Consolidated financial statements (all tabular amounts are in millions of Canadian dollars, except per share amounts)

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES

The accompanying consolidated financial statements are stated in Canadian dollars, the currency of the country in which we are incorporated and principally operate. These consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States (GAAP) and prevailing practices within the banking industry in that country. We have also prepared consolidated financial statements in accordance with Canadian GAAP and these have been provided to shareholders.

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. Pursuant to Financial Accounting Standards Board (FASB) Interpretation No. 46R, *Consolidation of Variable Interest Entities* (FIN 46R), as described in more detail in Note 8, we also consolidate variable interest entities (VIEs) where we are the entity's Primary Beneficiary. The equity method is used to account for investments in associated companies or joint ventures in which we have significant influence or exercise joint control, respectively. These investments are reported in Other assets. We have included in Non-interest income our share of earnings, gains and losses realized on dispositions and writedowns to reflect other-than-temporary impairment in value of these investments.

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, which include consolidated VIEs, foreign branches and associated companies with a functional currency other than the Canadian dollar are included in Other comprehensive income 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 Available for sale.

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 accruing on interest-bearing securities sold short is recorded in Interest expense.

Available for sale 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. These securities are carried at estimated fair value. Unrealized gains and losses on these securities, net of income taxes, are reported in Other comprehensive income to the extent not hedged by derivatives in a fair value hedging relationship. Dividend and interest income is recorded in Interest income. Available for sale securities include tax-exempt securities, which 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.

Gains and losses realized on disposal of Available for sale 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 Available for sale securities in Non-interest income.

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 plus accrued interest. 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 nonaccrual 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 nonaccrual 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 charged off when a payment is 180 days in arrears. Canadian government guaranteed loans are classified as nonaccrual when the loan is contractually 365 days in arrears. When a loan is identified as nonaccrual, 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 nonaccrual loans is credited to the Provision for credit losses on that loan. Nonaccrual loans are returned to performing status when all amounts including interest have been collected, all charges for nonaccrual loans 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 nonaccrual, 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 charged off and any increase in the carrying value of the loan is credited to the Provision for credit losses on the Consolidated statement of income. Where a portion of a loan is charged 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 Allowance for credit losses.

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

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 derivatives 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 charge-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.

Allocated specific
Allocated specific allowances are maintained to absorb losses on both specifically identified borrowers and other more homogeneous loans that have been recognized as nonaccrual. 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 charge-off experience. For credit cards, no specific allowance is maintained as balances are charged off if no payment has been received after 180 days. Personal loans are generally charged off at 150 days past due. Charge-offs for other loans are generally recorded when there is no realistic prospect of full recovery.

Allocated general
The allocated general allowance represents the best estimate of probable losses within the portion of the portfolio that has not yet been specifically identified as nonaccrual. This amount is established quarterly through the application of expected loss factors to outstanding and undrawn facilities. The allocated general 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 allocated general 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 charge-off trends, adjusted to reflect changes in the product offerings and credit quality of the pool.

Unallocated
The unallocated general allowance is based on management's assessment of probable, unidentified losses in the portfolio that have not been captured in the determination of the allocated specific or allocated general 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 allocated 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. 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. All derivatives, including certain warrants, loan commitments and derivatives embedded in financial instruments or contracts that are not clearly and closely related to the economic characteristics and risks of the host financial instrument or contract, are recorded at fair value on the Consolidated balance sheet.

When used in sales and trading activities, the realized and unrealized gains and losses on derivatives are recognized in Non-interest income. A portion of the market value is deferred within Derivative-related amounts in liabilities to adjust for credit risk related to these contracts. The fair values of derivatives 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. If it is determined that the derivative is not highly effective as a hedge, hedge accounting is discontinued prospectively.

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.

Fair value 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. The carrying amount of the hedged item is adjusted by gains or losses attributable to the hedged risk and recorded in Non-interest income. This change in fair value of the hedged item, to the extent that the hedge relationship is effective, is offset by changes in the fair value of the derivative.

Hedge accounting is discontinued prospectively when the derivative no longer qualifies as an effective hedge or the derivative is terminated or sold. The previously hedged asset or liability is no longer adjusted for changes in fair value. Cumulative fair value adjustments to the carrying amount of the hedged item are amortized into Net interest income over the remaining term of the hedged item. Hedge accounting is also discontinued upon the sale or early termination of the hedged item.

Cash flow hedge
Cash flow hedge transactions predominantly use interest rate swaps to hedge the variability in cash flows related to a variable rate asset or liability. The effective portion of the changes in the fair value of the derivative is reported in Other comprehensive income. The ineffective portion is reported in Non-interest income. The amounts recognized in Accumulated other comprehensive income for cash flow hedges are reclassified to Net interest income in the periods in which Net interest income is affected by the variability in the cash flows of the hedged item.

Hedge accounting is discontinued prospectively when the derivative no longer qualifies as an effective hedge or the derivative is terminated or sold. The amounts previously recognized in Accumulated other comprehensive income are reclassified to Net interest income in the periods in which Net interest income is affected by the variability in the cash flows of the hedged item. On the sale or early termination of the hedged item, gains and losses are reclassified immediately to Non-interest income.

Hedges of net foreign currency investments in subsidiaries
Foreign exchange forward contracts and U.S. dollar liabilities are used to manage certain 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 Other comprehensive income.

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. 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.

Other intangibles with a finite life are amortized over their estimated useful lives, generally not exceeding 20 years, 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 enacted tax rates 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. Changes in deferred income taxes related to a change in tax rates are recognized in the period the tax rate change is enacted.

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, which is included in Non-interest expenses – Human resources, 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 unrecognized prior service costs, unrecognized net actuarial gains or losses and unrecognized transition asset or obligation. 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. Other postretirement benefits are reported in Other liabilities.

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

Recognition of an additional minimum liability is required if an unfunded accumulated benefit obligation exists and (i) an asset has been recognized as prepaid pension benefit cost, (ii) the liability already recognized as unfunded accrued pension benefit expense is less than the unfunded accumulated benefit obligation, or (iii) no accrued pension benefit expense or prepaid pension benefit cost has been recognized. If an additional liability is required to be recognized and it exceeds unrecognized prior service cost, the excess is reported as Additional pension obligation in Other comprehensive income.

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (continued)

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 as described in FASB Statement of Financial Accounting Standards No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* (FAS 140), 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 Available for sale securities.

Insurance operations

Investments are included in Available for sale securities. Investment income is included in Insurance premiums, investment and fee income under Non-interest income.

Premiums from long-duration contracts, primarily life insurance, are recognized in Insurance premiums, investment and fee income when due, except for universal life and investment-type contracts, the premiums on which are credited to policyholder balances and included in Insurance claims and policy benefit liabilities. Premiums from short-duration contracts, primarily property and casualty, and fees for administrative services and investment-type contracts 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 except universal life and investment-type contracts are determined using the net level premium method, which incorporates assumptions for mortality, morbidity, policy lapses and surrenders, investment yields, policy dividends, and operating expenses. These assumptions are not revised unless it is determined that existing deferred acquisition costs cannot be recovered. For universal life and investment-type contracts, the liability is equal to the policyholder account values and includes a net level premium reserve for some contracts. Liabilities for property and casualty insurance include unearned premiums, representing the unexpired portion of premiums, and estimated provisions for reported and unreported claims incurred.

Reinsurance recoverables related to ceding reinsurance arrangements are reported as an asset on the balance sheet. Where transfer of risk has occurred, insurance actuarial liabilities are presented on a gross basis with the reinsured portion included as reinsurance recoverable. Actuarial liabilities related to transactions where a transfer of risk has not occurred are also presented on a gross basis with the funds paid to the reinsurer accounted for as deposits and included in reinsurance recoverables.

Deferred acquisition costs, included in Other assets, consist of commissions, certain underwriting costs and other costs that vary with and are primarily related to the acquisition of new business. Amortization of deferred acquisition costs is included in Insurance policyholder benefits, claims and acquisition expense. Amortization of such costs is in proportion to premium revenue for short- and long-duration contracts and estimated gross profits for universal life and investment-type contracts. Deferred acquisition costs are reviewed for recoverability based on the profitability of the underlying insurance contract and, if not recoverable, are charged to Insurance policyholder benefits, claims and acquisition expense.

Value of business acquired (VOBA) represents the present value of estimated net cash flows embedded in existing contracts we acquire and is included in Other assets. VOBA is amortized in the same manner as deferred acquisition costs for life insurance contracts.

Separate account assets and liabilities represent funds for which investment income, gains and losses are accrued directly to the contract holders. The contractual arrangement is such that the underlying assets are registered in our name but the separate account policyholder bears the risk and rewards of the fund's investment performance. We provide minimum death benefit and maturity value guarantees on separate accounts. The liability associated with these minimum guarantees is recorded in Insurance claims and policy benefit liabilities. Separate account assets are carried at market value, are legally segregated and are not subject to claims that arise out of our other business. We derive only fee income from separate account assets, reflected in Insurance premiums, investment and fee income. Fee income includes management fees, mortality, policy, administration and surrender charges.

Earnings per share

Earnings per share is computed by dividing net income available to common shareholders by the weighted average number of common shares outstanding for the period, excluding Treasury stock. Net income available to common shareholders is determined after considering dividend entitlements of preferred shareholders and participating contracts. Diluted earnings per share reflects the potential dilution that could occur if additional common shares are assumed to be issued under securities or contracts that entitle their holders to obtain common shares in future, to the extent such entitlement is not subject to unresolved contingencies.

Significant accounting changes

Consolidation of variable interest entities

On January 17, 2003, the FASB issued Interpretation No. 46, *Consolidation of Variable Interest Entities*, which clarifies the application of Accounting Research Bulletin 51, *Consolidated Financial Statements*, to VIEs. This interpretation applied immediately to all VIEs created after January 31, 2003. On December 24, 2003, FASB issued a revision to Interpretation No. 46, which required application to new and existing VIEs by the end of the first reporting period that ended after March 15, 2004. We have applied FIN 46R to all VIEs as described in Note 8.

Change in financial statement presentation
During the year, we reviewed the presentation of certain items in transit accounts and reclassified, commencing November 1, 2003, balances owing to other banks that arise from the clearing settlement system. These amounts were previously recorded in Cash and due from banks and have been reclassified to Deposits – interest-bearing, Other liabilities and Other assets in order to more appropriately reflect the nature of these balances. Balances due from other banks that arise from the clearing settlement system will continue to be classified in Cash and due from banks. At October 31, 2004, $180 million, $1.7 billion and $1.1 billion in Cash and due from banks were reclassified to Deposits – interest-bearing, Other liabilities and Other assets, respectively.

We also reviewed the presentation of certain items on our Consolidated balance sheet and reclassified $3.2 billion (2003 – $5.7 billion) of certificates of deposit from Interest-bearing deposits with banks to Trading account securities, and $6.8 billion (2003 – $5.8 billion) to Available for sale securities in order to more appropriately reflect the nature of these instruments.

Treasury stock
Commencing November 1, 2003, we recorded as a deduction from total shareholders' equity our own shares acquired and held by subsidiaries for reasons other than cancellation. These shares are now presented as Treasury stock but were previously classified as Trading account securities and Other assets. The balance outstanding at the beginning of the year was reclassified from assets to Treasury stock. Treasury stock is recorded at historical cost and is reduced for any resales or transfers to employees under certain stock-based compensation arrangements. Any gains or losses on resales or transfers of Treasury stock are recognized in Additional paid-in capital or against Retained earnings, respectively.

