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# **ROYAL BANK OF CANADA**

## **ANNUAL INFORMATION FORM**

**December 10, 2002**

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| Unless otherwise specified, this annual information form presents information as at October 31, 2002. |
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## INCORPORATION

Royal Bank of Canada (the "bank") is a Schedule I bank under the *Bank Act (Canada)*, which constitutes its charter.

The corporate headquarters are located at Royal Bank Plaza, 200 Bay Street, Toronto, Ontario, Canada. The head office is located at 1 Place Ville-Marie, Montreal, Quebec, Canada.

Principal subsidiaries are described on page 25.

## BUSINESS

**Overview** - Royal Bank of Canada (stock symbol RY on the TSX and NYSE) operates under the master brand RBC Financial Group and has five major business platforms or segments: RBC Banking (personal and commercial banking), RBC Insurance (insurance), RBC Investments (wealth management), RBC Capital Markets (corporate and investment banking), and RBC Global Services (securities custody and transaction processing). Royal Bank of Canada is Canada's largest company as measured by assets and market capitalization. The bank serves more than 12 million personal, business and public sector clients worldwide from offices in more than 30 countries. The bank and its subsidiaries have 59,549 employees on a full-time equivalent basis worldwide. The delivery network includes 2,118 branches and service delivery units, and 4,486 automated banking machines.

**RBC Banking** – The personal & commercial banking segment provides banking and financial services to individuals, small and medium-sized businesses and mid-market commercial clients. The segment is structured geographically:

- In Canada, RBC Banking operates under the brand name RBC Royal Bank;
- In the United States, RBC Banking operates through RBC Centura Bank ("RBC Centura"), RBC Mortgage and RBC Builder Finance. RBC Centura is a Rocky Mount, North Carolina-based bank focused on personal and commercial markets in the Southeastern U.S. RBC Mortgage is a Chicago-based national retail mortgage originator, while RBC Builder Finance provides financing to home builders and developers;
- In the Caribbean and Bahamas, RBC Banking operates through RBC Royal Bank of Canada;
- RBC Banking also includes RBC Technology Ventures Inc, a strategic investment arm specializing in seed and early stage capital in selected high growth, emerging sectors in North America.

RBC Banking delivers services through approximately 1,117 branches in Canada, 245 in the U.S. (through RBC Centura), and 43 in the Caribbean; approximately 4,486 automated banking machines, of which approximately 275 are in the U.S., and 60 are in the Caribbean; as well as via telephone and the Internet. The segment employs over 35,000 people on a full-time equivalent basis (FTE), plus a mobile sales staff of over 700 mortgage representatives and 550 investment retirement planners.

The personal & commercial banking business delivers a wide range of financial services including deposit accounts, investments and mutual funds, credit and debit cards, business and personal loans, and residential and commercial mortgages, all supported by financial advice.

In August 2002, RBC Centura and Admiralty Bancorp, Inc., a Florida-based financial holding company, announced a definitive merger agreement. The acquisition is subject to regulatory approvals, approvals by Admiralty shareholders, and other customary closing conditions. In July 2002, RBC Centura completed the acquisition of Eagle Bancshares, Inc. and its subsidiary, Tucker Federal Bank, based in the Atlanta, Georgia metropolitan area. In June 2002, RBC Centura completed the conversion of the Largo, Florida and Atlanta, Georgia offices of Security First Network Bank into full service RBC Centura bank branches. In June 2001, the bank acquired Centura Banks, Inc. for US\$2.2 billion. In April 2000, the bank acquired Prism Financial, a mortgage origination company for US\$115 million.

The following are the principal RBC Financial Group companies that provide products and services under the RBC Banking brand: Royal Bank of Canada, Royal Bank Mortgage Corporation, Royal Mutual Funds Inc., RBC Centura Bank, RBC Mortgage Company, Finance Corporation of Bahamas Limited (“FINCO”), RBC Technology Ventures Inc.

**RBC Insurance** - The insurance segment provides a wide range of creditor, life, health, travel, home, auto and reinsurance products and services to more than five million clients in Canada, the U.S. and internationally. The segment is structured as follows:

- RBC Life Insurance Company - offers individual and group life and health insurance solutions through more than 7,000 independent brokers and over 550 career sales representatives;
- RBC General Insurance Company - offers home and auto insurance products through direct sales channels as well as employee and affinity plans;
- RBC Travel Insurance Company and Assured Assistance Inc. - provide travel insurance products and services through a network of over 4,000 travel agencies, as well as over the Internet and through bank channels;
- RBC Reinsurance (Ireland) Limited and Royal Bank of Canada Insurance Company Ltd. - offer a wide range of life reinsurance and retrocession, property and structured reinsurance to business clients around the world;
- Liberty Life Insurance Company and Liberty Insurance Services Corporation (“RBC Liberty Insurance and Genelco”) are Greenville, South Carolina-based companies that provide innovative personal insurance solutions designed to help clients achieve financial goals. RBC Liberty Insurance also offers a full spectrum of administration and outsourcing as well as software solutions to the insurance and financial services industry.

In April 2002, RBC Insurance announced an agreement to acquire certain assets of the Generali Group, a Trieste, Italy-based insurer, for approximately US\$220 million. These assets comprise the operations of Business Men’s Assurance Company of America (BMA) and include an in force block of approximately 150,000 traditional life insurance policies and annuities as well as the infrastructure for manufacturing variable insurance products. The acquisition is subject to regulatory approvals and other customary closing conditions. In September 2001, RBC Insurance

sold the State National Fire Insurance Company which had been acquired as part of the purchase of Liberty Life Insurance Company and Liberty Insurance Services Corporation. In November 2000, the purchase of Liberty Life Insurance Company and Liberty Insurance Services Corporation closed. Also in November 2000, Liberty Insurance Services Corporation acquired certain assets of Genelco Incorporated of St. Louis, Missouri, a software technology and outsourcing service provider for the insurance industry.

The following are the principal RBC Financial Group companies that provide products and services under the RBC Insurance brand: RBC Life Insurance Company, Liberty Life Insurance Company, Royal Bank of Canada Insurance Company Ltd., RBC General Insurance Company, RBC Travel Insurance Company, Liberty Insurance Services Corporation, RBC Reinsurance (Ireland) Limited.

**RBC Investments** – The wealth management segment focuses on the investment needs of private clients, high net worth individuals and families, small businesses and entrepreneurs. Three distribution brand names are used by this segment:

- In Canada, RBC Investments is the brand name used by RBC Investments Financial Planning, and the Canadian & International Brokerage Group businesses:

RBC Investments Financial Planning is a business operated jointly with the personal and commercial banking platform. This team serves domestic branch-based clients with more than \$50,000 in investable assets of which a portion must include mutual funds or managed products. Financial Planning has 1,100 relationship financial planners and 550 commission-based investment and retirement planners who are also financial planners and licensed mutual funds sales people.

The Canadian & International Brokerage Group is made up of three businesses: (1) the Canadian private client division is the retail full service brokerage arm, and has over 1,420 investment advisors and \$93 billion in assets under administration across Canada. The private client division is the largest full service brokerage firm in Canada, based on assets under administration. (2) RBC Action Direct, is the second-largest Canadian self-directed brokerage service as measured by number of accounts. Currently, 79% of all trades are processed through electronic channels. (3) The group also includes the International Advisory Group, which has both Canadian and international-based employees serving international clients.

- In the United States, RBC Dain Rauscher is the brand name used. RBC Dain Rauscher is the ninth largest full-service securities firm in the U.S., with nearly 2,000 financial consultants from coast to coast. It provides affluent private clients in chosen markets with personalized comprehensive financial solutions. RBC Dain Rauscher also provides fixed income investment, financing, and strategic solutions, as well as asset management and correspondent brokerage services.
- Internationally, Royal Bank of Canada Global Private Banking is the brand name used. Global Private Banking provides private banking, trust, investment advisory, and investment counselling solutions to high net worth clients in more than 100 countries. During 2002, this business included the Canadian operations of RBC Private Counsel, private banking, and personal trust. This group provided international solutions to high net worth clients in

Canada and around the world, as well as investment counselling, advisory, private banking, and trust services in an integrated fashion from over 30 offices around the world.

In September 2002, RBC Investments realigned part of the Canadian distribution channels under a single management structure, and created the Canadian Wealth Management Group. Starting fiscal 2003, the Canadian Wealth Management Group will include the businesses of the Canadian & International Brokerage Group (the private client division, RBC Action Direct, the International Advisory Group), and the Canadian operations of RBC Private Counsel, private banking, and personal trust.

In addition to the distribution businesses above, RBC Investments also provides investment management products and services primarily through RBC Global Asset Management. Global Asset Management manages over \$40 billion of assets in mutual and pooled funds and other client assets. It provides proprietary and externally managed investment management products and advisory services to private and institutional clients in Canada and worldwide through RBC Investments' distribution businesses, RBC Royal Bank's domestic sales force and external distributors. RBC Funds Inc., the largest business unit within Global Asset Management, is Canada's second largest mutual fund company measured by assets under management. Broadening the channels of distribution over the last two years has contributed to an increase of approximately 12% in the market share of this business.

