CONSOLIDATED FINANCIAL STATEMENTS

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying Consolidated Financial Statements of Royal Bank of Canada (RBC) were prepared by management, which is responsible for the integrity and fairness of the information presented, including the many amounts that must of necessity be based on estimates and judgments. These Consolidated Financial Statements were prepared in accordance with Canadian generally accepted accounting principles (GAAP) pursuant to Subsection 308 of the *Bank Act* (Canada), which states that, except as otherwise specified by the Superintendent of Financial Institutions Canada, the financial statements are to be prepared in accordance with Canadian GAAP. Financial information appearing throughout our management's discussion and analysis is consistent with these Consolidated Financial Statements.

In discharging our responsibility for the integrity and fairness of the Consolidated Financial Statements and for the accounting systems from which they are derived, we maintain the necessary system of internal controls designed to ensure that transactions are authorized, assets are safeguarded and proper records are maintained. These controls include quality standards in hiring and training of employees, policies and procedures manuals, a corporate code of conduct and accountability for performance within appropriate and well-defined areas of responsibility.

The system of internal controls is further supported by a compliance function, which is designed to ensure that we and our employees comply with securities legislation and conflict of interest rules, and by an internal audit staff, which conducts periodic audits of all aspects of our operations.

The Board of Directors oversees management's responsibilities for financial reporting through its Audit Committee, which is composed entirely of directors who are neither officers nor employees of RBC. This Committee reviews our Consolidated Financial Statements and recommends them to the Board for approval. Other key responsibilities of the Audit Committee include reviewing our existing internal control procedures and planned revisions to those procedures, and advising the directors on auditing matters and financial reporting issues. Our Compliance Officer and Chief Internal Auditor have full and unrestricted access to the Audit Committee.

The Office of the Superintendent of Financial Institutions, Canada (OSFI) examines and inquires into the business and affairs of RBC as deemed necessary to determine whether the provisions of the *Bank Act* are being complied with, and that RBC is in sound financial condition. In carrying out its mandate, OSFI strives to protect the rights and interests of depositors and creditors of RBC.

Deloitte & Touche LLP, independent auditors appointed by the shareholders of RBC upon the recommendation of the Audit Committee and Board, have performed an independent audit of the Consolidated Financial Statements and their report follows. The auditors have full and unrestricted access to the Audit Committee to discuss their audit and related findings.

Gordon M. Nixon
President and Chief Executive Officer

Janice R. Fukakusa
Chief Financial Officer

Toronto, November 30, 2005

AUDITORS' REPORT TO SHAREHOLDERS

To the Shareholders of Royal Bank of Canada

We have audited the consolidated balance sheets of Royal Bank of Canada as at October 31, 2005 and 2004, and the consolidated statements of income, changes in shareholders' equity and cash flows for each of the years in the three-year period ended October 31, 2005. These consolidated financial statements are the responsibility of the bank's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statements presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the bank as at October 31, 2005 and 2004, and the results of its operations and its cash flows for each of the years in the three-year period ended October 31, 2005, in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP
Chartered Accountants
Toronto, November 30, 2005

CONSOLIDATED BALANCE SHEETS

As at October 31 (C$ millions)	2005	2004 (1)
Assets		
Cash and due from banks	$ 5,001	$ 3,711
Interest-bearing deposits with banks	5,237	6,267
Securities (Note 3)		
Trading account	125,760	89,322
Investment account	34,060	38,923
Loan substitute	675	701
	160,495	128,946
Assets purchased under reverse repurchase agreements and securities borrowed	42,973	46,949
Loans (Note 4 and 5)		
Residential mortgage	91,043	81,998
Personal	41,045	36,848
Credit cards	6,200	6,456
Business and government	53,626	47,258
	191,914	172,560
Allowance for loan losses	(1,498)	(1,644)
	190,416	170,916
Other		
Customers' liability under acceptances	7,074	6,184
Derivative-related amounts (Note 7)	38,834	38,897
Premises and equipment (Note 8)	1,708	1,738
Goodwill (Note 9)	4,203	4,280
Other intangibles (Note 9)	409	521
Assets of operations held for sale (Note 10)	263	2,457
Other assets (Note 11)	12,908	15,356
	65,399	69,433
	$ 469,521	$ 426,222
Liabilities and shareholders' equity		
Deposits (Note 12)		
Personal	$ 111,618	$ 111,256
Business and government	160,593	133,823
Bank	34,649	25,880
	306,860	270,959
Other		
Acceptances	7,074	6,184
Obligations related to securities sold short	32,391	25,005
Obligations related to assets sold under repurchase agreements and securities loaned	23,381	26,473
Derivative-related amounts (Note 7)	42,592	42,201
Insurance claims and policy benefit liabilities (Note 13)	7,117	6,488
Liabilities of operations held for sale (Note 10)	40	62
Other liabilities (Note 14)	18,408	20,172
	131,003	126,585
Subordinated debentures (Note 15)	8,167	8,116
Trust capital securities (Note 16)	1,400	2,300
Preferred share liabilities (Note 17)	300	300
Non-controlling interest in subsidiaries (Note 18)	1,944	58
Shareholders' equity (Note 17)		
Preferred shares	700	532
Common shares (shares issued – 646,750,772 and 644,747,812)	7,170	6,988
Contributed surplus	265	169
Retained earnings	13,704	12,065
Treasury shares – preferred (shares held – 90,600 and nil)	(2)	–
– common (shares held – 3,526,276 and 4,862,782)	(216)	(294)
Net foreign currency translation adjustments	(1,774)	(1,556)
	19,847	17,904
	$ 469,521	$ 426,222

(1) Comparative information has been restated as a result of amendments to the definitions of liabilities and equity (refer to Note 1) and the identification of discontinued operations (refer to Note 10).

Gordon M. Nixon
President and Chief Executive Officer

Robert B. Peterson
Director

CONSOLIDATED STATEMENTS OF INCOME

For the year ended October 31 (C$ millions)	2005	2004 (1)	2003 (1)
Interest income			
Loans	$ 10,790	$ 9,535	$ 9,900
Securities	4,583	3,572	3,025
Assets purchased under reverse repurchase agreements and securities borrowed	1,354	656	873
Deposits with banks	231	103	101
	16,958	13,866	13,899
Interest expense			
Deposits	6,946	5,142	5,452
Other liabilities	2,800	1,897	1,735
Subordinated debentures	442	429	376
	10,188	7,468	7,563
Net interest income	6,770	6,398	6,336
Non-interest income			
Insurance premiums, investment and fee income	3,270	2,870	2,356
Trading revenue	1,594	1,563	1,908
Investment management and custodial fees	1,255	1,126	1,098
Securities brokerage commissions	1,163	1,166	1,031
Service charges	1,153	1,089	1,122
Underwriting and other advisory fees	1,026	918	813
Mutual fund revenue	962	850	673
Card service revenue	579	555	518
Foreign exchange revenue, other than trading	407	331	279
Securitization revenue (Note 5)	285	200	165
Credit fees	187	198	227
Gain on sale of investment account securities (Note 3)	91	20	31
Other	473	518	431
Non-interest income	12,445	11,404	10,652
Total revenue	19,215	17,802	16,988
Provision for credit losses (Note 4)	455	346	721
Insurance policyholder benefits, claims and acquisition expense	2,625	2,124	1,696
Non-interest expense			
Human resources (Note 19 and 20)	6,767	6,701	6,297
Equipment	960	906	882
Occupancy	749	765	721
Communications	632	672	707
Professional fees	529	474	444
Outsourced item processing	296	294	292
Amortization of other intangibles (Note 9)	50	69	71
Other	1,405	952	751
	11,388	10,833	10,165
Business realignment charges (Note 21)	45	177	–
Income from continuing operations before income taxes	4,702	4,322	4,406
Income taxes (Note 22)	1,278	1,287	1,439
Net income before non-controlling interest	3,424	3,035	2,967
Non-controlling interest in net income of subsidiaries	(13)	12	12
Net income from continuing operations	3,437	3,023	2,955
Net income (loss) from discontinued operations (Note 10)	(50)	(220)	13
Net income	$ 3,387	$ 2,803	$ 2,968
Preferred dividends (Note 17)	(42)	(31)	(31)
Net gain on redemption of preferred shares	4	–	–
Net income available to common shareholders	$ 3,349	$ 2,772	$ 2,937
Average number of common shares (in thousands) (Note 23)	641,717	646,732	662,080
Basic earnings per share (in dollars)	$ 5.22	$ 4.29	$ 4.44
Basic earnings per share from continuing operations (in dollars)	$ 5.30	$ 4.63	$ 4.42
Basic earnings per share from discontinued operations (in dollars)	$ (.08)	$ (.34)	$ .02
Average number of diluted common shares (in thousands) (Note 23)	652,340	655,508	669,016
Diluted earnings per share (in dollars)	$ 5.13	$ 4.23	$ 4.39
Diluted earnings per share from continuing operations (in dollars)	$ 5.21	$ 4.57	$ 4.37
Diluted earnings per share from discontinued operations (in dollars)	$ (.08)	$ (.34)	$ .02
Dividends per share (in dollars)	$ 2.35	$ 2.02	$ 1.72

(1) Comparative information has been restated as a result of amendments to the definitions of liabilities and equity (refer to Note 1) and the identification of discontinued operations (refer to Note 10).

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended October 31 (C$ millions)	2005	2004 (1)	2003 (1)
Preferred shares (Note 17)			
Balance at beginning of year	$ 532	$ 532	$ 556
Issued	300	–	–
Redeemed for cancellation	(132)	–	–
Translation adjustment on shares denominated in foreign currency	–	–	(24)
Balance at end of year	700	532	532
Common shares (Note 17)			
Balance at beginning of year	6,988	7,018	6,979
Issued	214	127	193
Purchased for cancellation	(32)	(157)	(154)
Balance at end of year	7,170	6,988	7,018
Contributed surplus			
Balance at beginning of year	169	85	78
Renounced stock appreciation rights	(6)	–	–
Stock-based compensation awards	26	56	7
Gain on redemption of preferred shares	7	–	–
Reclassified amounts	–	34	–
Initial adoption of AcG-15, *Consolidation of Variable Interest Entities*	54	–	–
Other	15	(6)	–
Balance at end of year	265	169	85
Retained earnings			
Balance at beginning of year	12,065	11,333	10,235
Net income	3,387	2,803	2,968
Preferred share dividends (Note 17)	(42)	(31)	(31)
Common share dividends (Note 17)	(1,512)	(1,303)	(1,137)
Premium paid on common shares purchased for cancellation	(194)	(735)	(698)
Issuance costs	–	–	(4)
Cumulative effect of adopting AcG-17, *Equity-Linked Deposit Contracts*	–	(2)	–
Balance at end of year	13,704	12,065	11,333
Treasury shares – preferred (Note 17)			
Balance at beginning of year	–	–	–
Net sales (purchases)	(2)	–	–
Balance at end of year	(2)	–	–
Treasury shares – common (Note 17)			
Balance at beginning of year	(294)	–	–
Net sales (purchases)	132	10	–
Reclassified amounts	–	(304)	–
Initial adoption of AcG-15, *Consolidation of Variable Interest Entities*	(54)	–	–
Balance at end of year	(216)	(294)	–
Net foreign currency translation adjustments			
Balance at beginning of year	(1,556)	(893)	(54)
Unrealized foreign currency translation loss	(619)	(1,341)	(2,988)
Foreign currency gain from hedging activities	401	678	2,149
Balance at end of year	(1,774)	(1,556)	(893)
Shareholders' equity at end of year	$ 19,847	$ 17,904	$ 18,075

(1) Comparative information has been restated as a result of amendments to the definitions of liabilities and equity (refer to Note 1) and the identification of discontinued operations (refer to Note 10).

