**$214,681**	$158,055	73%	$ 32,442	15%	$ 18,917	9%	$ 5,979	3%	$215,343
Off-balance sheet credit instruments (2)																		
Committed and uncommitted (3)	**$ 59,353**	**46%**	**$ 41,949**	**33%**	**$ 22,845**	**18%**	**$ 4,268**	**3%**	**$128,415**	$ 60,397	50%	$ 45,573	38%	$ 13,863	11%	$ 1,191	1%	$121,024
Other	**18,449**	**50**	**14,791**	**40**	**3,704**	**10**	**156**	**–**	**37,100**	23,266	61	10,723	28	4,235	11	148	–	38,372
Derivatives before master netting agreement (4), (5), (6)	**$ 7,732**	**21%**	**$ 10,081**	**27%**	**$ 17,462**	**48%**	**$ 1,412**	**4%**	**$ 36,687**	$ 7,734	25%	$ 9,887	31%	$ 12,232	39%	$ 1,598	5%	$ 31,451
	$ 85,534	**42%**	**$ 66,821**	**33%**	**$ 44,011**	**22%**	**$ 5,836**	**3%**	**$202,202**	$ 91,397	46%	$ 66,183	33%	$ 30,330	15%	$ 2,937	6%	$190,847

(1) Includes assets purchased under reverse repurchase agreements, loans and customers' liability under acceptances. The largest concentrations in Canada are Ontario at 38% (2002 – 38%) and British Columbia at 11% (2002 – 11%). No industry accounts for more than 10% of total on-balance sheet credit instruments.
(2) Represents financial instruments with contractual amounts representing credit risk.
(3) Of the commitments to extend credit, the largest industry concentration relates to financial institutions of 39% (2002 – 35%), government of 16% (2002 – 9%), mining and energy of 12% (2002 – 15%), transportation of 6% (2002 – 8%) and manufacturing of 3% (2002 – 8%).
(4) The largest concentration by counterparty type of this credit risk exposure is with banks at 66% (2002 – 68%).
(5) Represents the total current replacement cost of all outstanding contracts in a gain position, before factoring in the impact of master netting agreements. Exchange-traded instruments are subject to daily margin requirements and are excluded as they are deemed to have no additional credit risk. The fair value of these instruments at October 31, 2003, is $82 million (2002 – $194 million).
(6) As of November 1, 2002, certain warrants and loan commitments disclosed as derivatives are recorded at fair value. The replacement cost of $10 million is excluded from these amounts.

NOTE 23 Estimated fair value of financial instruments

The estimated fair values disclosed below are designed to approximate values at which these instruments could be exchanged in a current transaction between willing parties. However, many of the financial instruments lack an available trading market and therefore, fair values are based on estimates using net present value and other valuation techniques, which are significantly affected by the assumptions used concerning the amount and timing of estimated future cash flows and discount rates, which reflect varying degrees of risk. Therefore the aggregate fair value amounts should not be interpreted as being realizable in an immediate settlement of the instruments.

The estimated fair values disclosed below do not reflect the value of assets and liabilities that are not considered financial instruments such as premises and equipment.

Financial assets and liabilities

	2003			2002		
	Book value	Fair value	Difference	Book value	Fair value	Difference
Financial assets						
Cash resources	$ 17,554	$ 17,554	$ –	$ 21,323	$ 21,323	$ –
Securities	117,390	117,618	228	93,800	94,251	451
Assets purchased under reverse repurchase agreements	36,289	36,289	–	35,831	35,831	–
Loans	170,394	172,259	1,865	169,258	171,546	2,288
Derivative assets (1)	36,088	36,391	303	30,274	31,633	1,359
Other assets	17,579	17,579	–	17,736	17,736	–
Financial liabilities						
Deposits	259,145	260,536	(1,391)	243,486	245,136	(1,650)
Acceptances	5,943	5,943	–	8,051	8,051	–
Obligations related to securities sold short	22,855	22,855	–	19,110	19,110	–
Obligations related to assets sold under repurchase agreements	23,735	23,735	–	21,109	21,109	–
Derivative liabilities (1)	38,053	38,240	(187)	32,205	33,042	(837)
Other liabilities	25,767	25,767	–	25,623	25,623	–
Subordinated debentures	6,243	6,587	(344)	6,614	6,935	(321)

(1) As of November 1, 2002, certain warrants and loan commitments are also disclosed as derivatives and recorded at fair value on the Consolidated balance sheet.