The private banking business of Barclays Bank PLC in the Americas was purchased in June 2002. With offices in New York and Miami, the acquisition increases RBC's client base in the region by approximately 10% and adds US\$2.9 billion of client assets consisting of discretionary investment management, investment advisory, trust and banking services. In October 2001, Tucker Anthony Sutro was purchased for US\$594 million, and was integrated into RBC Dain Rauscher in the spring of 2002. Dain Rauscher was acquired for US\$1.2 billion in January 2001.

The following are the principal RBC Financial Group companies that provide products and services under the RBC Investments brand: Royal Bank of Canada, Royal Trust Corporation of Canada, The Royal Trust Company, RBC Dominion Securities Inc., RBC Dain Rauscher Inc., RBC Action Direct Inc., RBC Funds Inc., Royal Bank of Canada (Channel Islands) Limited, Royal Bank of Canada Trust Company (Jersey), Royal Bank of Canada Fund Managers (Jersey) Limited., RBC Trustees (Guernsey), Limited, RBC Global Investment Management Inc.

**RBC Capital Markets** – The corporate and investment banking segment provides wholesale financial services to large corporate, government and institutional clients in North America and in specialized product and industry sectors globally. The segment has five operating divisions:

- Capital Markets Services – the division was formed in November 2001, by combining the equity research, sales and trading businesses with the corporate and investment banking businesses. The unit offers a full range of credit and corporate finance products, including debt and equity underwriting, mergers and acquisitions advice and execution and expertise in research and equity sales and trading activities. The division is organized along North American industry sectors and offers expertise in the energy, technology, communications, health care, consumer products, and mid-size financial institutions sectors.
- Global Financial Products – this division was formed in November 2001 to address the

continuing convergence of financial products available to clients. Its formation brought together the business activities involving the origination, syndication, securitization, trading and distribution of debt products globally. These products include loans, bonds and derivatives at both the investment grade and sub-investment grade levels. As well, Global Financial Products provides the ability to maximize internal expertise and deliver a broad array of value-added ideas and solutions to clients.

- Global Treasury Services - combines the money markets and foreign exchange businesses and provides global clients with foreign exchange, commodities, derivatives and interest rate products, as well as currency risk management and advisory services. These products and services are delivered through an extensive global sales and trading network, operating from global centres that include Toronto, London and New York. Global Treasury Services also deliver services through its Internet trading platform, FX Direct, and is a member of the multi-bank global trading platform, FXall.
- Global Credit - provides for the centralized management of all credit exposure associated with RBC Capital Markets' loan portfolio. While wholesale lending is fundamental to the attraction and expansion of high-margin client business, lending must also be strategic in order to maximize the returns to shareholders. Global Credit's portfolio and transaction management specialists use sophisticated risk management and analytical tools to ensure the pricing on loans is commensurate with the associated risk and reflects the value of all products and services a client has with RBC Financial Group.
- Alternative Investments was formed in June 2002 with a mandate to expand its wholesale asset management capabilities, which today include operations in hedge funds and private equity. The alternative asset business provides non-traditional investment opportunities to high net worth individuals, corporations and institutional clients. These investment options include private equity and hedge funds, both flagship products of RBC Capital Markets, and can extend to other vehicles such as leveraged buyouts, collateralized debt obligations and managed futures.

This segment is headquartered in Toronto and services its clients through a network of 30 offices worldwide, which includes key centres of expertise in Minneapolis, New York and London.

The following are the principal RBC Financial Group companies that provide products and services under the RBC Capital Markets brand: Royal Bank of Canada, RBC Dominion Securities Inc., RBC Dominion Securities Corporation, RBC Dain Rauscher Corp., Royal Bank of Canada (Europe) Ltd., RBC Alternative Assets, L.P, RBC Capital Partners Limited, Royal Bank of Canada (Caribbean) Corporation.

**RBC Global Services** - The transaction processing segment offers specialized transaction processing services to business, commercial, corporate, and institutional clients in domestic and selected international markets. Key businesses include investment administration, correspondent banking, cash management, payments and trade finance. The 50% interest in the Moneris Solutions joint venture with the Bank of Montreal for merchant card processing is reported under RBC Global Services. Also part of the segment is an Australian subsidiary, which was acquired in July 2001. There are three business units in the segment:

- Institutional and Investor Services – delivers custodial, trusteeship and pension services to

corporate and institutional investors using a global sales force. Institutional & Investor Services is Canada's largest custodian and the 12th largest custodian globally as measured by assets under administration. It operates from 13 locations throughout the world, with a global custody network spanning 80 markets.

- Financial Institutions - offers a comprehensive range of correspondent banking services to banks globally, and to broker-dealers within Canada. These services include cash management, payments, clearings, trade, foreign exchange, derivatives lending, securities lending, custody and settlement, and structured financing. Financial Institutions manages over 1,500 bank relationships around the world.
- Treasury Management & Trade - provides cash management services to the small and medium enterprise, commercial, corporate and public sector segments across Canada using specialized sales teams. These clients are offered a comprehensive suite of collection, disbursement and information-based electronic solutions to optimize their cash flow requirements, increasingly focused on Web-based technology. Trade related products, services and counsel are also provided to Canadian and international clients to assist them in the conduct of their import and export operations domestically and around the globe.

The following are the principal RBC Financial Group companies that provide products and services under the RBC Global Services brand: Royal Bank of Canada, Royal Trust Corporation of Canada, The Royal Trust Company, RBC Global Services Australia Pty Limited.

**Competition** - As the bank has entered and expanded into new lines of business, its competition has grown to include not only other banks, but also investment dealers, discount brokers, mutual fund companies, money managers, custody service providers, insurance companies, virtual banks and specialty financial service providers. Key competitive factors include the range and features of financial products, their pricing, distribution and service quality. Competition has intensified over the years as foreign providers of credit cards, mutual funds, small business loans, consumer finance and investment banking services have increasingly entered Canada.

The competitive landscape of the Canadian financial services industry consists of over 2,100 institutions, including the 'Big Six' Schedule I banks, of which the bank is one, about 25 independent trust companies, 33 foreign-owned bank subsidiaries, 20 foreign bank branches, almost 1700 credit unions and caisses populaires, 100 life insurance companies, 230 property & casualty insurers, about 150 independent investment dealers and over 55 independent retail mutual fund management companies.

In this competitive environment, the bank has the number one or number two market shares in most businesses in Canada. For example, in personal and commercial banking, its market share of residential mortgages and business loan balances were 14.94% and 12.65% respectively, at August 31, 2002 - the highest in Canada. In wealth management, the bank has the leading full service brokerage operation (by assets), and the second largest Canadian self-directed broker, RBC Action Direct, as measured by number of accounts. The bank ranks second in mutual funds among all providers in Canada and first among banks, as measured by assets under management, with net assets of over \$34 billion as of September 30, 2002. The insurance operation is one of the top ten life insurance producers in Canada as measured by new individual policies issued, and is also Canada's



largest travel insurer based on premiums. In corporate and investment banking, RBC Capital Markets is a leading mergers & acquisitions advisor in Canada with transactions in excess of US\$12.4 billion for the first nine months of calendar 2002, and its foreign exchange business is ranked among the top 10 in the world by reported revenues. The bank's transaction processing segment has the largest Canadian custody operations in Canada, as measured by assets under administration.

While the bank's presence in the U.S. is small, it believes the opportunities for growth are significant. Structurally, the U.S. financial services industry is fragmented, comprised of a number of monoline service providers, although the environment is also extremely competitive, dominated by both global players and niche companies. Increasingly, new business opportunities will accrue to those firms with a reputation for upholding and adhering to the highest ethical standards.

In retail banking, RBC Centura is ranked sixth by deposits in North Carolina, and ninth within its state banking footprint (North Carolina, South Carolina, Virginia, Georgia). RBC Liberty Insurance is the largest South Carolina-domiciled life insurer and the fifth largest individual insurer in the state. RBC Dain Rauscher is the ninth largest full service securities firm in the U.S. as measured by number of brokers, and RBC Capital Markets has an established reputation in corporate and investment banking.

**General development of the business -** In the last three years, the bank has re-aligned itself, focusing on those areas that promise high growth and strong returns. To enhance the various platforms and further diversify its operations, the bank has expanded into new geographic areas, upgraded its technologies and delivery channels, divested unprofitable businesses, and evolved new ways of doing business to meet the needs of clients.

The most significant development in the bank's business has been the U.S. acquisition strategy. In 2000, the bank added North American expansion as a key strategic priority. The bank looked to international markets to grow given its substantial market share domestically, and limited future growth in Canada. The U.S. is the most logical market in which to expand – it is the largest global economy, a contiguous region, has similar culture and language to Canada, and its banking sector offers good growth potential. Since the spring of 2000, 10 U.S. acquisitions in 4 business platforms have been made. These acquisitions have increased the bank's total customer base by approximately 2.3 million or 23% in 30 months, and contributed \$3.2 billion, or 21%, of total revenues from \$1.7 billion, or 12%, in 2001.

