



2003 Annual Report

EARNING THE RIGHT



CORPORATE PROFILE

VISION

ALWAYS EARNING THE RIGHT TO BE OUR CLIENTS' FIRST CHOICE

ROYAL BANK OF CANADA, which trades as RY on the TSX and NYSE, and its subsidiaries operate under the master brand name of RBC Financial Group. We have five major lines of business: personal and commercial banking (RBC Banking), wealth management (RBC Investments), insurance (RBC Insurance), corporate and investment banking (RBC Capital Markets) and transaction processing (RBC Global Services). We are Canada's largest financial institution as measured by market capitalization and assets, and one of North America's leading diversified financial services companies. We employ over 60,000 people who serve more than 12 million personal, business and public sector clients through offices in North America and some 30 countries around the world.

In Canada, we have strong positions in all of our lines of business. In personal and commercial banking, we rank first or second in most retail products including mortgages and deposits. In wealth management, we have the leading full-service brokerage operation (by assets), the largest private bank, the top mutual fund provider among Canadian banks and the second-largest self-directed brokerage operation (by number of accounts). In corporate and investment banking, we continue to be the top-ranked securities underwriter and a leading mergers and acquisitions advisor. We are the largest Canadian bank-owned insurer, one of the fastest growing in the country, and a leader in travel insurance and creditor products. We also have by far the largest custody operations in the country. Our domestic delivery network includes nearly 1,300 branches and other units, and 4,100 banking machines. Currently, we have 2.6 million online and 2.4 million telephone clients.

In the United States, we provide personal and commercial banking, mortgage origination, insurance, full-service brokerage and corporate and investment banking services to over two million clients through RBC Centura and its subsidiaries RBC Mortgage and RBC Builder Finance, as well as through RBC Insurance, RBC Dain Rauscher and RBC Capital Markets.

We also have a retail network in the Caribbean and the Bahamas. Outside North America, we provide corporate and investment banking, trade finance, correspondent banking, treasury and securities custody services to business clients, and private banking services to individuals. We also have a major presence in the global reinsurance market.

VALUES

- Excellent service to clients and each other
- Working together to succeed
- Personal responsibility for high performance
- Diversity for growth and innovation
- Trust through integrity in everything we do

GOALS

To be recognized as:

- The undisputed lead provider of integrated financial services in Canada
- A best-in-class provider of personal and business financial services in the United States
- A premier provider of selected global financial services

STRATEGIC PRIORITIES

- Strong fundamentals
- Superior client experience
- Cross-enterprise leverage
- North American expansion

1	Financial highlights	11	Cross-enterprise leverage
2	Chairman's message	13	North American expansion
3	Chief Executive Officer's message	17	Responding to you – Frequently asked questions
7	Strong fundamentals – Performance compared to objectives	20	Serving our stakeholders
8	Superior client experience	21	Financial review (U.S. GAAP)
		21A	Financial review (Canadian GAAP)

109	Glossary
111	Directors and executive officers
112	Corporate governance
114	Principal subsidiaries
IBC	Shareholder information

EARNING THE RIGHT: The cover of this year's annual report features RBC clients from across North America and represents the unique and varied relationships that exist between our clients and our diverse businesses. Inside this report, we describe these relationships and how, in each instance, we earn the right to be their first choice for financial services. (From top left, clockwise): Orval Sorken, Sexsmith, Alberta, Canada; Andrea Slingsby, Toronto, Ontario, Canada; Richard Vaughn, Greensboro, North Carolina, U.S.; Linda and John Forzani, Calgary, Alberta, Canada; Michael Duck, Sackville, Nova Scotia, Canada; and Réal, Marie-Claire, Stephanie and Martin Lafrance, Montreal, Quebec, Canada.

A STRONG AND DIVERSIFIED BUSINESS

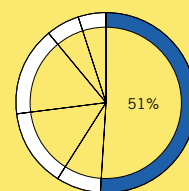
Business profile

Share of RBC 2003 net income (1)



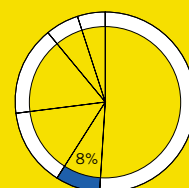
- RBC Royal Bank (2)
- RBC Centura (3)
- RBC Mortgage (3)
- RBC Builder Finance (3)
- RBC Royal Bank of Canada (4)

RBC Banking serves 11.5 million individual, small and medium-sized business and mid-market commercial clients in Canada, the U.S., the Caribbean and the Bahamas. Multiple distribution capabilities include a network of branches, business banking centres and other sales units, accredited financial planners, mobile sales representatives, automated banking machines, and telephone and Internet banking channels. RBC Banking provides clients with tailored solutions and financial planning and advice based on life events through a diverse range of financial products and services including deposit accounts, investments and mutual funds, credit and debit cards, business and personal loans, and residential and commercial mortgages.



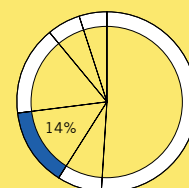
- RBC Insurance (5)

RBC Insurance 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. These products and services are offered through a wide variety of distribution channels, including the telephone, independent brokers, travel agents, a proprietary sales force and the Internet.



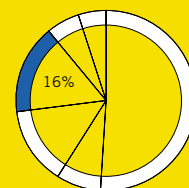
- RBC Investments (5)
- RBC Dain Rauscher (3)
- Royal Bank of Canada
- Global Private Banking (5)

RBC Investments provides wealth management services including full-service and self-directed brokerage, financial planning, investment counselling, personal trust, private banking and investment management products and services to clients in Canada, the U.S. and internationally. Products and services are delivered through the RBC Royal Bank branch network across Canada, RBC Investments offices, RBC Dain Rauscher branches in the U.S., private banking offices and other locations worldwide. Services are also delivered via the Internet and telephone.



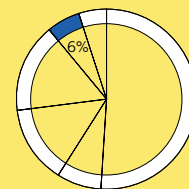
- RBC Capital Markets (5)

RBC Capital Markets provides wholesale financial services to large corporate, government and institutional clients in North America and in specialized product and industry sectors globally. Headquartered in Toronto, RBC Capital Markets has key centres of expertise in Minneapolis, New York and London, and offices in 27 other cities.



- RBC Global Services (5)

RBC Global Services offers specialized transaction processing services to business, commercial, corporate and institutional clients in Canada and select international markets, principally the U.K. and Australia. Key businesses include global custody, investment administration, correspondent banking, cash management, payments and trade finance.



(1) Another 5% of net income was derived from the Other segment.
 (2) Canadian brand name.
 (3) U.S. brand names.
 (4) Caribbean and the Bahamas brand name.
 (5) Global brand names.

Key strategies

Key operating highlights

Financial highlights – U.S. GAAP

- Deliver a superior and tailored client experience, with extraordinary focus on our high value clients
- Ensure strong revenue growth in North America, deepening client relationships, drawing on financial planning and advice capabilities and selectively expanding our U.S. network in the Southeast and in targeted national markets

- Launched new client resolution process across Canada to strengthen problem resolution and ensure consistent level of client service
- Enhanced cross-selling initiative, called *RBC Referrals*, to maximize client access to services and products from across the organization

(C\$ millions, except percentage amounts)	% change	2003	2002
Total revenues	–	\$ 7,652	\$ 7,647
Provision for credit losses	(12)%	554	626
Non-interest expense	3	4,642	4,520
Net income	1	1,554	1,546
Return on equity (6)	160 bp	20.8%	19.2%

- Significantly expand by adding distribution channels and entering into new markets
- Further integrate operational areas on a North American basis to maximize efficiencies and economies of scale and scope

- Enhanced creditor insurance products in Canada to simplify processes and eliminate duplication and paper, significantly reducing costs, eliminating client irritants and improving overall relationships
- Launched new *Investment Credit Facility* program to easily and conveniently deliver a well-priced and tax-efficient financial vehicle to our Canadian clients from one source

(C\$ millions, except percentage amounts)	% change	2003	2002
Total revenues	7%	\$ 2,045	\$ 1,910
Policyholder benefits, claims and acquisition expense	6	1,404	1,330
Non-interest expense	6	424	399
Net income	20	228	190
Return on equity (6)	70 bp	26.4%	25.7%

- Develop broader and deeper relationships with clients by using segmentation strategies to develop specific solutions for specific client groups
- Transform our distribution models to ensure that our financial consultants and advisors have more time to focus on their clients
- Focus on improving operational infrastructure and processes to efficiently support growth

- Created new Emerging Markets Fixed Income Group to provide clients with a wider range of global fixed income products and advisory services
- Introduced private banking services for high net worth clients in the U.S., as well as Canadian clients with U.S. interests, using a highly personalized relationship approach

(C\$ millions, except percentage amounts)	% change	2003	2002
Total revenues	(3)%	\$ 3,530	\$ 3,647
Non-interest expense	(7)	2,911	3,144
Net income	19	412	346
Return on equity (6)	400 bp	15.1%	11.1%

- Maintain position as a leading full-service provider in all of our markets in Canada by continuing to build on long-standing client relationships, our trading, research and sales capabilities, and the strength of our brand and reputation
- In the U.S., provide value-added solutions by offering clients a broad product portfolio delivered through specialized industry teams

- Enhanced *FX Direct*, an online trading system, to enable corporate and institutional clients to execute currency trades directly with the market around-the-clock
- Introduced *bondDirect*, an online fixed income trading system, to provide institutional traders with the tools to self-execute trades from their desktops

(C\$ millions, except percentage amounts)	% change	2003	2002
Total revenues	(2)%	\$ 2,625	\$ 2,674
Provision for credit losses	(59)	189	465
Non-interest expense	3	1,671	1,627
Net income	12	491	439
Return on equity (6)	210 bp	12.6%	10.5%

- Expand the business through key alliances, acquisitions and partnerships
- Enhance our processing and systems platforms to deliver new capabilities, improve efficiencies and achieve economies of scale

- Launched *RBC Express*, a new online transaction and information service, to provide our business clients with secure access to a suite of traditional and new cash management products
- Formed new *Hedge Funds Service Group* to enhance our offering to our high net worth and institutional investors, including a wider range of hedge fund products and services from a single source

(C\$ millions, except percentage amounts)	% change	2003	2002
Total revenues	4%	\$ 844	\$ 808
Non-interest expense	9	595	548
Net income	3	178	173
Return on equity (6)	(100)bp	27.7%	28.7%

(6) Return on equity is defined in the Glossary on page 110.