Derivatives

	2003				2002	
	Average fair value for year ended (1)		Year-end fair value		Year-end fair value	
	Positive	Negative	Positive	Negative	Positive	Negative
Held or issued for trading purposes						
Interest rate contracts						
Forward rate agreements	$ 124	$ 111	$ 47	$ 42	$ 178	$ 177
Swaps	19,461	19,380	16,136	15,934	18,468	18,930
Options purchased	603	–	758	–	564	–
Options written	–	532	–	773	–	474
	20,188	20,023	16,941	16,749	19,210	19,581
Foreign exchange contracts						
Forward contracts	8,843	8,967	9,965	10,540	6,568	6,260
Cross currency swaps	507	410	731	624	504	340
Cross currency interest rate swaps	2,832	2,697	4,553	3,634	1,109	1,678
Options purchased	1,066	–	1,200	–	809	–
Options written	–	1,033	–	1,309	–	586
	13,248	13,107	16,449	16,107	8,990	8,864
Credit derivatives (2)	776	370	711	374	822	483
Other contracts (3)	1,082	3,374	1,103	4,332	1,028	3,093
	$ 35,294	$ 36,874	35,204	37,562	30,050	32,021
Held or issued for other than trading purposes						
Interest rate contracts						
Forward rate agreements			4	20	–	49
Swaps			1,003	847	1,140	842
Options purchased			–	–	1	–
Options written			–	–	–	13
			1,007	867	1,141	904
Foreign exchange contracts						
Forward contracts			236	78	234	94
Cross currency interest rate swaps			275	99	168	24
Options purchased			20	–	–	–
Options written			–	–	–	3
			531	177	402	121
Credit derivatives (2)			2	22	39	8
Other contracts (3)			35	–	13	–
			1,575	1,066	1,595	1,033
Total gross fair values before netting			36,779	38,628	31,645	33,054
Impact of master netting agreements						
With intent to settle net or simultaneously (4)			(388)	(388)	(12)	(12)
Without intent to settle net or simultaneously (5)			(22,814)	(22,814)	(20,849)	(20,849)
Total			$ 13,577	$ 15,426	$ 10,784	$ 12,193

(1) Average fair value amounts are calculated based on monthly balances.
(2) Comprises credit default swaps, total return swaps and credit default baskets.
(3) Comprises precious metal, commodity and equity-linked derivative contracts. As of November 1, 2002, certain warrants and loan commitments are also disclosed as derivatives and recorded at fair value on the Consolidated balance sheet.
(4) Impact of offsetting credit exposures on contracts where we have both a legally enforceable master netting agreement in place and we intend to settle the contracts on either a net basis or simultaneously.
(5) Additional impact of offsetting credit exposures on contracts where we have a legally enforceable master netting agreement in place but do not intend to settle the contracts on a net basis or simultaneously.

Methodologies and assumptions used to estimate fair values of financial instruments

Loans The fair value of the business and government loans portfolio is based on an assessment of interest rate risk and credit risk. Fair value is determined under a discounted cash flow methodology using a discount rate based on interest rates currently charged for new loans with similar terms and remaining maturities, adjusted for a credit risk factor, which is reviewed at least annually. Fair value of the consumer loan portfolio is based on a discounted cash flow methodology adjusted principally for prepayment risk. For certain variable rate loans that reprice frequently and loans without a stated maturity, fair values are assumed to be equal to carrying values.

Securities The fair values of securities are provided in the Securities note to the consolidated financial statements (note 5). These are based on quoted market prices, when available. If quoted market prices are not available, fair values are estimated using quoted market prices of similar securities.

Deposits The fair values of fixed rate deposits with a fixed maturity are determined by discounting the expected future cash flows, using market interest rates currently offered for deposits of similar terms and remaining maturities (adjusted for early redemptions where appropriate). The fair values of deposits with no stated maturity or deposits with floating rates are assumed to be equal to their carrying values.