Summarized in the following table are the bank's major U.S. and other acquisitions over the past three years:

| BUSINESS        | ACQUISITION   | KEY CHARACTERISTICS (1)   |
|-----------------|---|---|
| RBC Banking     | Admiralty Bancorp, Inc (announced 2002)   | <ul style="list-style-type: none"> <li>▪ Purchase price of US\$150 million cash. (The acquisition is subject to regulatory approvals, approvals by shareholders of Admiralty and other customary closing conditions)</li> <li>▪ Contiguous expansion of RBC Centura in southeast U.S.</li> <li>▪ Expanded into attractive, high-growth Florida market</li> <li>▪ US\$578 million in assets, US\$527 million in deposits and 17,500 accounts at time of purchase</li> </ul>                        |
|                 | Eagle Bancshares, Inc (2002)  | <ul style="list-style-type: none"> <li>▪ Paid US\$149 million cash</li> <li>▪ Expansion of RBC Centura in south-eastern U.S.</li> <li>▪ Expanded into attractive, high growth Atlanta market</li> <li>▪ Acquired \$1.1 billion in assets, \$0.8 billion in deposits and 90,000 accounts at time of purchase</li> </ul>  |
|                 | Centura Banks, Inc. (2001)  | <ul style="list-style-type: none"> <li>▪ Paid US\$2.2 billion in bank common shares. Exchange ratio: 1.684 bank common share for each Centura Banks, Inc. common share</li> <li>▪ Provided strong foothold in attractive higher growth south-eastern U.S. market</li> <li>▪ 14<sup>th</sup> largest bank by deposits in the south-eastern U.S. at time of purchase</li> <li>▪ Acquired US\$13.5 billion in assets, US\$7.4 billion in deposits and 650,000 clients at time of purchase</li> </ul> |
|                 | Bank One Corporation – Canadian retail credit card business (2000)  | <ul style="list-style-type: none"> <li>▪ Opportunity to strengthen cardholder base</li> </ul>   |
|                 | Prism Financial Corporation (2000)  | <ul style="list-style-type: none"> <li>▪ Paid US\$115 million cash</li> <li>▪ Niche entry in U.S. residential mortgage origination business</li> <li>▪ Large experienced sales force</li> <li>▪ Operated through over 150 branches in more than 25 states at time of purchase</li> <li>▪ An entrepreneurial company with a successful Internet strategy and a strong focus on private labelling their products to leverage recognized brands</li> <li>▪ Strong cost management focus</li> </ul>   |
| RBC Insurance   | Business Men's Assurance Company of America - U.S. variable life insurance business (announced 2002)  | <ul style="list-style-type: none"> <li>▪ Along with the mutual fund company, Jones &amp; Babson, total consideration expected to be US\$220 million. (The acquisition is subject to regulatory approvals, approvals by shareholders, and other customary closing conditions)</li> <li>▪ Will leverage RBC Liberty Insurance's outsourcing and administration capability and also builds on the cross platform capability for wealth management products</li> </ul>                                |
|                 | Genelco Incorporated – Certain Assets Purchased (2001)  | <ul style="list-style-type: none"> <li>▪ Certain software and outsourcing assets purchased (amount not disclosed) by Liberty Insurance Services Corporation</li> <li>▪ The assets brought new third party administration expertise to the variable life and variable annuity markets</li> </ul>   |
|                 | Liberty Life Insurance Company and Liberty Insurance Services Corporation (2001)  | <ul style="list-style-type: none"> <li>▪ Paid US\$580 million cash</li> <li>▪ Established brand in south-eastern U.S. market</li> <li>▪ Agency, direct and third party administration businesses</li> <li>▪ U.S. platform to expand into other forms of insurance and distribution</li> </ul>   |
|                 | Prudential of America Life Insurance Co. (Canada) – Canadian individual life insurance and annuity business and 15% interest in PPI Partners (2000) | <ul style="list-style-type: none"> <li>▪ \$130 million in annual premiums (1999)</li> <li>▪ Increased RBC Insurance's premiums by approximately 15% to over \$1 billion at time of purchase</li> <li>▪ Predominantly high net worth clients at time of purchase</li> <li>▪ Excellent fit with the bank's wealth management focus</li> </ul>   |
| RBC Investments | Barclays' private banking operations in the Americas (2002)   | <ul style="list-style-type: none"> <li>▪ Net purchase price up to US\$90 million, dependent in part on client transfers and retention</li> <li>▪ Offices in New York, and Miami complement existing RBC Global Private Banking offices</li> <li>▪ Approximately 850 client relationships, US\$2.9 billion in client assets and US\$30 million in revenues at time of purchase</li> </ul>  |
|                 | Jones & Babson Inc (Business Men's Assurance's Mutual Fund company) (announced 2002)  | <ul style="list-style-type: none"> <li>▪ Mutual Fund Company. Along with the U.S. direct life insurance operations, total consideration expected to be U.S. \$220 million. (The acquisition is subject to regulatory and shareholder approval, and other customary closing conditions)</li> <li>▪ Builds cross platform capability for wealth management products</li> </ul>  |

| BUSINESS                   | ACQUISITION   | KEY CHARACTERISTICS (1)  |
|----------------------------|---|--|
| <b>RBC Investments</b>     | Tucker Anthony Sutro Corporation (2001)   | <ul style="list-style-type: none"> <li>▪ Paid US\$594 million cash</li> <li>▪ At time of purchase, 300,000 accounts, 990 Investment Advisors, US\$48 billion assets under administration</li> <li>▪ Combined with RBC Dain Rauscher created 9<sup>th</sup> largest full service broker</li> </ul>  |
|                            | Dain Rauscher Corporation (2001)  | <ul style="list-style-type: none"> <li>▪ US\$1.227 billion paid for entire company, i.e. for retail brokerage and investment banking businesses</li> <li>▪ Doubled size of North American full-service brokerage operation</li> <li>▪ US\$62 billion in client assets under administration (Private Client Group) at time of purchase</li> <li>▪ 500,000 active customer accounts in 21 states in the U.S. at time of purchase</li> </ul>  |
|                            | Ernst & Young– private client trust business in Jersey (2000)                             | <ul style="list-style-type: none"> <li>▪ \$14 billion in client assets under administration at time of purchase</li> <li>▪ 4,000 clients over a diversified geographic area</li> <li>▪ 17 E&amp;Y partners brought wealth of experience and international trust and taxation expertise</li> <li>▪ Substantial revenue synergies</li> </ul>   |
|                            | Ernst & Young – private client trust and fiduciary services businesses in Guernsey (1999) | <ul style="list-style-type: none"> <li>▪ \$3.7 billion in client assets under administration</li> <li>▪ 1,650 clients largely based in the U.K., Continental Europe, Southern Africa at time of purchase</li> </ul>  |
|                            | Hartleys Limited (1998) (previously named Hartley Poynton)                                | <ul style="list-style-type: none"> <li>▪ Currently 28.7% stake in Australian broker</li> <li>▪ Expanded international presence in wealth management</li> <li>▪ Online investing capability</li> </ul>  |
| <b>RBC Capital Markets</b> | Dain Rauscher Wessels (2001)  | <ul style="list-style-type: none"> <li>▪ Enhanced RBC Capital Markets' ability to serve domestic clients in U.S. market</li> <li>▪ Provided stronger U.S. equity origination &amp; distribution</li> <li>▪ Expanded focused coverage in health care, mid-sized financial institutions and consumer services sectors</li> <li>▪ Enabled RBC Capital Markets to leverage its U.S. capabilities in high yield, corporate banking, M&amp;A, treasury and derivative products across a broader customer base</li> </ul> |
| <b>RBC Global Services</b> | Perpetual Fund Services (2001)  | <ul style="list-style-type: none"> <li>▪ One of Australia's largest providers of outsourced back-office administration to fund managers</li> <li>▪ Client assets under administration of \$61 billion and annual revenue of approximately \$30 million at time of purchase</li> </ul>  |

(1) At time of acquisition

Outside North America, the bank will focus only on those businesses where it is strong globally, has a competitive advantage, and can generate attractive returns. Examples of these businesses are global custody, global private banking, and foreign exchange. The bank will also look for opportunities to expand through a combination of internal growth, partnerships and niche acquisitions, and is committed to growing profitable relationships by using the expertise it has developed in customer relationship management, data warehousing and predictive modeling.

Technological change is also making market entry and success possible from a distance, with large-scale physical presence increasingly relevant to market penetration. Technological advancements play a key role in the development of the bank's businesses. The number of clients using electronic channels continues to increase with the number of Canadian online clients up to 2,310,000 from just 530,000 in 1999. As transaction activity shifts from the physical channels to electronic, the bank's branches have evolved to become sales outlets, with a greater focus on relationship building and advice than on transaction. New service delivery options such as in-store branches and mobile bankers offer greater flexibility to clients and reflect their changing needs and preferences. Significant investments in new technology are required to keep pace with customer needs and to support new growth opportunities.

## **GOVERNMENT SUPERVISION AND REGULATION – CANADA**

**Supervision and regulation** - The bank and its Canadian trust and loan subsidiaries and insurance subsidiaries are federally regulated financial institutions governed by the Bank Act (Canada), Trust and Loan Companies Act (Canada) and Insurance Companies Act (Canada).

The Superintendent of Financial Institutions (Canada) (the "Superintendent") is responsible to the Minister of Finance (Canada) (the "Minister") for the supervision of the bank and its Canadian loan and trust company and insurance subsidiaries. The Superintendent must, at least once a year, examine the affairs and business of each institution for the purpose of determining whether statutory requirements are duly observed and the institution is in sound financial condition, and report to the Minister. Federally regulated financial institutions must make periodic reports to the Minister and the Bank of Canada.