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the year ended October 31 (C$ millions)	2005	2004 (1)	2003 (1)
Cash flows from operating activities			
Net income from continuing operations	$ 3,437	$ 3,023	$ 2,955
Adjustments to determine net cash from (used in) operating activities			
Provision for credit losses	455	346	721
Depreciation	414	387	391
Business realignment charges	36	177	–
Business realignment payments	(94)	–	–
Future income taxes	(482)	(52)	273
Amortization of other intangibles	50	69	71
Writedown of deferred issuance costs	–	25	–
Gain on sale of premises and equipment	(21)	(52)	(15)
Gain on loan securitizations	(103)	(34)	(34)
Loss on investment in associated corporations and limited partnerships	–	9	34
Gain on sale of investment account securities	(91)	(20)	(31)
Changes in operating assets and liabilities			
Insurance claims and policy benefit liabilities	629	118	(17)
Net change in accrued interest receivable and payable	(5)	(120)	122
Current income taxes	(9)	(895)	672
Derivative-related assets	63	(3,281)	(5,358)
Derivative-related liabilities	391	4,426	5,638
Trading account securities	(36,438)	(1,965)	(11,930)
Net change in brokers and dealers receivable and payable	1,334	(539)	281
Other	810	6	(2,876)
Net cash from (used in) operating activities from continuing operations	(29,624)	1,628	(9,103)
Net cash from (used in) operating activities from discontinued operations	95	303	(569)
Net cash from (used in) operating activities	(29,529)	1,931	(9,672)
Cash flows from investing activities			
Change in interest-bearing deposits with banks	1,030	(4,320)	999
Change in loans, net of loan securitizations	(27,667)	(15,287)	1,087
Proceeds from loan securitizations	5,606	3,532	1,742
Proceeds from sale of investment account securities	25,628	18,427	19,340
Proceeds from maturity of investment account securities	18,405	38,088	26,983
Purchases of investment account securities	(36,373)	(50,911)	(49,750)
Change in loan substitute securities	26	(376)	69
Net acquisitions of premises and equipment	(383)	(439)	(391)
Change in assets purchased under reverse repurchase agreements and securities borrowed	3,976	(5,767)	(2,253)
Net cash from (used in) acquisition of subsidiaries	–	438	(281)
Net cash used in investing activities from continuing operations	(9,752)	(16,615)	(2,455)
Net cash from (used in) investing activities from discontinued operations	2,027	850	(3,056)
Net cash used in investing activities	(7,725)	(15,765)	(5,511)
Cash flows from financing activities			
Change in deposits	35,001	11,814	14,800
Issue of RBC Trust Capital Securities (RBC TruCS)	1,200	–	900
Issue of subordinated debentures	800	3,100	–
Repayment of subordinated debentures	(786)	(990)	(100)
Issue of preferred shares	300	–	–
Redemption of preferred shares for cancellation	(132)	–	(653)
Issuance costs	(3)	–	(4)
Issue of common shares	198	119	183
Purchase of common shares for cancellation	(226)	(892)	(852)
Net sales of treasury shares	130	10	–
Dividends paid	(1,469)	(1,295)	(1,144)
Dividends/distributions paid by subsidiaries to non-controlling interests	(13)	(13)	(5)
Change in obligations related to assets sold under repurchase agreements and securities loaned	(3,092)	1,977	440
Change in obligations related to securities sold short	7,386	2,150	3,745
Change in short-term borrowings of subsidiaries	(628)	(1,305)	(1,697)
Net cash from financing activities from continuing operations	38,666	14,675	15,613
Net cash from financing activities	38,666	14,675	15,613
Effect of exchange rate changes on cash and due from banks	(122)	(17)	(77)
Net change in cash and due from banks	1,290	824	353
Cash and due from banks at beginning of year	3,711	2,887	2,534
Cash and due from banks at end of year	$ 5,001	$ 3,711	$ 2,887
Supplemental disclosure of cash flow information			
Amount of interest paid in year	$ 10,109	$ 7,408	$ 7,308
Amount of income taxes paid in year	$ 1,932	$ 2,522	$ 1,723

(1) Comparative information has been restated as a result of amendments to the definitions of liabilities and equity (refer to Note 1) and the identification of discontinued operations (refer to Note 10).

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

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

Basis of consolidation

The Consolidated Financial Statements include the assets and liabilities and results of operations of all subsidiaries and Variable Interest Entities (VIEs) where we are the Primary Beneficiary, after elimination of intercompany transactions and balances. The equity method is used to account for investments in associated corporations and limited partnerships in which we have significant influence. These investments are reported in Other Assets. Our share of earnings, gains and losses realized on dispositions and writedowns to reflect other-than-temporary impairment in the value of these investments are included in Non-interest Income. The proportionate consolidation method is used to account for investments in which we exercise joint control, whereby our pro rata share of assets, liabilities, income and expenses is consolidated. In cases where such investments are considered to be VIEs, and we are the Primary Beneficiary, we would fully consolidate the entities.

Translation of foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at rates prevailing at the balance sheet date. Non-monetary assets and liabilities are translated into Canadian dollars at historical rates. Income and expenses denominated in foreign currencies are translated at average rates of exchange for the year.

Assets and liabilities of our self-sustaining operations with functional currency other than Canadian dollar are translated into Canadian dollars at rates prevailing at the balance sheet date and income and expenses of these foreign operations are translated at average rates of exchange for the year.

Unrealized gains or losses arising as a result of the translation of our foreign self-sustaining operations are included in Shareholders' Equity along with related hedge and tax effects. On disposal of such investments, the accumulated net translation gain or loss is included in Non-interest Income.

Other foreign currency translation gains and losses are included in Non-interest Income.

Securities

Securities which are purchased for sale in the near term are classified as Trading Account Securities and reported at their estimated fair value. Obligations to deliver trading account securities sold but not yet purchased are recorded as liabilities and carried at fair value. Realized and unrealized gains and losses on these securities are recorded as Trading Revenue in Non-interest Income. Dividend and interest income accruing on trading account securities is recorded in Interest Income. Interest accrued and dividends received on interest-bearing and equity securities sold short are recorded in Interest Expense.

Investments in equity and debt securities which are purchased for longer term purposes are classified as Investment Account Securities. These securities may be sold in response to or in anticipation of changes in interest rates and resulting prepayment risk, changes in foreign currency risk, changes in funding sources or terms, or to meet liquidity needs. Investment Account equity securities, including non-public and venture capital equity securities for which representative market quotes are not readily available, are carried at cost. Investment Account debt securities are carried at amortized cost. Dividends, interest income and amortization of premiums and discounts on debt securities are recorded in Interest Income. Gains and losses realized on disposal of Investment Account Securities, which are calculated on an average cost basis, and writedowns to reflect other-than-temporary impairment in value are included in Gain on Sale of Investment Account Securities in Non-interest Income.

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

We account for all our securities using settlement date accounting for the Consolidated Balance Sheets, and trade date accounting for the Consolidated Statements of Income.

Assets purchased under reverse repurchase agreements and sold under repurchase agreements

We purchase securities under agreements to resell (reverse repurchase agreements). Reverse repurchase agreements are treated as collateralized lending transactions and are carried on the Consolidated Balance Sheets at the amounts at which the securities were initially acquired plus accrued interest. Interest earned on reverse repurchase agreements is included in Interest Income in our Consolidated Statements of Income.

We sell securities under agreements to repurchase (repurchase agreements). Repurchase agreements are treated as collateralized borrowing transactions and are carried on the Consolidated Balance Sheets at the amounts at which the securities were initially sold, plus accrued interest on interest-bearing securities. Interest incurred on repurchase agreements is included in Interest Expense in our Consolidated Statements of Income.

Loans

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

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

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

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

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

Allowances for credit losses

The Allowances for Credit Losses are maintained at levels that management considers adequate to absorb identified credit related losses in the portfolio as well as losses that have been incurred, but are not yet identifiable as at the balance sheet date. The allowances relate to on-balance sheet exposures, such as loans and acceptances, and off-balance sheet items such as letters of credit, guarantees, and unfunded commitments.

The allowances are increased by the Provision for Credit Losses, which is charged to income, and decreased by the amount of write-offs, net of recoveries. The Allowances for Credit Losses for on-balance sheet items are included as a reduction to assets, and allowances relating to off-balance sheet items are included in Other Liabilities.

The allowances are determined based on management's identification and evaluation of problem accounts, estimated probable losses that exist on the remaining portfolio, and on other factors including the composition and credit quality of the portfolio, and changes in economic conditions. The Allowances for Credit Losses consist of the Specific allowances and the General allowance.

Specific allowances

Specific allowances are maintained to absorb losses on both specifically identified borrowers and other homogeneous loans that have become impaired. The losses relating to identified large business and government borrowers are estimated using management's judgment relating to the timing of future cash flow amounts that can be reasonably expected from the borrowers, financially responsible guarantors and the realization of collateral. The amounts expected to be recovered are reduced by estimated collection costs and discounted at the effective interest rate of the obligation. The losses relating to homogeneous portfolios, including residential mortgages, and personal and small business loans are based on net write-off experience. For credit cards, no specific allowance is maintained as balances are written off if no payment has been received after 180 days. Personal loans are generally written off at 150 days past due. Write-offs for other loans are generally recorded when there is no realistic prospect of full recovery.

General allowance

The general allowance represents the best estimate of probable losses within the portion of the portfolio that has not yet been specifically identified as impaired. For large business and government loans and acceptances, the general allowance is based on the application of expected default and loss factors, determined by historical loss experience, delineated by loan type and rating. For homogeneous portfolios, including residential mortgages, credit cards, and personal and small business loans, the determination of the general allowance is done on a portfolio basis. The losses are estimated by the application of loss ratios determined through historical write-off experience. In determining the general allowance level, management also considers the current portfolio credit quality trends, business and economic conditions, the impact of policy and process changes, and other supporting factors. In addition, the general allowance includes a component for the limitations and imprecision inherent in the allowance methodologies.

Acceptances

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

Derivatives

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

When used in sales and trading activities, the realized and unrealized gains and losses on derivatives are recognized in Non-interest Income. The fair values of derivatives are reported on a gross basis as Derivative-related Amounts in assets and liabilities, except where we have both the legal right and intent to settle these amounts simultaneously in which case they are presented on a net basis. A portion of the fair value is deferred within Derivative-related Amounts in liabilities to adjust for credit risk related to these contracts. Margin requirements and premiums paid are also included in Derivative-related Amounts in assets, while premiums received are shown in Derivative-related Amounts in liabilities.