FINANCIAL HIGHLIGHTS⁽¹⁾

(C\$ millions, except per share, number and percentage amounts)	Change 2003/2002	2003	2002	2001	2000	1999
EARNINGS						
Net interest income	(4)%	\$ 6,648	\$ 6,928	\$ 6,291	\$ 5,195	\$ 5,070
Non-interest income	2	10,299	10,132	9,514	7,536	6,070
Total revenues	(1)	16,947	17,060	15,805	12,731	11,140
Provision for credit losses	(33)	715	1,065	1,119	691	760
Insurance policyholder benefits, claims and acquisition expense	6	1,404	1,330	1,153	772	532
Non-interest expense	-	10,236	10,244	9,641	7,628	7,141
Net income	5	3,036	2,898	2,435	2,208	1,725
Return on common equity (ROE) (2)	40 bp	17.0%	16.6%	16.6%	19.3%	15.3%
BALANCE SHEET DATA						
Loans (before allowance for loan losses)	1%	\$ 172,547	\$ 171,523	\$ 171,177	\$ 156,184	\$ 144,793
Assets	8	412,591	382,000	362,562	294,173	273,406
Deposits	6	260,518	245,040	235,687	206,237	187,897
Subordinated debentures	(5)	6,581	6,960	6,861	5,825	4,596
Common equity	-	17,304	17,240	16,215	11,296	10,435
CAPITAL RATIOS (CANADIAN BASIS) (3)						
Tier 1 capital	40 bp	9.7%	9.3%	8.7%	8.6%	8.1%
Total capital	10	12.8	12.7	11.8	12.0	11.2
Common equity to risk-adjusted assets	10	10.5	10.4	9.4	7.3	7.1
CAPITAL RATIOS (U.S. BASIS) (4)						
Tier 1 capital	20	8.7	8.5	8.1	7.8	7.6
Total capital	10	12.0	11.9	11.2	11.3	10.7
Common equity to risk-adjusted assets	(20)	10.3	10.5	9.5	7.2	7.0
COMMON SHARE INFORMATION						
Shares outstanding (in thousands)						
End of year	(1)%	656,021	665,257	674,021	602,398	617,768
Average basic	(2)	662,080	672,571	641,516	606,389	626,158
Average diluted	(1)	669,625	679,153	647,216	609,865	632,305
Earnings per share						
Basic	8	\$ 4.48	\$ 4.16	\$ 3.58	\$ 3.42	\$ 2.50
Diluted	8	4.43	4.12	3.55	3.40	2.48
Share price						
High (5)	10	65.00	58.89	53.25	48.88	42.13
Low (5)	18	53.26	45.05	41.60	27.25	29.65
Close	17	63.48	54.41	46.80	48.30	31.73
Dividends per share	13	1.72	1.52	1.38	1.14	0.94
Book value per share – year-end	2	26.38	25.91	24.06	18.75	16.89
Market capitalization (C\$ billions)	15	41.6	36.2	31.5	29.1	19.6
NUMBER OF:						
Employees (full-time equivalent)	1,263	60,812	59,549	57,568	49,232	51,891
Automated banking machines	(85)	4,401	4,486	4,545	4,517	4,585
Service delivery units						
Canada	(14)	1,297	1,311	1,317	1,333	1,410
International	(19)	788	807	724	306	99

(1) Financial information is derived from U.S. GAAP consolidated financial statements, unless otherwise noted. Select definitions are available in the Glossary on pages 109 and 110.

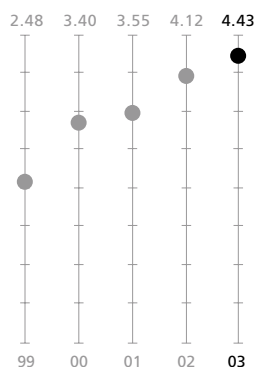
(2) Return on equity is defined in the Glossary on page 110.

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

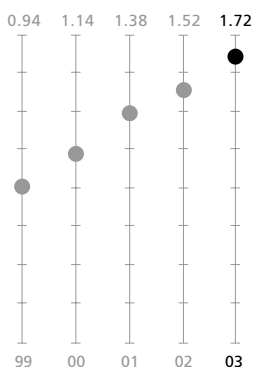
(4) Using guidelines issued by the Board of Governors of the Federal Reserve System in the U.S. and U.S. GAAP financial information.

(5) Intraday high and low share prices.

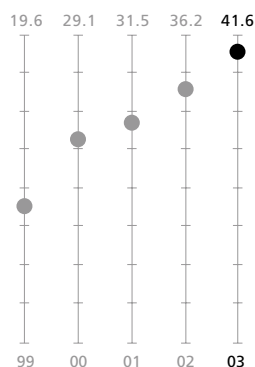
Diluted earnings per share (C\$)



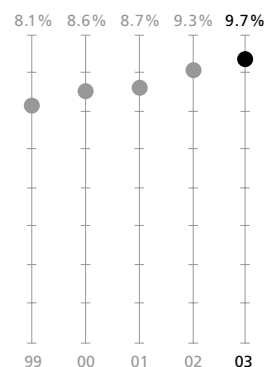
Dividends per share (C\$)



Market capitalization (C\$ billions)



Tier 1 capital ratio (Canadian basis)



EARNING YOUR TRUST

Guy Saint-Pierre, C.C.
Chairman of the Board



I am pleased to report to you on behalf of your Board of Directors and congratulate management and employees for their achievements and success in 2003.

There are many indicators of success for an organization, but success at Royal Bank of Canada has always begun with the trust of our shareholders, clients and communities. Indeed, all activities of employees, management and your board are geared toward earning your trust.

Earning your trust is a continuous process and your Board of Directors, management team and employees are committed to fulfilling that promise every day.

Long before "corporate governance" became the watchword of regulators and the media, we were proactive in adopting strong governance standards. In 1980, and again in 1993, special board committees reviewed the role and function of the board and its practices. Then, as now, we recognized that the foundation of an organization's governance is built on its ethics and the collective will of its directors, management and employees to express those values in their professional conduct. For us, good governance has always been the highest ethical standards of business practices and processes.

Our directors are shareholders themselves. We recognize that investors place a higher value upon companies that operate in a transparent manner. We are continually motivated to perform to investors' and regulators' high expectations and standards. Despite the satisfaction of seeing many observers recognize our activities as best practices, we routinely refine and review our governance standards in order to vigorously reinforce a culture of responsibility and accountability.

Together, the board and management believe that earning your trust requires a high degree of openness, so we are continually working to enhance the disclosure of information provided to shareholders. In addition to actively contributing to the development of accounting standards, we are an early adopter of many of them and seek to keep investors' interests at the heart of governance practices.

Our current Management Proxy Circular includes more comprehensive disclosure with respect to governance, including our Director Independence Policy, which incorporates standards from both Canada and the U.S. and reflects our determination to

adapt to and capitalize upon the international scope of our operations. In the past year, we continued our long-established practice of holding sessions of non-management directors following board meetings. (*More information about our governance practices can be found on pages 112 to 113 and at rbc.com/governance.*)

For us to earn and maintain your trust, you must be comfortable that governance begins – not ends – with the office of the chairman and the board. We support management's leadership and efforts to ensure that principles and values entrenched at the top of the organization are also evident throughout the company.

I am tremendously proud of having served as the company's first non-executive Chairman. It has been my pleasure to work with a board of talented directors to supervise a skilful and dedicated management team. I have found it extremely rewarding and challenging to be a director and part of the organization's accomplishments over 13 years.

As a shareholder, I look forward to watching RBC Financial Group achieve its potential under the stewardship of a new chairman following my retirement in February 2004. I retire with the comfort in knowing that the board's work will continue to be characterized by high standards of integrity, discipline and governance. Under David O'Brien's leadership, shareholders can rest assured that the efforts of RBC will remain aimed at earning your trust.

A handwritten signature in black ink that reads "Guy Saint-Pierre, C.C." The signature is written in a cursive, flowing style.

Guy Saint-Pierre, C.C.
Chairman of the Board
December 16, 2003

Chief Executive Officer's message

EARNING THE RIGHT

Gordon M. Nixon
President & Chief Executive Officer



I am pleased to report that we generated net income for our shareholders this past year totalling \$3.04 billion, despite ongoing weakness in the North American economies, and weak capital markets during the first half of the year.

We have responded to these challenging circumstances with energy and enthusiasm and by redoubling our efforts to meet and exceed the demands of our clients. Indeed, as the competitiveness of the financial services marketplace has intensified, we have sharpened our focus to realize our vision of *always earning the right to be our clients' first choice*.

We are motivated to prove our ability to meet clients' needs at every opportunity. Delivering a superior client experience became one of our strategic priorities this year. It guides all our business activities and reflects the imperative to help clients achieve their financial goals, while resolving quickly and satisfactorily any of their difficulties or concerns.

Our employees firmly believe that we are capable of giving clients across North America an integrated offering of financial services that uniquely addresses their objectives. Delivering on this pledge will significantly and positively impact us as we increase the amount of business existing clients have with us, attract new clients with our offerings and, importantly, increase client retention. In parallel, the benefits of enhanced employee satisfaction and retention cannot be overestimated as we continue to build a North American financial services platform.