Where the Superintendent is concerned about an unsafe course of conduct or an unsound practice in conducting the business of an institution, the Superintendent may direct the institution to refrain from a course of action or to perform acts necessary to remedy the situation. The Superintendent may, in certain circumstances, take control of the assets of an institution.

Under the Financial Consumer Agency of Canada Act (the "FCAC Act") enacted in 2001, the Financial Consumer Agency of Canada (the "Agency") enforces consumer-related provisions of the federal statutes which govern financial institutions. "Consumer provisions" include Bank Act and Trust and Loan Companies Act provisions dealing with customer complaint procedures, notice requirements regarding Canada Deposit Insurance Corporation insurance, notice requirements for branch closure and disclosure obligations regarding borrowing, deposits and account charges. The bank is required to offer basic banking services, including low-cost accounts and government cheque cashing services to individuals meeting certain prescribed conditions.

The Commissioner of the Agency (the "Commissioner") has the duty to examine federal financial institutions to ensure compliance with consumer provisions which apply to them. The Commissioner has the power to issue notices of violation and to compel the disclosure of personal information necessary to ensure compliance. In addition, the Commissioner may carry on any activity in furtherance of public awareness.

The Commissioner must report to the Minister on all matters connected with the administration of the FCAC Act and consumer provisions of other federal statutes, including the Bank Act (Canada), Trust and Loan Companies Act (Canada) and Insurance Companies Act (Canada).

The activities of the bank's trust and loan subsidiaries and insurance subsidiaries are also regulated in Canada under provincial laws.

The activities of bank subsidiaries acting as securities brokers, dealers (including investment and mutual fund dealers), underwriters and advisors (including investment counsel and portfolio

managers) are regulated in Canada under provincial securities laws and, in some cases, by the Investment Dealers Association.

Royal Bank of Canada, Royal Trust Corporation of Canada, The Royal Trust Company and Royal Bank Mortgage Corporation are member institutions of the Canada Deposit Insurance Corporation (the “CDIC”). The CDIC insures certain “deposits” (as defined in Schedule 2 to the CDIC Act) held at the member institutions.

The CDIC has adopted by-laws for its member institutions, including those establishing Standards of Sound Business and Financial Practices. These require the board and senior management to establish objectives in respect of the strategic management of the business, to evaluate the financial results, and to have developed understanding of, and processes to deal with, the risks inherent in the business, including those in relation to liquidity and funding, capital management, internal control and audit. Processes are also required to mitigate credit, market, structural, fiduciary and operational risk. Senior management and directors must acknowledge their responsibilities in that regard and attest to the institution’s ability to meet such standards in its operations. An institution’s boards of directors must approve a ‘standards report’ required to be filed with CDIC.

The level of premiums and the frequency of the filing of reports with the CDIC is linked to the classification of the member institution under the CDIC Differential Premiums By-Law. Under the By-law, each member institution is classified in a premium category that is based on a rating of quantitative and qualitative factors and criteria assigned to it by a CDIC examiner. A CDIC member institution is not permitted to disclose CDIC premium rate information, including examiner’s ratings.

**Capital, Liquidity and Dividends** - The bank and its Canadian trust and loan subsidiaries and insurance subsidiaries must maintain, in relation to their operations, adequate capital and adequate and appropriate forms of liquidity and the Superintendent may direct an institution to increase its capital or to provide additional liquidity. Regulatory capital requirements have been implemented through guidelines issued by the Superintendent and, with respect to the bank, are based on standards issued by the Bank for International Settlements.

The directors of the bank may not declare, and the bank may not pay, a dividend if there are reasonable grounds for believing that the payment would cause the bank to be in contravention of any direction of the Superintendent respecting the maintenance of adequate capital and liquidity. A bank may not declare or pay a dividend in any financial year without the approval of the Superintendent if, on the day the dividend is declared, the total of all dividends declared by the bank in that year would exceed the aggregate of the bank's net income up to that day in that year and of its retained net income for the preceding two financial years.

In addition, the bank may not pay dividends on its 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.

The bank has agreed that if RBC Capital Trust (a closed-end trust which is a subsidiary of the bank) fails to pay any indicated distribution on its capital trust securities, the bank will not declare dividends of any kind on any of its preferred or common shares.

The bank's medium-term goals (three to five years) include a dividend payout ratio of 35% to 45%. The dividend payout ratio is common dividends as a percentage of net income after preferred dividends.

Minimum capital requirements for subsidiaries that are broker-dealers, mutual fund dealers and investment advisors in Canada are set by regulations under provincial securities laws. The Investment Dealers Association of Canada also sets minimum capital requirements for the subsidiaries that are broker-dealers in Canada and the Mutual Fund Dealers Association of Canada sets minimum capital requirements for subsidiaries that are mutual fund dealers in Canada.

**Business** - The Bank Act prohibits a bank from engaging in or carrying on any business other than the business of banking and such business generally as appertains to the business of banking. The business of banking includes the provision of any financial service, acting as a financial agent, providing investment counselling services and portfolio management services, issuing payment, credit or charge cards and operating a payment, credit or other charge card plan.

There are limited additional powers that enable a bank to engage in other businesses, including information and data processing. A bank may, outside Canada, or with the prior written approval of the Minister or as permitted by regulations, in Canada, engage in any activities which consist of (1) collecting, manipulating and transmitting (a) information that is primarily financial or economic in nature, (b) information that relates to the business of an entity in which a bank is permitted to hold a substantial investment, or (c) any other information that the Minister may, by order, specify; (2) providing advisory or other services in the design, development or implementation of information management systems; (3) designing, developing or marketing computer software, and (4) designing, developing, manufacturing or selling, as an ancillary activity to any of the foregoing activities, computer equipment integral to the provision of information services related to the business of financial institutions or to the provision of financial services.

A bank may, with the prior written approval of the Minister, develop, design, hold, manage, manufacture, sell or otherwise deal with data transmission systems, information sites, communication devices or information platform or portals that are used (1) to provide information that is primarily financial or economic in nature; (2) to provide information that relates to the business of an entity in which a bank is permitted to make a substantial investment; or (3) for a prescribed purpose or in prescribed circumstances;

**Investments** - The Bank Act provides broad powers to invest in securities, but limits "substantial investments". A "substantial investment" will arise through direct or indirect beneficial ownership of voting shares carrying more than 10% of the voting rights attached to all outstanding voting shares of a body corporate, shares representing more than 25% of the shareholders' equity in a body corporate, or more than 25% of the ownership interests in any other entity.

The directors of the bank and its Canadian trust and loan subsidiaries and insurance subsidiaries must establish, and these federally regulated financial institutions must adhere to, investment and lending policies, standards and procedures that avoid undue risk of loss and achieve a reasonable return.

The Bank Act permits banks to make controlling, and in certain circumstances, non-controlling substantial investments in Canadian banks; trust or loan companies; insurance companies; cooperative credit societies; entities primarily engaged in dealing in securities (including investment counselling and portfolio management); in foreign entities which are primarily engaged outside Canada in a business that if carried on in Canada would be the business of banking, the business of a cooperative credit society, the business of insurance, the business of providing fiduciary services or the business of dealing in securities; and in factoring; finance; financial leasing; specialized financing and financial holding entities. The Bank Act also permits substantial investments, in some cases only with the approval of the Minister or the Superintendent, in information services, investment counselling and portfolio management, mutual fund, mutual fund distribution, real property brokerage, real property and service entities.

**Share ownership and voting restrictions** - The Bank Act prohibits any person from having a "significant interest" in any class of shares of the bank, that is, from beneficially owning more than 10% of the outstanding shares of the class either directly or through controlled entities, without the approval of the Minister. A person may, with the approval of the Minister beneficially own up to 20% of a class of voting shares and up to 30% of a class on non-voting shares of the bank, subject to a "fit and proper" test based on the character and integrity of the applicant. In addition, the holder of such a significant interest could not have "control in fact" of the bank, to be determined in accordance with guidelines to be issued by the Minister.

The Bank Act prohibits voting of shares beneficially owned (directly or through controlled entities) by a person who acquired a significant interest in any class of shares of the bank without the approval of the Minister, and the voting of shares that are subject to an agreement entered into by such a person (or a controlled entity) relating to the exercise of voting rights. It also prohibits voting of shares beneficially owned (directly or through controlled entities) by a person who has significant interest in any class of shares of the bank and who has a significant interest in any class of shares of another "widely held" bank that is listed in Schedule I or II of the Bank Act and has equity of \$5 billion or more.

The Bank Act prohibits the registration of a transfer or issue of any shares of the bank to Her Majesty in right of Canada or of a province or any agent or agency of Her Majesty in either of those rights, or to the government of a foreign country or any political subdivision of a foreign country, or any agent or agency of a foreign government.

The Bank Act prohibits any person from exercising voting rights attached to shares beneficially owned by Her Majesty in right of Canada or of a province or any agency of Her Majesty in either of those rights, or by the government of a foreign country, or any political subdivision or agency thereof.

**Money laundering and anti-terrorism legislation** - In June 2000, Canada enacted the Proceeds of Crime (Money Laundering) Act to implement measures to assist in detecting and deterring money laundering and facilitate the investigation of money laundering offences. The Act and associated regulations impose reporting, record keeping and "know your customer" obligations on certain financial entities, including securities dealers and insurance companies. Under the regulations currently in force, financial entities must report to FinTRAC, an agency formed under the auspices of the Minister of Finance, any transaction which they have reason to suspect relates to the commission of a money laundering offence (and, post-September 2001, a terrorist financing activity offence) and cross-border wire transfers over a certain threshold. As well, these financial entities are required to verify their customers' identities, using prescribed measures, and to retain defined customer records for prescribed periods. Additional regulations will come into force in early 2003 to require reporting of certain large cash transactions, cross-border currency transactions and cross-border electronic funds transfers.