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

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

Foreign exchange forward contracts and U.S. dollar liabilities are used to manage foreign currency exposures from net investments in self-sustaining foreign operations having a functional currency other than the Canadian dollar. Foreign exchange gains and losses on these hedging instruments, net of applicable tax, are recorded in Net Foreign Currency Translation Adjustments.

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

Non-trading derivatives, for which hedge accounting has not been applied, including certain warrants, loan commitments and derivatives embedded in equity-linked deposit contracts, are carried at fair value on a gross basis as Derivative-related Amounts in assets and liabilities with changes in fair value recorded in Non-interest Income. These non-trading derivatives are eligible for designation in future hedging relationships. Upon a designation, any previously recorded fair value on the Consolidated Balance Sheets is amortized to Net Interest Income.

At the inception of all derivatives to be reported at fair value, if fair value is not evidenced at inception by quoted market prices, other current market transactions or observable market inputs, then unrealized gains and losses are deferred and recognized over the term of the instrument.

Premises and equipment

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

Business combinations, goodwill and other intangibles

All business combinations are accounted for using the purchase method. Identifiable intangible assets are recognized separately from Goodwill and included in Other Intangibles. Goodwill represents the excess of the price paid for the acquisition of subsidiaries over the fair value of the net identifiable assets acquired, and is assigned to reporting units of a business segment. A reporting unit is comprised of business operations with similar economic characteristics and strategies, and is defined by GAAP as the level of reporting at which goodwill is tested for impairment and is either a business segment or one level below. Upon disposal of a portion of a reporting unit, goodwill is allocated to the disposed portion based on the fair value of that portion relative to the total reporting unit.

Goodwill is evaluated for impairment annually, as at August 1st, or more often if events or circumstances indicate there may be an impairment. If the carrying value of a reporting unit, including the allocated goodwill, exceeds its fair value, goodwill impairment is measured as the excess of the carrying amount of the reporting unit's allocated goodwill over the implied fair value of the goodwill, based on the fair value of the assets and liabilities of the reporting unit. Any goodwill impairment is charged to income in the period in which the impairment is identified. Subsequent reversals of impairment are prohibited.

Other intangibles with a finite life are amortized over their estimated useful lives, generally not exceeding 20 years, and are also tested for impairment when conditions exist which may indicate that the estimated future net cash flows from the asset will be insufficient to recover its carrying amount.

Income taxes

We use the asset and liability method whereby income taxes reflect the expected future tax consequences of temporary differences between the carrying amounts of assets or liabilities for accounting purposes compared with tax purposes. A future income tax asset or liability is determined for each temporary difference based on the tax rates that are expected to be in effect when the underlying items of income and expense are expected to be realized, except for earnings related to our foreign operations where repatriation of such amounts is not contemplated in the foreseeable future. Income taxes reported in the Consolidated Statements of Income include the current and future portions of the expense. Income taxes applicable to items charged or credited to Shareholders' Equity are netted with such items. Changes in future income taxes related to a change in tax rates are recognized in the period the tax rate change is substantively enacted.

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

Pensions and other postemployment benefits

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

Investments held by the pension funds primarily comprise equity and fixed income securities. Pension fund assets are valued at fair value. For the principal defined benefit plans, the expected return on plan assets, which is reflected in the pension benefit expense, is calculated using a market-related value approach. Under this approach, assets are valued at an adjusted market value, whereby realized and unrealized capital gains and losses are amortized over 3 years on a straight-line basis. For the majority of the non-principal and supplemental defined benefit plans, the expected return on plan assets is calculated based on the fair value of assets.

Actuarial valuations for the defined benefit plans are performed on a regular basis to determine the present value of the accrued pension and other postemployment benefits, based on projections of employees' compensation levels to the time of retirement and the projected costs of health, dental and life insurance.

Our defined benefit pension expense, which is included in Non-interest Expense – Human Resources, consists of the cost of employee pension benefits earned for the current year's service, interest cost on the liability, expected investment returns on the market-related value or market value of the plan assets, and the amortization of prior service costs, net actuarial gains or losses and transitional assets or obligations. For some plans, including the principal plans, actuarial gains or losses are determined each year and amortized over the expected average remaining service life of employee groups covered by the plan. For the remaining plans, net actuarial gains or losses in excess of the greater of 10% of the plan assets or the accrued benefit obligation at the beginning of the year, are amortized over the expected average remaining service life of employee groups covered by the plan.

Our defined contribution pension expense is recognized in income for services rendered by employees during the period.

The cumulative excess of pension fund contributions over the amounts recorded as expenses is reported as a prepaid pension benefit cost in Other Assets. The cumulative excess of pension expense over pension fund contributions is reported as accrued pension benefit expense in Other Liabilities. Other postemployment benefit obligations are reported in Other Liabilities.

Stock-based compensation

We provide compensation to certain key employees in the form of stock options and/or share-based awards, and to our non-employee directors in the form of deferred share units (DSU) as described in Note 20.

We use the fair value method to account for stock options granted to employees whereby compensation expense is recognized over the applicable vesting period with a corresponding increase in Contributed Surplus. When the options are exercised, the exercise price proceeds together with the amount initially recorded in Contributed Surplus are credited to Common Shares. Stock options granted prior to November 1, 2002, are accounted for using the intrinsic value method. No expense is recognized for these options since the exercise price for such grants is equal to the closing price on the day before the stock options were granted. When these stock options are exercised, the proceeds are recorded as Common Shares.

Options granted between November 29, 1999, and June 5, 2001, were accompanied by stock appreciation rights (SARs), which gave participants the option to receive cash payments equal to the excess of the current market price of our shares over the options' exercise price. SARs obligations are now fully vested and give rise to compensation expense as a result of changes in the market price of our common shares. These expenses are recorded in our Consolidated Statements of Income with a corresponding increase in Other Liabilities on our Consolidated Balance Sheets.

Our other compensation plans include performance deferred share plan and deferred share unit plan for key employees. These plans are settled in our common shares or cash and the obligations are accrued over their vesting period. For share-settled awards, our accrued obligations are based on the market price of our common shares at the date of grant. For cash-settled awards, our accrued obligations are periodically adjusted for fluctuations in the market price of our common shares and dividends accrued. Changes in our obligations under these plans, net of related hedges, are recorded as Non-interest Expense – Human Resources in our Consolidated Statements of Income with a corresponding increase in Other Liabilities on our Consolidated Balance Sheets.

Our contributions to the Employee Share Purchase Plan are expensed as incurred.

Loan securitization

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

We often retain interests in the securitized loans, such as interest-only strips or servicing rights and, in some cases, cash reserve accounts. Retained interests in securitizations that can be contractually prepaid or otherwise settled in such a way that we would not recover substantially all of our recorded investment, are classified as Investment Account Securities.

Gains on a transaction accounted for as a sale are recognized in Non-interest Income and are dependent on the previous carrying amount of the loans involved in the transfer, which is allocated between the loans sold and the retained interests based on their relative fair value at the date of transfer. To obtain fair values, quoted market prices are used, if available. When quotes are not available for retained interests, we generally determine fair value based on the present value of expected future cash flows using management's best estimates of key assumptions such as payment rates, weighted average life of the prepayable receivables, excess spread, credit losses and discount rates commensurate with the risks involved.

For each securitization transaction where we have retained the servicing rights, we assess whether the benefits of servicing represent adequate compensation. When the benefits of servicing are more than adequate, a servicing asset is recognized in Other Assets. When the benefits of servicing are not expected to be adequate, we recognize a servicing liability in Other Liabilities. Neither an asset nor a liability is recognized when we have received adequate compensation. A servicing asset or liability is amortized in proportion to and over the period of estimated net servicing income.

Insurance

Premiums from long-duration contracts, primarily life insurance, are recognized in Non-interest Income – Insurance Premiums, Investment and Fee Income when due. Premiums from short-duration contracts, primarily property and casualty, and fees for administrative services are recognized in Insurance Premiums, Investment and Fee Income over the related contract period. Investments made by our insurance operations are included in Investment Account Securities.

Insurance Claims and Policy Benefit Liabilities represent current claims and estimates for future insurance policy benefits. Liabilities for life insurance contracts are determined using the Canadian Asset Liability Method (CALM), which incorporates assumptions for mortality, morbidity, policy lapses and surrenders, investment yields, policy dividends, operating and policy maintenance expenses, and provisions for adverse deviation. These assumptions are reviewed at least annually and updated in response to actual experience and market conditions. Liabilities for property and casualty insurance include unearned premiums, representing the unexpired portion of premiums, and estimated provisions for reported and unreported claims. Unearned premiums are reported in Other Liabilities, whereas estimated provisions for reported and unreported claims are included in Insurance Claims and Policy Benefit Liabilities.

Realized gains and losses on disposal of fixed income investments that support life insurance liabilities are deferred and amortized to Insurance Premiums, Investment and Fee Income over the remaining term to maturity of the investments sold, up to a maximum period of 20 years. For equities that are held to support non-universal life insurance products, the realized gains and losses are deferred and amortized into Insurance Premiums, Investment and Fee Income at the quarterly rate of 5% of unamortized deferred gains and losses. The differences between the market value and adjusted carrying cost of these equities are reduced quarterly by 5%. Equities held to support universal life insurance products are carried at market value. Realized and unrealized gains or losses on these equities are included in Insurance Premiums, Investment and Fee Income. Specific investments are written down to market value or the net realizable value if it is determined that any impairment in value is other-than-temporary. The writedown is recorded against Insurance Premiums, Investment and Fee Income in the period the impairment is recognized.

Acquisition costs for new insurance business consist of commissions, premium taxes, certain underwriting costs and other costs that vary with and are primarily related to the acquisition of new business. Deferred acquisition costs for life insurance products are implicitly recognized in Insurance Claims and Policy Benefit Liabilities by CALM. For property and casualty insurance, these costs are classified as Other Assets and amortized over the policy term.

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

Segregated funds are not included in the Consolidated Financial Statements. We derive only fee income from segregated funds, reflected in Insurance Premiums, Investment and Fee Income. Fee income includes management fees, mortality, policy, administration and surrender charges.

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (continued)

Earnings per share

Earnings per Share is computed by dividing Net Income Available to Common Shareholders by the weighted average number of common shares outstanding for the period, excluding Treasury Shares. Net Income Available to Common Shareholders is determined after considering dividend entitlements of preferred shareholders and any gain (loss) on redemption of preferred shares, net of related income taxes. Diluted Earnings per Share reflects the potential dilution that could occur if additional common shares are assumed to be issued under securities or contracts that entitle their holders to obtain common shares in the future, to the extent such entitlement is not subject to unresolved contingencies. The number of additional shares for inclusion in Diluted Earnings per Share calculations is determined using the treasury stock method, whereby stock options, whose exercise price is less than the average market price of our common shares are assumed to be exercised and the proceeds therefrom are used to repurchase common shares at the average market price for the period. The incremental number of common shares issued under stock options and repurchased from proceeds is included in the calculation of Diluted Earnings per Share.