Foreign currency denominated shares
Prior to November 1, 2003, our foreign currency-denominated preferred shares were translated at the rate prevailing at each balance sheet date. We are no longer changing the rate at which these shares are translated. The impact of this change was not significant to our consolidated financial statements.

Accounting for loan commitments accounted for as derivatives
On March 9, 2004, the United States Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin No. 105, *Application of Accounting Principles to Loan Commitments* (SAB 105), which applies to loan commitments issued for loans that will be held for sale when funded. SAB 105 specifies that revenue associated with servicing assets embedded in these commitments should be recognized only when the servicing asset has been contractually separated from the associated loans. SAB 105 is effective for all loan commitments entered into after March 31, 2004. Implementing SAB 105 resulted in deferring the recognition of $8 million of revenues for the period April 1, 2004 to October 31, 2004.

Classification of economic hedges
In December 2003, the SEC clarified its views on the income statement classification of economic hedges that do not qualify for hedge accounting under FAS 133, *Accounting for Derivative Instruments and Hedging Activities*. We have, therefore, reclassified the realized gains and losses on these hedges from Interest income – loans, to Non-interest income – other, such that the income, expenses and fair value changes related to these derivatives are now all recorded in one line on our Consolidated statements of income for current and prior periods.

Two-class method of calculating earnings per share (EITF 03-6)
The Emerging Issues Task Force (EITF) reached final consensus on EITF 03-6, *Participating Securities and the Two-Class Method under FASB Statement No. 128, Earnings per Share*, which was subsequently ratified by the FASB on March 31, 2004. The final consensus requires a change in the calculation of earnings per share to give effect to certain securities or other instruments or contracts that entitle their holders to participate in undistributed earnings of the reporting entity when such entitlement is nondiscretionary and objectively determinable. This consensus is effective for fiscal periods beginning after March 31, 2004, and requires retroactive adjustment to earnings per share presented for prior periods. EITF 03-6 reduced earnings per share for all years presented by less than one cent except for the year ended October 31, 2004, where the reduction in basic earnings per share was approximately one cent. Basic and diluted earnings per share presented for 2003 are restated to reflect a reduction of one cent.

Employers' disclosures about pensions and other postretirement benefits
In December 2003, the FASB issued FAS 132 (revised 2003), *Employers' Disclosures about Pensions and Other Postretirement Benefits, an amendment of FASB Statements No. 87, 88 and 106* (FAS 132R), to require additional disclosures about the assets, obligations, cash flows and net periodic benefit cost of defined benefit pension plans and other postretirement benefit plans. It does not change the measurement or recognition of these plans. The required information should be provided separately for pension plans and other postretirement benefit plans. During the year, we adopted FAS 132R and the additional disclosures of our pension plans and other postretirement benefit plans are presented in Note 18.

Impairment of certain investments (EITF 03-1)
The EITF has reached consensus on EITF 03-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*, as it applies to investments accounted for under FAS 115, *Accounting for Certain Investments in Debt and Equity Securities* (FAS 115), and cost method investments accounted for under Accounting Principles Board Opinions No. 18, *The Equity Method of Accounting for Investments in Common Stock* (APB 18). The consensus was ratified by the FASB on November 25, 2003 and March 31, 2004, for FAS 115 and APB 18 investments, respectively. Subsequent to these ratifications, the FASB issued a Staff Position, FSP EITF 03-1-1, on September 30, 2004, to defer indefinitely the effective date for recognition and impairment guidance under the EITF, but not the quantitative and qualitative disclosure requirements on unrealized loss positions for all marketable equity securities, debt securities and cost method investments for which an other-than-temporary impairment has not been recognized. These disclosures, which are applicable to annual financial statements for fiscal years ending after June 15, 2004, are presented in Note 5.

NOTE 2 SIGNIFICANT ACQUISITIONS

2004

During 2004, we completed the acquisitions of Provident Financial Group Inc. (Provident), William R. Hough & Co., Inc. (William R. Hough) and the Canadian operations of Provident Life and Accident Insurance Company (UnumProvident). The details of these acquisitions are as follows:

	Provident	William R. Hough	UnumProvident
Acquisition date	November 21, 2003	February 27, 2004	May 1, 2004
Business segment	RBC Banking	RBC Investments	RBC Insurance
Percentage of shares acquired	n.a.	100%	n.a.
Purchase consideration	Cash payment of US$81	Cash payment of US$112	n.a. (2)
Fair value of tangible assets acquired	$ 1,145	$ 54	$ 1,617
Value of business acquired (VOBA) (1)	–	–	611
Fair value of liabilities assumed	(1,180)	(21)	(2,228)
Fair value of identifiable net tangible assets acquired	(35)	33	–
Core deposit intangibles (1)	13	–	–
Customer lists and relationships (2)	–	12	–
Goodwill	127	105	–
Total purchase consideration	$ 105	$ 150	$ –

(1) RBC Insurance acquired the Canadian operations of UnumProvident. As part of the acquisition, RBC Insurance assumed UnumProvident's policy liabilities and received assets with the equivalent fair value to support future payments. Assets acquired include VOBA that is amortized in proportion to insurance premiums received on the acquired block of business from UnumProvident.

(2) Core deposit intangibles and customer lists and relationships are amortized on a straight-line basis over an estimated average useful life of 8 and 15 years, respectively.

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)	(2,891)	(437)
Fair value of identifiable net tangible assets acquired	76	208	33
Core deposit intangibles (2)	23	–	–
VOBA (3)	–	69	–
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.

(3) VOBA is amortized on a straight-line basis over a period of up to 30 years.

NOTE 3 RESULTS BY BUSINESS AND GEOGRAPHIC SEGMENT

2004	RBC Banking	RBC Investments	RBC Insurance	RBC Capital Markets	RBC Global Services	Other	Total	Canada	United States	Other International
Net interest income	$ 5,517	$ 429	$ –	$ 716	$ 177	$ (155)	$ 6,684	$ 5,173	$ 1,117	$ 394
Non-interest income	2,036	3,322	2,267	2,123	742	176	10,666	5,797	3,260	1,609
Total revenues	7,553	3,751	2,267	2,839	919	21	17,350	10,970	4,377	2,003
Provision for credit losses	478	4	–	(80)	(19)	(36)	347	344	61	(58)
Insurance policyholder benefits, claims and acquisition expense	–	–	1,509	–	–	–	1,509	769	399	341
Non-interest expense	4,841	3,015	472	2,052	625	15	11,020	6,343	3,695	982
Business realignment charges	75	17	8	25	3	64	192	142	44	6
Goodwill impairment	130	–	–	–	–	–	130	–	130	–
Net income (loss) before income taxes	2,029	715	278	842	310	(22)	4,152	3,372	48	732
Income taxes	726	225	7	182	86	(32)	1,194	1,103	12	79
Non-controlling interest	16	–	–	2	–	101	119	108	6	5
Net income (loss)	$ 1,287	$ 490	$ 271	$ 658	$ 224	$ (91)	$ 2,839	$ 2,161	$ 30	$ 648
Total average assets (1)	$ 172,300	$ 17,700	$ 12,100	$ 234,000	$ 1,900	$ 13,400	$ 451,400	$ 253,100	$ 97,000	$ 101,300

2003	RBC Banking	RBC Investments	RBC Insurance	RBC Capital Markets	RBC Global Services	Other	Total	Canada	United States	Other International
Net interest income	$ 5,546	$ 419	$ –	$ 428	$ 164	$ 21	$ 6,578	$ 5,105	$ 1,209	$ 264
Non-interest income	2,106	3,111	2,045	2,197	680	230	10,369	5,179	3,348	1,842
Total revenues	7,652	3,530	2,045	2,625	844	251	16,947	10,284	4,557	2,106
Provision for credit losses	554	(2)	–	189	2	(28)	715	521	106	88
Insurance policyholder benefits, claims and acquisition expense	–	–	1,404	–	–	–	1,404	543	376	485
Non-interest expense	4,642	2,911	424	1,671	595	(7)	10,236	5,822	3,504	910
Net income before income taxes	2,456	621	217	765	247	286	4,592	3,398	571	623
Income taxes	894	209	(11)	271	69	11	1,443	1,209	201	33
Non-controlling interest	8	–	–	3	–	102	113	101	7	5
Net income	$ 1,554	$ 412	$ 228	$ 491	$ 178	$ 173	$ 3,036	$ 2,088	$ 363	$ 585
Total average assets (1)	$ 162,400	$ 17,600	$ 8,900	$ 199,300	$ 2,000	$ 11,800	$ 402,000	$ 233,900	$ 82,200	$ 85,900

2002	RBC Banking	RBC Investments	RBC Insurance	RBC Capital Markets	RBC Global Services	Other	Total	Canada	United States	Other International
Net interest income	$ 5,557	$ 371	$ –	$ 532	$ 136	$ 273	$ 6,869	$ 5,407	$ 1,106	$ 356
Non-interest income	2,090	3,276	1,910	2,142	672	101	10,191	4,791	3,643	1,757
Total revenues	7,647	3,647	1,910	2,674	808	374	17,060	10,198	4,749	2,113
Provision for credit losses	626	(1)	–	465	10	(35)	1,065	529	440	96
Insurance policyholder benefits, claims and acquisition expense	–	–	1,330	–	–	–	1,330	356	394	580
Non-interest expense	4,520	3,144	399	1,627	548	6	10,244	5,748	3,668	828
Net income before income taxes	2,501	504	181	582	250	403	4,421	3,565	247	609
Income taxes	947	158	(9)	143	77	99	1,415	1,318	48	49
Non-controlling interest	8	–	–	–	–	100	108	100	2	6
Net income	$ 1,546	$ 346	$ 190	$ 439	$ 173	$ 204	$ 2,898	$ 2,147	$ 197	$ 554
Total average assets (1)	$ 156,500	$ 15,100	$ 7,000	$ 180,700	$ 2,400	$ 10,100	$ 371,800	$ 226,900	$ 75,800	$ 69,100

(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 Investments, RBC Insurance, RBC Capital Markets and RBC Global Services. The Other segment mainly comprises Corporate Treasury, Corporate Resources and Information Technology.

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 primarily recorded in the location that best reflects the risk due to negative changes in economic conditions, and prospects for growth due to positive economic changes. This location frequently corresponds with the location of the legal entity through which the business is conducted and the location of the customer. Transactions are recorded in the local residing currency and are subject to foreign exchange rate fluctuations with respect to the movement in the Canadian dollar.

During the year, we revisited our geographic reporting and reclassified certain amounts to more appropriately reflect the way management reviews these results, consistent with the above methodology. Within RBC Insurance, certain reinsurance results were reclassified from United States and Canada to Other International.

Effective November 1, 2004, we realigned our organizational structure which resulted in the identification of new segments. Refer to Note 25 for a description of the new segments.

NOTE 4 GOODWILL AND OTHER INTANGIBLES

Coincident with the completion of our annual goodwill impairment test, our business realignment, effective November 1, 2004, was announced. The results of our goodwill impairment test, which was based on a discounted cash flow model, indicate that goodwill attributable to RBC Mortgage Company (RBC Mortgage) is impaired by approximately $130 million.

The following table discloses the changes in goodwill over 2004 and 2003.