In addition, in response to the events of September 2001, the Canadian Criminal Code was amended to prohibit financial institutions (among many others) from knowingly dealing in property of, or providing financial services to, persons listed in regulations adopted under the Code or others known to be involved in terrorist activity. The Code also requires financial institutions to search their customer records periodically and report to their Canadian regulators and Canadian law enforcement agencies as to whether they have identified any accounts or property of a listed person.

The bank and its affected subsidiaries have established appropriate policies and processes to ensure compliance with existing anti-money laundering and anti-terrorism regulatory requirements and, in anticipation of the regulations expected in 2003, have plans to augment their compliance regimes as required.

## **GOVERNMENT SUPERVISION AND REGULATION – UNITED STATES**

**U.S. Banking Regulation of the bank and its subsidiaries** - The bank's operations in the U.S. are regulated under U.S. federal and state law.

The bank's New York branches are licensed and supervised as federal branches by the Office of the Comptroller of the Currency (the "Comptroller"). In general, such a branch can exercise the same rights and privileges, and is subject to the same restrictions, as would apply to a national bank at the same location. As a foreign bank in the U.S., the bank's New York branches may not take domestic retail deposits and their deposits are not insured by the Federal Deposit Insurance Corporation ("FDIC").

The bank's agency in Miami is licensed and supervised by the state of Florida. An agency of a foreign bank in the U.S. may not take deposits from U.S. persons. The bank's Houston representative office is licensed and regulated by the state of Texas. The bank's Connecticut representative office is licensed and regulated by the state of Connecticut. Representative offices are limited in their activities and may not take deposits or make loans.

The Comptroller and the state regulators of Florida, Texas and Connecticut can examine and



supervise the activities of the bank at its various offices in the U.S. Such examination authority may include annual assessments on the operations of the bank to fund the regulators' operations. In addition, the bank is required to maintain certain liquid assets on deposit and pledged to the appropriate regulators based on the amount of branch or agency assets of the bank in each state location. Furthermore, the bank is subject to supervisory guidance based on examinations at its U.S. offices and the examiners' assessment of risk management, operational controls, compliance and asset quality of the bank's U.S. offices. The bank may also be subject to prudential guidance regarding the amount of U.S. deposited funds it may repatriate to Canada for funding of the entirety of the bank.

Under the International Banking Act of 1978 (the "IBA"), all the operations of the bank in the U.S. are also subject to supervision and regulation by the Board of Governors of the Federal Reserve ("the Federal Reserve"). Under the IBA, the bank may not open any branch, agency or representative office in the U.S., or acquire more than 5% of the voting stock of any U.S. bank or bank holding company, without the prior approval of the Federal Reserve.

The bank can establish or acquire full branches outside its home state of New York only if the other state expressly permits such branches to be established or acquired by an out-of-state U.S. bank. However, as with all branches of foreign banks in the U.S., such branches may not engage in retail deposit-taking or obtain FDIC insurance.

Effective on March 11, 2000, The Gramm-Leach-Bliley Act:

- allows bank holding companies and foreign banks that qualify as financial holding companies to engage in a substantially broader range of non-banking activities than previously permissible, including insurance underwriting, securities underwriting and dealing and making merchant banking investments;
- allows insurers and other financial services companies to acquire banks; and
- removes various restrictions that previously applied to bank holding company ownership of securities firms and mutual fund advisory companies.

To qualify as a financial holding company a non-U.S. bank with a branch or agency in the U.S. must meet certain capital requirements and must be deemed to be "well managed" for U.S. bank regulatory purposes.

The capital requirements are set forth in Federal Reserve regulations, and provide that for a non-U.S. bank from a country that has adopted the capital standards issued by the Bank for International Settlements ("BIS") to qualify to be a financial holding company, the general requirements are a minimum Tier 1 risk-based capital ratio of 6% and a Total risk-based capital ratio of 10%, all calculated according to home country rules. The bank's home country capital strength rules are based on standards issued by the BIS. In addition, the non-U.S. bank's capital must be "comparable" to that required of a U.S. depository institution subsidiary of a financial holding company. The Federal Reserve regulations also provide that a non-U.S. bank that does not meet the above numerical requirements at the non-U.S. bank level may seek a determination that its capital is

comparable to that required of a U.S. depository institution subsidiary of a financial holding company. In addition, each U.S. depository institution subsidiary of the non-U.S. bank, such as RBC Centura Bank, must meet minimum ratios of 5% for Tier 1 leverage, 6% for Tier 1 risk-based capital and 10% for Total risk-based capital, and no U.S. depository institution subsidiary may be subject to a regulatory order to maintain a specified level of capital. Both the bank and RBC Centura Bank were deemed to be “well capitalized” as of October 31, 2002.

For a non-U.S. bank to be deemed to be "well managed" for U.S. bank regulatory purposes, each of its U.S. branches and agencies must have received a "satisfactory" composite regulatory rating in its last examination, the bank's home country supervisor must consider its overall operations to be satisfactory and the bank's management must meet standards comparable to those required of a U.S. bank subsidiary of a financial holding company. In addition, each U.S. depository institution subsidiary of the non-U.S. bank must be deemed to be "well managed", which requires both a "satisfactory" composite regulatory rating and a satisfactory rating on the "management" component, both in its last examination. Finally, in addition, each U.S. depository institution subsidiary must have at least a “satisfactory” rating under the Community Reinvestment Act.

The bank’s declaration to become a financial holding company became effective on March 13, 2000 and remains effective.

As a financial holding company, the bank may conduct, or acquire a company (other than a U.S. depository institution or foreign bank) engaged in, activities that are “financial in nature,” as well as additional activities that the Federal Reserve determines (in the case of incidental activities, in conjunction with the Department of the Treasury) are incidental or complementary to financial activities, without the prior approval of the Federal Reserve. Under the Gramm-Leach-Bliley Act, activities that are financial in nature include insurance, securities underwriting and dealing, merchant banking, and sponsoring mutual funds and investment companies. Under the new merchant banking authority added by the Gramm-Leach-Bliley Act, financial holding companies may invest in companies that engage in activities that are not otherwise permissible “financial” companies, subject to certain limitations, including that the financial holding company makes the investment with the intention of limiting the investment duration and does not manage the company on a day-to-day basis.

Financial holding companies that do not continue to meet all the requirements for financial holding company status will, depending on which requirement they fail to meet, lose the ability to undertake new activities or acquisitions that are financial in nature or lose not only the ability to undertake such new activities or acquisitions but also the ability to continue those activities that are not generally permissible for bank holding companies. If the bank ceases to so qualify it would be required to obtain the prior approval of the Federal Reserve to engage in non-banking activities in the U.S. or to acquire more than 5% of the voting stock of any company that is engaged in non-banking activities in the U.S. With certain exceptions, the Federal Reserve can only approve applications involving activities it had previously determined, by regulation or order, are so closely related to banking as to be properly incident thereto.

The Gramm-Leach-Bliley Act also modified U.S. law related to financial privacy and community reinvestment. The new financial privacy provisions generally prohibit financial

institutions in the U.S., including RBC Centura Bank, RBC Dominion Securities Corporation, RBC Dain Rauscher Corp., Tucker Anthony Incorporated and Sutro & Co., Inc., from disclosing non-public personal financial information to third parties unless the clients have the opportunity to "opt out" of the disclosure.

RBC Centura Bank was acquired by the bank in June 2001 and is the bank's largest U.S. banking subsidiary. RBC Centura Bank is a North Carolina state chartered bank and is supervised by the Federal Reserve and the North Carolina Office of the Commissioner of Banks (the "NC Commissioner"). RBC Centura Bank's deposits are insured by the FDIC. RBC Centura Bank is subject to capital requirements, dividend restrictions, limitations on investments and subsidiaries, limitations on transactions with affiliates (including RBC and its branches and agencies), deposit reserve requirements and other requirements administered by the Federal Reserve and the NC Commissioner. As a holding company of RBC Centura Bank, the bank is subject to regulation by the Federal Reserve as a bank holding company. As a bank holding company, the bank generally may not acquire more than 5% of the voting shares of a bank or bank holding company without the prior approval of the Federal Reserve.

As a bank holding company and financial holding company, under Federal Reserve policy, RBC is expected to act as a source of strength for, and commit its resources to support, RBC Centura Bank. This support may be required at times when RBC may not be inclined to give it.

RBC Centura Bank is also subject to the Community Reinvestment Act (the "CRA"). Under the CRA, during examinations of the bank, the Federal Reserve or the NC Commissioner is required to assess the bank's record in meeting the credit needs of the communities serviced by RBC Centura Bank, including low- and moderate-income communities. In the case of a bank holding company or financial holding company applying for approval to acquire a bank or bank holding company in the U.S., the Federal Reserve will assess the records of each U.S. bank subsidiary of the applicant holding company, and such records may be the basis for denying an application. Banks are given one of four ratings under the CRA: "outstanding", "satisfactory", "needs to improve" or "substantial noncompliance". RBC Centura Bank is currently "satisfactory rated".