Use of estimates and assumptions

In preparing our Consolidated Financial Statements in conformity with GAAP, management is required to make estimates and assumptions that affect the reported amounts of assets, liabilities, net income and related disclosures. Certain estimates, including the allowance for credit losses, the fair value of financial instruments, accounting for securitizations, litigation, variable interest entities, pensions and other postemployment benefits and income taxes, require management to make subjective or complex judgments. Accordingly, actual results could differ from these and other estimates thereby impacting our Consolidated Financial Statements.

Significant accounting changes

Consolidation of variable interest entities

On November 1, 2004, we adopted CICA Accounting Guideline 15, *Consolidation of Variable Interest Entities* (AcG-15) which provides guidance for applying the principles in CICA Handbook Section 1590, *Subsidiaries,* and Section 3055, *Interests in Joint Ventures*, to Variable Interest Entities (VIEs). AcG-15 defines a VIE as an entity which either does not have sufficient equity at risk to finance its activities without additional subordinated financial support or where the holders of equity at risk lack the characteristics of a controlling financial interest. AcG-15 defines the Primary Beneficiary as the entity that is exposed to a majority of the VIE's expected losses (as defined in AcG-15) or is entitled to a majority of the VIE's expected residual returns (as defined in AcG-15), or both. The Primary Beneficiary is required to consolidate the VIE. In addition, AcG-15 prescribes certain disclosures for VIEs that are not consolidated but in which we have a significant variable interest. Refer to Note 6 for details of our VIEs.

Liabilities and equity

On November 1, 2004, we adopted the revisions to CICA Handbook Section 3860, *Financial Instruments – Disclosure and Presentation* (CICA 3860), with retroactive restatement of prior period comparatives. We reclassified as liabilities on our Consolidated Balance Sheets, financial instruments that will be settled by a variable number of our common shares upon their conversion by the holder as well as the related accrued distributions. Dividends and yield distributions on these instruments have been reclassified to Interest Expense in our Consolidated Statements of Income. The impact of this change in accounting policy on the current and prior periods is as follows:

Consolidated balance sheets

As at October 31	2005	2004
Increase in Other liabilities	$ 34	$ 51
Increase in Trust capital securities	1,400	2,300
Increase in Preferred share liabilities	300	300
Decrease in Non-controlling interest in subsidiaries	1,434	2,351
Decrease in Shareholders' equity – Preferred shares	300	300

Consolidated statements of income

For the year ended October 31	2005	2004	2003
Increase in Interest expense	$ 115	$ 166	$ 152
Decrease in Non-controlling interest in net income of subsidiaries	101	152	115
Decrease in Preferred share dividends	14	14	37

Net Income Available to Common Shareholders and Earnings per Share were not impacted by these reclassifications. These instruments continue to qualify as Tier 1 capital pursuant to an OSFI advisory which grandfathers such treatment for existing instruments. Refer to Note 16 for information on Trust Capital Securities and Note 17 for information on Preferred Share Liabilities.

Asset retirement obligations

On November 1, 2004, we adopted CICA Handbook Section 3110, *Asset Retirement Obligations*. This standard requires that a liability and a corresponding asset be recognized at fair value for an asset retirement obligation related to a long-lived asset in the period in which it is incurred and can be reasonably estimated. The increase in the related long-lived asset is depreciated over the remaining useful life of the asset. The adoption of this standard did not have any material impact on our financial position or results of operations.

Changes in financial statement presentation

During the year, we revisited our presentation of certain assets, liabilities, revenues and expenses for previous periods to better reflect the nature of these items. Accordingly, certain comparative amounts have been reclassified to conform with the current year's presentation. These reclassifications did not materially impact our financial position or results of operations. Substantially all of the reclassifications are on the Consolidated Balance Sheets except for the item explained below.

During the third quarter of fiscal year 2005, we reclassified expenses related to dividends received on securities borrowed from Non-interest Income – Trading Revenue to Interest Expense – Other Liabilities. The prior period impact of the reclassification resulted in corresponding increases in both Interest Expense – Other Liabilities and Non-interest Income – Trading Revenue. For the impacted years ended October 31, 2005 and 2004, $186 million and $104 million were reclassified, respectively.

Future accounting changes

Financial instruments

On January 27, 2005, the CICA issued three new accounting standards: Handbook Section 1530, *Comprehensive Income*, Handbook Section 3855, *Financial Instruments – Recognition and Measurement*, and Handbook Section 3865, *Hedges*. These standards will be effective for us on November 1, 2006. The impact of implementing these new standards on our Consolidated Financial Statements is not yet determinable as it will be dependent on our outstanding positions and their fair values at the time of transition.

Comprehensive income
As a result of adopting these standards, a new category, Accumulated Other Comprehensive Income, will be added to Shareholders' Equity on the Consolidated Balance Sheets. Major components for this category will include unrealized gains and losses on financial assets classified as available-for-sale, unrealized foreign currency translation amounts, net of hedging, arising from self-sustaining foreign operations, and changes in the fair value of the effective portion of cash flow hedging instruments.

Financial instruments – Recognition and measurement
Under the new standard, all financial instruments will be classified as one of the following: Held-to-maturity, Loans and Receivables, Held-for-trading or Available-for-sale. Financial assets and liabilities held-for-trading will be measured at fair value with gains and losses recognized in Net Income. Financial assets held-to-maturity, loans and receivables and financial liabilities other than those held-for-trading, will be measured at amortized cost. Available-for-sale instruments will be measured at fair value with unrealized gains and losses recognized in Other Comprehensive Income. The standard also permits designation of any financial instrument as held-for-trading upon initial recognition.

Hedges
This new standard specifies the criteria under which hedge accounting can be applied and how hedge accounting can be executed for each of the permitted hedging strategies: fair value hedges, cash flow hedges and hedges of a foreign currency exposure of a net investment in a self-sustaining foreign operation. In a fair value hedging relationship, the carrying value of the hedged item is adjusted by gains or losses attributable to the hedged risk and recognized in Net Income. This change in fair value of the hedged item, to the extent that the hedging relationship is effective, is offset by changes in the fair value of the derivative. In a cash flow hedging relationship, the effective portion of the change in the fair value of the hedging derivative will be recognized in Other Comprehensive Income. The ineffective portion will be recognized in Net Income. The amounts recognized in Accumulated Other Comprehensive Income will be reclassified to Net Income in the periods in which Net Income is affected by the variability in the cash flows of the hedged item. In hedging a foreign currency exposure of a net investment in a self-sustaining foreign operation, foreign exchange gains and losses on the hedging instruments will be recognized in Other Comprehensive Income.

Implicit variable interests
In October 2005, the Emerging Issues Committee issued Abstract No. 157, *Implicit Variable Interests Under AcG-15* (EIC-157). This EIC clarifies that implicit variable interests are implied financial interests in an entity that change with changes in the fair value of the entity's net assets exclusive of variable interests. An implicit variable interest is similar to an explicit variable interest except that it involves absorbing and/or receiving variability indirectly from the entity. The identification of an implicit variable interest is a matter of judgment that depends on the relevant facts and circumstances. EIC-157 will be effective for us in the first quarter of 2006. The implementation of this EIC is not expected to have a material impact on our financial results.

NOTE 2 ESTIMATED FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

	2005			2004		
	Book value	Estimated fair value	Difference	Book value	Estimated fair value	Difference
Financial assets						
Cash and deposits with banks	$ 10,238	$ 10,238	$ –	$ 9,978	$ 9,978	$ –
Securities	160,495	160,684	189	128,946	129,307	361
Assets purchased under reverse repurchase agreements and securities borrowed	42,973	42,973	–	46,949	46,949	–
Loans (net of allowance for loan losses)	190,416	190,506	90	170,916	172,435	1,519
Derivative-related amounts	39,008	39,123	115	39,261	39,596	335
Other assets	18,194	18,194	–	20,143	20,143	–
Financial liabilities						
Deposits	$ 306,860	$ 308,047	$ (1,187)	$ 270,959	$ 271,979	$ (1,020)
Derivative-related amounts	43,001	42,817	184	42,562	42,580	(18)
Other liabilities	24,330	24,330	–	25,639	25,639	–
Subordinated debentures	8,167	8,503	(336)	8,116	8,453	(337)
Trust Capital Securities	1,400	1,582	(182)	2,300	2,517	(217)
Preferred share liabilities	300	310	(10)	300	315	(15)

Methodologies and assumptions used to estimate fair values of financial instruments

Financial instruments valued at carrying value
Due to their short-term nature, the fair values of cash and deposits with banks and Assets Purchased Under Reverse Repurchase Agreements and Securities Borrowed are assumed to approximate carrying value.

Securities
These are based on quoted market prices, when available. If quoted market prices are not available, fair values are estimated using quoted market prices of similar securities.

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

Derivative financial instruments
The fair values of derivatives are equal to the book value, with the exception of amounts relating to derivatives that have been designated and have qualified for hedge accounting. The fair values of exchange-traded derivatives are based on quoted market prices. The fair values of over-the-counter derivatives are based on prevailing market rates for instruments with similar characteristics and maturities, net present value analysis, or are determined by using pricing models that incorporate current market and contractual prices of the underlying instruments, time value of money, yield curve and volatility factors.

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

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

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

Trust capital securities and preferred share liabilities
The fair values of Trust Capital Securities and Preferred Share Liabilities are based on quoted market prices.