Derivative financial instruments The fair value of derivatives is equal to the book value, with the exception of amounts relating to derivatives designated and qualifying for hedge accounting. The fair values of derivatives are determined using various methodologies. For exchange-traded instruments, fair value is based on quoted market prices, where available. For non-exchange-traded instruments or where no quoted market prices are available, fair value is based on prevailing market rates for instruments with similar characteristics and maturities, net present value analysis or other pricing models as appropriate, incorporating primarily observable market data.

Other assets/liabilities The carrying values of Other assets and Other liabilities approximate their fair values.

Subordinated debentures The fair values of subordinated debentures are based on quoted market prices for similar issues, or current rates offered to us for debt of the same remaining maturity.

Financial instruments valued at carrying value Due to their short-term nature, the fair value of Cash resources, Assets purchased under reverse repurchase agreements, Customers' liability under acceptances, our liability under Acceptances, Obligations related to securities sold short and Obligations related to assets sold under repurchase agreements is assumed to approximate carrying value.

NOTE 24 Subsequent events

The following significant events occurred subsequent to October 31, 2003, and prior to the issuance of our 2003 consolidated financial statements.

Issue of subordinated debentures

On November 3, 2003, we issued $1 billion of subordinated debentures through our Canadian Medium Term Note Program.

The debentures bear interest at a fixed rate of 5.45% per annum, paid semi-annually until November 4, 2013, and at a three-month Bankers' Acceptance rate plus 1.00%, paid quarterly thereafter until their maturity on November 4, 2018.

We may, at our option, with the prior approval of the Superintendent of Financial Institutions Canada, redeem the debentures in whole at any time, or in part from time to time, on not less than 30 days' and not more than 60 days' notice to the registered holders. If the debentures are redeemed prior to November 4, 2013, the Redemption Price will be the greater of the Canada Yield Price and par. The debentures are redeemable on and after November 4, 2013, at par. The Canada Yield Price is the price that would provide a yield from the Redemption date to November 4, 2013, equal to 14 basis points plus the yield which a non-callable issue of Government of Canada bonds would carry from the Redemption Date to November 4, 2013.

Acquisition of the Canadian operation of Provident Life and Accident Insurance Company

On November 18, 2003, RBC Insurance announced the acquisition of the Canadian operation of Provident Life and Accident Insurance Company (PLAIC), a wholly owned subsidiary of UnumProvident Corporation. As part of the acquisition, RBC Insurance will assume PLAIC's policy liabilities and may invest up to $500 million to complete the acquisition.

The acquisition is expected to close by March 2004 and is subject to approval by Canadian regulators.

Acquisition of Provident Financial Group Inc.

On November 21, 2003, RBC Centura Banks, Inc., acquired the operations of Cincinnati, Ohio–based Provident Financial Group Inc. (Provident). The operations include all of Provident's operations in Florida, comprising 13 branches serving areas of Western Florida. The purchase consideration comprises US$80 million cash and the assumption of net tangible liabilities valued at approximately US$22 million. This amount represents total excess consideration of approximately US$102 million and will be allocated to core deposit intangibles and goodwill of approximately US$14 million and US$88 million, respectively.

NOTE 25 Contractual repricing and maturity schedule

The table below details our exposure to interest rate risk as defined and prescribed by the Canadian Institute of Chartered Accountants Section 3860, *Financial Instruments – Disclosure and Presentation*. On- and off-balance sheet financial instruments are reported based on the earlier of their contractual repricing date or maturity date. Effective interest rates have been disclosed where applicable. The effective rates shown represent historical rates for fixed-rate instruments carried at amortized cost and current market rates for floating-rate instruments or instruments carried at fair value.

The table below does not incorporate management's expectation of future events where expected repricing or maturity dates differ significantly from the contractual dates. We incorporate these assumptions in the management of interest rate risk exposure. These assumptions include expected repricing of trading instruments and certain loans and deposits. Taking into account these assumptions on the consolidated contractual repricing and maturity schedule at October 31, 2003, would result in a change in the under-one-year gap from $(59.1) billion to $(29.0) billion (2002 – $(37.5) billion to $(3.7) billion).