U.S. insured banks are also subject to FDIC insurance assessments, which may depend on the level of capitalization of the bank. The assessment rates may be different for deposits insured under the Bank Insurance Fund maintained by the FDIC and deposits insured under the Savings Association Insurance Fund maintained by the FDIC. RBC Centura Bank maintains deposits insured by both funds. Because of favourable loss experience and a healthy reserve ratio in the insurance funds of the FDIC, well capitalized and well managed banks, including RBC Centura Bank, have in recent years paid no premiums for FDIC insurance. However, a number of factors suggest that, in the near future, even well capitalized and well managed banks may be required to pay premiums on deposit insurance. The amount and impact of such premiums will depend on the outcome of U.S. legislative and regulatory initiatives as well as the insurance fund loss experience and other factors, none of which RBC or RBC Centura Bank is in a position to predict at this time.

RBC Centura Banks, Inc., a holding company subsidiary of RBC and the parent of RBC Centura Bank, is also regulated as a bank holding company and a financial holding company.

**USA Patriot Act** - On October 26, 2001, the United States adopted the USA Patriot Act in response to the events of September 11, 2001. The Act requires U.S. banks and foreign banks with U.S. operations to take certain steps to prevent, detect and report individuals and entities involved in international money laundering and the financing of terrorism. The required actions include verifying the identity of customers, terminating correspondent accounts for foreign "shell banks" and obtaining information about the owners of foreign bank clients and the identity of the foreign bank's agent for service of process in the U.S.

The Act also expands the power of the U.S. government to subpoena foreign banks for records relating to transactions in their U.S. correspondent accounts, including records kept outside the U.S. The Act grants federal courts so-called "long-arm" jurisdiction over a foreign person, including a foreign financial institution, under certain circumstances.

The scope of the Act is being determined, to some degree, by the regulations that are being adopted to implement its provisions. The U.S. Secretary of the Treasury has published interim guidance and certain regulations to implement some portions of the Act, and is expected to propose additional regulations to implement other sections. Although we cannot predict when and in what form these regulations will be adopted, we believe that the cost of compliance with the Act is not likely to be material to us, and that compliance with the Act is not expected to have a material effect on our global operations.

**Transactions with Affiliates** - U.S. Federal laws strictly limit the ability of U.S. banks to engage in certain transactions with affiliates, including their bank holding companies. Such transactions between a bank, such as RBC Centura Bank, and its parent holding company or the nonbank subsidiaries of the holding company are limited to 10% of a bank's capital and surplus and, with respect to such parent company and all such nonbank subsidiaries, to an aggregate of 20% of the bank subsidiary's capital and surplus. Further, loans and extensions of credit generally are required to be secured by eligible collateral in specified amounts. Federal law also requires that all transactions between a bank and its affiliates be on terms as favourable to the bank as transactions with non-affiliates.

On October 31, 2002, the Federal Reserve adopted a new set of regulations, effective April 1, 2003, that will make such limitations applicable to U.S. branches and agencies of foreign banks in their transactions with affiliates engaged in non-credit related insurance underwriting, securities underwriting and dealing, merchant banking and insurance company investment activities. In addition, other regulations already in effect subject transactions between a U.S. branch and agency of a foreign bank and a company held under merchant banking authority to the transaction limitations. Prior to these rules, U.S. branches and agencies of foreign banks, such as the bank's RBC's branches and agencies, had not been subject to the affiliate transaction limitations.

**U.S. Regulation of broker-dealer subsidiaries** - The bank's U.S. broker-dealer subsidiaries are RBC Dominion Securities Corporation, RBC Dain Rauscher Corp., Tucker Anthony Incorporated and Sutro & Co., Inc. All of these broker-dealer subsidiaries are regulated by the U.S. Securities and Exchange Commission, the New York Stock Exchange and the National Association of Securities Dealers.

The bank's registered broker-dealer subsidiaries are subject to the SEC's net capital rule, Rule 15c3-1 (the "Net Capital Rule"), promulgated under the Exchange Act. The Net Capital Rule requires the maintenance of minimum net capital, as defined. Compliance with the Net Capital Rules could limit their operations that require the intensive use of capital, such as underwriting and trading activities and the financing of customer account balances. The Net Capital Rule also limits the ability of broker-dealers to transfer capital to the bank or its affiliates.

**U.S. Insurance – State Regulation - RBC Liberty Insurance** ("Liberty Life Insurance Company and Liberty Insurance Services Corporation"), the bank's U.S. insurance subsidiary ("RBC Liberty Insurance"), is subject to the regulation of the South Carolina Department of Insurance (the "SC Department") and in the various states and jurisdictions in which it transacts business. The SC Department's regulation, supervision and administration relates, among other things, to the standards of solvency that RBC Liberty Insurance must maintain, the licensing of RBC Liberty Insurance and its agents, the lines of insurance in which RBC Liberty Insurance may engage, the nature of and limitations on investments, premium rates, restrictions on the size of risks that may be insured under a single policy, reserves and provisions for unearned premiums, losses and other obligations, deposits of securities for the benefit of policyholders, approval of policy forms and the regulation of market conduct including the use of credit information in underwriting as well as other underwriting and claims practices. The SC Department also periodically examines the affairs of RBC Liberty Insurance and require RBC Liberty Insurance to file annual and other reports relating to its financial condition and other matters.

Although the bank is not regulated as an insurance company, it is the owner, through its subsidiary RBC Insurance, of the capital stock of RBC Liberty Insurance and as such is subject to the South Carolina state insurance holding company laws. The South Carolina holding company statute, as well as certain other laws, require disclosure and, in some instances, prior approval of material transactions between an insurance company and an affiliate.

RBC Liberty Insurance is subject to state statutory and regulatory restrictions that limit the amount of dividends or distributions by an insurance company to its stockholders.

As did many other life insurance companies in the United States, Liberty Life Insurance Company for many years followed an industry practice that resulted in higher premiums being charged to African-Americans because of differences in life expectancy between African-Americans and whites. The issuance of policies subject to these terms, which was regulated and approved at the time by state departments of insurance, ended in the 1960s, many years before the bank acquired the company. Following an examination of Liberty Life Insurance Company industrial life block, the SC Department concluded that disparate premiums was a violation of the South Carolina insurance laws, and issued an order (the "Order") imposing on Liberty Life Insurance Company a \$2 million fine and a one year suspension of its license to conduct insurance business in South Carolina. Liberty Life Insurance Company is contesting the Order in an administrative proceeding. Under South Carolina law, a timely contested regulatory order does not take effect and the regulatory agency bears the burden of establishing the facts and the law to support a charge of a statutory violation. After the parties filed motions for summary judgment, the administrative law judge determined that the state statutes did prohibit risk classification that took race into consideration. Liberty Life Insurance

Company has now entered a second phase of the administrative proceeding in which the administrative law judge will hear testimony and receive evidence concerning possible remedies for policyholders and determine what administrative penalties, if any, are appropriate. An agency's request for a particular penalty is not entitled to deference by the administrative law judge.

## SELECTED CONSOLIDATED FINANCIAL INFORMATION<sup>1</sup>

| <i>(In \$ millions, except per share and percentage amounts)</i>     | <b>2002</b> | <b>2001</b> | <b>2000</b> |
|--|-------------|-------------|-------------|
| <b>Earnings (For the year ended October 31)</b>                      |             |             |             |
| Net interest income <sup>(2)</sup>                                   | \$ 7,198    | \$ 6,549    | \$ 5,307    |
| Other income   | 8,562       | 8,215       | 6,732       |
| Gross revenues <sup>(2)</sup>  | 15,760      | 14,764      | 12,039      |
| Provision for credit losses  | 1,065       | 1,119       | 691         |
| Non-interest expense   | 10,420      | 9,755       | 7,581       |
| Net income   | 2,762       | 2,411       | 2,274       |
| Preferred share dividends  | 98          | 135         | 134         |
| Net income available to common shareholders                          | 2,664       | 2,276       | 2,140       |
| Return on common equity  | 15.8%       | 16.4%       | 19.8%       |
| Economic Profit <sup>(3)</sup>                                       | 712         | 539         | 764         |
| <b>Balance sheet &amp; off-balance sheet data (As at October 31)</b> |             |             |             |
| Loans  | \$ 169,258  | \$ 169,110  | \$ 154,344  |
| Assets   | 376,956     | 359,260     | 289,740     |
| Deposits   | 243,486     | 233,447     | 202,896     |
| Subordinated debentures  | 6,614       | 6,513       | 5,825       |
| Preferred shares   | 1,545       | 2,024       | 2,037       |
| Common equity  | 17,238      | 16,141      | 11,504      |
| Assets under administration  | 1,365,900   | 1,342,500   | 1,175,200   |
| Assets under management  | 90,800      | 100,000     | 92,300      |
| <b>Capital ratios (As at October 31)<sup>4</sup></b>                 |             |             |             |
| Common equity to risk-adjusted assets                                | 10.4%       | 9.4%        | 7.3%        |
| Tier 1 capital ratio   | 9.3%        | 8.7%        | 8.6%        |
| Total capital ratio  | 12.7%       | 11.8%       | 12.0%       |
| <b>Common share information (For the year ended October 31)</b>      |             |             |             |
| Shares outstanding ( <i>thousands</i> )                              |             |             |             |
| - end of year  | 665,257     | 674,021     | 602,398     |
| - average basic  | 672,571     | 641,516     | 606,389     |
| - average diluted  | 678,120     | 647,216     | 609,865     |
| Earnings per share   |             |             |             |
| - basic  | 3.96        | \$ 3.55     | \$ 3.53     |
| - diluted  | 3.93        | 3.52        | 3.51        |
| Share price- High  |             |             |             |
| - Low  | 58.89       | \$ 53.25    | \$ 48.88    |
| - Close – October 31   | 45.05       | 41.60       | 27.25       |
| Dividends per share <sup>(5)</sup>                                   | 54.41       | 46.80       | 48.30       |
| Book value per share – October 31                                    | 1.52        | 1.38        | 1.14        |
| Market capitalization ( <i>\$ billions</i> )                         | 25.91       | 23.95       | 19.10       |
|  | 36.2        | 31.5        | 29.1        |
| <b>Number of: (As at October 31)</b>                                 |             |             |             |
| Employees (full-time equivalent)                                     | 59,549      | 57,568      | 49,232      |
| Automated banking machines   | 4,486       | 4,545       | 4,517       |
| Service delivery units   |             |             |             |
| Canada   | 1,311       | 1,317       | 1,333       |
| International <sup>(6)</sup>   | 807         | 724         | 306         |