Our goals

Our three key goals are to be recognized as the undisputed lead provider of integrated financial services in Canada, a best-in-class provider of personal and business financial services in the U.S. and a premier provider of selected global financial services. In Canada, we are committed to retaining our strong positions in all our businesses and offering our services in an integrated manner to provide a broader range of services and better value to our clients. By doing so, we expect to enhance client satisfaction and retention. As a diversified financial services company with more than 12 million clients and complementary banking, wealth management and insurance products and services, we are uniquely positioned to grow our revenues by increasing the number of products and services used by our clients. In the U.S., we have assembled a diversified platform with an emphasis on retail businesses – banking, wealth management and insurance, all businesses we know well and are very successful at in Canada. Our priority for the U.S. is to bring each of the businesses up to the high standards of operational and financial performance we have established, while recognizing the unique characteristics and needs of the local markets in which the businesses operate. Our intention is also to grow in a disciplined, shareholder-friendly manner. Outside North America, we continue to focus on successful niche businesses, such as custody, private banking and global trading in which we possess competitive advantages and are generating strong returns.

Our vision, goals, strategic priorities and values are shown in the corporate profile at the beginning of this report. These guide our decisions and we measure our performance, both individually and collectively, against them.

Our strategic priorities

To reach our goals, we have set four key priorities – strong fundamentals, superior client experience, North American expansion, and cross-enterprise leverage.

Strong fundamentals

We had a solid year, reporting net income of \$3.04 billion, up 5 per cent from 2002, and diluted earnings per share of \$4.43, up 8 per cent. We achieved these results despite ongoing weakness in the North American economies and a very tough capital markets environment during the first six months of the year.

Our goal is to maintain financial performance in the top quartile of North American financial companies and to meet or exceed our own objectives. As shown on page 7, our performance this past year was strong in the areas of ROE, portfolio quality and capital ratios, with ROE in line with the 17 to 19 per cent target, the provision for credit losses ratio below the target range, and capital ratios above our medium-term goals. However, expenses were unchanged while revenue growth was dampened by capital markets softness during the first six months of this fiscal year and the significant strengthening of the Canadian dollar, which lowered the translated value of U.S. dollar-denominated revenues by approximately \$500 million.

Our common shares closed the year at \$63.48, up 17 per cent from a year ago. This growth was achieved over a strong base, as we were fairly unique among the large Canadian banks in sustaining solid loan quality and financial and share price performance over the 2001 to 2002 period. Accordingly, as the industry's loan quality improved this year, the S&P/TSX Composite Banks Index rose more than our shares did. We also increased dividends paid per common share by 13 per cent this past year. Over the past 10 years, an investment in our common shares has provided shareholders with a compound annual total return of

20.3 per cent, placing us third among the 15 leading North American financial services companies to which we compare ourselves.

Our objectives for 2004 are similar to those in place in 2003, with the exception of the specific provision for credit losses goal, which we are lowering to .35 to .45 per cent to reflect the improved credit markets environment, bringing it in line with our medium-term goal. We have not made any changes to our medium-term goals.

Superior client experience

This new priority is consistent with our new vision statement – “Always earning the right to be our clients’ first choice” and it reinforces our commitment to client satisfaction, retention and growing our share of our clients’ business. This priority and our vision statement are extremely important within RBC Financial Group – particularly in motivating our front-line employees to deliver an excellent client experience that builds profitable relationships and lasting loyalty. To deliver a truly superior client experience, we are striving to serve clients the way they want to be served and provide them with a good and consistent client experience across all of our distribution channels. We have spent considerable time looking at how we can better meet the needs of our clients and, in this regard, we are transforming our processes to be more simple, flexible and efficient. We are also working hard to earn more of our clients’ business by tailoring solutions that include the products of more than one business segment.

A detailed discussion of our superior client experience priority and examples of what each of our business segments is doing to enhance the experiences of its clients is provided on pages 8 to 10.

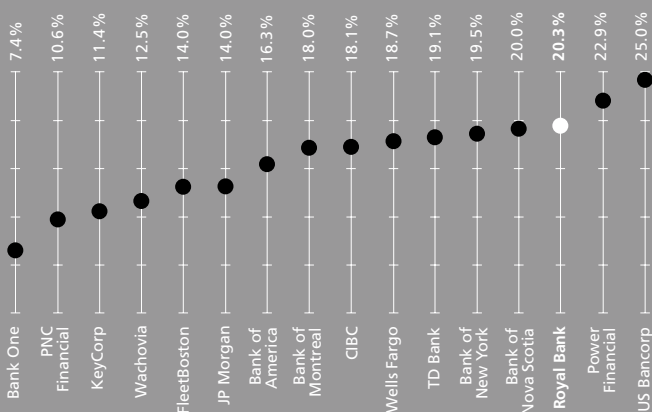
North American expansion

We are continuing to focus on enhancing the operating performance of our U.S. operations through a variety of initiatives designed to grow revenues and improve operational efficiency.

Our priority for the U.S. in 2003 was to enhance performance. Net income from U.S. operations increased to \$382 million from \$210 million in 2002, despite the strengthening of the Canadian dollar relative to the U.S. dollar. This reflects higher earnings in the Capital Markets and Investments divisions largely due to a lower provision for credit losses and much stronger performance in the full-service brokerage and fixed income divisions, respectively.

During 2003, we continued to grow in the U.S. in a very disciplined and focused manner through add-on acquisitions that represent good strategic, economic and cultural fits. RBC Centura completed the acquisition of Admiralty Bancorp, Inc. for US\$153 million, securing a footprint in the fast-growing Southern and Central Florida markets. It also closed the acquisition of the Florida branch operations of Provident Financial Group Inc. in mid-November 2003 for approximately US\$80 million in cash, adding 13 branches to the 10 Florida branches acquired through the acquisition of Admiralty Bancorp. RBC Mortgage Company completed its acquisition of Sterling Capital

Ten-year compound annual total return on common shares (1993–2003) (1)



(1) In Canadian dollars and assuming dividends reinvested (from October 31, 1993, to October 31, 2003). Source: Bloomberg



Royal Bank of Canada Group Management Committee

(L to R): JAMES T. RAGER, Vice-Chairman, RBC Banking; W. JAMES WESTLAKE, President, RBC Insurance; SUZANNE B. LABARGE, Vice-Chairman & Chief Risk Officer; CHARLES M. WINOGRAD, Vice-Chairman, RBC Capital Markets; PETER W. CURRIE, Vice-Chairman & Chief Financial Officer; GORDON M. NIXON, President & Chief Executive Officer; MARTIN J. LIPPERT, Vice-Chairman & Chief Information Officer; ELISABETTA BIGSBY, Senior Executive Vice-President, Human Resources & Public Affairs; PETER ARMENIO, President, RBC Investments.

Mortgage Company (SCMC) for approximately US\$100 million. SCMC principally focuses on first-time home buyers and less on mortgage refinancings, providing good revenue diversification and a more stable business for RBC Mortgage. RBC Insurance and RBC Dain Rauscher acquired Kansas City-based Business Men's Assurance Company of America and Jones & Babson Inc. from the Generali Group for US\$207 million. In addition to an in-force block of approximately 135,000 traditional life insurance policies and annuities, this purchase provides us with the infrastructure to offer wealth management oriented insurance products.

A discussion of our North American banking, wealth management and insurance businesses and their expansion efforts is provided on pages 13 to 16.

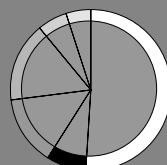
Cross-enterprise leverage

We added cross-enterprise leverage as a strategic priority in 2002 in recognition of the fact that as an integrated financial services provider, the whole has the potential to be much greater than the sum of the parts. Cross-enterprise leverage is about working across our businesses and functions to grow revenues by improving client service, offering our broad array of products and services in a more integrated fashion to our clients and reducing costs by eliminating duplication that arises when businesses and functions operate autonomously. Since adding this key strategic

priority, we have identified and eliminated duplication across the organization, created enterprise centres of expertise and further centralized purchasing. By doing so we were able to cut costs and improve efficiency across the organization. We have recently increased our focus on revenue and client-oriented initiatives to

Diversified business mix

NET INCOME CONTRIBUTION – 2003



- 51% RBC Banking (ROE 21%)
- 8% RBC Insurance (ROE 26%)
- 14% RBC Investments (ROE 15%)
- 16% RBC Capital Markets (ROE 13%)
- 6% RBC Global Services (ROE 28%)
- 5% Other (ROE 8%)

accelerate revenue growth and enhance the profitability of our client relationships. We are spending substantial time and effort to develop ways to encourage clients to use the products and services of more than one platform.

A detailed discussion of cross-enterprise leverage is provided on pages 11 to 12.

Commitment to our shareholders

We will continue to target superior profitability and returns for our shareholders by further pursuing strategies and initiatives to grow our businesses profitably, manage our costs and risks effectively, and deploy our capital efficiently – reinvesting in our businesses and growth markets, and returning the excess to shareholders through share repurchases when appropriate as well as through dividend payments.

Corporate governance

Throughout our organization, corporate governance extends beyond complying with individual pieces of legislation or rules. Sound corporate governance reflects business practices and activities beyond ethical reproach. All employees recognize that the integrity of our organization and the trust of our stakeholders are cornerstones of our ongoing success.

Our employees

Finally, it is my pleasure to congratulate and celebrate the efforts of our more than 60,000 employees who have worked hard throughout the past year and have embraced, with a positive attitude, the opportunities and challenges in front of them. I am heartened but never surprised at their ability to excel in their creativity and responsiveness to the needs of their clients, their fellow colleagues and their communities. I am honoured to work with them as we continue to earn the right to be our clients' first choice.



Gordon M. Nixon
President & Chief Executive Officer
December 16, 2003

EARNING THE RIGHT TO HELP YOU COMPETE

We understand building a business takes hard work, dedication and financial support. Réal Lafrance, owner of Marie Claire Boutiques, and his family have long-standing business and personal banking relationships with us, spanning more than three decades. Our relationship with the family has grown in tandem with the business, which began with 40 stores and has expanded to 280 across Quebec. Whether they were expanding or pursuing new ventures, we provided financing options, business banking services and wealth management solutions to meet the Lafrance family needs.