Carrying amount by earlier of contractual repricing or maturity date

	Immediately rate-sensitive	Under 3 months	3 to 6 months	Over 6 to 12 months	Over 1 to 5 years	Over 5 years	Non-interest-sensitive	Total
Assets								
Cash resources	$ –	$ 12,643	$ 2,003	$ 1,319	$ 217	$ –	$ 1,372	$ 17,554
Effective interest rate		1.65%	1.77%	2.26%	2.55%	–		
Securities								
Trading account	–	15,354	4,484	6,051	15,157	12,888	27,893	81,827
Effective interest rate		2.23%	2.08%	2.41%	3.59%	4.86%		
Investment account and loan substitute	–	6,227	2,840	5,381	14,363	5,001	1,751	35,563
Effective interest rate		3.05%	3.17%	3.72%	4.26%	4.66%		
Assets purchased under reverse repurchase agreements	–	35,646	320	323	–	–	–	36,289
Effective interest rate		2.36%	2.94%	2.80%	–	–		
Loans	46,443	35,961	6,371	9,782	64,769	7,378	(310)	170,394
Effective interest rate		2.36%	4.87%	5.20%	5.55%	6.03%		
Other assets	–	–	–	–	–	–	61,406	61,406
	46,443	105,831	16,018	22,856	94,506	25,267	92,112	403,033
Liabilities								
Deposits	98,050	86,889	17,989	21,647	31,828	1,585	1,157	259,145
Effective interest rate		2.03%	2.43%	2.49%	3.72%	4.83%		
Obligations related to securities sold short	–	1,919	493	318	6,790	6,655	6,680	22,855
Effective interest rate		2.36%	2.40%	3.03%	3.46%	4.99%		
Obligations related to assets sold under repurchase agreements	–	23,040	302	259	–	–	134	23,735
Effective interest rate		2.57%	2.75%	2.80%	–	–		
Other liabilities	–	–	–	–	–	–	70,292	70,292
Subordinated debentures	–	1,172	350	675	2,671	1,375	–	6,243
Effective interest rate		1.90%	5.40%	5.55%	6.50%	7.39%		
Non-controlling interest in subsidiaries	–	–	–	–	–	2,300	88	2,388
Effective interest rate		–	–	–	–	6.68%		
Shareholders' equity	–	–	–	–	300	532	17,543	18,375
Effective interest rate		–	–	–	4.70%	5.84%		
	98,050	113,020	19,134	22,899	41,589	12,447	95,894	403,033
On-balance sheet gap	(51,607)	(7,189)	(3,116)	(43)	52,917	12,820	(3,782)	–
Off-balance sheet financial instruments (1)								
Derivatives used for asset liability management purposes								
Pay side instruments	–	(20,410)	(2,095)	(4,123)	(34,314)	(6,969)	–	(67,911)
Effective interest rate		4.71%	4.88%	5.06%	4.52%	5.29%		
Receive side instruments	–	24,698	5,156	9,780	21,680	6,597	–	67,911
Effective interest rate		4.69%	4.02%	3.78%	4.74%	5.86%		
Derivatives used for trading purposes	–	(6,718)	(2,599)	(826)	8,677	14,225	(12,759)	–
Effective interest rate		2.76%	2.75%	2.78%	3.60%	4.97%		
	–	(2,430)	462	4,831	(3,957)	13,853	(12,759)	–
Total gap	$ (51,607)	$ (9,619)	$ (2,654)	$ 4,788	$ 48,960	$ 26,673	$ (16,541)	$ –
Canadian dollar	(24,709)	(7,433)	(1,860)	4,025	37,851	3,868	(11,705)	37
Foreign currency	(26,898)	(2,186)	(794)	763	11,109	22,805	(4,836)	(37)
Total gap	$ (51,607)	$ (9,619)	$ (2,654)	$ 4,788	$ 48,960	$ 26,673	$ (16,541)	$ –
Canadian dollar – 2002	(28,828)	9,104	3,614	112	30,953	4,475	(19,896)	(466)
Foreign currency – 2002	(25,074)	781	265	2,545	5,029	9,404	7,516	466
Total gap – 2002	$ (53,902)	$ 9,885	$ 3,879	$ 2,657	$ 35,982	$ 13,879	$ (12,380)	$ –

(1) Represents net notional amounts.