NOTE 3 SECURITIES

	Term to maturity (1) Within 3 months	3 months to 1 year	1 to 5 years	Over 5 years to 10 years	Over 10 years	With no specific maturity	2005 Total	2004 Total	2003 Total
Trading account									
Canadian government debt	$ 2,109	$ 2,587	$ 3,744	$ 1,301	$ 2,073	$ –	$ 11,814	$ 11,082	$ 13,671
U.S. government debt	83	1,532	2,070	801	4,002	199	8,687	1,794	4,298
Other OECD government debt (2)	463	817	3,668	983	545	–	6,476	3,844	3,576
Mortgage-backed securities	8	35	525	209	1,504	–	2,281	1,017	889
Asset-backed securities	209	17	208	817	99	–	1,350	2,247	6,305
Corporate debt and other debt									
Bankers' acceptances	457	541	–	–	–	–	998	1,078	1,686
Certificates of deposit	2,355	4,185	2,150	10	5	–	8,705	4,973	8,146
Other	6,871	4,385	15,952	7,398	4,390	743	39,739	31,337	21,835
Equities	–	–	–	–	–	45,710	45,710	31,950	27,126
	12,555	14,099	28,317	11,519	12,618	46,652	125,760	89,322	87,532
Investment account									
Canadian government debt									
Federal									
Amortized cost	709	522	4,910	65	8	–	6,214	6,898	8,810
Estimated fair value	708	522	4,900	66	9	–	6,205	6,939	8,914
Yield (3)	3.0%	3.1%	3.8%	4.5%	2.7%	–	3.6%	3.4%	n.a.
Provincial and municipal									
Amortized cost	92	81	497	625	740	–	2,035	2,010	1,013
Estimated fair value	93	81	502	648	905	–	2,229	2,118	1,038
Yield (3)	1.5%	3.1%	4.0%	4.8%	6.3%	–	4.9%	5.2%	n.a.
U.S. government debt									
Federal									
Amortized cost	128	35	182	71	217	–	633	475	726
Estimated fair value	128	35	179	71	215	–	628	466	718
Yield (3)	2.5%	2.1%	3.1%	4.5%	.4%	–	2.2%	4.1%	n.a.
State, municipal and agencies									
Amortized cost	296	632	1,226	45	–	–	2,199	3,419	4,102
Estimated fair value	295	626	1,175	43	–	–	2,139	3,388	4,071
Yield (3)	2.0%	2.0%	2.8%	3.9%	–	–	2.5%	2.4%	n.a.
Other OECD government debt (2)									
Amortized cost	487	762	254	92	–	–	1,595	1,725	4,775
Estimated fair value	487	762	256	94	–	–	1,599	1,739	4,781
Yield (3)	1.5%	1.1%	4.2%	4.5%	–	–	1.9%	1.2%	.1%
Mortgage-backed securities									
Amortized cost	9	394	2,718	801	4,332	–	8,254	6,038	5,512
Estimated fair value	9	394	2,700	789	4,291	–	8,183	6,082	5,543
Yield (3)	4.0%	4.2%	3.9%	5.3%	4.6%	–	4.4%	4.4%	4.5%
Asset-backed securities									
Amortized cost	8	20	833	156	425	–	1,442	1,392	325
Estimated fair value	8	20	836	156	425	–	1,445	1,395	322
Yield (3)	3.1%	4.7%	4.2%	4.5%	3.9%	–	4.2%	3.0%	5.6%
Corporate debt and other debt									
Amortized cost	3,212	1,983	2,383	1,004	1,801	293	10,676	15,948	14,518
Estimated fair value	3,235	1,986	2,404	1,012	1,909	293	10,839	16,121	14,579
Yield (3)	2.4%	3.7%	3.8%	5.1%	6.0%	–	3.7%	2.8%	3.1%
Equities									
Cost	–	–	–	–	–	1,012	1,012	1,018	1,293
Estimated fair value	–	–	–	–	–	974	974	1,022	1,330
Amortized cost	4,941	4,429	13,003	2,859	7,523	1,305	34,060	38,923	41,074
Estimated fair value	4,963	4,426	12,952	2,879	7,754	1,267	34,241	39,270	41,296
Loan substitute									
Cost	–	–	–	–	400	275	675	701	325
Estimated fair value	–	–	–	–	400	283	683	715	331
Total carrying value of securities	$ 17,496	$ 18,528	$ 41,320	$ 14,378	$ 20,541	$ 48,232	$160,495	$ 128,946	$128,931
Total estimated fair value of securities	$ 17,518	$ 18,525	$ 41,269	$ 14,398	$ 20,772	$ 48,202	$160,684	$ 129,307	$129,159

(1) Actual maturities may differ from contractual maturities shown above, since borrowers may have the right to prepay obligations with or without prepayment penalties.
(2) OECD stands for Organization for Economic Co-operation and Development.
(3) The weighted average yield is based on the carrying value at the end of the year for the respective securities.
n.a. Due to the enhanced disclosure of Canadian government and U.S. government debt, the yields for 2003 were not reasonably determinable.

Unrealized gains and losses on Investment account securities

	2005				2004			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Canadian government debt								
Federal	$ 6,214	$ 16	$ (25)	$ 6,205	$ 6,898	$ 46	$ (5)	$ 6,939
Provincial and municipal	2,035	195	(1)	2,229	2,010	108	–	2,118
U.S. government debt								
Federal	633	4	(9)	628	475	2	(11)	466
State, municipal and agencies	2,199	–	(60)	2,139	3,419	1	(32)	3,388
Other OECD government debt	1,595	5	(1)	1,599	1,725	14	–	1,739
Mortgage-backed securities	8,254	15	(86)	8,183	6,038	53	(9)	6,082
Asset-backed securities	1,442	6	(3)	1,445	1,392	9	(6)	1,395
Corporate debt and other debt	10,676	204	(41)	10,839	15,948	186	(13)	16,121
Equities	1,012	17	(55)	974	1,018	55	(51)	1,022
	$ 34,060	$ 462	$ (281)	$ 34,241	$ 38,923	$ 474	$ (127)	$ 39,270

Realized gains and losses on sale of Investment account securities

	2005	2004	2003
Realized gains	$ 147	$ 136	$ 87
Realized losses and writedowns	(56)	(116)	(56)
Gain on sale of investment account securities	$ 91	$ 20	$ 31

Fair value and unrealized losses position for Investment account securities as at October 31, 2005

	Less than 12 months		12 months or more		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Canadian government debt						
Federal	$ 4,654	$ 24	$ –	$ 1	$ 4,654	$ 25
Provincial and municipal	294	1	8	–	302	1
U.S. government debt						
Federal	34	1	293	8	327	9
State, municipal and agencies	–	–	2,139	60	2,139	60
Other OECD government debt	1,225	1	20	–	1,245	1
Mortgage-backed securities	5,202	68	552	18	5,754	86
Asset-backed securities	480	2	24	1	504	3
Corporate debt and other debt	1,680	28	462	13	2,142	41
Equities	216	13	254	42	470	55
Total temporarily impaired securities	$ 13,785	$ 138	$ 3,752	$ 143	$ 17,537	$ 281

The unrealized losses for Canadian government debt, U.S. government debt, mortgage-backed securities and asset-backed securities were caused by increases in interest rates. The contractual terms of these investments either do not permit the issuer to settle the securities at a price less than the amortized costs of the investment, or permit prepayment of contractual amounts owing only with prepayment penalties assessed to recover interest foregone. As a result, it is not expected that these investments would be settled at a price less than the amortized cost. Unrealized losses for Corporate debt and other debt were caused by either increases in interest rates or credit rating downgrades, and we do not believe that it is probable that we will be unable to collect all amounts due according to the contractual terms of the investments. We have the ability and intent to hold these investments until there is a recovery of fair value, which may be at maturity. As a result, we do not consider these investments to be other-than-temporarily impaired as at October 31, 2005.

Unrealized losses on equity securities are primarily due to the timing of the market prices, foreign exchange movements, or the early years in the business cycle of the investees for certain investments. We do not consider these investments to be other-than-temporarily impaired as at October 31, 2005, as we have the ability and intent to hold them for a reasonable period of time until the recovery of fair value.

NOTE 4 LOANS (1)

	2005	2004
Canada		
Residential mortgage	$ 88,808	$ 80,168
Personal	33,986	30,415
Credit card	6,024	6,298
Business and government	34,443	29,897
	163,261	146,778
United States		
Residential mortgage	1,375	1,053
Personal	6,248	5,849
Credit card	118	108
Business and government	13,517	12,338
	21,258	19,348
Other International		
Residential mortgage	860	777
Personal	811	584
Credit card	58	50
Business and government	5,666	5,023
	7,395	6,434
Total loans (2)	191,914	172,560
Allowance for loan losses	(1,498)	(1,644)
Total loans net of allowance for loan losses	$ 190,416	$ 170,916

(1) Includes all loans booked by location, regardless of currency or residence of borrower.
(2) Loans are net of unearned income of $67 million (2004 – $86 million).

Loan maturities and rate sensitivity

	Maturity term (1)				Rate sensitivity			
As at October 31, 2005	Under 1 year	1 to 5 years	Over 5 years	Total	Floating	Fixed rate	Non-rate-sensitive	Total
Residential mortgage	$ 15,056	$ 68,709	$ 7,278	$ 91,043	$ 20,746	$ 70,161	$ 136	$ 91,043
Personal	32,205	6,476	2,364	41,045	32,641	8,235	169	41,045
Credit card	6,200	–	–	6,200	–	3,921	2,279	6,200
Business and government	27,969	17,529	8,128	53,626	35,438	17,719	469	53,626
Total loans	$ 81,430	$ 92,714	$ 17,770	$ 191,914	$ 88,825	$ 100,036	$ 3,053	$ 191,914
Allowance for loan losses				(1,498)				(1,498)
Total loans net of allowance for loan losses				$ 190,416				$ 190,416

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

Impaired loans (1), (2)

	2005			2004
	Gross	Specific allowance	Net	Net
Residential mortgage	$ 136	$ (10)	$ 126	$ 133
Personal	169	(103)	66	78
Business and government	469	(169)	300	561
	$ 774	$ (282)	$ 492	$ 772

(1) There are $304 million (2004 – $219 million, 2003 – $222 million) of accruing loans that are contractually 90 days past due but are not considered impaired.
(2) Average balance of gross impaired loans was $903 million (2004 – $1,529 million, 2003 – $2,045 million).

Allowance for loan losses

	2005						2004
	Balance at beginning of year	Write-offs	Recoveries	Provision for credit losses	Adjustments (1)	Balance at end of year	Balance at end of year
Residential mortgage	$ 13	$ (5)	$ –	$ 2	$ –	$ 10	$ 13
Personal	111	(347)	69	259	11	103	111
Credit card	–	(237)	43	194	–	–	–
Business and government (2)	363	(181)	62	(66)	(9)	169	363
Specific allowances	$ 487	$ (770)	$ 174	$ 389	$ 2	$ 282	$ 487
General allowance	1,227	–	–	66	(7)	1,286	1,227
Total allowance for credit losses	$ 1,714	$ (770)	$ 174	$ 455	$ (5)	$ 1,568	$ 1,714
Allowance for off-balance sheet and other items (3)	(70)	–	–	–	–	(70)	(70)
Total allowance for loan losses	$ 1,644	$ (770)	$ 174	$ 455	$ (5)	$ 1,498	$ 1,644

(1) Primarily represents the translation impact of foreign currency denominated Allowance for Loan Losses.
(2) Includes $70 million (2004 – $70 million) related to off-balance sheet and other items.
(3) The allowance for off-balance sheet and other items was reported separately under Other Liabilities.

Net interest income after provision for credit losses

	2005	2004	2003
Net interest income	$ 6,770	$ 6,398	$ 6,336
Provision for credit losses	455	346	721
Net interest income after provision for credit losses	$ 6,315	$ 6,052	$ 5,615

NOTE 5 SECURITIZATIONS

The following table summarizes our new securitization activities for 2005, 2004 and 2003:

	2005			2004 (1)		2003		
	Credit card loans	Residential mortgage loans	Commercial mortgage loans	Residential mortgage loans	Commercial mortgage loans	Credit card loans	Residential mortgage loans	Commercial mortgage loans
Securitized and sold	$ 1,200	3,752	$ 655	$ 3,074	$ 486	$ 1,000	$ 610	$ 131
Net cash proceeds received	600	3,739	667	3,035	497	1,000	607	135
Asset backed securities purchased	596	–	–	–	–	–	–	–
Retained rights to future excess interest	8	100	–	75	–	9	24	–
Pre-tax gain on sale	4	87	12	36	11	9	21	4
Securities created and retained as investment securities	–	2,706	–	1,903	–	–	3,474	–

(1) There was no credit card loans securitization in 2004.