Goodwill

	RBC Banking	RBC Investments	RBC Insurance	RBC Capital Markets	RBC Global Services	Total
Balance at October 31, 2002	$ 2,229	$ 1,792	$ 187	$ 711	$ 121	$ 5,040
Goodwill acquired during the year	256	43	–	–	–	299
Other adjustments (1)	(347)	(258)	(18)	(84)	1	(706)
Balance at October 31, 2003	2,138	1,577	169	627	122	4,633
Goodwill acquired during the year	127	105	–	–	–	232
Goodwill impairment	(130)	–	–	–	–	(130)
Other adjustments (1)	(165)	(125)	(11)	(18)	–	(319)
Balance at October 31, 2004	$ 1,970	$ 1,557	$ 158	$ 609	$ 122	$ 4,416

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

The projected amortization of Other intangibles for each of the years ending October 31, 2005, to October 31, 2009, is approximately $69 million. There were no writedowns of intangible assets due to impairment during the years ended October 31, 2004 and 2003.

Other intangibles

	2004			2003		
	Gross carrying amount	**Accumulated amortization (1)**	**Net carrying amount**	Gross carrying amount	Accumulated amortization (1)	Net carrying amount
Core deposit intangibles	**$ 365**	**$ (124)**	**$ 241**	$ 381	$ (93)	$ 288
Customer lists and relationships	**342**	**(99)**	**243**	314	(71)	243
Mortgage servicing rights	**68**	**(31)**	**37**	75	(27)	48
Other intangibles	**4**	**(2)**	**2**	3	(2)	1
	$ 779	**$ (256)**	**$ 523**	$ 773	$ (193)	$ 580

(1) Total amortization expense for 2004 and 2003 are $69 million and $71 million, respectively.

NOTE 5 SECURITIES

	Term to maturity (1)							
	Within 3 months	3 months to 1 year	1 to 5 years	Over 5 years to 10 years	Over 10 years	With no specific maturity	2004 Total	2003 Total
Trading account								
Canadian government debt								
Federal	$ 1,230	$ 2,023	$ 2,915	$ 695	$ 812	$ –	$ 7,675	$ 9,718
Provincial and municipal	360	258	781	759	660	–	2,818	3,618
U.S. government debt								
Federal	203	21	1,066	199	246	–	1,735	4,265
State, municipal and agencies	64	–	–	–	–	–	64	–
Other OECD government debt (2)	302	481	1,500	1,051	377	–	3,711	3,575
Mortgage-backed securities	16	19	280	184	518	–	1,017	889
Asset-backed securities	230	10	122	1,598	229	–	2,189	6,348
Corporate debt and other debt								
Bankers' acceptances	526	455	17	–	–	–	998	1,674
Certificates of deposit	2,503	1,676	794	–	–	–	4,973	8,146
Other	3,052	4,228	12,164	7,879	3,259	461	31,043	22,059
Equities	–	–	–	–	–	31,412	31,412	26,427
	8,486	9,171	19,639	12,365	6,101	31,873	87,635	86,719
Available for sale								
Canadian government debt								
Federal								
Amortized cost	2,222	1,753	2,834	81	8	–	6,898	8,810
Estimated fair value	2,223	1,750	2,876	82	8	–	6,939	8,914
Yield (3)	2.9%	2.7%	4.2%	5.7%	3.1%	–	3.4%	n.a.
Provincial and municipal								
Amortized cost	153	67	328	621	841	–	2,010	1,013
Estimated fair value	153	67	332	642	924	–	2,118	1,038
Yield (3)	2.7%	5.0%	3.9%	5.1%	6.3%	–	5.2%	n.a.
U.S. government debt								
Federal								
Amortized cost	17	98	94	49	217	–	475	726
Estimated fair value	17	98	94	50	207	–	466	718
Yield (3)	1.8%	2.9%	3.0%	4.6%	5.3%	–	4.1%	n.a.
State, municipal and agencies								
Amortized cost	–	879	2,389	151	–	–	3,419	4,102
Estimated fair value	–	875	2,364	149	–	–	3,388	4,071
Yield (3)	–	1.8%	2.5%	3.5%	–	–	2.4%	n.a.
Other OECD government debt								
Amortized cost	788	901	36	–	–	–	1,725	4,775
Estimated fair value	802	901	36	–	–	–	1,739	4,781
Yield (3)	1.0%	1.2%	6.1%	–	–	–	1.2%	.1%
Mortgage-backed securities								
Amortized cost	–	48	3,242	828	1,920	–	6,038	5,512
Estimated fair value	–	49	3,262	839	1,932	–	6,082	5,543
Yield (3)	–	6.0%	4.1%	5.0%	4.5%	–	4.4%	4.5%
Asset-backed securities								
Amortized cost	158	58	241	548	387	–	1,392	329
Estimated fair value	158	58	242	551	386	–	1,395	326
Yield (3)	2.5%	4.0%	4.3%	2.7%	2.6%	–	3.0%	5.6%
Corporate debt and other debt								
Amortized cost	5,628	3,931	3,687	763	1,876	640	16,525	14,831
Estimated fair value	5,636	3,954	3,736	791	1,937	658	16,712	14,898
Yield (3)	1.8%	2.5%	2.8%	5.0%	5.7%	1.8%	2.8%	3.1%
Equities								
Cost	–	–	–	–	–	1,018	1,018	1,293
Estimated fair value	–	–	–	–	–	1,022	1,022	1,330
Amortized cost	8,966	7,735	12,851	3,041	5,249	1,658	39,500	41,391
Estimated fair value	8,989	7,752	12,942	3,104	5,394	1,680	39,861	41,619
Total carrying value of securities	$ 17,475	$ 16,923	$ 32,581	$ 15,469	$ 11,495	$ 33,553	$ 127,496	$ 128,338

(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) OECD stands for Organisation for Economic Co-operation and Development.
(3) The weighted average yield is based on the carrying value at the end of the year for the respective securities.
n.a. Due to the enhanced disclosure of Canadian government and U.S. government debt, the yields for 2003 were not reasonably determinable.

NOTE 5 SECURITIES (continued)

Unrealized gains and losses on Available for sale securities

	2004				2003			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Canadian government debt	$ 8,908	$ 154	$ (5)	$ 9,057	$ 9,823	$ 135	$ (6)	$ 9,952
U.S. government debt	3,894	3	(43)	3,854	4,828	16	(55)	4,789
Other OECD government debt	1,725	14	–	1,739	4,775	6	–	4,781
Mortgage-backed securities	6,038	53	(9)	6,082	5,512	59	(28)	5,543
Asset-backed securities	1,392	9	(6)	1,395	329	5	(8)	326
Corporate debt and other debt	16,525	200	(13)	16,712	14,831	89	(22)	14,898
Equities	1,018	55	(51)	1,022	1,293	45	(8)	1,330
	$ 39,500	$ 488	$ (127)	$ 39,861	$ 41,391	$ 355	$ (127)	$ 41,619

Realized gains and losses on sale of Available for sale securities

	2004	2003	2002
Realized gains	$ 146	$ 87	$ 82
Realized losses and writedowns	(64)	(68)	(194)
Gain (loss) on sale of Available for sale securities	$ 82	$ 19	$ (112)

Fair value and unrealized losses position for Available for sale securities as at October 31, 2004

	Less than 12 months		12 months or more		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Canadian government debt						
Federal	$ 2,976	$ 5	$ –	$ –	$ 2,976	$ 5
U.S. government debt						
Federal	299	1	206	10	505	11
State, municipal and agencies	2,701	22	444	10	3,145	32
Mortgage-backed securities	1,477	5	282	4	1,759	9
Asset-backed securities	618	2	28	4	646	6
Corporate debt and other debt	590	7	410	6	1,000	13
Equities	112	45	38	6	150	51
Total temporarily impaired securities	$ 8,773	$ 87	$ 1,408	$ 40	$ 10,181	$ 127

The unrealized losses for Canadian government debt, U.S. government debt, mortgage-backed securities and asset-backed securities were caused by increases in interest rates. The contractual terms of these investments either do not permit the issuer to settle the securities at a price less than the amortized costs of the investment, or permit prepayment of contractual amounts owing only with prepayment penalties assessed to recover interest foregone. As a result, it is not expected that these investments would be settled at a price less than the amortized cost. Unrealized losses for Corporate debt and other debt were caused by either increase in interest rates or credit rating downgrades in some cases, and we do not believe that it is probable that we will be unable to collect all amounts due according to the contractual terms of the investments. We have the ability and intent to hold these investments until there is a recovery of fair value, which may be at maturity. As a result, we do not consider these investments to be other-than-temporarily impaired as at October 31, 2004.

Unrealized losses on equity securities are primarily due to the timing of the market prices, or the early years in the business cycle of the investees for certain investments. We do not consider these investments to be other-than-temporarily impaired as at October 31, 2004, as we have the ability and intent to hold them for a reasonable period of time until the recovery of fair value.

NOTE 6 LOANS (1)

	2004	2003
Canada		
Residential mortgage	$ 80,168	$ 73,978
Personal	30,415	26,445
Credit card	6,298	4,663
Business and government	32,120	28,669
	149,001	133,755
United States		
Residential mortgage	3,227	4,096
Personal	5,849	5,015
Credit card	108	107
Business and government	17,210	17,423
	26,394	26,641
Other International		
Residential mortgage	777	745
Personal	584	726
Credit card	50	46
Business and government	12,348	10,634
	13,759	12,151
Total loans (2)	189,154	172,547
Allowance for loan losses	(1,644)	(2,055)
Total loans net of allowance for loan losses	$ 187,510	$ 170,492

(1) Includes all loans booked by location, regardless of currency or residence of borrower.
(2) Loans are net of unearned income of $86 million (2003 – $113 million).

Loan maturities and rate sensitivity

	Maturity term (1)				Rate sensitivity			
As at October 31, 2004	Under 1 year	1 to 5 years	Over 5 years	Total	Floating	Fixed rate	Non-rate-sensitive	Total
Residential mortgage	$ 15,933	$ 63,730	$ 4,509	$ 84,172	$ 12,022	$ 72,004	$ 146	$ 84,172
Personal	26,810	8,004	2,034	36,848	30,176	6,483	189	36,848
Credit card	6,456	–	–	6,456	–	4,412	2,044	6,456
Business and government	50,184	8,399	3,095	61,678	28,058	32,696	924	61,678
Total loans	$ 99,383	$ 80,133	$ 9,638	189,154	$ 70,256	$ 115,595	$ 3,303	189,154
Allowance for loan losses				(1,644)				(1,644)
Total loans net of allowance for loan losses				$ 187,510				$ 187,510

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

Nonaccrual loans

	2004	2003
Residential mortgage	$ 146	$ 131
Personal	189	235
Business and government	217	296
	552	662
Individually impaired business and government	707	1,083
	$ 1,259	$ 1,745
Allowance for individually impaired loans	$ 256	$ 479
Average balance of individually impaired loans (1)	$ 962	$ 1,388

(1) For the year ended October 31, 2002, the average balance of individually impaired loans was $1,607 million.

Allowance for loan losses

	2004	2003	2002
Allowance for credit losses at beginning of year	$ 2,164	$ 2,314	$ 2,392
Charge-offs	(998)	(976)	(1,457)
Recoveries	212	170	198
Net charge-offs	(786)	(806)	(1,259)
Provision for credit losses	347	715	1,065
Adjustments	(11)	(59)	116
Allowance for credit losses at end of year	1,714	2,164	2,314
Allowance for off-balance sheet and other items (1)	(70)	(109)	(109)
Allowance for tax-exempt securities (1)	–	–	(2)
Allowance for loan losses at end of year	$ 1,644	$ 2,055	$ 2,203

(1) The allowance for off-balance sheet and other items and allowance for tax-exempt securities is included in Other liabilities.