NOTE 26 Reconciliation of Canadian and United States generally accepted accounting principles

These consolidated financial statements have been prepared in accordance with Subsection 308 of the *Bank Act* (Canada), which states that except as otherwise specified by the Superintendent of Financial Institutions Canada, the consolidated financial statements are to be prepared in accordance with Canadian generally accepted accounting principles (GAAP). As required by the United States Securities and Exchange Commission, material differences between Canadian and United States GAAP are described below.

Condensed consolidated balance sheets

	2003			2002		
	Canadian GAAP	Adjustments	U.S. GAAP	Canadian GAAP	Adjustments	U.S. GAAP
Assets						
Cash resources	$ 17,554	$ (34)	$ 17,520	$ 21,323	$ (30)	$ 21,293
Securities						
Trading	81,827	(813)	81,014	68,328	1,129	69,457
Investment account	35,238	(35,238)	–	25,078	(25,078)	–
Loan substitute	325	(325)	–	394	(394)	–
Available for sale	–	35,783	35,783	–	25,896	25,896
Assets purchased under reverse repurchase agreements	36,289	–	36,289	35,831	–	35,831
Loans	170,394	98	170,492	169,258	62	169,320
Other						
Customers' liability under acceptances	5,943	–	5,943	8,051	–	8,051
Derivative-related amounts	35,612	1,028	36,640	30,258	992	31,250
Premises and equipment	1,670	(15)	1,655	1,653	(14)	1,639
Goodwill	4,587	46	4,633	5,004	36	5,040
Other intangibles	580	–	580	665	–	665
Reinsurance recoverables	–	3,321	3,321	–	1,946	1,946
Separate account assets	–	224	224	–	68	68
Other assets	13,014	5,483	18,497	11,113	431	11,544
	$ 403,033	$ 9,558	$ 412,591	$ 376,956	$ 5,044	$ 382,000
Liabilities and shareholders' equity						
Deposits	$ 259,145	$ 1,373	$ 260,518	$ 243,486	$ 1,554	$ 245,040
Other						
Acceptances	5,943	–	5,943	8,051	–	8,051
Obligations related to securities sold short	22,855	(112)	22,743	19,110	(1,120)	17,990
Obligations related to assets sold under repurchase agreements	23,735	–	23,735	21,109	–	21,109
Derivative-related amounts	37,775	652	38,427	32,137	600	32,737
Insurance claims and policy benefit liabilities	5,256	3,374	8,630	2,825	1,922	4,747
Separate account liabilities	–	224	224	–	68	68
Other liabilities	21,318	4,881	26,199	23,372	1,702	25,074
Subordinated debentures	6,243	338	6,581	6,614	346	6,960
Non-controlling interest in subsidiaries	2,388	(914)	1,474	1,469	–	1,469
Shareholders' equity	18,375	(258)	18,117	18,783	(28)	18,755
	$ 403,033	$ 9,558	$ 412,591	$ 376,956	$ 5,044	$ 382,000

Condensed consolidated statements of income

	2003	2002	2001
Net income, Canadian GAAP	$ 3,005	$ 2,762	$ 2,411
Adjustments:			
Net interest income			
Derivative instruments and hedging activities (2)	23	(6)	(20)
Variable Interest Entities (9)	(15)	–	–
Other (11)	(2)	(1)	–
Non-interest income			
Insurance premiums, investment and fee income (1)	(311)	(133)	(129)
Derivative instruments and hedging activities (2)	5	97	18
Reclassification of securities (5)	(12)	–	–
Variable Interest Entities (9)	1	–	–
Other (11)	(160)	(152)	(140)
Provision for credit losses (5)	6	–	–
Insurance policyholder benefits, claims and acquisition expense (1)	292	205	191
Non-interest expense			
Stock appreciation rights (3)	16	17	–
Insurance-related expenses (1)	35	37	–
Other (11)	122	122	114
Income taxes and net change in income taxes due to the above items (7)	17	(50)	(10)
Non-controlling interest in net income of subsidiaries (9)	14	–	–
Net income, U.S. GAAP	$ 3,036	$ 2,898	$ 2,435
Earnings per share	$ 4.48	$ 4.16	$ 3.58
Diluted earnings per share	$ 4.43	$ 4.12	$ 3.55