Cash flows from securitizations (1)

	2005			2004		2003	
	Credit card loans	Residential mortgage loans		Credit card loans	Residential mortgage loans (2)	Credit card loans	Residential mortgage loans (2)
		Variable rate	Fixed rate		Fixed rate		Fixed rate
Proceeds reinvested in revolving securitizations	$ 12,076	$ 419	$ 1,520	$ 10,028	$ 1,202	$ 7,843	$ 1,268
Cash flows from retained interests in securitizations	118	2	81	84	46	64	13

(1) This analysis is not applicable for commercial mortgage loans securitization as we do not have any retained interest in these transactions.
(2) There was no variable rate mortgages securitization in 2004 and 2003.

The key assumptions used to value the retained interests at the date of securitization, for new activities in 2005, 2004 and 2003, are as follows:

Key assumptions (1), (2)

	2005			2004 (3)	2003	
	Credit card loans	Residential mortgage loans		Residential mortgage loans (4)	Credit card loans	Residential mortgage loans (4)
		Variable rate	Fixed rate	Fixed rate		Fixed rate
Expected weighted average life of pre-payable receivables (in years)	.15	3.48	3.59	3.88	.16	3.90
Payment rate	40.06%	13.52%	13.36%	12.00%	37.69%	12.00%
Excess spread, net of credit losses	6.88	.20	1.06	.74	5.74	1.17
Expected credit losses	1.75	–	–	–	1.64	–
Discount rate	10.00	3.64	3.59	3.83	10.00	4.11

(1) All rates are annualized except the payment rate for credit card loans, which is monthly.
(2) This analysis is not applicable for commercial mortgage loans securitizations as we do not have any retained interest in these transactions.
(3) There was no credit card loans securitization in 2004.
(4) There was no variable rate residential mortgages securitization in 2004 and 2003.

Static pool credit losses include actual incurred and projected credit losses divided by the original balance of the loans securitized. The expected static pool credit loss ratio for securitized credit card loans at October 31, 2005 was .38%. Static credit pool losses are not applicable to residential mortgages as the mortgages are guaranteed.

The following table summarizes the loan principal, past due and net write-offs for total loans reported on our Consolidated Balance Sheets and securitized loans that we manage as at October 31, 2005 and 2004:

Loans managed

	2005			2004		
	Loan principal	Past due (1)	Net write-offs	Loan principal	Past due (1)	Net write-offs
Residential mortgage	$ 103,258	$ 302	$ 5	$ 91,049	$ 245	$ 7
Personal	41,045	216	279	36,848	233	257
Credit card	9,300	61	240	8,356	54	204
Business and government	53,626	499	118	47,258	946	353
Total loans managed (2)	207,229	1,078	642	183,511	1,478	821
Less: Loans securitized and managed						
Credit card loans	3,100	–	46	1,900	–	36
Mortgage backed securities created and sold	9,561	–	–	5,983	–	–
Mortgage backed securities created and retained	2,654	–	–	3,068	–	–
Total loans reported on the consolidated balance sheets	$ 191,914	$ 1,078	$ 596	$ 172,560	$ 1,478	$ 785

(1) Includes impaired loans as well as loans 90 days past due not yet classified as impaired.
(2) Excludes any assets we have temporarily acquired with the intent at acquisition to sell to SPEs.

At October 31, 2005, key economic assumptions and the sensitivity of the current fair value of our retained interests to immediate 10% and 20% adverse changes in key assumptions are shown in the table below.

These sensitivities are hypothetical and should be used with caution. Changes in fair value based on a variation in assumptions generally cannot be extrapolated because the relationship of the change in assumption to the change in fair value may not be linear.

Also, the effect of a variation in a particular assumption on the fair value of the retained interests is calculated without changing any other assumption; generally, changes in one factor may result in changes in another, which may magnify or counteract the sensitivities.

Sensitivity of key assumptions to adverse changes (1)

	Impact on fair value		
	Credit card loans	Residential mortgage loans	
		Variable rate	Fixed rate
Fair value of retained interests	$ 22.1	$ 16.38	$ 152.7
Weighted average remaining service life (in years)	.25	.99–3.48	2.93
Payment rate	40.5%	13.52%–18.00%	18.0%
Impact on fair value of 10% adverse change	$ (1.4)	$ (.18)	$ (4.4)
Impact on fair value of 20% adverse change	(2.8)	(.36)	(8.6)
Excess spread, net of credit losses	7.32%	.20%–.36%	.96%
Impact on fair value of 10% adverse change	$ (2.1)	$ (.1)–(.99)	$ (15.4)
Impact on fair value of 20% adverse change	(4.3)	(.2)–(1.98)	(30.7)
Expected credit losses	1.76%	–	–
Impact on fair value of 10% adverse change	$ (.6)	$ –	$ –
Impact on fair value of 20% adverse change	(1.4)	–	–
Discount rate	10.0%	3.67%–4.08%	3.78%
Impact on fair value of 10% adverse change	$ –	$ (.13)	$ (.7)
Impact on fair value of 20% adverse change	–	(.24)	(1.1)

(1) All rates are annualized except for the credit card loans payment rate, which is monthly.
(2) This analysis is not applicable for commercial mortgage loans securitizations as we do not have any retained interest in these transactions.

NOTE 6 VARIABLE INTEREST ENTITIES

The following table provides information about variable interest entities (VIEs) at October 31, 2005, in which we have a significant variable interest, and those that we consolidate because we are the Primary Beneficiary. It also provides comparatives at October 31, 2004, had we adopted AcG-15 prior to its effective date of November 1, 2004.

	Total assets at October 31, 2005	Maximum exposure to loss at October 31, 2005	Total assets at October 31, 2004	Maximum exposure to loss at October 31, 2004
VIEs in which we have a significant variable interest (1):				
Multi-seller conduits we administer (2)	$ 29,253	$ 29,442	$ 25,608	$ 25,443
Investment funds (3)	6,634	899	3,560	824
Third-party conduits	2,162	672	3,994	1,133
Structured finance VIEs	1,907	1,410	2,079	1,436
Collateralized debt obligations	1,104	16	999	12
Other	915	57	510	77
	$ 41,975	$ 32,496	$ 36,750	$ 28,925
Consolidated VIEs (4), (5):				
Investment funds	$ 1,140		$ 713	
Repackaging VIEs	660		673	
Structured finance VIEs (3)	471		482	
Compensation vehicles	311		206	
Other	140		299	
	$ 2,722		$ 2,373	

(1) The maximum exposure to loss resulting from our significant variable interest in these VIEs consists mostly of investments, loans, liquidity facilities and fair value of derivatives. We have recognized $2,628 million (2004 – $2,033 million) of this exposure on our Consolidated Balance Sheets.
(2) Total assets represents maximum assets that may have to be purchased by the conduits under purchase commitments outstanding as at October 31, 2005. Actual assets held by these conduits as at October 31, 2005, were $20,191 million (2004 – $18,529 million).
(3) During the year, we identified additional significant variable interests in Investment fund VIEs acquired in prior periods. For these VIEs, which we do not consolidate as we are not the Primary Beneficiary, we have updated total assets and our maximum exposure to loss as at October 31, 2004, by $1,368 million and $316 million, respectively. We also revised the total assets of our consolidated Structured finance VIEs as at October 31, 2004, to reflect a right to offset a financial asset and a financial liability in one of those VIEs.
(4) The assets that support the obligations of the consolidated VIEs are reported on our Consolidated Balance Sheets primarily as follows: Interest-bearing Deposits with Banks of $152 million (2004 – $94 million), Trading Account Securities of $1,733 million (2004 – $1,330 million), Investment Account Securities of $406 million (2004 – $405 million) and Other Assets of $245 million (2004 – $338 million). The compensation vehicles hold $185 million (2004 – $206 million) of our common shares, which are reported as Treasury Shares. The obligation to provide common shares to employees is recorded as an increase to Contributed Surplus as the expense for the corresponding stock-based compensation plan is recognized.
(5) Prior to adopting AcG-15, we either fully or proportionately consolidated most of these entities with assets of $1,376 million (2004 – $1,574 million).

Multi-seller and third-party conduits

We administer multi-seller asset-backed commercial paper conduit programs (multi-seller conduits) which purchase financial assets from clients and finance those purchases by issuing asset-backed commercial paper. Clients utilize multi-seller conduits to diversify their financing sources and to reduce funding costs. An unrelated third party (the "expected loss investor") absorbs credit losses (up to a maximum contractual amount) that may occur in the future on the assets in the multi-seller Conduits (the "multi-seller conduit first-loss position") before the multi-seller conduits' debt holders and us. In return for assuming this multi-seller conduit first-loss position, each multi-seller conduit pays the expected loss investor a return commensurate with its risk position. The expected loss investor absorbs a majority of each multi-seller conduit's expected losses, when compared to us; therefore, we are not the Primary Beneficiary and are not required to consolidate these conduits under AcG-15. However, we continue to hold a significant variable interest in these multi-seller conduits resulting from our provision of backstop liquidity facilities and partial credit enhancement and our entitlement to residual fees.

We also hold significant variable interests in third-party asset-backed security conduits primarily through the provision of liquidity support and credit enhancement facilities. However we are not the Primary Beneficiary and are not required to consolidate these conduits under AcG-15.

The liquidity and credit enhancement facilities are also included and described in our disclosure on guarantees in Note 25.

Collateralized Debt Obligations

In July 2005, we sold our Collateralized Debt Obligation (CDO) management business to a third party. Through this business, we acted as collateral manager for several CDO entities, which invested in leveraged bank-initiated term loans, high yield bonds and mezzanine corporate debt. As part of this role, we were also required to invest in a portion of the CDO's first-loss tranche, which represented our exposure to loss. Our CDO first-loss tranche investments were not included as part of the sale of the CDO management business. Prior to the sale of the CDO management business, our total exposure to loss through fees we earned as a collateral manager and our share of the first-loss tranche comprised less than a majority of the total expected losses of the CDOs, and we were therefore not the Primary Beneficiary. At October 31, 2005, we continue to maintain a less than majority exposure to these CDOs solely through our first-loss tranches. As we continue to not be the Primary Beneficiary, we are not required to consolidate these CDOs.

Repackaging VIEs

We use repackaging VIEs, which generally transform credit derivatives into cash instruments, to distribute credit risk and create unique credit products to meet investors' specific requirements. We enter into derivative contracts with these entities in order to convert various risk factors such as yield, currency or credit risk of underlying assets to meet the needs of the investors. We transfer assets to these VIEs as collateral for notes issued, which do not meet sale recognition criteria under AcG-12. In certain instances we invest in the notes issued by these VIEs, which may cause us to consolidate as the Primary Beneficiary.

Structured finance VIEs

We finance VIEs that are part of transactions structured to achieve a desired outcome such as limiting exposure to specific assets, supporting an enhanced yield and meeting client requirements. We consolidate those VIEs in which our interests expose us to a majority of the expected losses.

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

Compensation vehicles
We use compensation trusts, which hold our own shares, to economically hedge our obligation to certain employees under our stock-based compensation programs. We consolidate these trusts as we are the Primary Beneficiary.