(1) Financial measures are derived from Canadian GAAP consolidated financial statements, unless otherwise noted.

(2) Taxable equivalent basis.

(3) Economic Profit is cash operating earnings (i.e., net income available to common shareholders excluding the impact of special items and amortization of goodwill and other intangibles) less a charge for the cost of common equity employed.

(4) Using guidelines issued by the Superintendent of Financial Institutions Canada and Canadian GAAP financial information.

(5) The bank's medium term goals (three to five years) include a dividend payout ratio of 35% to 45%. The dividend payout ratio is common dividends as a percentage of net income after preferred dividends.

(6) International service delivery units include branches, specialized business centres, representative offices and agencies.

## **MANAGEMENT’S DISCUSSION AND ANALYSIS**

The “Management’s Discussion and Analysis of Financial Condition and Results of Operations” that has been filed separately with Canadian securities regulatory administrators on the System for Electronic Document Analysis and Retrieval (“SEDAR”) is incorporated by reference.

## **MARKET FOR SECURITIES**

Common shares of the Bank are listed on the Toronto Stock Exchange (S&P/TSX) in Canada, the New York Stock Exchange in the U.S.A.(NYSE), and the Swiss Exchange (SWX) in Switzerland.

Preferred shares are listed on the TSX.

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## DIRECTORS AND EXECUTIVE OFFICERS

**Directors** – The following are the directors of the bank and their municipalities of residence, as at December 10, 2002:

| <b>Name</b>                                      | <b>Municipality of Residence</b> | <b>Occupation</b>   |
|--|----------------------------------|---|
| W. Geoffrey Beattie <sup>4</sup><br>(2001)       | Toronto                          | President, The Woodbridge Company Limited<br>Deputy Chairman, The Thomson Corporation                                       |
| George A. Cohon <sup>3</sup><br>(1988)           | Toronto                          | Founder and Senior Chairman, McDonald's Restaurants of Canada Limited   |
| Douglas T. Elix <sup>4</sup><br>(2000)           | Ridgefield, Connecticut          | Senior Vice-President and Group Executive, IBM Global Services, IBM Corporation   |
| John T. Ferguson <sup>1,2</sup><br>(1990)        | Edmonton                         | Chairman of the Board, Princeton Developments Ltd.<br>Chair of the Board, TransAlta Corporation                             |
| L. Yves Fortier <sup>2,3</sup><br>(1992)         | Montreal                         | Chairman, Ogilvy Renault<br>Chairman of the Board, Alcan Inc.   |
| The Hon. Paule Gauthier <sup>2,4</sup><br>(1991) | Quebec City                      | Senior Partner, Desjardins Ducharme Stein Monast  |
| Brandt C. Louie <sup>2</sup><br>(2001)           | West Vancouver                   | President and Chief Executive Officer, H.Y. Louie Co. Limited<br>Chairman and Chief Executive Officer, London Drugs Limited |
| J. Edward Newall <sup>1,3</sup><br>(1984)        | Calgary                          | Chairman of the Board, NOVA Chemicals Corporation<br>Chair of the Board, Canadian Pacific Railway Limited                   |
| Gordon M. Nixon<br>(2001)                        | Toronto                          | President and Chief Executive Officer, Royal Bank of Canada.  |
| David P. O'Brien <sup>3,4</sup><br>(1996)        | Calgary                          | Chairman of the Board, EnCana Corporation   |
| Charlotte R. Otto <sup>3</sup><br>(2000)         | Cincinnati, Ohio                 | Global External Relations Officer, The Procter & Gamble Company   |
| Robert B. Peterson <sup>1,4</sup><br>(1992)      | Toronto                          | Company Director  |
| J. Pedro Reinhard <sup>1</sup><br>(2000)         | Midland, Michigan                | Executive Vice-President and Chief Financial Officer, The Dow Chemical Company  |
| Hartley T. Richardson <sup>2</sup><br>(1996)     | Winnipeg                         | President and Chief Executive Officer, James Richardson & Sons, Limited   |
| Kenneth C. Rowe <sup>2</sup><br>(1985)           | Halifax                          | Chairman and Chief Executive Officer, I.M.P. Group International Inc.   |
| Guy Saint-Pierre <sup>3,4</sup><br>(1990)        | Montreal                         | Chairman of the Board, Royal Bank of Canada   |
| Cecil W. Sewell, Jr.<br>(2001)                   | Raleigh, North Carolina          | Chairman Emeritus, RBC Centura Banks, Inc.  |
| Kathleen P. Taylor <sup>1</sup><br>(2001)        | Toronto                          | President, Worldwide Business Operations, Four Seasons Hotels Inc.  |
| Victor L. Young <sup>1</sup><br>(1991)           | St. John's                       | Company Director  |

<sup>1</sup>Audit Committee, <sup>2</sup>Conduct Review and Risk Policy Committee, <sup>3</sup>Corporate Governance and Public Policy Committee

<sup>4</sup>Human Resources Committee



Since November 1, 1997, the directors have held the principal occupations described above, except Mr. W. Geoffrey Beattie, who prior to April 1998 was a partner at the law firm of Tory Tory DesLauriers & Binnington; Mr. George A. Cohon, who prior to January 2000 was Senior Chairman and Chairman of the Executive Committee of McDonald's Restaurants of Canada Limited; Mr. Douglas T. Elix, who prior to October 1999 was General Manager, Americas, IBM Global Services, IBM Corporation; Mr. John T. Ferguson, who prior to September 1998 was Chairman and Chief Executive Officer of Princeton Developments Ltd.; Mr. J. Edward Newall, who prior to July 1998 was Vice-Chairman and Chief Executive Officer of NOVA Corporation (which changed its name to NOVA Chemicals Corporation on July 2, 1998); Mr. Gordon M. Nixon, who prior to August 2001 was President and Chief Operating Officer of Royal Bank of Canada, prior to April 2001 was Chief Executive Officer of RBC Dominion Securities Inc., prior to December 1999 was Head, Corporate and Investment Banking of RBC Dominion Securities Inc. and prior to May 1998 was Head, Investment Banking of RBC Dominion Securities Inc.; Mr. David P. O'Brien, who prior to April 2002 was Chairman and Chief Executive Officer of PanCanadian Energy Corporation (which merged with Alberta Energy Company Ltd. in April 2002 to form EnCana Corporation) and prior to October 2001 was Chairman, President and Chief Executive Officer of Canadian Pacific Limited; Ms. Charlotte R. Otto, who prior to July 2000 was Senior Vice-President, Public Affairs of The Procter & Gamble Company; Mr. Robert B. Peterson, who prior to April 2002 was Chairman and Chief Executive Officer of Imperial Oil Limited and prior to January 2002 was Chairman, President and Chief Executive Officer of Imperial Oil Limited; Mr. Hartley T. Richardson, who prior to April 1999 was President of James Richardson & Sons, Limited; Mr. Guy Saint-Pierre, who prior to May 2002 was Chairman of SNC-Lavalin Group Inc.; Mr. Cecil W. Sewell, Jr., who prior to June 2001 was Chief Executive Officer of Centura Banks, Inc. (now RBC Centura Banks, Inc.) and prior to February 2000 held a number of senior executive positions at Centura Banks, Inc.; Ms. Kathleen P. Taylor, who prior to November 1999 was Executive Vice-President and Chief Corporate Officer of Four Seasons Hotels Inc. and prior to April 1998 held a number of senior executive positions at Four Seasons Hotels Inc.; and Mr. Victor L. Young, who prior to October 2001 was Chairman and Chief Executive Officer of Fishery Products International Limited.

Mr. George A. Cohon, Mr. Pedro J. Reinhard, Mr. Kenneth C. Rowe and Ms. Kathleen P. Taylor were directors of other companies which, in the ten years preceding the date of this annual information form and while they were directors of the other companies, became bankrupt, made proposals under legislation relating to bankruptcy or insolvency or were subject to or instituted any proceedings, arrangement or compromise with creditors.