NOTE 26 Reconciliation of Canadian and United States generally accepted accounting principles (continued)

(1) Insurance accounting
There are differences between U.S. and Canadian GAAP treatment with respect to life insurance premiums, investments, acquisition costs and claims and policy benefit liabilities. These lead to timing differences in income and expense recognition. The accounting treatments for Reinsurance recoverables, Separate account assets and liabilities, Other assets and Other liabilities under U.S. and Canadian GAAP are also different. Under U.S. GAAP, the valuation of Insurance claims and policy benefit liabilities is based on several accounting standards issued by the Financial Accounting Standards Board (FASB), but under Canadian GAAP, the liabilities are calculated using the actuarial standards of the Canadian Institute of Actuaries. Reinsurance recoverables of ceded contracts are presented on a gross basis as a separate balance sheet asset under U.S. GAAP, rather than netted against Insurance claims and policy benefit liabilities under Canadian GAAP. Separate account assets and liabilities are presented in summary lines in the Consolidated balance sheet under U.S. GAAP, while they are not included in the consolidated financial statements under Canadian GAAP. The application of U.S. GAAP would increase Net income by $12 million for the year ended October 31, 2003. It would also increase Other assets by $3,645 million, Other liabilities by $3,541 million and Shareholders' equity by $104 million as at October 31, 2003.

(2) Derivative instruments and hedging activities
Under U.S. GAAP, all derivatives are recorded on the balance sheet at fair value. Changes in the fair value of derivatives are recorded in Net income, or if the derivative is designated and to the extent it functions effectively as a cash flow hedge, in Other comprehensive income within Shareholders' equity. For derivatives designated as fair value hedges, the changes recorded in Net income are generally offset by changes in the fair value of the hedged item attributable to the risk being hedged. The changes recorded in Other comprehensive income are subsequently amortized to Net income to offset the effects of interest rate variability on cash flows of the hedged item. Under Canadian GAAP, derivatives used in sales and trading activities and non-trading derivatives that do not qualify for hedge accounting are recorded on the balance sheet at fair value with changes in fair value recorded in Net income. Non-trading derivatives that did not qualify for hedge accounting on the adoption of Accounting Guideline 13, *Hedging Relationships*, are recorded at fair value with transition gains or losses being recognized in income as the original hedged item affects Net income. Where derivatives have been designated and function effectively as hedges, income or expense is recognized over the life of the hedged asset or liability as adjustments to Interest income or Interest expense. Recording derivatives and hedging activities in accordance with U.S. GAAP would increase Net income by $18 million for the year ended October 31, 2003. It would also increase Securities by $34 million, Loans by $51 million, Other assets by $792 million, Deposits by $76 million, Other liabilities by $460 million and Subordinated debentures by $338 million, and would decrease Cash resources by $34 million, and Shareholders' equity by $31 million as at October 31, 2003.

(3) Stock appreciation rights
Between November 29, 1999, and June 5, 2001, grants of options under the employee stock option plan were accompanied by tandem stock appreciation rights (SARs). With SARs, participants could choose to exercise a SAR instead of the corresponding option. In such cases, the participants received a cash payment equal to the difference between the closing price of common shares on the day immediately preceding the day of exercise and the exercise price of the option. For such plans, compensation expense under U.S. GAAP would be measured using estimates based on past experience of participants exercising SARs rather than the corresponding options. However, Canadian GAAP considers such a plan to result in a liability and requires measurement of compensation expense assuming that all participants will exercise SARs. Recording compensation expense in accordance with U.S. GAAP would increase Net income by $11 million for the year ended October 31, 2003. It would also increase Shareholders' equity by $19 million, and would decrease Other assets by $11 million and Other liabilities by $30 million as at October 31, 2003.