NOTE 7 SECURITIZATIONS

The following table summarizes our new securitization activity for 2004, 2003 and 2002:

New securitization activity

	2004			2003			2002		
	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	**$ –**	**$ 3,074**	**$ 486**	$ 1,000	$ 610	$ 131	$ –	$ 1,708	$ –
Net cash proceeds received	**–**	**3,035**	**497**	1,000	607	135	–	1,691	–
Retained rights to future excess interest	**–**	**75**	**–**	9	24	–	–	71	–
Pre-tax gain on sale	**–**	**36**	**11**	9	21	4	–	54	–

(1) Government guaranteed residential mortgage loans securitized during the year through the creation of mortgage-backed securities and retained were $1,903 million (2003 – $3,473 million; 2002 – $2,026 million). Retained mortgage-backed securities are classified as Available for sale.

The key assumptions used to value the retained interests at the date of securitization, for activity in 2004, 2003 and 2002 are as follows:

Key assumptions (1)

	2004 (2)	2003		2002 (2)
	Residential mortgage loans	Credit card loans	Residential mortgage loans	Residential mortgage loans
Payment rate	**12.00%**	37.69%	12.00%	12.00%
Excess spread, net of credit losses	**.74**	5.74	1.17	1.20
Expected credit losses	**–**	1.64	–	–
Discount rate	**3.83**	10.00	4.11	4.75

(1) All rates are annualized except the payment rate for credit card loans, which is monthly.
(2) There were no credit card loan securitizations in 2004 and 2002.

The following table summarizes the loan principal, past due and net charge-offs for total loans reported on our Consolidated balance sheet and securitized loans that we manage as at October 31, 2004 and 2003:

Loans managed

	2004			2003		
	Loan principal	**Past due (1)**	**Net charge-offs**	Loan principal	Past due (1)	Net charge-offs
Residential mortgage	**$ 93,223**	**$ 245**	**$ 7**	$ 85,031	$ 233	$ 10
Personal	**36,848**	**233**	**257**	32,186	287	305
Credit card	**8,356**	**54**	**204**	7,491	46	184
Business and government	**61,678**	**946**	**354**	56,726	1,401	336
Total loans managed (2)	**200,105**	**1,478**	**822**	181,434	1,967	835
Less: Loans securitized and managed (3)	**10,951**	**–**	**36**	8,887	–	29
Total loans reported on the Consolidated balance sheet	**$ 189,154**	**$ 1,478**	**$ 786**	$ 172,547	$ 1,967	$ 806

(1) Includes nonaccrual loans as well as loans 90 days past due not yet classified as nonaccrual.
(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 $1,900 million (2003 – $2,675 million), mortgage-backed securities created and sold of $5,983 million (2003 – $2,936 million), mortgage-backed securities created and retained of $3,068 million (2003 – $3,276 million).

At October 31, 2004, 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 on the next page.

These sensitivities are hypothetical and should be used with caution. 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 on the next page summarizes certain cash flows received from securitizations in 2004, 2003 and 2002.

Sensitivity of key assumptions to adverse changes (1)

	Impact on fair value	
	Credit card loans	Residential mortgage loans
Fair value of retained interests	$ 13.3	$ 130.5
Weighted average remaining service life (in years)	.2	2.1
Payment rate	43.21%	12.00%
Impact on fair value of 10% adverse change	$ (.8)	$ (2.6)
Impact on fair value of 20% adverse change	(1.7)	(5.1)
Excess spread, net of credit losses	6.67%	.93%
Impact on fair value of 10% adverse change	$ (1.3)	$ (13.1)
Impact on fair value of 20% adverse change	(2.6)	(26.1)
Expected credit losses	1.53%	–
Impact on fair value of 10% adverse change	$ (.4)	–
Impact on fair value of 20% adverse change	(.9)	–
Discount rate	10.00%	3.41%
Impact on fair value of 10% adverse change	$ –	$ (.4)
Impact on fair value of 20% adverse change	–	(.9)

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

Cash flows from securitizations

	2004		2003		2002	
	Credit card loans	**Residential mortgage loans**	Credit card loans	Residential mortgage loans	Credit card loans	Residential mortgage loans
Proceeds reinvested in revolving securitizations	**$ 10,028**	**$ 1,202**	$ 7,843	$ 1,268	$ 8,512	$ 303
Cash flows from retained interests in securitizations	**84**	**46**	64	13	64	15

NOTE 8 VARIABLE INTEREST ENTITIES

The Financial Accounting Standards Board (FASB) Interpretation No. 46R, *Consolidation of Variable Interest Entities* (FIN 46R), defines a variable interest entity (VIE) as an entity which either does not have sufficient equity at risk to finance its activities without additional subordinated financial support or where the holders of the equity at risk lack the characteristics of a controlling financial interest. FIN 46R requires the Primary Beneficiary to consolidate a VIE and defines the Primary Beneficiary as the entity that is exposed to a majority of the VIE's expected losses (as defined in FIN 46R) or entitled to a majority of the VIE's expected residual returns (as defined in FIN 46R) or both. In addition, FIN 46R prescribes certain disclosures for VIEs that are not consolidated but in which we have a significant variable interest.

The following table provides information about VIEs that we have consolidated or in which we have a significant variable interest:

	Total assets as at October 31, 2004	**Maximum exposure to loss as at October 31, 2004**
VIEs in which we have a significant variable interest (1):		
Multi-seller conduits we administer (2)	**$ 25,608**	**$ 25,443**
Third-party conduits	**3,994**	**1,133**
Structured finance VIEs	**2,079**	**1,436**
Investment funds	**2,192**	**508**
CDOs	**999**	**12**
Other	**510**	**77**
Consolidated VIEs (3):		
Structured finance VIEs	**$ 1,406**	
Investment funds	**713**	
Repackaging VIEs	**673**	
Compensation vehicles	**206**	
Other	**299**	

(1) The maximum exposure to loss resulting from our significant variable interest in these variable interest entities (VIEs) consists mostly of investments, loans, liquidity facilities and fair value of derivatives with them.

(2) Total assets represents maximum assets that may have to be purchased by the conduits under purchase commitments outstanding as at October 31, 2004. Actual assets held by these conduits as at October 31, 2004, were $18,529 million.

(3) The assets that support the obligations of the consolidated VIEs are reported on our Consolidated balance sheet primarily as follows: Interest-bearing deposits with banks of $94 million, Trading account securities of $1,330 million, Available for sale securities of $405 million, Business and government loans of $924 million and Other assets of $338 million. The compensation vehicles of $206 million hold our common shares, which are reported as Treasury stock. The obligation to provide common shares to employees is recorded as an increase to Additional paid-in capital as the expense for the corresponding stock-based compensation plan is recognized.

NOTE 8 VARIABLE INTEREST ENTITIES (continued)

Multi-seller conduits
We administer multi-seller asset-backed commercial paper conduit programs (multi-seller conduits), which purchase financial assets from our clients and finance those purchases by issuing asset-backed commercial paper. Clients utilize multi-sellers to diversify their financing sources and to reduce funding costs. We restructured certain multi-seller conduits with commitments to purchase assets of $18,661 million in the first quarter of 2004 and, therefore, we were not required to consolidate them when we initially adopted FIN 46R. In the last quarter of 2004, we completed the restructuring of the remaining multi-seller conduits with commitments to purchase assets of $6,947 million and, thus, no longer consolidate these multi-seller conduits as at October 31, 2004. There was no net income impact from consolidation of these multi-seller conduits during the year; however, revenues and expenses each increased by $35 million. As part of the restructurings, an unrelated third party (the "expected loss investor") agreed to absorb credit losses (up to a maximum contractual amount) that may occur in the future on the assets in the multi-seller conduits (the "multi-seller conduit first-loss position") before us and the multi-seller conduit's debt holders. In return for assuming this multi-seller conduit first-loss position, each multi-seller conduit pays the expected loss investor a return commensurate with its risk position. The expected loss investor absorbs a majority of each multi-seller conduit's expected losses when compared to us; therefore, we are not the Primary Beneficiary and are not required to consolidate these conduits under FIN 46R. However, we continue to hold a significant variable interest in these multi-seller conduits resulting from our provision of backstop liquidity facilities and partial credit enhancement and our entitlement to residual fees. The liquidity and credit enhancement facilities are also included and described in our disclosure on guarantees in Note 21.

Collateralized Debt Obligations
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. As part of this role, we are required to invest in a portion of the CDO's first-loss tranche, which represents our exposure to loss. In most cases, our share of the first-loss tranche and the fees we earn as collateral manager do not expose us to a majority of the expected losses and we are therefore not the Primary Beneficiary of these CDOs. For this reason, we deconsolidated a previously consolidated CDO with assets of $361 million upon adoption of FIN 46R.

Repackaging VIEs
We use repackaging VIEs, which generally transform credit derivatives into cash instruments, to distribute credit risk and create unique credit products to meet investors' specific requirements. We 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 VIEs as collateral for notes issued that do not meet sale recognition criteria under FASB Statement of Financial Accounting Standards No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* (FAS 140). We sometimes invest in the notes issued by these VIEs, which causes us to be the Primary Beneficiary requiring consolidation.

Structured finance VIEs
We finance VIEs that are part of transactions structured to achieve a desired outcome such as limiting exposure to specific assets, supporting an enhanced yield and meeting client requirements. Sometimes our interest in such a VIE exposes us to a majority of its expected losses, resulting in consolidation.

Investment funds
We facilitate development of investment products by third parties including mutual funds, unit investment trusts and other investment funds that are sold to retail investors. We enter into derivatives with these funds to provide the investors their desired exposure and hedge our exposure from these derivatives by investing in other funds. We are the Primary Beneficiary where our participation in the derivative or our investment in other funds exposes us to a majority of their respective expected losses.

Capital trusts
We continue to not consolidate RBC Capital Trust II, which was created in 2003 to issue Innovative Tier 1 capital of $900 million. We issued a senior deposit note of the same amount to this trust. Although we own the common equity and voting control of the trust, we are not deemed to be the Primary Beneficiary as we are not exposed to the majority of the expected losses. We deconsolidated certain other capital trusts of approximately $150 million upon adoption of FIN 46R for similar reasons.

Securitization of our financial assets
We employ special purpose entities (SPEs) in the process of securitizing our assets, none of which has been consolidated at October 31, 2004, under FIN 46R. One entity is a qualifying SPE under FAS 140, which is specifically exempt from consolidation under FIN 46R, and our level of participation in each of the remaining SPEs relative to others does not expose us to a majority of the expected losses. For details on our securitization activities please refer to Note 7.

Mutual funds and assets administered in trust
Under FIN 46, we had originally concluded that we would be the Primary Beneficiary of entities that experience low volatility of returns on their assets. Since FIN 46R has removed the provision in FIN 46 which required a comparison of gross fees earned by us with the variability in returns to which investors or beneficiaries are exposed, we no longer consider ourselves the Primary Beneficiary of these entities nor do we consider our fee variability to be significant relative to the investors or beneficiaries.

We continue to monitor developments, including additional interpretive guidance issued by standard setters, which affect our interpretation of FIN 46R.