(From left): Tony D'Alessio, RBC Royal Bank, with Réal, Marie-Claire, Stéphanie and Martin Lafrance, Marie Claire Boutiques
Location: Montreal, Quebec, Canada

THE BANKER MAGAZINE'S ANNUAL BANK OF THE YEAR AWARD NAMED ROYAL BANK OF CANADA AS TOP BANK IN CANADA.



STRONG FUNDAMENTALS

Performance compared to objectives

	2003 objectives	2003 performance	2004 objectives	Medium-term goals (3–5 year)
1 Valuation Maintain top quartile valuation levels:				
• Share price/book value:	1st quartile of S&P/TSX Composite Banks Index (1)	2nd quartile	1st quartile of S&P/TSX Composite Banks Index	N/A
• Share price/earnings:	1st quartile of S&P/TSX Composite Banks Index (1)	2nd quartile (2)	1st quartile of S&P/TSX Composite Banks Index	
Share price growth:	Above S&P/TSX Composite Banks Index (1)	Below the index	Above S&P/TSX Composite Banks Index (1)	
2 Earnings growth Grow diluted earnings per share by:	10–15%	8%	10–15%	10–15%
3 Return on common equity (ROE) Achieve an ROE of:	17–19%	17%	17–19%	20%+
4 Revenue growth Achieve revenue growth of:	5–8%	(1)%	5–8%	8–10%
5 Expense growth Expense versus revenue:	Expense growth less than revenue growth	Expense growth nil and revenue growth (1)%	Expense growth less than revenue growth	N/A
6 Portfolio quality Achieve a ratio of specific provisions for credit losses to average loans, acceptances and reverse repurchase agreements (3):	.45–.55%	.33% .32% net of effect of credit derivatives (4)	.35–.45%	.35–.45%
7 Capital management Capital ratios (3):	Maintain strong capital ratios	9.7% Tier 1 capital ratio 12.8% Total capital ratio versus medium-term goals of 8–8.5% and 11–12%, respectively	Maintain strong capital ratios	8–8.5% Tier 1 capital 11–12% Total capital
8 Dividend payout ratio (5)	35–45%	38%	35–45%	35–45%

(1) Effective May 2003, the S&P/TSX Composite Banks Index replaced the TSX Banks & Trusts Index.

(2) Computed by us on October 31, 2003, based on analysts' average diluted earnings per share estimates for 2004.

(3) Calculated based on our Canadian GAAP financial statements.

(4) See discussion on page 46.

(5) Common share dividends as a percentage of net income after preferred share dividends.

SUPERIOR CLIENT EXPERIENCE

A new strategic priority – superior client experience – reinforces our commitment to client satisfaction, retention and growing our share of our clients' business. With 12 million clients and complementary banking, wealth management, and insurance products and services, we are uniquely positioned to grow our revenues by increasing the number of products and services used by our clients.

The client experience is everything the client sees, hears, feels, touches and does when interacting with us, whether through in-branch client service representatives, banking, insurance, corporate, investment or brokerage representatives over the telephone or through online services. To deliver a truly superior client experience we seek to serve clients the way they want to be served while providing a consistent, proactive and valued experience across all distribution channels. We are transforming our processes to be simple, flexible and efficient while using technology to leverage the information clients have entrusted with us.

Our activities are focused on attracting a greater share of our clients' business and building deeper client relationships to enhance our position in all markets. Deploying our strengths to create the best solutions for clients across our various businesses, geographies and products will help us generate additional value and leverage our infrastructure and portfolio of assets across North America.

Each of our business segments moved to enhance its clients' experiences in 2003. A few examples are provided below.

An effective problem resolution process is necessary to build strong client relationships and lasting loyalty. With this in mind, **RBC Royal Bank** launched a new process across all Canadian branches, business centres and telephone banking contact centres designed to strengthen problem resolution and ensure clients receive a consistent level of service regardless of the channels they use or the business they have with us. Early results indicate that 70 per cent of problems are being resolved at the first point of contact.

Employees are also supported by a specialized client care team, with a mandate to resolve more complex client problems

and undertake research to identify root causes. A key element of the problem resolution process includes tracking every client problem to proactively identify and resolve systemic issues.

We also introduced the use of digital imaging technology for tracing cheques. With over 1.2 million trace requests per year, employees in our Operations and Service Delivery Centres are now able to provide information to clients immediately, rather than in the days or weeks previously required. This capability will be expanded to branch and call centre employees during the first quarter 2004.

Client relationships are being further strengthened through an enhanced *RBC Referrals* program that brings access to services and products from all RBC companies to our clients. This cross-selling initiative introduces clients to financial specialists from across the organization to make it easy to do business across the enterprise, contributing to a superior client experience, better client retention and higher revenues. In 2003, the total number of referrals increased by 52 per cent. We referred \$1.1 billion of business internally and, as a result, captured \$2.8 billion of new business transactions from our competitors. That's over \$2.50 of new business for every dollar of business referred internally.

As a leading provider of travel insurance in North America, **RBC Insurance** is committed to ensuring that travel agents who distribute our products are provided with comprehensive product education through proprietary sales training programs.

Our sales and training professionals work with travel agents to enhance their knowledge of travel insurance and their ability to offer the product effectively. As a complement to these face-to-face training sessions, travel agents – and ultimately travellers – benefit from a new training package called *RBC's eLearning*

Reference Tool. This online training program is delivered by RBC Insurance through its Internet-based WorldProtect booking system and provides enhanced product and sales information for the travel agent on important issues that affect travellers. Travel agents who participated in the pilot launch scored the tool's effectiveness and content very highly in a recent survey.

The past year was challenging for travellers and the travel industry, as a result of the war in Iraq, Severe Acute Respiratory Syndrome (SARS) and ongoing threats of terrorism. RBC Insurance demonstrated its commitment by meeting the needs of travellers from product sales to speedy processing of claims. Throughout these and other situations, we worked with our clients and travel agents on an individual basis to evaluate and develop solutions based on their specific needs. In fact, our Q2 client satisfaction survey indicated all aspects of the claims process were rated highly, including simplicity of process, quick response time and claim settlement time.

In July 2003, RBC Insurance launched a pilot of its Canadian tele-underwriting process for life insurance brokers. This telephone application process offers added benefits for our clients by eliminating the need for detailed medical information and longer applications and thus providing a faster process for application, reducing the time by a minimum of three to five days. While the program is being initially rolled out with a group of 135 business partners, we plan to expand this process to other insurance products and to all business partners by Q2 of 2004.

In early 2003, the RBC Insurance "Protection for the Big Things in Life" campaign described to clients the benefits of insuring mortgages and loans with life and disability insurance protection. Client surveys indicated the campaign material better explained the products, resulting in increased satisfaction: the key driver of satisfaction of written communication increased to 39 per cent in the second quarter of 2003 from 29 per cent a year earlier.

The creation of **RBC Investments Financial Planning** (a shared business between RBC Banking and RBC Investments) in November 2001 changed the way we serve financial planning clients by facilitating long-term relationships with trusted RBC advisors. *Financial Planning* differentiates itself by addressing clients' investments, credit and banking needs while fully leveraging the capability of the whole organization. As a result, financial planners have an ability to meet clients' needs and can develop professional and customized plans that align with clients' objectives.

Through technology such as *ClientLink*, RBC Investments has further improved its ability to manage and strengthen client relationships. *ClientLink* is a contact and portfolio management application, which helps investment advisors deliver professional money management, accurate and customized reporting, regular portfolio reviews and ongoing contact with their clients.

In today's online trading markets, institutional investors value ease of execution, speed of transactions and greater flexibility. **RBC Capital Markets** has pioneered online trading solutions, particularly in the areas of foreign exchange and fixed income products, to provide clients with flexible and efficient trading services.

RBC Capital Markets has taken online trading systems to a higher level with an enhanced version of *FX Direct*; an online trading system enabling corporate and institutional clients to trade and execute currency trades directly with the market on an around-the-clock basis.

FX Direct provides clients with the flexibility to customize their deal entry screen with the defaults they want to see. Deal entry gives competitive quotes in seconds in a format customized to clients' requirements. In addition, the indicative rates window shows streaming rates on clients' selected currency pairs. When the market level is reached, transactions can be efficiently executed right from the window. Finally, *Deal Blotter* offers both a real-time and historic record of all trading activity, tailored to the client's individual view and is easily exported to a spreadsheet.



EARNING THE RIGHT TO BE YOUR STRATEGIC PARTNER

Since 1989, our relationship with British Columbia Investment Management Corporation (bcIMC), one of Canada's largest institutional investors, has evolved into a strategic partnership. Through our diverse relationship, we look for ways to add value to bcIMC by presenting investment opportunities, offering solutions to improve efficiencies and working with them to develop the products and services they require to meet their business needs. In addition to serving as custodian for bcIMC's globally diverse portfolio of assets under management, we provide institutional brokerage and corporate banking services.

(From left): Parker Henderson, RBC Global Services, with Neil Muth, Shauna Lukaitis, Henry Choy and Kathryn Ford, bcIMC
Location: Victoria, British Columbia, Canada

RBC GLOBAL SERVICES IS ONE OF ONLY FOUR SUBCUSTODIANS WORLDWIDE TO HAVE BEEN "TOP RATED" FOR 15 CONSECUTIVE YEARS IN GLOBAL CUSTODIAN MAGAZINE'S PRESTIGIOUS AGENT BANK REVIEW.

In providing clients with a superior experience, we don't just focus on the trade. Client support is provided through every stage of the trade's life-cycle – from initial research to execution to settlement. Recent enhancements allow foreign exchange orders to be sent directly to us via the Internet. Clients can also manage their own foreign exchange order book offline to store, add or amend any of their orders, which can then be easily resubmitted. RBC Capital Markets foreign exchange trading through electronic channels is rapidly approaching \$1 billion daily.