(4) Additional pension obligation
For defined benefit pension plans, U.S. GAAP requires that the excess of the unfunded accumulated benefit obligation over the unrecognized prior service cost be recorded in Other comprehensive income. Recording this additional pension obligation in accordance with U.S. GAAP would increase Other assets by $280 million and Other liabilities by $770 million, and would reduce Shareholders' equity by $490 million as at October 31, 2003.

(5) Reclassification of securities
Under U.S. GAAP, Securities are classified as Trading account (carried at estimated fair value) or Available for sale (carried at estimated fair value). The net unrealized gain (loss) on Available for sale securities, net of related income taxes, is reported as Other comprehensive income within Shareholders' equity except where the changes in market value are effectively hedged by derivatives. These hedged unrealized gains (losses) are recorded in Net income, where they are generally offset by the changes in fair value of the hedging derivatives. Writedowns to reflect other than temporary impairment in the value of Available for sale securities are included in Non-interest income. Under Canadian GAAP, Securities are classified as Trading account (carried at estimated fair value), Investment account (carried at amortized cost) or Loan substitute. Writedowns to reflect other than temporary impairment in the value of Investment account securities are included in Non-interest income. Loan substitute securities are accorded the accounting treatment applicable to loans and, if required, are reduced by an allowance for credit losses. Classifying Securities in accordance with U.S. GAAP would decrease Net income by $4 million for the year ended October 31, 2003. It would also increase Securities by $182 million and Shareholders' equity by $116 million, and would decrease Other assets by $66 million as at October 31, 2003.

(6) Trade date accounting
Under U.S. GAAP, trade date accounting for Securities is used for both the Consolidated balance sheet and the Consolidated statement of income. Under Canadian GAAP, settlement date accounting is used for the Consolidated balance sheet and trade date accounting is used for the Consolidated statement of income. The application of trade date accounting to our Consolidated balance sheet would increase Other assets by $1,639 million and Other liabilities by $469 million, and would decrease Securities by $1,170 million as at October 31, 2003.

(7) Income taxes
Under U.S. GAAP, the effects of changes in tax rates on deferred income taxes are recorded when the tax rate change has been passed into law. Under Canadian GAAP, these effects are recorded when the tax rate change has been substantively enacted. The reductions in the corporate tax rate announced during calendar year 2000 and considered substantively enacted then, were passed into law in 2001.

(8) Guarantees
Under U.S. GAAP, the initial liability for obligations assumed with respect to guarantees issued or modified after December 31, 2002, is recorded on the balance sheet at fair value. Recording guarantees in accordance with U.S. GAAP would increase Other assets and Other liabilities by $38 million as at October 31, 2003.

(9) Variable Interest Entities
Pursuant to FIN 46, *Consolidation of Variable Interest Entities*, under U.S. GAAP we consolidate Variable Interest Entities (VIEs) created after January 31, 2003, where we are the entity's Primary Beneficiary. VIEs are entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. The Primary Beneficiary is the party that has exposure to a majority of the expected losses and/or expected residual returns of the VIE. Under Canadian GAAP, pending the adoption of Accounting Guideline 15, *Consolidation of Variable Interest Entities*, we consolidate these entities if we control them for economic benefits and are exposed to the related risks. Recording VIEs in accordance with U.S. GAAP would increase Loans by $47 million, Deposits by $938 million and Other liabilities by $12 million, and would decrease Other assets by $11 million, and Non-controlling interest in subsidiaries by $914 million as at October 31, 2003.

(10) Non-cash collateral
Under U.S. GAAP, non-cash collateral received in securities lending transactions is recorded on the Consolidated balance sheet with a corresponding obligation to return it if we have the ability to sell or repledge it. This would increase Other assets and Other liabilities by $3,877 million as at October 31, 2003.

(11) Other
Other differences between U.S. and Canadian GAAP relate to the right of offset, accounting for joint ventures and other minor items. Investments in joint ventures are proportionately consolidated under Canadian GAAP and accounted for under the equity method under U.S. GAAP. Accounting for joint ventures in accordance with U.S. GAAP would not affect Net income. The net of these items would decrease Net income by $6 million for the year ended October 31, 2003, and would also increase Securities by $361 million, Deposits by $359 million and Shareholders' equity by $24 million, and would decrease Other assets by $96 million and Other liabilities by $118 million as at October 31, 2003.