NOTE 9 PREMISES AND EQUIPMENT

	2004			2003
	Cost	Accumulated depreciation	Net book value	Net book value
Land	$ 149	$ –	$ 149	$ 154
Buildings	608	304	304	331
Computer equipment	1,958	1,353	605	536
Furniture, fixtures and other equipment	1,068	716	352	280
Leasehold improvements	905	584	321	354
	$ 4,688	$ 2,957	$ 1,731	$ 1,655

The depreciation expense for premises and equipment amounted to $384 million, $380 million and $388 million in 2004, 2003 and 2002, respectively.

NOTE 10 OTHER ASSETS

	2004	2003
Receivable from brokers, dealers and clients	$ 14,906	$ 2,568
Non-cash collateral that can be sold or repledged	7,363	3,877
Investment in associated corporations	1,653	1,511
Accrued interest receivable	1,406	1,288
Insurance-related assets (1)	1,405	1,190
Net deferred income tax asset	679	883
Prepaid pension benefit cost (2)	571	138
Other	5,081	7,042
	$ 33,064	$ 18,497

(1) Insurance-related assets include policy loan balances, premiums outstanding, deferred acquisition costs and value of business acquired.
(2) Prepaid pension benefit cost represents the cumulative excess of pension fund contributions over pension benefit expense.

NOTE 11 DEPOSITS

				2004	2003
	Demand (1)	Notice (2)	Term (3)	Total	Total
Personal	$ 12,731	$ 34,054	$ 66,224	$ 113,009	$ 106,709
Business and government	44,706	9,329	77,515	131,550	129,936
Bank (4)	2,493	57	24,466	27,016	23,873
	$ 59,930	$ 43,440	$ 168,205	$ 271,575	$ 260,518
Non-interest-bearing					
Canada				$ 28,273	$ 24,388
United States				2,284	2,076
Other International				885	1,107
Interest-bearing					
Canada (4)				141,177	130,135
United States				33,621	36,361
Other International				65,335	66,451
				$ 271,575	$ 260,518

(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 primarily 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, 2004, the balance of term deposits also includes senior deposit notes we have issued to provide long-term funding of $13.4 billion (2003 – $11.9 billion) and other notes and similar instruments in bearer form we have issued of $27.3 billion (2003 – $27.3 billion).
(4) Includes a $900 million senior deposit note issued to RBC Capital Trust II (described in Note 14), which bears interest at an annual rate of 5.812% maturing on December 31, 2053. This note is redeemable, in whole or in part, on and after December 31, 2008, or earlier in certain circumstances, at our option, subject to the approval of the Superintendent of Financial Institutions Canada. It is convertible at any time at the option of RBC Capital Trust II into 40 of our First Preferred Shares Series U per $1,000 of note principal. RBC Capital Trust II will exercise the conversion right in circumstances in which holders of RBC TruCS Series 2013 exercise their holder exchange right to acquire our First Preferred Shares Series U.

NOTE 12 OTHER LIABILITIES

	2004	2003
Payable to brokers, dealers and clients	$ 13,576	$ 3,241
Short-term borrowings of subsidiaries	11,180	7,842
Non-cash collateral that can be sold or repledged	7,363	3,877
Accrued interest payable	1,312	1,387
Accrued pension and other postretirement benefit expense (1)	930	1,092
Insurance-related liabilities	543	342
Dividends payable	347	313
Other	8,389	8,105
	$ 43,640	$ 26,199

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

NOTE 13 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	2004	2003
March 15, 2009		6.50%	US$125	$ 152	$ 165
April 12, 2009	(1)	5.40%		–	350
June 11, 2009	(2)	5.10%		–	350
July 7, 2009	(3)	6.05%		–	175
October 12, 2009	(4)	6.00%		–	150
August 15, 2010	August 15, 2005 (5)	6.40% (6)		688	700
February 13, 2011	February 13, 2006 (7)	5.50% (6)		122	125
April 26, 2011	April 26, 2006 (8)	8.20% (6)		77	100
September 12, 2011	September 12, 2006 (5)	6.50% (6)		349	350
October 24, 2011	October 24, 2006 (9)	6.75% (10)	US$300	350	396
November 8, 2011	November 8, 2006 (11)	(12)	US$400	488	526
June 4, 2012	June 4, 2007 (5)	6.75% (6)		500	500
January 22, 2013	January 22, 2008 (13)	6.10% (6)		497	500
January 27, 2014	January 27, 2009 (7)	3.96% (6)		500	–
June 1, 2014	June 1, 2009 (14)	4.18% (6)		1,000	–
November 14, 2014		10.00%		200	200
January 25, 2015	January 25, 2010 (15)	7.10% (6)		498	500
April 12, 2016	April 12, 2011 (16)	6.30% (6)		382	400
November 4, 2018	November 4, 2013 (17)	5.45% (6)		1,000	–
June 8, 2023		9.30%		110	110
October 1, 2083	(18)	(19)		250	250
June 6, 2085	(18)	(20)	US$300	365	396
June 18, 2103	June 18, 2009 (21)	5.95% (22)		588	–
				8,116	6,243
Fair value adjustment (23)				406	338
				$ 8,522	$ 6,581

(1) Redeemed on April 12, 2004, at par value.
(2) Redeemed on June 11, 2004, at par value.
(3) Redeemed on July 7, 2004, at par value.
(4) Redeemed on October 12, 2004, 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 5 basis points and (ii) par value, and thereafter at any time at par value.
(6) 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.
(7) 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.
(8) 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.
(9) 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.
(10) 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.
(11) Redeemable on the earliest par value redemption date at par value.
(12) 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.
(13) 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.
(14) 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 9 basis points and (ii) par value, and thereafter at any time at par value.
(15) 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.
(16) 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.
(17) 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 14 basis points and (ii) par value, and thereafter at any time at par value.
(18) Redeemable on any interest payment date at par value.
(19) Interest at a rate of 40 basis points above the 30-day Bankers' Acceptance rate.
(20) 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.
(21) Redeemable on June 18, 2009, or every fifth anniversary of such date at par value. Redeemable on any other date at the greater of par and the yield on a non-callable Government of Canada bond plus .21% if redeemed prior to June 18, 2014, or .43% if redeemed at any time after June 18, 2014.
(22) Interest at a rate of 5.95% until earliest par value redemption date and every 5 years thereafter at the 5-year Government of Canada yield plus 1.72%.
(23) The fair value adjustment reflects the adjustment to the carrying value of hedged subordinated debentures in fair value hedging relationships. The subordinated debentures specifically hedged have maturity dates ranging from August 15, 2010, to June 18, 2103.

Maturity schedule

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

At October 31, 2004	Total
1 to 5 years	$ 152
5 to 10 years	4,710
Thereafter	3,660
Total	$ 8,522

NOTE 14 NON-CONTROLLING INTEREST IN SUBSIDIARIES

	2004	2003
Trust Capital Securities issued by RBC Capital Trust (1)	$ 1,434	$ 1,434
Other	90	40
	$ 1,524	$ 1,474

(1) Including accrued distribution amounts.

We issue RBC Trust Capital Securities (RBC TruCS) through our consolidated subsidiary RBC Capital Trust (Trust), a closed-end trust established under the laws of the Province of Ontario. The proceeds of the RBC TruCS are used to fund the Trust's acquisition of trust assets. Upon consolidation, these RBC TruCS are reported as Non-controlling interest in subsidiaries. RBC Capital Trust II (Trust II), an open-end trust, is another entity that issues RBC TruCS, the proceeds of which are used to purchase a senior deposit note from us. Trust II is a variable interest entity under FIN 46R. We do not consolidate Trust II as we are deemed not to be its Primary Beneficiary. Therefore, the RBC TruCS issued by Trust II are not reported on our Consolidated balance sheet, but the senior deposit note is reported in Deposits (described in Note 11). 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, 2004, were as follows:

				Redemption date	Conversion date	
Issuer	Issuance date	Distribution date	Annual yield	At the option of the trust	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**
Total included in Non-controlling interest in subsidiaries						$ **1,400**
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**

(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 holdings for 40 non-cumulative redeemable First Preferred Shares Series U, for each RBC TruCS Series 2013 held.

(4) The RBC TruCS Series 2010 and 2011 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. The RBC TruCS Series 2013 may be redeemed for cash equivalent to (i) the Early Redemption Price if the redemption occurs prior to December 31, 2013 or (ii) the Redemption Price if the redemption occurs on or after December 31, 2013. 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 15 SHARE CAPITAL

Authorized share capital

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 shares

	2004			2003			2002		
	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
US$ Non-cumulative Series I (1)	–	–	–	–	–	–	–	–	US .02
Non-cumulative Series J (1)	–	–	–	–	–	.90	12,000	294	1.78
US$ Non-cumulative Series K (1)	–	–	–	–	–	US .80	10,000	384	US 1.58
Non-cumulative Series N	**12,000**	**293**	**1.18**	12,000	293	1.18	12,000	293	1.18
Non-cumulative Series O	**6,000**	**145**	**1.38**	6,000	145	1.38	6,000	145	1.38
US$ Non-cumulative Series P	**4,000**	**128**	**US 1.44**	4,000	128	US 1.44	4,000	152	US 1.44
Non-cumulative Series S	**10,000**	**247**	**1.53**	10,000	247	1.53	10,000	247	1.53
		$ 813			$ 813			$ 1,515	
Common									
Balance at beginning of year	**656,021**	**$ 6,999**		665,257	$ 6,963		674,021	$ 6,926	
Issued under the stock option plan (2)	**3,328**	**124**		5,303	190		5,211	175	
Issued on the acquisition of Richardson Greenshields Limited (3)	–	–		–	–		318	15	
Issuance costs, net of related income taxes	–	–		–	–		–	(1)	
Purchased for cancellation	**(14,601)**	**(157)**		(14,539)	(154)		(14,293)	(152)	
Balance at end of year	**644,748**	**$ 6,966**	**$ 2.02**	656,021	$ 6,999	$ 1.72	665,257	$ 6,963	$ 1.52
Treasury									
Reclassified amounts	**4,950**	**$ (304)**		–	–		–	–	
Net purchases	**85**	**(2)**		–	–		–	–	
Initial adoption of FIN 46R, *Consolidation of Variable Interest Entities*	**780**	**(42)**		–	–		–	–	
Balance at end of year	**5,815**	**$ (348)**	**–**	–	–	–	–	–	–

(1) On May 26, 2003, we redeemed First Preferred Shares Series J and K. On October 11, 2002, we redeemed First Preferred Shares Series I and E, respectively.
(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 (2003 – $3 million); and from renounced tandem SARs, net of related income taxes, of $2 million (2003 – $4 million).
(3) During 2002, we exchanged 1,846,897 Class C shares issued by our wholly owned subsidiary, Royal Bank DS Holding Inc., on the acquisition of Richardson Greenshields Limited for 318,154 common shares.

Terms of preferred shares

				Conversion dates	
	Dividend per share (1)	Redemption date (2)	Redemption price (3)	At the option of the bank (2), (4)	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 C$26 and US$26, respectively, 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 C$25 and US$25, respectively, 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 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.