The security, capacity and flexibility of the Internet make it the ideal channel for fixed income trading. In early 2003, we launched *bondDirect*, which provides institutional traders with the tools to self-execute trades right from their desktops.

The electronic edge provided by *bondDirect* provides clients with live pricing that updates automatically and ensures orders are priced and executed automatically. It provides clients with access to information on thousands of bond issues including bid offer pricing, ratings, security and security identification numbers. Clients also have the flexibility of directly ticketing a trade into one account or multiple accounts.

With ongoing market and competitive pressures, **RBC Global Services** recognizes the importance of providing clients with unique products, services and solutions to meet the growing complexity of their needs. Our *Client Solutions Group* partners with clients to identify the potential for process improvements and strategies for achieving them. Recommendations can range from internal restructuring of specific core functions to achieve process efficiencies, to acquisitions or outsourcing. This comprehensive service has contributed to enhancing the efficiency and financial performance of our institutional clients.

The drive for efficiency creates the need for electronic-based solutions such as *RBC Express*. This online transaction and information service combines the suite of cash management products offered by RBC Global Services and will soon provide access to products from other RBC businesses, such as *FX Direct* by RBC Capital Markets, through a single integrated Web portal. With *RBC Express*, our business clients' cash management experience is fully integrated and seamless across the organization, making it more convenient for our business clients to manage daily financial operations. Since its introduction in November 2002, over 1,100 business clients have enrolled in the service, with half new to RBC Global Services. RBC Global Services will be adding other services and products to this online channel throughout 2004.

Our innovative online services, *webdoxs* and *paytickets.ca*, help us to maintain our leadership position with public sector clients by improving efficiencies in their operations. For example, *paytickets.ca* provides municipalities with a new payment channel for parking tickets. The consumer adoption rate is strong, with most municipalities experiencing a conversion of 15 per cent of payment volumes to this new channel within three months of implementation.

RBC Global Services regularly assesses client priorities and satisfaction levels through face-to-face interviews, internal reviews and objective third-party surveys. Our proprietary *Client Consultation Survey* is conducted every 18 months by an external research firm. The findings are analyzed internally and action plans are developed in response to specific suggestions. As a result of its findings, we have developed more robust investment analytics and enhanced our ability to service clients over the Internet.

EARNING THE RIGHT TO BE YOUR STRATEGIC ADVISOR

As one of the strongest farmer-owned co-operatives in Canada, United Farmers of Alberta (UFA) is firmly rooted in its communities and continually evolving. Our belief in this same philosophy enabled us to develop an 80-year relationship with UFA. UFA's 110,000 members, 120 fuel outlets and 34 farm stores rely on our expertise to lead a bank syndicate and provide cash management and agricultural banking services. As the relationship has deepened, we have become a strategic advisor on economic, risk management and agricultural issues to assist in UFA's business planning.

(From left): Roger Straathof, RBC Royal Bank, and Peter MacIntyre, RBC Global Services, with Orval Sorken, United Farmers of Alberta Co-operative Limited
Location: Sexsmith, Alberta, Canada

RBC GLOBAL SERVICES RANKED NUMBER ONE IN THE WORLD FOR QUALITY OF GLOBAL CUSTODY SERVICE TO EUROPEAN CLIENTS IN THE 2003 GLOBAL INVESTOR MAGAZINE SURVEY.



CROSS-ENTERPRISE LEVERAGE

In 2002, cross-enterprise leverage became a key priority, encouraging greater collaboration and teamwork across the organization to share best practices and offer clients a broader array of products and services in a more integrated fashion. Working this way we have also maximized efficiency and cut costs by eliminating duplication that arises from businesses and functions operating autonomously.

Since introducing this priority, we have identified and eliminated significant duplication across the organization, created enterprise centres of expertise and further centralized purchasing and other infrastructural activities. We have recently increased our focus on revenue and client-oriented initiatives to accelerate revenue growth. Some notable examples are provided below.

The *RBC Snowbird Package* introduced in August draws on the products and services of several RBC businesses and addresses the specific needs of a group of clients – Canadians who vacation and live in the Southern U.S. during the winter months. The *RBC Snowbird Package* offers special rates on banking, travel insurance, mortgage and foreign exchange services for long-stay travellers. The package is designed to give clients a worry-free stay in the U.S. by making it easier to handle their financial transactions from an expanding network of RBC Centura branches and ATMs in the Southeast U.S., a dedicated toll-free telephone number and best-in-class travel medical insurance.

To facilitate cross-selling and strengthen our offering to U.S. clients, **RBC Centura** enhanced the insurance specialist program launched last year in collaboration with **RBC Insurance**. Under this program, mobile insurance specialists are assigned to RBC Centura branches where they provide a wide range of insurance solutions to clients through personal referrals from branch employees. The results to date have been very encouraging with over 2,000 referrals in 2003.

RBC Centura is also working with **RBC Mortgage** to identify RBC Mortgage clients who could benefit from RBC Centura products and services. Anchoring these relationships with RBC Centura branches provides an opportunity to deepen client relationships and strengthen client loyalty. RBC Centura is also working with

RBC Dain Rauscher to serve clients of its Public Finance and Asset Management divisions in RBC Centura's geographic footprint. At the same time, RBC Centura is cross-selling RBC Mortgage and RBC Dain Rauscher capabilities to its clients.

In partnership with **RBC Centura**, **RBC Investments** is growing our North American private banking business by introducing private banking services for high net worth clients in the U.S., as well as Canadian clients with U.S. interests. This initiative begins to establish **RBC Investments Private Banking** in major U.S. markets where RBC has a presence. Through our pilot in an RBC Centura branch located in Boca Raton, Florida, we offer private banking services (consisting of banking, lending and wealth management solutions) to clients, using a highly personalized relationship approach.

RBC Insurance and **RBC Royal Bank** partnered to improve efficiencies and win new business by creating the *Investment Credit Facility* program for Canadian clients. This program allows high net worth policyholders to borrow up to \$5 million against the collateral in their universal life insurance policies. Using the credit underwriting experience of RBC Royal Bank and the insurance expertise of RBC Insurance, we are able to deliver a well-priced and tax-efficient financial vehicle to our clients easily and conveniently from one source. Since the launch, we have approved investment credit facilities worth more than \$121 million.

The creditor division of **RBC Insurance** collaborated with the **RBC Royal Bank** eBusiness and client experience teams to better integrate its creditor insurance products in Canada. Through technology, we simplified and standardized processes across all product lines and channels, enabling us to view the same client information through all distribution channels, virtually eliminating manual handling, duplication and paper storage. With over

2.5 million creditor clients, and more than 10 million retail clients in Canada, this will significantly reduce costs, eliminate client irritants and improve overall relationships.

Given that emerging market countries represent 75 per cent of the world's population and 50 per cent of global GDP, emerging market debt can be a component of clients' global investments. Accordingly, **RBC Investments** and **RBC Capital Markets** employed the capabilities of risk management, the sales force of RBC Capital Markets and technology along with the expertise of RBC Investments in emerging markets to form the Emerging Markets (EM) Fixed Income Group. In addition to the Toronto team, which includes traders, a sales desk, analysts and strategists, an affiliate desk was established in London to provide markets in non-dollar EM bonds. Providing our clients a wider range of global fixed income products and advisory services enables us to strengthen our existing relationships and attract new business. We are the only Canadian financial institution with an EM research and trading group enabling us to better compete with other major firms around the globe.

As cross-enterprise initiatives continue to evolve, some of the opportunities are becoming more intricate in their structure, more wide reaching in scope and more powerful in their impact. The *Integrated Products Group*, consisting of teams from **RBC Capital Markets** and **RBC Dain Rauscher** charged with incubating cross-enterprise opportunities, have had initial success working with **RBC Mortgage**, which in 2003 originated 126,000 residential mortgages in the U.S. amounting to US\$28 billion. Traditionally, these mortgages were sold in bundles to competitors who then repackaged them into smaller packages that were converted into securities, not unlike bonds, for sale to retail investors. The securitization process facilitates the movement of investments from less efficient mortgage debt markets to more efficient capital markets – a process that is entirely invisible to

the homeowners, but for the financial institution granting the mortgage, is crucial to managing its balance sheet and risk exposure. The *RBC Mortgage Committee*, comprising representatives from each of our five businesses, tackled the challenge of distributing these mortgages through RBC Dain Rauscher's U.S. institutional fixed income platform rather than through a competitor and concluded there were significant opportunities to create a positive impact by altering the way in which mortgage loans were distributed. In the spring of 2003, for example, in one large transaction the Committee coordinated the securitization of US\$130 million of mortgage loans.

As Canada's premier Automated Clearing House (ACH) direct deposit and payment provider, we offer our clients leading-edge technology payment services. In 2003, **RBC Global Services** processed more than 250 million ACH payments. RBC Global Services is the payment engine behind many bank services. For example, RBC Global Services provides **RBC Banking** with its *Pre-Authorized Payment* service to regularly debit client accounts for their *RSP-matic* product. Another collaboration with RBC Banking provides online tax filing to Canadian small business and other business clients through the RBC Banking *Online Banking* service. During 2003, client use of this product grew by 30 per cent.

RBC Global Services collaborated with **RBC Capital Markets** to form the *Hedge Funds Service Group*, enhancing our product and service offering by creating a unique model in the Canadian market. Both businesses provide hedge fund products to high net worth and institutional investors: RBC Capital Markets is the leader in the Canadian market for traditional prime brokerage and RBC Global Services is one of the first custodians globally to provide hedge fund services. The benefits to our existing and prospective clients include a wider range of hedge fund products and services from a single source. This also means an enhanced competitive position in the hedge funds market.