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**Executive officers** - The following are the executive officers and their municipalities of residence, as at December 10, 2002:

| <b>Name</b>         | <b>Title</b>   | <b>Municipality of Residence</b> |
|---------------------|--|----------------------------------|
| Gordon M. Nixon     | President & Chief Executive Officer                              | Toronto, ON, Canada              |
| Peter W. Currie     | Vice-Chairman & Chief Financial Officer                          | Gormley, ON, Canada              |
| Suzanne B. Labarge  | Vice-Chairman & Chief Risk Officer                               | Toronto, ON, Canada              |
| Martin J. Lippert   | Vice-Chairman, RBC Global Services & Chief Information Officer   | Mississauga, ON, Canada          |
| W. Reay Mackay      | Vice-Chairman, RBC Investments                                   | Toronto, ON, Canada              |
| James T. Rager      | Vice-Chairman, RBC Banking                                       | Oakville, ON, Canada             |
| Irving Weiser       | Chairman & Chief Executive Officer, RBC Dain Rauscher            | Minneapolis, MN, U.S.A.          |
| W. James Westlake   | Chairman & Chief Executive Officer, RBC Insurance                | Oakville, ON, Canada             |
| Charles M. Winograd | Vice-Chairman, RBC Capital Markets                               | Toronto, ON, Canada              |
| Elisabetta Bigsby   | Senior Executive Vice-President Human Resources & Public Affairs | Toronto, ON, Canada              |

Since November 1, 1997, the executive officers have been engaged in various capacities in the affairs of the Bank, Royal Trust and their affiliates except I. Weiser, who prior to September 2000 was Chairman, President & Chief Executive Officer, Dain Rauscher Investments, Minnesota, USA.

**Ownership of securities** - To the knowledge of the bank, the directors and executive officers, as a group, beneficially own or exercise control or direction over less than (1%) of the common and preferred shares of the bank. None of the directors or executive officers of the bank holds shares of its subsidiaries except where required for qualification as a director of a subsidiary.

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## PRINCIPAL SUBSIDIARIES

| Principal Subsidiaries (1)                        | Principal office address (2)        | Carrying value of voting shares owned by the Bank (3) |
|---|-------------------------------------|---|
| <b>Royal Bank Mortgage Corporation (4)</b>        | Montreal, Quebec, Canada            | 898   |
| <b>Royal Trust Corporation of Canada (4)</b>      | Toronto, Ontario, Canada            | 771   |
| <b>The Royal Trust Company</b>                    | Montreal, Quebec, Canada            | 469   |
| <b>Royal Mutual Funds Inc.</b>                    | Toronto, Ontario, Canada            | 3   |
| <b>RBC Capital Trust</b>                          | Toronto, Ontario, Canada            | 506   |
| <b>Connor Clark Ltd.</b>                          | Toronto, Ontario, Canada            | 38  |
| <b>RBC Action Direct Inc.</b>                     | Richmond Hill, Ontario, Canada      | 135   |
| <b>RBC Alternative Assets, L.P. (2) (6)</b>       | New York, New York, U.S.A.          | 14  |
| <b>RBC Technology Ventures Inc.</b>               | Toronto, Ontario, Canada            | 33  |
| <b>RBC Capital Partners Limited</b>               | Toronto, Ontario, Canada            | 50  |
| <b>Royal Bank Holding Inc.</b>                    | Toronto, Ontario, Canada            | 14,670  |
| RBC Insurance Holdings Inc.                       | Mississauga, Ontario, Canada        |   |
| RBC Life Insurance Company                        | Mississauga, Ontario, Canada        |   |
| RBC Dominion Securities Limited (4)               | Toronto, Ontario, Canada            |   |
| RBC Dominion Securities Inc.                      | Toronto, Ontario, Canada            |   |
| RBC Alternative Assets, Inc. (2) (6)              | New York, New York, U.S.A.          |   |
| Royal Bank Realty Inc.                            | Montreal, Quebec, Canada            |   |
| R.B.C. Holdings (Bahamas) Ltd.                    | Nassau, Bahamas                     |   |
| Royal Bank of Canada Reinsurance (Cayman) Limited | George Town, Grand Cayman           |   |
| Royal Bank of Canada Insurance Company Ltd.       | St. Michael, Barbados               |   |
| Finance Corporation of Bahamas Limited            | Nassau, Bahamas                     |   |
| Investment Holdings (Cayman) Limited              | George Town, Grand Cayman           |   |
| Royal Bank of Canada (Barbados) Limited           | St. Michael, Barbados               |   |
| Royal Bank of Canada (Caribbean) Corporation      | St. Michael, Barbados               |   |
| RBC Holdings (USA) Inc.                           | New York, New York, U.S.A.          |   |
| RBC Dain Rauscher Corp. (2)                       | Minneapolis, Minnesota, U.S.A.      |   |
| RBC Dominion Securities Corporation               | New York, New York, U.S.A.          |   |
| RBC Insurance Holding (USA) Inc. (2)              | Wilmington, Delaware, U.S.A.        |   |
| Liberty Life Insurance Company                    | Greenville, South Carolina, U.S.A.  |   |
| RBC Holdings (Delaware) Inc. (5)                  | New York, New York, U.S.A.          |   |
| Prism Financial Corporation                       | Chicago, Illinois, U.S.A.           |   |
| RBC Mortgage Company                              | Chicago, Illinois, U.S.A.           |   |
| <b>RBC Centura Banks, Inc.</b>                    | Rocky Mount, North Carolina, U.S.A. | 3,590   |
| RBC Centura Bank (5)                              | Rocky Mount, North Carolina, U.S.A. |   |
| <b>RBC Capital Investment Holdings (USA) Inc.</b> | Wilmington, Delaware, U.S.A.        | 69  |
| <b>Royal Bank of Canada Financial Corporation</b> | St. Michael, Barbados               | 4   |
| <b>Atlantis Holdings Limited</b>                  | St. Michael, Barbados               | 489   |
| <b>RBC Finance B.V.</b>                           | Amsterdam, Netherlands              | 2,329   |
| Royal Bank of Canada Holdings (U.K.) Limited      | London, England                     |   |
| Royal Bank of Canada Europe Limited               | London, England                     |   |
| RBC Holdings (Channel Islands) Limited            | Guernsey, Channel Islands           |   |
| Royal Bank of Canada (Channel Islands) Limited    | Guernsey, Channel Islands           |   |
| <b>RBC Investment Management (Asia) Limited</b>   | Hong Kong, China                    | 5   |
| <b>RBC Global Services Australia Pty Limited</b>  | Sydney, New South Wales, Australia  | 48  |

(1) The Bank owns 100% of the voting shares of each subsidiary except Finance Corporation of Bahamas Limited (75%).

(2) Each subsidiary is incorporated under the laws of the state or country in which the principal office is situated, except for RBC Alternative Assets Inc., RBC Alternative Assets, L.P., RBC Holdings (USA) Inc., RBC Dain Rauscher Corp. and Prism Financial Corporation, which are incorporated under the laws of the state of Delaware, U.S.

(3) The carrying value (in millions of dollars) of voting shares is stated as the bank's equity in such investments.

(4) The subsidiaries have outstanding non-voting shares of which the bank, directly or indirectly, owns 100%.

(5) RBC Holdings (Delaware) Inc. owns 2.4% of RBC Centura Banks, Inc.

(6) RBC Alternative Assets, Inc. owns 1.1% of RBC Alternative Assets, L.P.

## **ADDITIONAL INFORMATION**

Additional information, including directors and officers' remuneration and indebtedness, principal holders of securities, options to purchase securities, and interests of insiders in material transactions is contained in the bank's information circular for its most recent annual meeting of shareholders. Additional financial information is provided in the bank's comparative financial statements for the year ended October 31, 2002.

The bank will provide to any person, upon request to the Senior Vice-President, Investor Relations at 123 Front St. West, 6th Floor, Toronto, Ontario, M5J 2M2 (416-955-7802), a copy of this annual information form and any documents incorporated by reference, a copy of the comparative financial statements for the year ended October 31, 2002 together with the accompanying report of the auditors, a copy of any interim financial statements subsequent to the financial statements for the year ended October 31, 2002, a copy of the information circular in respect of its most recent annual meeting of shareholders and a copy of any other documents incorporated by reference in a preliminary short form prospectus or short form prospectus if securities of the bank are in the course of a distribution.

## **TRADE-MARKS**

Trade-marks used in this report include the LION & GLOBE Symbol, ROYAL BANK OF CANADA, RBC, RBC FINANCIAL GROUP, RBC BANKING, RBC ROYAL BANK, RBC INVESTMENTS, RBC INSURANCE, RBC CAPITAL MARKETS, RBC GLOBAL SERVICES, RBC BUILDER FINANCE, RBC CENTURA, RBC DAIN RAUSCHER, RBC LIBERTY INSURANCE, RBC MORTGAGE, RBC ACTION DIRECT, RBC CAPITAL TRUST, RBC FUNDS, RBC GLOBAL ASSET MANAGEMENT, RBC INVESTMENTS FINANCIAL PLANNING, RBC PRIVATE COUNSEL, ROYAL TRUST and FX DIRECT which are trade-marks of Royal Bank of Canada used by Royal Bank of Canada and/or its subsidiaries. All other trade-marks mentioned in this report are the property of their respective holders.