We have also agreed that if, on any day we report financial results for a fiscal quarter, (a) we report a cumulative consolidated net loss for the immediately preceding four quarters; and (b) during the immediately preceding fiscal quarter we fail to declare any cash dividends on all of our outstanding preferred and common shares, we may defer payments of interest on the Series 2014-1 Reset Subordinated Notes (matures on June 18, 2103). During any period while interest is being deferred, (i) interest will accrue on these notes but will not compound; (ii) we may not declare or pay dividends (except by way of stock dividend) on, or redeem or repurchase, any of its preferred or common shares; and (iii) we may not make any payment of interest, principal or premium on any debt securities or indebtedness for borrowed money issued or incurred by us that rank subordinate to these notes.

Normal course issuer bid

Details of common shares repurchased under normal course issuer bids during 2004, 2003 and 2002 are given below.

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, 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, 2004, our Tier 1 and Total capital ratios were 8.9% and 12.4%, respectively (2003 – 9.7% and 12.8%, 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, 2004, our assets-to-capital multiple was 18.1 times (2003 – 18.2 times).

Dividend reinvestment plan

We announced on August 27, 2004, the implementation of a dividend reinvestment plan for registered common shareholders. The plan provides registered common shareholders with a means to automatically reinvest the cash dividends paid on their common shares in the purchase of additional common shares. The plan is only open to shareholders residing in Canada or the United States.

The first dividend eligible for the plan was paid November 24, 2004, to shareholders of record on October 26, 2004. Management has the flexibility to fund the plan through open market share purchases or treasury issuances.

	2004				2003			2002		
	Number of shares eligible for repurchase (000s)	**Number of shares repurchased (000s)**	**Average cost per share**	**Amount**	Number of shares repurchased (000s)	Average cost per share	Amount	Number of shares repurchased (000s)	Average cost per share	Amount
June 24, 2004 – June 23, 2005	**25,000**	**6,412**	**$ 60.56**	**$ 388**	–	$ –	$ –	–	$ –	$ –
June 24, 2003 – June 23, 2004	**25,000**	**8,189**	**61.54**	**504**	5,910	59.30	350	–	–	–
June 24, 2002 – June 23, 2003	**20,000**	**–**	**–**	**–**	8,629	58.09	502	9,819	52.27	513
June 22, 2001 – June 21, 2002	**18,000**	**–**	**–**	**–**	–	–	–	4,474	56.02	251
		14,601	**$ 61.11**	**$ 892**	14,539	$ 58.58	$ 852	14,293	$ 53.45	$ 764

NOTE 16 INCOME TAXES

	2004	2003	2002
Income taxes in Consolidated statement of income			
Current			
Canada – Federal	$ 639	$ 726	$ 681
Provincial	329	317	265
International	155	319	153
	1,123	1,362	1,099
Deferred			
Canada – Federal	3	88	205
Provincial	8	34	70
International	60	(41)	41
	71	81	316
	1,194	1,443	1,415
Income taxes (recoveries) in Consolidated statement of changes in shareholders' equity			
Unrealized gains and losses on available for sale securities, net of hedging activities	42	(71)	(13)
Unrealized foreign currency translation gains and losses, net of hedging activities	328	1,064	100
Gains and losses on derivatives designated as cash flow hedges	(21)	13	39
Additional pension obligation	245	(113)	(155)
Issuance costs	–	(3)	–
Stock appreciation rights	3	5	22
	597	895	(7)
Total income taxes	$ 1,791	$ 2,338	$ 1,408

Deferred income taxes

	2004	2003
Deferred income tax asset (1)		
Allowance for credit losses	$ 464	$ 505
Deferred compensation	310	338
Pension related	135	292
Business realignment charges	60	–
Tax loss carryforwards	29	35
Deferred income	176	166
Other	361	299
	1,535	1,635
Valuation allowance	(12)	(16)
	1,523	1,619
Deferred income tax liability		
Premises and equipment	(192)	(14)
Deferred expense	(226)	(289)
Other	(426)	(433)
	(844)	(736)
Net deferred income tax asset	$ 679	$ 883

(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

	2004		2003		2002	
Income taxes reported in Consolidated statement of income/effective tax rate						
Income taxes at Canadian statutory tax rate	$ 1,453	35.0%	$ 1,672	36.4%	$ 1,702	38.5%
Increase (decrease) in income taxes resulting from						
Lower average tax rate applicable to subsidiaries	(224)	(5.4)	(179)	(3.9)	(244)	(5.5)
Tax-exempt income from securities	(54)	(1.3)	(44)	(1.0)	(39)	(.9)
Goodwill impairment	46	1.1	–	–	–	–
Tax rate change	(10)	(.2)	31	.7	33	.7
Other	(17)	(.4)	(37)	(.8)	(37)	(.8)
	$ 1,194	28.8%	$ 1,443	31.4%	$ 1,415	32.0%

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 $714 million as at October 31, 2004 (2003 – $728 million; 2002 – $841 million).

NOTE 17 INSURANCE OPERATIONS

Insurance claims and policy benefit liabilities

		2004		2003
Claims liabilities	$	**444**	$	665
Future policy benefits liabilities		**8,908**		7,965
Insurance claims and policy benefit liabilities	$	**9,352**	$	8,630

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.

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

		2004		2003		2002
Gross premiums	$	**2,235**	$	2,562	$	2,065
Ceded premiums		**(564)**		(986)		(501)
Net premiums	$	**1,671**	$	1,576	$	1,564

Reinsurance recoverables include amounts related to paid benefits, unpaid claims, future policy benefits and certain policyholder contract deposits.

Reinsurance recoverables

		2004		2003
Claims paid	$	**90**	$	356
Future policy benefits		**1,611**		2,965
Reinsurance recoverables	$	**1,701**	$	3,321

NOTE 18 PENSIONS AND OTHER POSTRETIREMENT BENEFITS

We offer a number of defined benefit and defined contribution plans, which provide pension and postretirement benefits to eligible employees.

Components of the change in our plan assets, weighted average asset allocations by category and benefit obligations year over year are as follows:

Plan assets, benefit obligation and funded status

	Pension plans (1)		Other postretirement plans (2)	
	2004	2003	2004	2003
Change in fair value of plan assets (3)				
Opening fair value of plan assets	$ 4,657	$ 3,747	$ –	$ –
Actual return on plan assets	475	415	–	–
Company contributions	221	670	27	27
Plan participant contributions	24	23	2	1
Benefits paid	(284)	(263)	(29)	(28)
Business acquisitions	–	97	–	–
Change in foreign currency exchange rate	(26)	(32)	–	–
Closing fair value of plan assets	$ 5,067	$ 4,657	$ –	$ –
Change in benefit obligation				
Opening benefit obligation	$ 5,282	$ 4,590	$ 1,379	$ 1,067
Service cost	136	120	48	39
Interest cost	330	306	91	80
Plan participant contributions	24	23	2	1
Actuarial loss (gain)	34	443	(61)	214
Benefits paid	(284)	(263)	(29)	(28)
Plan amendments and curtailments	20	–	–	1
Business acquisitions	–	123	–	18
Change in foreign currency exchange rate	(39)	(60)	(11)	(13)
Closing benefit obligation	$ 5,503	$ 5,282	$ 1,419	$ 1,379
Funded status				
Excess of benefit obligation over plan assets	$ (436)	$ (625)	$ (1,419)	$ (1,379)
Unrecognized net actuarial loss	855	1,071	455	549
Unrecognized transition (asset) obligation	(17)	(19)	157	174
Unrecognized prior service cost	168	181	12	13
Contributions between September 30 and October 31	1	25	2	2
Other	–	(1)	–	–
Prepaid asset (accrued liability) as at October 31	$ 571	$ 632	$ (793)	$ (641)
Amounts recognized in the Consolidated balance sheet consist of:				
Prepaid pension benefit cost	$ 571	$ 138	$ –	$ –
Accrued pension benefit expense	(137)	(451)	(793)	(641)
Intangible asset	35	175	–	–
Accumulated other comprehensive income (before taxes)	102	770	–	–
Net amount recognized as at October 31	$ 571	$ 632	$ (793)	$ (641)
Accumulated benefit obligation (1)	$ 5,036	$ 5,038	n.a.	n.a.
Weighted average assumptions to calculate benefit obligation				
Discount rate	6.25%	6.25%	6.50%	6.50%
Rate of increase in future compensation	4.40%	4.40%	4.40%	4.40%

Asset category

	Actual		Asset mix policy ranges	
	2004	2003	Target	Range
Equity securities	59%	59%	60%	+/–10%
Debt securities	41	41	40	+/–10%
Total	100%	100%	100%	

(1) For pension plans with projected benefit obligations that were more than plan assets, the benefit obligation and fair value of plan assets for all these plans totalled $4,953 million (2003 – $4,991 million) and $4,437 million (2003 – $4,328 million), respectively. For all plans where the accumulated benefit obligation exceeds the value of the plan assets, the accumulated benefit obligation and the value of the assets were $790 million (2003 – $4,543 million) and $657 million (2003 – $4,067 million), respectively.

(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 5% for dental, decreasing to an ultimate rate of 4% in 2013.

(3) Plan assets includes 680,400 (2003 – 525,342) Royal Bank of Canada common shares having a fair value of $41 million (2003 – $31 million). In addition, dividends amounting to $1.4 million (2003 – $1.1 million) were received on Royal Bank of Canada common shares held in the plan assets during the year.

Note: The measurement date used for financial reporting purposes of the pension plan assets and benefit obligation is September 30.

Overall expected long-term rate of return on assets assumption

The assumed expected rate of return on assets is determined by considering long-term expected returns on risk-free investments (primarily government bonds) and a reasonable assumption for an equity risk premium. The expected long-term return for each asset class was then weighted based on the target asset allocation to develop the expected long-term rate of return on asset assumption for the portfolio. This resulted in the selection of an assumed expected rate of return of 7% for 2002 to 2005.

Investment policies and strategies

The Pension Plan Management Committee oversees the investment of plan assets. Pension assets are invested prudently over the long term in order to meet pension obligations, at a reasonable cost. The asset mix policy takes into consideration a number of factors including:

1. Investment characteristics including expected return, volatilities, and correlations of both plan assets and plan liabilities.
2. The plan's tolerance for risk, which dictates the trade-off between increased short-term volatility and enhanced long-term expected returns.
3. Diversification of plan assets, through the inclusion of several asset classes, to minimize the risk of large losses, unless it is clearly prudent not to do so.
4. The liquidity and current return of the portfolio relative to the anticipated cash flow requirements of the plan.
5. Actuarial factors such as membership demographics and future salary growth rates.