EARNING THE RIGHT TO ADVISE YOU

Providing professional wealth management services requires a close and personal relationship founded on mutual respect and understanding. Over more than 25 years, we have been committed to building such a relationship with Linda and John Forzani. In addition to providing investment advice, discretionary portfolio management and private trust, we now also offer commercial market services and private counsel. By understanding the Forzani's' needs, we have been able to provide additional wealth management services within Royal Bank of Canada Global Private Banking.

(From left): Meghan Meger, RBC Investments, with Linda and John Forzani
Location: Calgary, Alberta, Canada

ROYAL BANK OF CANADA WAS NAMED BEST BANK IN CANADA IN THE EUROMONEY 2003 AWARDS FOR EXCELLENCE.



NORTH AMERICAN EXPANSION

For over three years now, we have been selectively growing our presence in the United States. We are unique among the Canadian banks in having assembled a diversified business platform in the U.S. We have laid the foundation in businesses we want to grow, and continue to strategically build upon our North American franchise. We believe the U.S. is the most logical market outside of Canada in which to expand, given that it is the largest global economy, has similar culture and language to ours, and that the fragmented nature of its banking industry offers good potential for growth.

Since embarking on our U.S. expansion strategy in April 2000, we have made 12 U.S. acquisitions for approximately US\$5.5 billion. The acquisitions of Centura Banks, Inc., Liberty Life Insurance Company and Dain Rauscher formed the base of our U.S. banking, insurance and brokerage platforms, respectively. We made subsequent acquisitions in banking and brokerage that have diversified our operations, increased our customer base, enhanced our geographic presence and created opportunities for greater synergies.

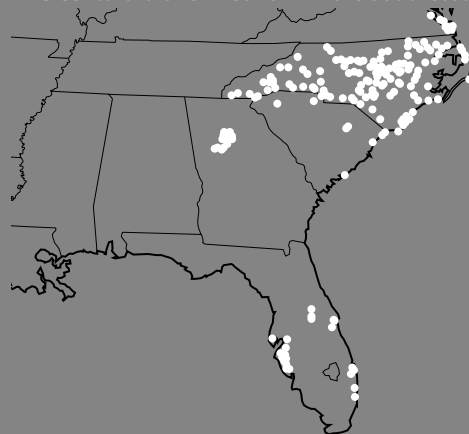
Our U.S. acquisitions have diversified our revenue stream, and resulted in an increase in the proportion of U.S. revenues from 7 per cent in 2000 to 27 per cent in 2003. These acquisitions have also increased our total customer base by approximately 2.4 million or 24 per cent. Net income from our U.S. acquisitions made since April 2000 was C\$251 million in 2003 versus C\$232 million in 2002, while net income from all of our U.S. operations was C\$382 million in 2003, up from C\$210 million in 2002.

RBC Centura

RBC Centura forms the foundation from which we are growing our personal and commercial banking business in the Southeastern U.S., an attractive market given its growth profile and opportunities for further consolidation. Currently, RBC Centura has approximately 800,000 personal and commercial clients, 242 retail and business branches in five Southeastern states, and national mortgage origination and builder finance businesses in RBC Mortgage and RBC Builder Finance. RBC Mortgage has the capability to do business in all 50 states and RBC Builder Finance has 33 offices in 26 U.S. states. In 2002, RBC Centura finalized its acquisition of Eagle Bancshares for US\$149 million. The 14 branches

acquired provide a valuable footprint in the attractive and high-growth metropolitan Atlanta market. In January 2003, RBC Centura completed its acquisition of Admiralty Bancorp for US\$153 million. This acquisition secured a footprint in the lucrative and fast-growing Southern and Central Florida markets. In addition to geographic expansion, RBC Centura has also grown organically in the U.S. through product innovation, enhanced sales techniques and improved service through technology investments. In the last year, new mortgage, savings account, small

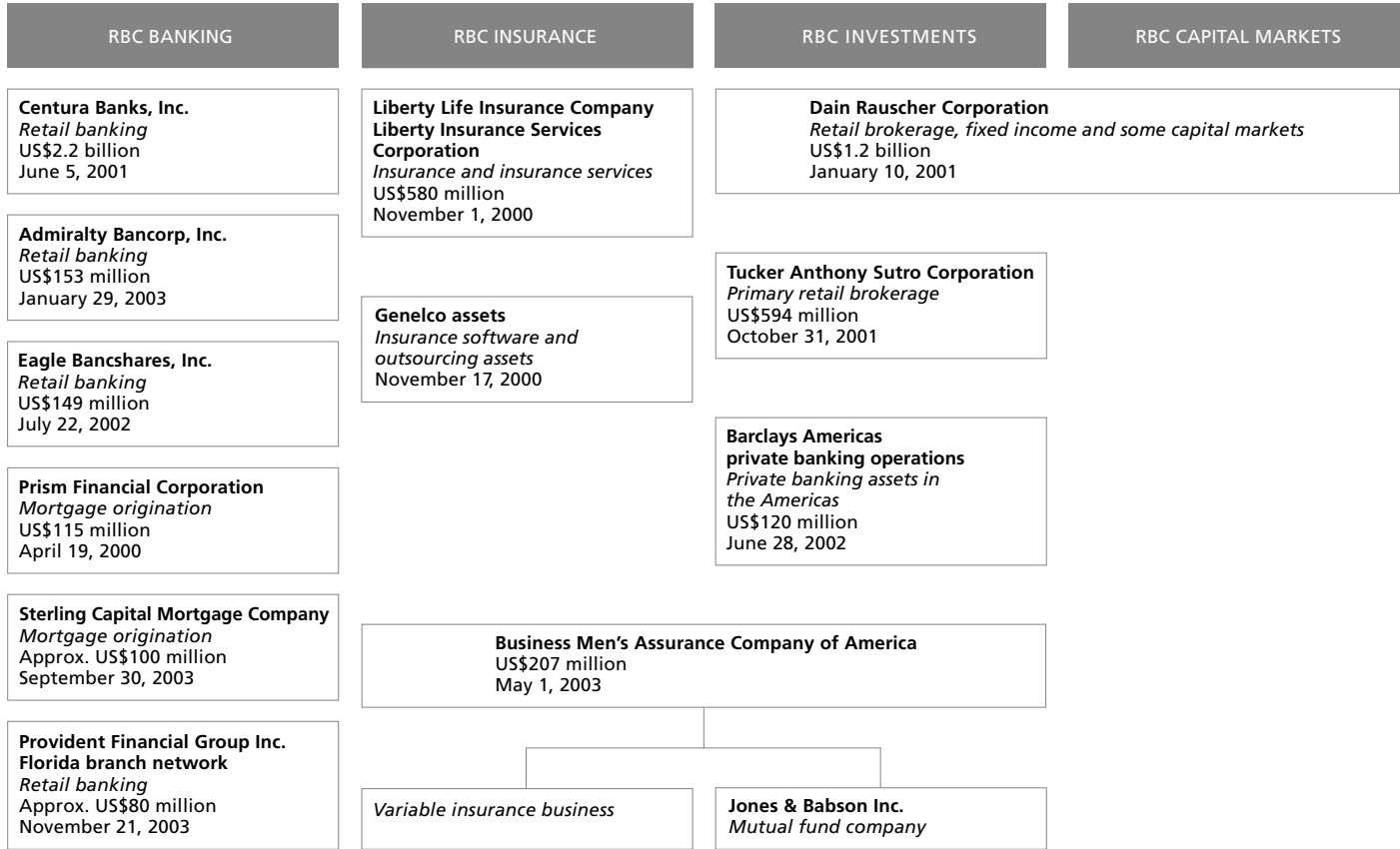
RBC Centura branch network in the Southeast U.S. (1)



(1) Excludes branch locations for RBC Mortgage and RBC Builder Finance which are located throughout the United States.

Building a sizeable U.S. platform

U.S. acquisitions since April 2000



business and professional service programs were launched. RBC Centura has also made significant efforts to strengthen its sales culture, and has been proactive in contacting clients and offering them incentives for referring new business.

RBC Dain Rauscher

RBC Dain Rauscher, our U.S. full-service brokerage operation, acquired Tucker Anthony Sutro in 2001, and the acquisition and integration have been very successful. The combination of these two companies virtually doubled the size of our U.S. wealth management platform. RBC Dain Rauscher is now the eighth-largest full-service brokerage firm in the U.S., based on financial consultants (approximately 1,750), and it has a national network of 140 brokerage offices in 39 states and US\$97 billion in assets under administration. We believe the long-term prospects for the wealth management business are solid given demographic trends and the significant intergenerational wealth transfer expected over the next few decades. In 2003, RBC Dain Rauscher focused on improving customer service, containing costs, growing fee-based products, and recruiting and retaining high-performing financial consultants. To date, approximately 860 financial consultants have taken the wealth management program that was designed to help them broaden and deepen relationships with clients. The top 25 per cent of financial consultants who took the course saw their business increase 24 per cent on average, while the firm's average financial consultant saw their revenues decline by 17 per cent during the same period. Moreover, with the pickup in fixed income production in 2003, the financial consultants were a key distribution arm for fixed income products.