Capital trusts
Effective November 1, 2004, we deconsolidated RBC Capital Trust II, (Trust II), which was created in 2003 to issue Innovative Tier 1 capital of $900 million. We issued a senior deposit note of the same amount to this trust. Although we own the unitholder's equity and voting control of the trust, we are not the Primary Beneficiary since we are not exposed to the majority of the expected losses. For prior periods presented, this $900 million is reflected as a liability within Trust capital securities in accordance with the retroactive application of certain revisions to CICA 3860, discussed in Note 1. As a result of the deconsolidation, the senior deposit note is no longer considered intercompany and is reflected in Deposits on our Consolidated Balance Sheets, effective November 1, 2004. Yield distributions of $52 million for the current year (2004 – $52 million, 2003 – $14 million) accruing to the holders of these instruments are no longer included in Non-controlling Interest in Net Income of Subsidiaries. Instead, Interest Expense of a similar amount is recognized on the senior deposit note. These instruments continue to qualify as Tier 1 capital pursuant to an advisory from the OSFI grandfathering such treatment for existing instruments. For details on our Innovative capital instruments, see Note 16.

Securitization of our financial assets
We employ special purpose entities (SPEs) in the process of securitizing our assets, none of which are consolidated under AcG-15. One entity is a qualifying SPE under AcG-12, which is specifically exempt from consolidation under AcG-15, and our level of participation in each of the remaining SPEs relative to others does not expose us to a majority of the expected losses. For details on our securitization activities please refer to Note 5.

NOTE 7 DERIVATIVE FINANCIAL INSTRUMENTS

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

Types of derivatives
Forwards and futures
Forward contracts are effectively tailor-made agreements that are transacted between counterparties in the over-the-counter market, whereas futures are standardized contracts with respect to amounts and settlement dates, and are traded on regular exchanges. Examples of forwards and futures are described below:

Interest rate forwards (forward rate agreements) and futures are contractual obligations to buy or sell an interest-rate sensitive financial instrument on a future date at a specified price.

Foreign exchange forwards and futures are contractual obligations to exchange one currency for another at a specified price for settlement at a predetermined future date.

Equity forwards and futures are contractual obligations to buy or sell a fixed value (the contracted price) of an equity index, a basket of stocks or a single stock at a specified future date.

Swaps
Swaps are over-the-counter contracts in which two counterparties exchange a series of cash flows based on agreed upon rates to a notional amount. The various swap agreements that we enter into are as follows:

Interest rate swaps are agreements where two counterparties exchange a series of payments based on different interest rates applied to a notional amount in a single currency.

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

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

Options
Options are contractual agreements under which the seller (writer) grants the purchaser the right, but not the obligation, either to buy (call option) or sell (put option), a security, exchange rate, interest rate, or other financial instrument or commodity at a predetermined price, at or by a specified future date. The seller (writer) of an option can also settle the contract by paying the cash settlement value of the purchaser's right. The seller (writer) receives a premium from the purchaser for this right. The various option agreements that we enter into include interest rate options, foreign currency options and equity options.

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

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

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

Other derivative products
We also transact in other derivative products including precious metal and commodity derivative contracts in both the over-the-counter and exchange markets. Certain warrants and loan commitments that meet the definition of derivative are also included as derivative instruments.

Derivatives held or issued for trading purposes

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

Derivatives held or issued for non-trading purposes

We also use derivatives in connection with our own asset/liability management activities, which include hedging and investment activities.

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

We use credit derivatives to manage our credit exposures and for risk diversification in our lending portfolio.

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

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

We did not apply hedge accounting to any anticipated transactions for the year ended October 31, 2005.

Derivatives – Notional amounts

Notional amounts, which are off-balance sheet, serve as a point of reference for calculating payments and are a common measure of business volume. The following table provides the notional amounts of our derivative transactions by term to maturity. Excluded from the table below are notional amounts of $198 million (2004 – $1,673 million), relating to certain warrants and loan commitments reported as derivatives.

Notional amount of derivatives by term to maturity

	Term to maturity			2005			2004	
	Within 1 year	1 to 5 years	Over 5 years (1)	Total	Trading	Other than trading	Trading	Other than trading
Over-the-counter contracts								
Interest rate contracts								
Forward rate agreements	$ 119,973	$ 4,531	$ –	$ 124,504	$ 124,504	$ –	$ 48,150	$ 2,328
Swaps	295,735	589,545	267,705	1,152,985	1,014,868	138,117	904,263	105,530
Options purchased	24,205	29,211	5,208	58,624	58,571	53	41,439	3
Options written	17,073	28,965	7,382	53,420	53,420	–	41,771	120
Foreign exchange contracts								
Forward contracts	523,220	26,800	1,217	551,237	518,109	33,128	515,902	20,631
Cross currency swaps	1,404	7,414	7,154	15,972	15,565	407	13,731	814
Cross currency interest rate swaps	25,895	104,477	55,434	185,806	175,417	10,389	139,409	6,017
Options purchased	89,055	11,648	30	100,733	100,710	23	120,892	206
Options written	98,187	13,115	36	111,338	111,322	16	130,538	–
Credit derivatives (2)	8,074	126,016	39,165	173,255	169,412	3,843	109,865	2,471
Other contracts (3)	22,602	26,129	29,478	78,209	77,993	216	47,599	279
Exchange-traded contracts								
Interest rate contracts								
Futures – long positions	62,196	12,858	30	75,084	74,440	644	53,667	731
Futures – short positions	97,103	12,689	2,290	112,082	110,874	1,208	56,486	360
Options purchased	82,305	1,621	–	83,926	83,926	–	84,739	426
Options written	38,028	–	–	38,028	38,028	–	32,745	182
Foreign exchange contracts								
Futures – long positions	9,785	–	–	9,785	9,785	–	222	–
Futures – short positions	2,230	–	–	2,230	2,230	–	690	–
Other contracts (3)	76,758	136	–	76,894	76,894	–	40,103	–
	$ 1,593,828	$ 995,155	$ 415,129	$ 3,004,112	$ 2,816,068	$ 188,044	$2,382,211	$ 140,098

(1) Includes contracts maturing in over 10 years with a notional value of $87,299 million (2004 – $66,491 million). The related gross positive replacement cost is $2,556 million (2004 – $1,828 million).
(2) Comprises credit default swaps, total return swaps and credit default baskets, including credit derivatives given guarantee treatment for OSFI regulatory reporting purposes.
(3) Comprises precious metal, commodity and equity-linked derivative contracts other than embedded equity-linked contracts.

The following table provides the fair value of our derivative financial instruments.

Fair value of derivative instruments

	2005				2004	
	Average fair value for year ended (1)		Year-end fair value		Year-end fair value	
	Positive	Negative	Positive	Negative	Positive	Negative
Held or issued for trading purposes						
Interest rate contracts						
Forward rate agreements	$ 26	$ 11	$ 21	$ 19	$ 11	$ 10
Swaps	15,898	15,655	13,298	12,954	14,689	14,582
Options purchased	713	–	989	–	523	–
Options written	–	749	–	1,079	–	570
	16,637	16,415	14,308	14,052	15,223	15,162
Foreign exchange contracts						
Forward contracts	8,064	8,467	6,696	7,059	10,448	11,159
Cross currency swaps	1,503	1,316	1,788	1,388	1,241	1,177
Cross currency interest rate swaps	6,191	6,630	6,163	7,397	6,635	6,243
Options purchased	2,088	–	2,149	–	1,985	–
Options written	–	1,841	–	2,049	–	1,750
	17,846	18,254	16,796	17,893	20,309	20,329
Credit derivatives (2)	992	873	914	908	787	607
Other contracts (3)	2,888	6,732	5,605	8,398	2,098	5,840
	$ 38,363	$ 42,274	37,623	41,251	38,417	41,938
Held or issued for other than trading purposes						
Interest rate contracts						
Forward rate agreements			–	–	2	17
Swaps			982	937	1,120	783
Options purchased			1	–	–	–
Options written			–	–	–	5
			983	937	1,122	805
Foreign exchange contracts						
Forward contracts			173	221	340	278
Cross currency swaps			–	56	–	59
Cross currency interest rate swaps			423	365	447	212
Options purchased			–	–	35	–
			596	642	822	549
Credit derivatives (2)			20	20	4	13
Other contracts (3)			45	111	48	92
			1,644	1,710	1,996	1,459
Total gross fair values before netting			39,267	42,961	40,413	43,397
Impact of master netting agreements						
With intent to settle net or simultaneously (4)			(144)	(144)	(817)	(817)
Without intent to settle net or simultaneously (5)			(20,822)	(20,822)	(23,327)	(23,327)
Total			$ 18,301	$ 21,995	$ 16,269	$ 19,253

(1) Average fair value amounts are calculated based on monthly balances.
(2) Comprises credit default swaps, total return swaps and credit default baskets, including credit derivatives given guarantee treatment for OSFI regulatory reporting purposes.
(3) Comprises precious metal, commodity and equity-linked derivative contracts. Certain warrants and loan commitments that meet the definition of derivatives are also included.
(4) Impact of offsetting credit exposures on contracts where we have both a legally enforceable master netting agreement in place and we intend to settle the contracts on either a net basis or simultaneously.
(5) Additional impact of offsetting credit exposures on contracts where we have a legally enforceable master netting agreement in place but do not intend to settle the contracts on a net basis or simultaneously.

Derivative-related credit risk

Credit risk from derivative transactions is generated by the potential for the counterparty to default on its contractual obligations when one or more transactions have a positive market value to us. Therefore, derivative-related credit risk is represented by the positive fair value of the instrument and is normally a small fraction of the contract's notional amount.

We subject our derivative-related credit risk to the same credit approval, limit and monitoring standards that we use for managing other transactions that create credit exposure. This includes evaluation of counterparties as to creditworthiness, and managing the size, diversification and maturity structure of the portfolio. Credit utilization for all products is compared with established limits on a continual basis and is subject to a standard exception reporting process. We utilize a single internal rating system for all credit risk exposure. In most cases, these internal ratings approximate the external risk ratings of public rating agencies.

Netting is a technique that can reduce credit exposure from derivatives and is generally facilitated through the use of master netting agreements. However, credit risk is eliminated only to the extent that our financial obligations to the same counterparty can be settled after we have realized contracts with a favourable position. Our overall exposure to credit risk reduced through master netting agreements may change substantially following the reporting date as the exposure is affected by each transaction subject to the agreement as well as changes in underlying market rates. The two main categories of netting are close-out netting and settlement netting. Under the close-out netting provision, if the counterparty defaults, we have the right to terminate all transactions covered by the master netting agreement at the then-prevailing market values and to sum the resulting market values, offsetting negative against positive values, to arrive at a single net amount owed by either the counterparty or us. Under the settlement netting provision, all payments and receipts in the same currency and due on the same day between specified branches are netted, generating a single payment in each currency, due either by us or the counterparty. We maximize the use of master netting agreements to reduce derivative-related credit exposure. However, measurement of our credit exposure arising out of derivative transactions is not reduced to reflect the effects of netting unless the enforceability of that netting is supported by appropriate legal analysis as documented in our policy.

To further manage derivative-related counterparty credit exposure, we include mark-to-market provisions, typically in the form of a Credit Support Annex, in our agreements with some counterparties. Under such

NOTE 7 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

provisions, we have the right to request that the counterparty pay down or collateralize the current market value of its derivatives position with us when the position passes a specified threshold. The use of collateral is another significant credit mitigation technique for managing derivative-related counterparty credit risk with other banks and broker-dealers.