Pension benefit expense

	2004	2003	2002
Service cost	$ **136**	$ 120	$ 113
Interest cost	**330**	306	297
Expected return on plan assets	**(315)**	(300)	(300)
Amortization of transition asset	**(2)**	(2)	(2)
Amortization of prior service cost	**32**	31	32
Amortization of actuarial loss (gain)	**84**	15	(27)
Settlement loss	**–**	–	52
Other	**–**	–	(45)
Defined benefit pension expense	**265**	170	120
Defined contribution pension expense	**64**	67	61
Pension benefit expense	$ **329**	$ 237	$ 181
Weighted average assumptions to calculate pension benefit expense			
Discount rate	**6.25%**	6.75%	7.00%
Assumed long-term rate of return on plan assets	**7.00%**	7.00%	7.00%
Rate of increase in future compensation	**4.40%**	4.40%	4.40%

Other postretirement benefit expense

	2004	2003	2002
Service cost	$ **48**	$ 39	$ 22
Interest cost	**91**	80	51
Amortization of transition obligation	**17**	17	17
Amortization of actuarial loss (gain)	**32**	24	–
Amortization of prior service cost	**1**	1	2
Other postretirement benefit expense	$ **189**	$ 161	$ 92
Weighted average assumptions to calculate other postretirement benefit expense			
Discount rate	**6.50%**	7.00%	7.25%
Rate of increase in future compensation	**4.40%**	4.40%	4.40%

2004 sensitivity of key assumptions

Pensions	**Change in obligation**	**Change in expense**
Impact of .25% change in discount rate assumption	$ **181**	$ **22**
Impact of .25% change in rate of increase in future compensation assumption	**23**	**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	$ **67**	$ **8**
Impact of .25% change in rate of increase in future compensation assumption	**2**	**–**
Impact of 1.00% increase in health care cost trend rates	**247**	**30**
Impact of 1.00% decrease in health care cost trend rates	**(194)**	**(28)**

Benefit payments projection

	Pension plans	Other postretirement plans
2005	282	35
2006	292	38
2007	303	43
2008	314	47
2009	326	53
2010–2014	1,835	396

Note: Total contributions for the defined benefit pension plans and other postretirement benefit plans are expected to be approximately $169 million and $35 million, respectively, for 2005.

NOTE 19 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 discontinued on a permanent basis all further grants of options under the non-employee 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.

Compensation expense for SARs is recognized using estimates based on past experience, of participants exercising SARs rather than the corresponding options. The compensation expense for these grants, which is amortized over the associated option's vesting period, was $6 million for the year ended October 31, 2004 (2003 – $18 million; 2002 – $27 million).

NOTE 19 STOCK-BASED COMPENSATION (continued)

Stock options

	2004		2003		2002	
	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	**24,803**	**$ 42.06**	28,479	$ 39.54	30,158	$ 36.84
Granted	**1,189**	**62.63**	1,985	58.03	4,215	49.12
Exercised – Common shares	**(3,328)**	**35.94**	(5,303)	34.48	(5,211)	32.07
– SARs	**(176)**	**41.35**	(170)	37.35	(291)	34.01
Cancelled	**(116)**	**47.86**	(188)	47.55	(392)	38.37
Outstanding at end of year	**22,372**	**$ 44.04**	24,803	$ 42.06	28,479	$ 39.54
Exercisable at end of year	**16,401**	**$ 40.43**	15,415	$ 38.24	14,050	$ 36.07
Available for grant	**13,215**		14,309		16,105	

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–$15.68	**117**	**$ 15.68**	**2.0**	**117**	**$ 15.68**
$24.80–$28.25	**1,183**	**26.27**	**5.1**	**1,183**	**26.27**
$30.00–$39.64	**9,279**	**36.61**	**5.2**	**9,279**	**36.61**
$43.59–$49.36	**8,671**	**49.14**	**7.4**	**5,323**	**49.13**
$50.00–$59.35	**1,939**	**57.96**	**9.0**	**492**	**57.90**
$60.00–$62.63	**1,183**	**62.63**	**10.0**	**7**	**62.63**
Total	**22,372**	**$ 44.04**	**6.6**	**16,401**	**$ 40.43**

Fair value method

Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation* (FAS 123), recommends the recognition of an expense for option awards using the fair value method of accounting. It permits the use of the intrinsic value based method, Accounting Principles Board Opinions No. 25, *Accounting for Stock Issued to Employees* (APB 25), provided pro forma disclosures of net income and earnings per share applying the fair value method are made. For options with SARs attached, FAS 123 recommends the recognition of an intrinsic value based expense for the entire award. We adopted the recommendations of FAS 123 prospectively for new awards granted after November 1, 2002. The fair value compensation expense recorded for the year ended October 31, 2004, in respect of these plans was $9 million (2003 – $6 million).

We have provided pro forma disclosures, which demonstrate the effect as if we had adopted the recommended recognition provisions of FAS 123 in 2004, 2003 and 2002 for awards granted before 2003 as indicated below:

Pro forma net income and earnings per share

	As reported (1)			Pro forma (2)		
	2004	2003	2002	**2004**	2003	2002
Net income	**$ 2,839**	$ 3,036	$ 2,898	**$ 2,809**	$ 2,990	$ 2,856
Earnings per share	**4.31**	4.47	4.16	**4.27**	4.40	4.09
Diluted earnings per share	**4.25**	4.42	4.12	**4.21**	4.35	4.06

(1) Basic and diluted earnings per share for 2003 have been restated to reflect a reduction of one cent per share as a result of adopting EITF 03-6 during 2004. See Note 1 for details.
(2) Compensation expense under the fair value 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 2004 was estimated on the date of grant using an option pricing model with the following assumptions: (i) risk-free interest rate of 4.22% (2003 – 4.61%; 2002 – 4.89%), (ii) expected option life of six years (2003 – six years; 2002 – six years), (iii) expected volatility of 18% (2003 – 20%; 2002 – 20%) and (iv) expected dividends of 2.90% (2003 – 2.95%; 2002 – 2.90%). The fair value of each option granted was $10.93 (2003 – $11.60; 2002 – $10.02).

Employee share ownership plans

We offer many employees an opportunity to own our shares 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 $54 million (2003 – $55 million; 2002 – $49 million), under the terms of these plans, towards the purchase of common shares. As at October 31, 2004, an aggregate of 17,905,473 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, 2004, was $111 million (2003 – $105 million; 2002 – $73 million). The share appreciation and dividend-related compensation expense recorded for the year ended October 31, 2004, in respect of these plans was $4 million (2003 – $16 million; 2002 – $16 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 three following 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, 2004, was $241 million (2003 – $215 million; 2002 – $187 million). The share appreciation and dividend-related compensation expense for the year ended October 31, 2004, in respect of this plan was $4 million (2003 – $22 million; 2002 – $20 million).

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, 2004, was $59 million (2003 – $58 million; 2002 – $34 million). The value of the various share units as at October 31, 2004, was $20 million (2003 – $26 million; 2002 – $10 million). The stock-based compensation expense recorded for the year ended October 31, 2004, in respect of these plans, was $14 million (2003 – $30 million; 2002 – $32 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 20 North American financial institutions. The value of common shares held as at October 31, 2004, was $195 million (2003 – $102 million; 2002 – $34 million). Compensation expense of $70 million (2003 – $33 million; 2002 – $11 million) was recognized for the year ended October 31, 2004, 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. No awards have been made under this program since 2001. The value of the share units as at October 31, 2004 was nil (2003 – $9 million; 2002 – $16 million). The compensation expense recorded for the year ended October 31, 2004, in respect of this plan was nil (2003 – $5 million; 2002 – $12 million).

We maintain a non-qualified deferred compensation plan for key employees in the United States under an arrangement called the RBC US 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 a share unit fund that tracks the value of our common shares. Certain deferrals may also be eligible for matching contributions. 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, 2004, was $159 million (2003 – $111 million; 2002 – $70 million). The compensation expense recorded for the year ended October 31, 2004, was $24 million (2003 – $10 million; 2002 – $12 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 $36 million as at October 31, 2004 (2003 – $100 million; 2002 – $151 million). The compensation expense recorded for the year ended October 31, 2004, in respect of this plan was $16 million (2003 – $63 million; 2002 – $74 million).

For other stock-based plans, compensation expense of $4 million was recognized for the year ended October 31, 2004 (2003 – $8 million; 2002 – $19 million). The value of the share units and shares held under these plans as at October 31, 2004, was $13 million (2003 – $13 million; 2002 – $10 million).

The information provided earlier in this section excludes the impact of derivatives, which we use to mitigate our exposure to volatility in the price of our common shares under many of these deferred share plans.

NOTE 20 EARNINGS PER SHARE

	2004	2003 (3)	2002
Basic earnings per share			
Net income	$ 2,839	$ 3,036	$ 2,898
Preferred share dividends	(45)	(68)	(98)
Undistributed earnings allocated to participating contracts	(8)	(6)	(4)
Net income after participating contracts and preferred dividends	$ 2,786	$ 2,962	$ 2,796
Average number of common shares (in thousands)	646,023	662,080	672,571
	$ 4.31	$ 4.47	$ 4.16
Diluted earnings per share			
Net income after participating contracts and preferred dividends	$ 2,786	$ 2,962	$ 2,796
Adjustment for participating contracts included in diluted common shares	4	–	–
Net income adjusted for diluted computation	$ 2,790	$ 2,962	$ 2,796
Average number of common shares (in thousands)	646,023	662,080	672,571
Convertible Class B and C shares (1)	–	–	14
Stock options (2)	6,614	7,545	6,568
Issuable under other stock-based compensation plans	3,410	–	–
Average number of diluted common shares (in thousands)	656,047	669,625	679,153
	$ 4.25	$ 4.42	$ 4.12

(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. In 2002, 1,846,897 Class C shares were exchanged for 318,154 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 1,087,188 with an exercise price of $62.63 (2003 – 25,205 at $59.35; 2002 – 9,761 at $53.76) as the options' exercise price was greater than the average market price of our common shares.

(3) Basic and diluted earnings per share for 2003 have been restated to reflect a reduction of one cent per share as a result of adopting EITF 03-6 during 2004. See Note 1 for details.

NOTE 21 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 Financial Accounting Standards Board Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others* (FIN 45). FIN 45 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

	2004
Credit derivatives/written put options (1)	$ 32,342
Backstop liquidity facilities	24,464
Financial standby letters of credit/performance guarantees	14,138
Stable value products (1)	7,709
Credit enhancements	3,935
Mortgage loans sold with recourse	296

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

Our clients may enter into credit derivatives or written put options for speculative or hedging purposes. FIN 45 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 five years.

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 one 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.

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 eight 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. The carrying value includes amounts representing deferred revenue to be recognized in income over the life of the contract.

We sell stable value products that offer book value protection primarily to plan sponsors of *Employee Retirement Income Security Act* (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.

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 one and four years.

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.

At October 31, 2004, we have accrued $202 million in our Consolidated balance sheet in respect to the above guarantees.

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. No amount has been accrued in the Consolidated balance sheet with respect to these indemnification agreements.

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 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

	2004	2003
Documentary and commercial letters of credit	$ 592	$ 2,014
Securities lending	27,055	17,520
Commitments to extend credit		
Original term to maturity of 1 year or less	45,682	40,432
Original term to maturity of more than 1 year	28,912	28,182
Uncommitted amounts	60,972	59,801
Note issuance/revolving underwriting facilities	23	24
	$ 163,236	$ 147,973

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

2005	$ 405
2006	374
2007	312
2008	265
2009	233
Thereafter	829
	$ 2,418

Litigation

Enron Corp. (Enron) litigation

Royal Bank of Canada and certain related entities are defendants in the adversary proceedings in the United States Bankruptcy Court, Southern District of New York, previously brought by Enron (and related debtor affiliates) along with numerous other financial institution defendants.

Royal Bank of Canada and certain related entities are also named as defendants in an action commenced by a putative class of purchasers of Enron publicly traded equity and debt securities between January 9, 1999 and November 27, 2001, entitled *Regents of the University of California v. Royal Bank of Canada* in the United States District Court, Southern District of Texas (Houston Division). This case has been consolidated with the lead action captioned *Newby v. Enron Corp.*, which is the main consolidated putative Enron shareholder class action wherein similar claims have been made against numerous other financial institutions. In addition, Royal Bank of Canada and certain related entities are named as defendants in Enron-related cases, which are filed in various courts in the U.S., asserting similar claims filed by purchasers of Enron securities. Royal Bank of Canada is also a third-party defendant in cases in which Enron's accountants, Arthur Andersen LLP, filed third-party claims against a number of parties, seeking contribution if Arthur Andersen LLP is found liable to plaintiffs in these actions.