Proportion of U.S. revenues growing



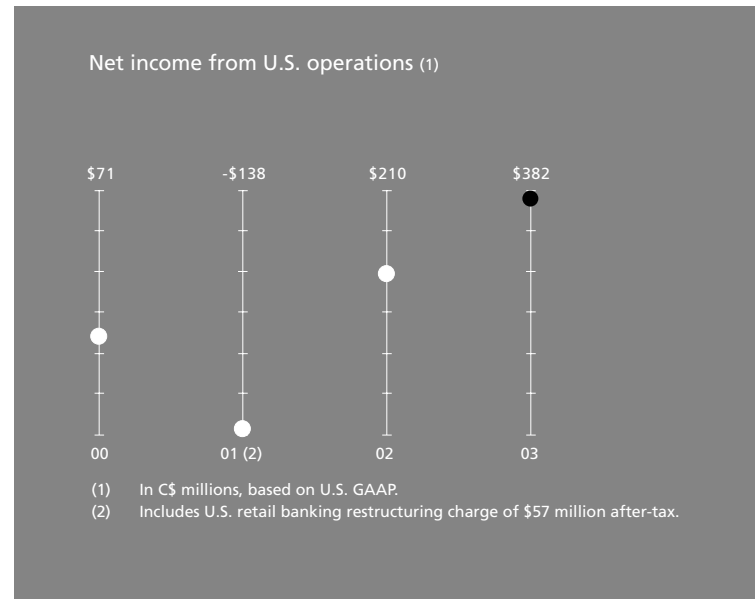
RBC Insurance

In 2003, RBC Insurance expanded into the variable insurance business via the acquisition of Business Men's Assurance Company of America (BMA). In a related transaction, RBC Dain Rauscher acquired Jones & Babson Inc., BMA's mutual fund company with US\$1.1 billion in assets under management. This purchase provides us with the infrastructure to offer wealth management oriented insurance products. Building on the strength of our leading position in the Canadian travel insurance market, we launched travel insurance in the United States in September. We are distributing our travel insurance products through travel agents in 34 states, with plans to expand nationwide by the end of calendar 2003.

A disciplined approach to acquisitions in 2003

We continued to expand in the U.S. in 2003, in a very disciplined and focused manner. In addition to the purchase of Admiralty Bancorp discussed on page 13, RBC Centura acquired the Florida operations of Provident Financial Group in November 2003, for a premium of approximately US\$80 million. We expect the transaction to be accretive to earnings by fiscal 2005. This acquisition will add 13 branches to RBC Centura's existing 10 Florida branches acquired through Admiralty Bancorp.

In September 2003, RBC Mortgage Company completed its acquisition of Sterling Capital Mortgage Company (SCMC) for approximately US\$100 million. This purchase is expected to be accretive to earnings in fiscal 2004 and places RBC Mortgage among the top 10 retail mortgage originators in the U.S., as measured by the volume of mortgage originations. The deal provides a valuable footprint into the high-growth California and Texas markets, and includes SCMC's 110 branch locations in 16 states,



and 16 Affiliated Business Arrangement joint ventures, co-owned in partnership with residential home builders. Most of SCMC's loans come from retail sources – that is, new home purchases and home builder originations, which are less sensitive to interest rate changes than mortgage refinancings. RBC Mortgage Company also acquired Bank One's wholesale first mortgage and broker home-equity origination capabilities in August 2003. Terms of the agreement were not disclosed. These two acquisitions are consistent with the bank's strategy of growing national niche lines of business. RBC Mortgage expects to



EARNING THE RIGHT TO FINANCE YOUR BUSINESS VENTURES

In the construction industry, projects and solid cash flow are vital. Over the past quarter century, RBC Centura participated in the success of John S. Clark and its key client, Granite Development, by helping them build a solid financial foundation. By listening and understanding their needs, we have earned more business through fast, flexible and creative responses. We succeeded in replacing a competitor by offering an attractive banking package including RBC Centura's treasury management services. Building on this, we are offering banking services to its 350 employees.

(From left): Kevin Beeson, RBC Centura Bank, with Richard Vaughn, John S. Clark Company, Inc., Rick Vaughn, Granite Development, Monty Venable, John S. Clark Company, Inc., and Craig Hunter, Granite Development
 Location: Greensboro, North Carolina, U.S.

ROYAL BANK OF CANADA WAS NAMED WORLD'S BEST FOREIGN EXCHANGE PROVIDER IN CANADA IN GLOBAL FINANCE MAGAZINE'S ANNUAL WORLD'S BEST BANK SURVEY.

leverage its relationship with RBC Builder Finance to grow new home builder business and provide financing to existing builders.

RBC Dain Rauscher acquired 600 institutional and 4,000 high net worth clients and expanded its private client and institutional fixed income business through its acquisition of New Jersey-based First Institutional Securities in March 2003.

Future U.S. expansion

Our near-term priority for the U.S. continues to be on meeting our operating targets and adopting best practices to enhance revenues, efficiency and profitability. We want to grow in a disciplined fashion and are investing in markets with good growth prospects and potential for solid shareholder returns. We also want to grow by acquisition, but only if our financial (accretive to earnings per share in two to three years), strategic (presence in businesses or regions we have targeted for expansion), and cultural (similar values and future plans) criteria are met. Our focus will be on continuing to grow our U.S. personal and commercial banking operations, with an emphasis on targeted acquisitions and *de novo* expansion in the Southeast U.S. A total of 25 to 30 branches are expected to be added organically in four states (North Carolina, South Carolina, Georgia and Florida) in 2004, with another 20 to 30 new branch openings slated for 2005. RBC Dain Rauscher also plans to grow by expansion of the branch office network, recruiting top financial consultants (our objective is to increase the number of financial consultants from 1,750 to 2,500 in three years), and making small opportunistic acquisitions of existing brokerage operations or assets.

Expansion outside North America

Outside North America, we have successful niche businesses such as global custody, trading and private banking.

In terms of our global custody operations, we have been successful in growing our business internationally; we have won large mandates in 2003 with assets under administration totalling approximately \$18 billion and expanded our service proposition to include performance analytics.

Much of the growth in RBC Capital Markets outside North America has been organic rather than by acquisition. We continue to be the Canadian leader in foreign exchange, with global trading volumes exceeding \$35 billion daily through trading rooms in Toronto, New York, London, Sydney and Tokyo. Our international bond business continues to grow quickly. In the United Kingdom, our infrastructure finance team is the leading arranger and underwriter of bond finance to the housing sector and the primary innovator of structures used by social housing providers. This group is also active in rail, road, school and hospital financing in the U.K.

Royal Bank of Canada Global Private Banking has been successful in recruiting teams of professionals from Latin America, the British Isles, Switzerland and throughout Asia, bringing in more than \$2 billion of client assets in 2003. Our growth strategy continues to include strategic niche acquisitions and hiring of specialists or teams of private bankers with an aggressive sales and marketing focus.

EARNING THE RIGHT TO HELP YOU BUILD YOUR BUSINESS

While business growth provides both challenges and opportunities, the key to success is being able to adapt – a defining characteristic of RBC's relationship with Michael Duck, founder of A.C. Dispensing Equipment Inc. As a manufacturer of portion controlled and manual/self-serve food dispensers, A.C. Dispensing expanded from a small Canadian operation in 1985 into a North American company. We kept pace by offering different products and services to meet its changing needs and challenges. Today, A.C. Dispensing accesses a whole different suite of financial services products from when it first started, including services such as commercial lending.

(From left): Darlene Kinghorn, RBC Royal Bank, with Michael Duck, A.C. Dispensing Equipment Inc. Location: Sackville, Nova Scotia, Canada

RBC FINANCIAL GROUP WAS NAMED THE MOST RESPECTED CORPORATION IN CANADA FOR 2003 IN KPMG/IPSOS-REID'S ANNUAL SURVEY.



RESPONDING TO YOU

During 2003, investors and analysts frequently asked the following questions about RBC and our business environment. Here are the answers we provided.

What would you consider to be the greatest challenges facing the Canadian financial services industry over the next few years?

The financial services sector in Canada is mature, concentrated and very competitive, with limited revenue growth opportunities for companies that do not find creative solutions for their clients' unique needs. Competition from non-traditional and niche players has been a concern for some time. One avenue for growth is domestic consolidation. As the prospect for in-market mergers for the large players, such as the Big Five banks, is uncertain due to regulatory and political considerations that we hope will be resolved in 2004, a number of the Big Five banks have looked outside Canada for expansion. Overcoming the hurdles to in-market mergers, successful execution and integration of acquisitions and maintaining market share profitably on the home front are some of the challenges facing Canadian financial institutions.

In addition, financial services companies are continuing to look for opportunities to expand their breadth and distribution of products and services and share of their clients' business to sustain revenue growth. One challenge has been gaining regulatory approval to offer insurance products directly to clients through bank branches. We believe that allowing banks to sell insurance through the branch network would enhance competition, and make insurance products substantially more accessible and cost-effective for Canadians.

How will you improve the return on investment on the U.S. acquisitions made over the past few years?

We are undertaking initiatives to improve sales and marketing effectiveness in our U.S. personal and commercial banking business by leveraging our Canadian capabilities and implementing Customer Relationship Management and client segmentation strategies. In addition, by opening new branches and offices in attractive, high-growth locations and making small, targeted acquisitions, we expect to further increase our returns. On the cost side, we are continuing to work to reduce costs by consolidating our technology platforms and integrating common head office functions and call centre operations across Canada and the U.S. Activities to improve our risk profile involve reducing the size of our commercial real estate portfolio and growing the size of our consumer loan portfolio. At RBC Mortgage, a subsidiary of RBC Centura, we are committed to improving our technology infrastructure and processes to enhance efficiency and returns.

We have considerably reduced our fixed operating and infrastructure costs in our U.S. wealth management operations and will have significant operating leverage once capital market activity improves. In addition, we intend to enhance returns by continuing to move to a more holistic advisory approach instead of the traditional product-oriented transaction approach. The early gains are encouraging, with revenues from the top quarter of financial consultants who took the new wealth management business development course increasing an average of 24 per cent compared to a decline of 17 per cent for the firm's

average financial consultant. We also expect to increase our client base and assets under administration by expanding the branch office network, recruiting top financial consultants and making small opportunistic acquisitions of brokerage operations or assets.

In our U.S. insurance operations, we also have both revenue and expense initiatives underway to improve returns. We announced in September 2003 our entrance into the relatively underserved U.S. travel insurance market, and we intend to gain a significant share of that business by leveraging our existing infrastructure and expertise. With the acquisition of Business Men's Assurance Company of America, we now have the infrastructure to manufacture variable insurance products and have gained opportunities for sales through affiliated and independent broker-dealers. We are also continuing to bring greater efficiency by further integrating and centralizing our operational areas on a North American basis, eliminating geographic and operating silos.