It is not possible to predict the ultimate outcome of these lawsuits or the timing of their resolution. Management reviews the status of these matters on an ongoing basis and will exercise its judgment in resolving them in such manner as it believes to be in our best interests. We will defend ourselves vigorously in these cases. However, given the significant uncertainties surrounding the timing and outcome of this litigation, the large number of cases, the multiple defendants in many of them, the novel issues presented, the length of time before these cases will be resolved by settlement or through litigation, and the current difficult litigation environment, no provision for loss has been recorded in the consolidated financial statements as it is presently not possible to determine our ultimate exposure for these matters. Management believes the ultimate resolution of these lawsuits and other proceedings, while not likely to have a material adverse effect on our consolidated financial position, may be material to our operating results for any particular period.

Rabobank settlement

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, 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 swap.

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 with Enron, the Enron Creditors' Committee and Rabobank. The settlement received reduced the amount owing by Rabobank to US$322 million plus interest.

On February 16, 2004, Royal Bank of Canada announced that it had reached a confidential settlement, through non-binding mediation with Rabobank, resolving this litigation. The settlement, net of a related reduction in compensation and tax expenses, decreased Net income in 2004 by $74 million.

Other

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

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

	2004	2003
Assets pledged to:		
Foreign governments and central banks	$ 1,172	$ 1,220
Clearing systems, payment systems and depositories	1,257	1,055
Assets pledged in relation to:		
Derivative transactions	3,759	2,415
Securities borrowing and lending	32,620	29,377
Obligations related to securities sold under repurchase agreements	21,705	23,735
Other	3,298	2,575
	$ 63,811	$ 60,377

NOTE 21 GUARANTEES, COMMITMENTS AND CONTINGENCIES (continued)

Collateral

At October 31, 2004, the approximate market value of collateral accepted that may be sold or repledged by us was $63.5 billion (2003 – $63.1 billion). This collateral was received in connection with reverse repurchase agreements, securities borrowings and loans, and derivative transactions. Of this amount, $28.2 billion (2003 – $40.4 billion) has been sold or repledged, generally as collateral under repurchase agreements or to cover short sales.

NOTE 22 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 and futures are contractual obligations 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 specified 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 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. Certain warrants and loan commitments that meet the definition of derivative are also included as derivative instruments.

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. In a fair value hedge, changes in fair value of the derivatives will substantially offset the changes in fair value of the hedged asset or liability. In a cash flow hedge, derivatives linked to the assets and liabilities will reduce the variability of cash flows. In a hedge of the net investment of foreign subsidiaries, derivatives will mitigate foreign exchange gains and losses on currency translation.

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.

Fair value hedge

For the year ended October 31, 2004, the ineffective portions recognized in Non-interest income amounted to a net unrealized loss of $4 million (2003 – $9 million gain). All components of each derivative's change in fair value have been included in the assessment of fair value hedge effectiveness.

We did not hedge any firm commitments for the year ended October 31, 2004.

Cash flow hedge

For the year ended October 31, 2004, a net unrealized loss of $147 million (2003 – $57 million) was recorded in Other comprehensive income for the effective portion of changes in fair value of derivatives designated as cash flow hedges. The amounts recognized as Other comprehensive income are reclassified to Net interest income in the periods in which Net interest income is affected by the variability in cash flows of the hedged item. A net loss of $59 million (2003 – $80 million) was reclassified to Net income during the year. A net loss of $77 million (2003 – $40 million) deferred in Accumulated other comprehensive income as at October 31, 2004, is expected to be reclassified to Net income during the next 12 months.

For the year ended October 31, 2004, a net unrealized loss of $20 million (2003 – $43 million gain) was recognized in Non-interest income for the ineffective portions of cash flow hedges. All components of each derivative's change in fair value have been included in the assessment of cash flow hedge effectiveness.

We did not hedge any forecasted transactions for the year ended October 31, 2004.

Hedges of net investments in foreign operations

For the year ended October 31, 2004, we experienced foreign currency losses of $1,336 (2003 – $2,988 million) related to our net investments in foreign operations, which were offset by gains of $678 (2003 – $2,149 million) related to derivative and non-derivative instruments designated as hedges of this currency exposure. The net foreign currency gains (losses) are recorded as a component of Other comprehensive income.

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. The replacement cost of our derivatives before and after factoring in the impact of master netting agreements is $40 billion and $16 billion, respectively (2003 – $37 billion and $13 billion) at October 31, 2004. These amounts exclude fair value of $266 million (2003 – $82 million) relating to exchange-traded instruments as they are subject to daily margining and are deemed to have no credit risks. Fair value of $56 million (2003 – $92 million) relating to certain warrants, loan commitments and embedded derivatives that meet the definition of derivatives for financial reporting are also excluded.

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. During 2004 and 2003, neither our actual credit losses arising from derivative transactions nor the level of impaired derivative contracts were significant.

NOTE 23 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.

	2004									2003								
	Canada	%	United States	%	Europe	%	Other International	%	Total	Canada	%	United States	%	Europe	%	Other International	%	Total
On-balance sheet assets (1)	$175,149	76%	$ 30,739	13%	$ 20,259	9%	$ 4,053	2%	$230,200	$157,838	73%	$ 30,872	14%	$ 21,930	10%	$ 4,139	3%	$214,779
Off-balance sheet credit instruments (2)																		
Committed and uncommitted (3)	$ 54,979	41%	$ 49,099	36%	$ 21,850	16%	$ 9,638	7%	$135,566	$ 59,353	46%	$ 41,949	33%	$ 22,845	18%	$ 4,268	3%	$128,415
Other	25,503	55	13,597	30	7,013	15	177	–	46,290	18,449	50	14,791	40	3,704	10	156	–	37,100
Derivatives before master netting agreement (4)	9,968	25	9,951	25	18,324	45	1,891	5	40,134	7,732	21	10,081	27	17,462	48	1,412	4	36,687
	$ 90,450	41%	$ 72,647	33%	$ 47,187	21%	$ 11,706	5%	$221,990	$ 85,534	42%	$ 66,821	33%	$ 44,011	22%	$ 5,836	3%	$202,202

(1) Includes assets purchased under reverse repurchase agreements, loans and customers' liability under acceptances. The largest concentrations in Canada are Ontario at 41% (2003 – 38%) and British Columbia at 10% (2003 – 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 37% (2003 – 39%), government of 13% (2003 – 16%), mining and energy of 11% (2003 – 12%), transportation of 4% (2003 – 6%), wholesale of 4% (2003 – 4%) and manufacturing of 3% (2003 – 3%).
(4) The largest concentration by counterparty type of this credit risk exposure is with banks at 66% (2003 – 66%).

NOTE 24 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 represent point in time estimates only and 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

	2004			2003		
	Book value	Estimated fair value	Difference	Book value	Estimated fair value	Difference
Financial assets						
Cash and deposits with banks	$ 9,994	$ 9,994	$ –	$ 5,979	$ 5,979	$ –
Securities	127,496	127,496	–	128,338	128,338	–
Assets purchased under reverse repurchase agreements	34,862	34,862	–	36,289	36,289	–
Loans (net of allowance for loan losses)	187,510	188,986	1,476	170,492	172,306	1,814
Other assets	79,459	79,459	–	63,437	63,437	–
Financial liabilities						
Deposits	271,575	272,437	(862)	260,518	261,834	(1,316)
Other liabilities	94,838	94,838	–	72,237	72,237	–
Subordinated debentures	8,522	8,453	69	6,581	6,587	(6)

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 two key risks as appropriate; 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. The fair values 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 and deposits with banks and Assets purchased under reverse repurchase agreements are assumed to approximate carrying value.

NOTE 25 BUSINESS REALIGNMENT CHARGES

On September 9, 2004, the Board of Directors approved a realignment of our organizational structure effective November 1, 2004. The objectives of the business realignment are to accelerate revenue growth, reduce costs and to streamline and improve the efficiency of our operations in order to better serve our clients. A key aspect of the realignment involves reorganizing our existing five segments into the following three, effective November 1, 2004:

- a Canadian personal and business segment, which combines our Canadian banking, investments and global insurance businesses, including Canadian, U.S. and international insurance operations;
- a U.S. and international segment, which includes banking and investments in the U.S., banking and brokerage in the Caribbean, and Global Private Banking internationally; and
- a global capital markets segment that includes corporate banking, which serves corporate and larger commercial clients.

During the fourth quarter, we began executing the other key initiatives of the business realignment, which comprise staff reductions and reducing occupancy costs. We expect the majority of these realignment initiatives to be completed during fiscal 2005 although certain lease obligations extend beyond that time.

Business realignment charges

	Employee-related charges	Premises-related charges	Other charges	Total charges
Realignment charges	$ 166	$ 13	$ 13	$ 192
Cash payments	–	–	–	–
Balance at October 31, 2004	$ 166	$ 13	$ 13	$ 192

At October 31, 2004, we recorded aggregate pre-tax business realignment charges of $192 million, of which $166 million relates to severance costs for 1,660 employee positions. The distribution of the employee positions across the segments is as follows: Banking – 1,030; Investments – 88; Insurance – 145; Capital Markets – 113; Global Services – 10; Other – 274. Geographically, 1,120 positions relate to Canada, 477 to the U.S. and 63 Other International. Approximately 40 employees were notified by October 31, 2004.

We are in the process of closing 38 of RBC Mortgage Company's (RBC Mortgage) 213 branches in the United States. In addition, in January 2005, the Chicago headquarters of RBC Mortgage will be closed and the operations transferred to our Houston office. We have included in our business realignment charges the fair value of the remaining future lease obligations, net of anticipated sublease revenues, for the premises that we have vacated but for which we remain the lessee. We have also expensed the lease cancellation payments for those locations for which we have legally extinguished our lease obligation. The carrying value of redundant assets in the closed premises has been included in premises-related costs. An additional 9 RBC Mortgage branches and 10 of RBC Centura Banks' 275 branches are scheduled to be closed in fiscal 2005. The premises-related costs associated with these closures will be recorded in fiscal 2005.

We engaged a professional services firm to provide us with strategic and organizational advice with respect to the business realignment initiatives. A charge of $13 million for these services is recorded in Other charges in the above table.

At October 31, 2004, business realignment charges to be paid in future periods were $192 million and are recorded in Other liabilities on the Consolidated balance sheet. The total business realignment charges for each segment are disclosed in Note 3. As at October 31, 2004, the premises-related costs and the other costs pertain to the RBC Banking and Other segments, respectively.

NOTE 26 SUBSEQUENT EVENTS

The following significant event occurred subsequent to October 31, 2004, and prior to the issuance of our 2004 consolidated financial statements.

On November 23, 2004, we agreed to sell Liberty Insurance Services Corp. (LIS) to IBM. The sale, which is expected to close by December 31, 2004, subject to the satisfaction of customary conditions including the receipt of regulatory approvals, will result in the transfer of approximately 700 LIS employees to IBM. The total assets and liabilities of LIS are immaterial to RBC Insurance and the sale is expected to result in a nominal gain. In connection with the sale agreement, we entered into a long-term services agreement with IBM whereby it will perform certain processing and management functions for the U.S. operations of RBC Insurance.