We are also developing our cross-sell and referral opportunities between our U.S. businesses and on a North American basis to enhance our revenue growth. We believe that these initiatives should enable us to improve the performance of our U.S. acquisitions.

What is your view of the increasingly competitive Canadian retail financial services market and the impact of pricing pressure on net interest margins?

Competition in the retail banking market has intensified as several of our Canadian competitors have publicly committed to focusing on their retail operations, while reducing their corporate loan portfolios. The competition has resulted in erosion of

net interest margins at some banks, as they have cut prices to maintain or increase their share of the market.

Our strategy is to compete on advice and service, rather than on price alone. We realize that to attract and retain clients, we must offer a combination of excellent service, efficient processes and a range of products and services to match the needs of each client segment, all while being sensitive to providing good value to our clients. In that regard, we have accelerated our initiatives to deliver a superior client experience, adding that as our new strategic priority, which is discussed on pages 8 to 10.

Since the beginning of 2003, we have seen our market shares of mortgage, deposit and personal credit products in Canada rise, reflecting significant success in client retention and volume growth.

Are you likely to acquire a large U.S. bank (say, US\$2 billion+ in market value) over the next year or so?

Although we have the capital capacity to undertake a larger acquisition, there are none on the horizon at this time that meet our strategic, cultural and financial criteria. We look for opportunities that will provide a good cultural and strategic fit, and have primarily focused on personal and commercial banking companies in the Southeast U.S. In addition, we expect our acquisitions to be accretive to our earnings within two to three years and to have limited impact on our return on common equity ratio. As valuations of most U.S. regional banks remained high and we are determined not to compromise shareholder value, we made only very small acquisitions in 2002 and 2003, largely to gain footholds in the high-growth markets of Atlanta and Florida and use those as a base for organic growth.

EARNING THE RIGHT TO ADD VALUE TO YOUR BUSINESS

Solid partnerships are integral to the operations and strong performance of any business. This is true of our relationship with the Canadian operations of the global travel agency Flight Centre Limited. Our service is built on understanding their business and providing optimal insurance solutions that set us apart from our competitors. We provide customized services, leading technology, dedicated support and ongoing education and training. We are also continually exploring opportunities to enhance the relationship, including through information technology initiatives and new products and services.

(From left): Stan Seggie, RBC Insurance, with Andrea Slingsby, Flight Centre Limited
Location: Toronto, Ontario, Canada

FOR THE SECOND CONSECUTIVE YEAR, RBC INSURANCE WAS VOTED FAVOURITE TRAVEL INSURANCE COMPANY IN THE CANADIAN TRAVEL PRESS/TRAVEL COURIER AGENTS' CHOICE AWARDS.



Have you considered raising your dividend payout ratio to over 50 per cent as some global banks have done?

At the end of 2002, we raised our dividend payout ratio goal from 30 to 40 per cent of earnings, to 35 to 45 per cent. In 2003, our dividend payout ratio was 38 per cent. Increasing our dividend payout is one of the ways we can reward our shareholders. Reinvesting capital to grow our businesses organically and through accretive acquisitions is another. We believe that a combination of reinvestment for profitable growth and dividend payments, along with share repurchases when appropriate, is the best strategy for providing long-term value to our shareholders.

What is your economic outlook for North America in 2004?

A reduction in uncertainty, the fading imbalances of expansion in the 1990s and a favourable policy environment are expected to boost North American growth in 2004. However, a number of risks remain. Households, businesses and financial markets may have to contend with a ballooning government deficit in the U.S. along with further increases in the Canadian dollar relative to the U.S. dollar.

At the time of this writing, the U.S. economy was set to finish 2003 on an upswing, carrying a fair degree of momentum heading into 2004. The investment overhang created in the late 1990s has been largely absorbed. Some pockets of excess capacity remain, but in most sectors it has been worked down to levels that will necessitate new investment. Consumer balance sheets have improved alongside increases in stock and house prices and will help sustain consumer spending. Auto and home sales are expected to slow next year but productivity gains, cost control and the depreciating U.S. dollar will keep profits growing. Favourable credit market conditions and rising profitability stack

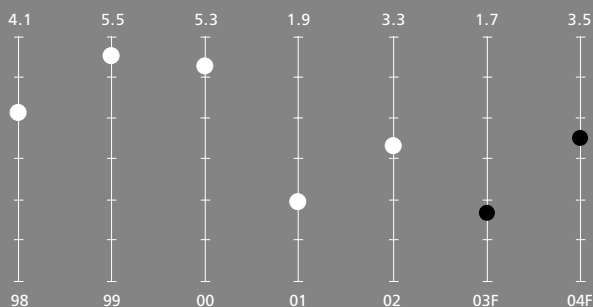
the odds in favour of further increases in U.S. business investment spending in 2004 following gains in 2003.

The twin deficits in the U.S. current account and federal government balances will keep the U.S. dollar under pressure relative to most world currencies, including the Canadian dollar. Following its sharp climb in 2003, the Canadian dollar is expected to appreciate again in 2004, but at a more modest pace, finishing 2004 at roughly 80 U.S. cents. As such, the transition in Canada away from export-led growth towards more balanced growth between the domestic and export economies is expected to continue. The Bank of Canada reversed course and reduced interest rates in 2003 to foster this transition and to offset the impacts of SARS and mad cow disease.

The modest rise of Canadian unemployment in 2003 comes after a remarkable year of job creation in 2002 and poses less of a risk to the outlook than the slowly improving U.S. labour market. That market's failure to convincingly recover since the end of the 2001 recession suggests long-acting structural changes in the economy may be at work. Such changes are often the result of technological innovations that can displace workers for extended periods. Should the U.S. job market falter, the momentum carried in 2004 could soften, jeopardizing the outlook for consumer spending.

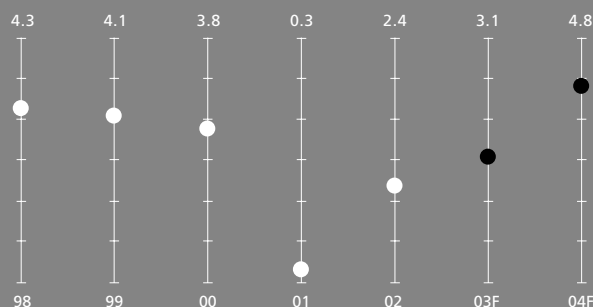
Thus monetary policy is expected to remain heavily tilted towards growth in both countries with the U.S. Federal Reserve and the Bank of Canada not likely to raise rates until the second half of 2004. Low and stabilizing inflation will facilitate the task of monetary authorities, but a rapidly deteriorating U.S. federal government deficit could complicate matters for the Federal Reserve. Notwithstanding risks the U.S. economy is expected to expand by 4.8 per cent in 2004 after growing by an estimated 3.1 per cent in 2003. The Canadian economy is expected to grow by 3.5 per cent in 2004 after growing by an estimated 1.7 per cent in 2003.

Canadian real GDP growth
% change, year-over-year



F = Forecast in early December 2003
Source: Statistics Canada, RBC Financial Group

U.S. real GDP growth
% change, year-over-year



F = Forecast in early December 2003
Source: Bureau of Economic Analysis, RBC Financial Group

SERVING OUR STAKEHOLDERS

Everywhere we operate, we aspire to be known as an organization that builds enduring relationships with, and delivers value for, its clients, shareholders, employees and communities. Each of these stakeholders is vital to our future. We take seriously our responsibility to provide our clients a superior experience and top-quality products and services through a variety of channels, generate consistently superior returns for our shareholders, provide a rewarding work experience for our employees and help build healthy communities. Our values of service, teamwork, responsibility, diversity and integrity form the foundation of our commitments to our stakeholders.

Our clients

We are committed to building strong, long-term relationships with our clients. Reflecting this commitment, we have added superior client experience to our strategic priorities in support of our new vision statement. The RBC client experience is premised on proactively offering insights into their financial needs, delivering solutions and providing a superior service experience through every point of contact. Integral to providing a superior client experience is prompt, efficient attention to complaints. For concerns not resolved through our established complaint management process, the Office of the Ombudsman provides an impartial appeal avenue.

Our shareholders

We are focused on maximizing long-term shareholder value through strong financial performance and returns, disciplined and profitable expansion and cross-enterprise initiatives which grow revenues and reduce costs. We are committed to providing excellent service and disclosure to our shareholders and ensuring the highest standards of corporate governance. Over the past 10 years, an investment in our common shares has provided shareholders with a compound annual total return of 20.3 per cent, placing us third among the 15 leading North American financial services companies to which we compare ourselves. We will endeavour to maintain this valuation leadership. Shareholder information is available at rbc.com/investorrelations.

Our employees

Our people are key to building lasting relationships with our clients and communities and are vital to our ongoing success. To attract and retain a world-class workforce, we focus on a *Total Rewards* philosophy that extends beyond competitive pay and benefits to include a positive and flexible work environment, innovative learning and career development opportunities, and a strong commitment to valuing diversity. This *Total Rewards* approach is shaped in part by listening and responding to what employees say they value, such as individual choice and flexibility in their rewards package. RBC Financial Group is widely recognized, both externally and by our employees, as an employer of choice with leading workplace and people management practices. We continually strive to enhance these practices.

Our community

For the last seven years, we have been named the most socially responsible corporation in Canada by KPMG/Ipsos-Reid – a reflection of our commitment and effort to help build healthy communities wherever we do business. This year, we donated more than \$37 million worldwide, including grants to after-school programs, funding for health care initiatives and support for community economic development. We also invested over \$20 million in amateur athletics, the arts and community events. Our employees contributed countless volunteer hours, too, sharing skills, knowledge and compassion to further enrich the communities where they live and work. But corporate citizenship should be measured not only by a company's donations, but also by its products, services and programs, the way it does business, and its leadership in key areas of social responsibility. For more information on these aspects of our corporate citizenship, visit rbc.com/community.