The tables below show replacement cost, credit equivalent and risk-adjusted amounts of our derivatives both before and after the impact of netting. During 2005, 2004 and 2003, neither our actual credit losses arising from derivative transactions nor the level of impaired derivative contracts were significant.

Replacement cost represents the total fair value of all outstanding contracts in a gain position, before factoring in the master netting agreements. The amounts in the table below exclude fair value of $504 million (2004 – $266 million) relating to exchange-traded instruments as they are subject to daily margining and are deemed to have no credit risk. Fair value of $1 million (2004 – $13 million) relating to certain warrants and loan commitments that meet the definition of derivatives for financial reporting are also excluded.

The credit equivalent amount is defined as the sum of the replacement cost plus an add-on amount for potential future credit exposure as defined by the OSFI.

The risk-adjusted amount is determined by applying standard OSFI defined measures of counterparty risk to the credit equivalent amount.

Derivative-related credit risk

	2005			2004		
	Replacement cost	Credit equivalent amount	Risk-adjusted balance	Replacement cost	Credit equivalent amount	Risk-adjusted balance
Interest rate contracts						
Forward rate agreements	$ 21	$ 44	$ 10	$ 13	$ 16	$ 4
Swaps	14,280	19,496	4,742	15,809	21,694	4,779
Options purchased	958	1,182	338	516	684	231
	15,259	20,722	5,090	16,338	22,394	5,014
Foreign exchange contracts						
Forward contracts	6,869	12,389	3,408	10,788	16,216	4,377
Swaps	8,374	18,935	3,744	8,323	16,829	3,483
Options purchased	2,149	3,625	971	2,020	3,512	905
	17,392	34,949	8,123	21,131	36,557	8,765
Credit derivatives (1)	914	4,663	1,453	787	3,185	1,110
Other contracts (2)	5,177	8,670	2,886	1,874	3,643	1,346
Derivatives before master netting agreements	38,742	69,004	17,552	40,130	65,779	16,235
Impact of master netting agreements	(20,966)	(31,182)	(7,856)	(24,144)	(32,534)	(8,205)
Total derivatives after master netting agreement	$ 17,776	$ 37,822	$ 9,696	$ 15,986	$ 33,245	$ 8,030

(1) Comprises credit default swaps, total return swaps and credit default baskets. Credit derivatives classified as "other than trading" with a replacement cost of $20 million (2004 – $4 million), credit equivalent amount of $390 million (2004 – $709 million) and risk-adjusted asset amount of $390 million (2004 – $709 million) which are given guarantee treatment per the OSFI guidance are excluded from this table.

(2) Comprises precious metal, commodity and equity-linked derivative contracts.

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

	Risk rating (1)					Counterparty type (2)			
As at October 31, 2005	AAA, AA	A	BBB	BB or lower	Total	Banks	OECD governments	Other	Total
Gross positive replacement cost	$ 20,425	$ 10,650	$ 4,643	$ 3,044	$ 38,762	$ 23,985	$ 5,273	$ 9,504	$ 38,762
Impact of master netting agreements	(12,276)	(5,707)	(2,469)	(514)	(20,966)	(17,354)	–	(3,612)	(20,966)
Replacement cost (after netting agreements) (3)	$ 8,149	$ 4,943	$ 2,174	$ 2,530	$ 17,796	$ 6,631	$ 5,273	$ 5,892	$ 17,796
Replacement cost (after netting agreements) – 2004 (3)	$ 8,065	$ 4,875	$ 1,793	$ 1,257	$ 15,990	$ 7,028	$ 4,172	$ 4,790	$ 15,990

(1) Our internal risk ratings for major counterparty types approximate those of public rating agencies. Ratings of AAA, AA, A and BBB represent investment grade ratings and ratings of BB or lower represent non-investment grade ratings.

(2) Counterparty type is defined in accordance with the capital adequacy requirements of the OSFI.

(3) Includes credit derivatives classified as "other than trading" with a total replacement cost of $20 million (2004 – $4 million).

NOTE 8 PREMISES AND EQUIPMENT

	2005			2004
	Cost	Accumulated depreciation	Net book value	Net book value
Land	$ 143	$ –	$ 143	$ 149
Buildings	591	312	279	304
Computer equipment	2,184	1,502	682	622
Furniture, fixtures and other equipment	996	720	276	344
Leasehold improvements	956	628	328	319
	$ 4,870	$ 3,162	$ 1,708	$ 1,738

The depreciation expense for premises and equipment for 2005 was $414 million (2004 – $387 million; 2003 – $391 million).

NOTE 9 GOODWILL AND OTHER INTANGIBLES

As a result of our business realignment which took effect November 1, 2004, as discussed in Notes 21 and 28, we have redefined our business segments and identified their new reporting units. This realignment necessitated a reallocation of goodwill to the new reporting units which we completed using the relative fair value approach. The following tables disclose the changes in goodwill during 2004 and 2005, including the reallocation of goodwill to the new reporting units, which comprise the new segment:

Goodwill

	RBC Banking (1)	RBC Investments	RBC Insurance	RBC Capital Markets	RBC Global Services	Total
Balance at October 31, 2003	$ 1,907	$ 1,546	$ 168	$ 613	$ 122	$ 4,356
Goodwill acquired during the year	127	105	–	–	–	232
Other adjustments (2)	(153)	(125)	(12)	(18)	–	(308)
Balance at October 31, 2004	$ 1,881	$ 1,526	$ 156	$ 595	$ 122	$ 4,280

(1) Goodwill attributable to RBC Mortgage Company has been reclassified to Assets of Operations Held for Sale. Refer to Note 10.
(2) Other adjustments primarily include impact of foreign exchange translations on non-Canadian dollar denominated goodwill.

As a result of the application of relative fair value approach for the business alignment, goodwill as at October 31, 2004, had been reallocated as follows:

	Goodwill balance before business realignment	Reallocation of goodwill: RBC Canadian Personal and Business	Reallocation of goodwill: RBC U.S. and International Personal and Business	Reallocation of goodwill: RBC Capital Markets	Goodwill balance after business realignment
RBC Banking	$ 1,881	$ 1,492	$ 352	$ 37	$ 1,881
RBC Investments	1,526	854	440	232	1,526
RBC Insurance	156	156	–	–	156
RBC Capital Markets	595	–	–	595	595
RBC Global Services	122	–	–	122	122
Balance at October 31, 2004	$ 4,280	$ 2,502	$ 792	$ 986	$ 4,280
Other adjustments (1)		(83)	39	(33)	(77)
Balance at October 31, 2005		$ 2,419	$ 831	$ 953	$ 4,203

(1) Other adjustments primarily include changes to RBC Dain Rauscher's goodwill due to resolutions of pre-acquisition tax positions during the year, reclassification of goodwill of certain trust businesses to intangibles, and impact of foreign exchange translations on non-Canadian dollar denominated goodwill.

Other intangibles

	2005			2004		
	Gross carrying amount	Accumulated amortization (1)	Net carrying amount	Gross carrying amount	Accumulated amortization (1)	Net carrying amount
Core deposit intangibles	$ 346	$ (149)	$ 197	$ 365	$ (124)	$ 241
Customer lists and relationships	275	(105)	170	342	(99)	243
Mortgage servicing rights	68	(26)	42	53	(16)	37
	$ 689	$ (280)	$ 409	$ 760	$ (239)	$ 521

(1) Total amortization expense for 2005 was $50 million (2004 – $69 million; 2003 – $71 million).

During the year, we revisited the goodwill and intangible assets identified in connection with the acquisition of certain trust businesses in fiscal 1999 and 2000 and determined that approximately $57 million (£28 million) initially allocated to customer lists and relationships actually represented goodwill. The reallocation resulted in an increase in the carrying amount of Goodwill and a recovery of approximately $15 million of amortization expense given that we ceased amortizing goodwill and indefinite life intangibles beyond November 1, 2001, in accordance with GAAP.

NOTE 10 SIGNIFICANT DISPOSITIONS AND ACQUISITIONS

2005

Disposition

On December 31, 2004, we completed the sale of our subsidiary Liberty Insurance Services Corporation, to IBM Corporation for cash. The nominal gain on the sale was reported in the RBC Canadian Personal and Business segment.

Discontinued operations

Following a strategic review of our U.S. operations earlier this year, we determined that RBC Mortgage Company (RBC Mortgage) was no longer a core business that would positively contribute to our U.S. operations. On May 27, 2005, we signed a Purchase and Assumption Agreement with Home123 Corporation (Home123), pursuant to which Home123 acquired certain of RBC Mortgage's assets, including its branches, and hired substantially all of its employees. Pursuant to the terms of the agreement, we were required to operate RBC Mortgage in the normal course, until closing, in order to preserve the value of the assets and business relationships with customers and employees. The transaction, which closed on September 2, 2005, had only a nominal impact on our earnings.

RBC Mortgage is also in the process of disposing of its remaining assets and obligations that were not transferred to Home123 upon closing. These are recorded separately on the Consolidated Balance Sheets as Assets of Operations Held for Sale and Liabilities of Operations Held for Sale, respectively. The operating results of RBC Mortgage have been classified as Discontinued Operations for all periods presented in the Consolidated Statements of Income. The results for 2005 include the disposal of $89 million of goodwill, including a $4 million impairment charge (2004 – $130 million impairment charge). RBC Mortgage's business realignment charges (refer to Note 21) have also been reclassified to Discontinued Operations.

2004

Acquisitions

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

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

(1) Core deposit intangibles and customer lists and relationships are amortized on a straight-line basis over an estimated average useful life of 8 and 15 years, respectively.
(2) In connection with the acquisition of the Canadian operations of UnumProvident, we assumed UnumProvident's policy liabilities and received assets with the equivalent fair value to support future payments.

2003

Acquisitions

During 2003, we completed the acquisitions of Admiralty Bancorp, Inc. (Admiralty), Business Men's Assurance Company of America (BMA) and Sterling Capital Mortgage Company (SCMC), whose operations were sold in 2005 as part of the RBC Mortgage disposition. The details of these acquisitions are as follows:

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

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

NOTE 11 OTHER ASSETS

	2005	2004
Receivable from brokers, dealers and clients	$ 1,934	$ 5,176
Accrued interest receivable	1,716	1,632
Investment in associated corporations and limited partnerships	1,423	1,316
Insurance-related assets (1)	679	553
Net future income tax asset (refer to Note 22)	1,248	766
Prepaid pension benefit cost (2) (refer to Note 19)	540	631
Cheques and other items in transit	2,117	1,118
Other	3,251	4,164
	$ 12,908	$ 15,356

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

NOTE 12 DEPOSITS

The following table details our deposit liabilities at October 31, 2005 and 2004.

	2005				2004
	Demand (1)	Notice (2)	Term (3)	Total	Total
Personal	$ 13,320	$ 33,952	$ 64,346	$ 111,618	$ 111,256
Business and government (4)	48,401	14,505	97,687	160,593	133,823
Bank	4,309	25	30,315	34,649	25,880
	$ 66,030	$ 48,482	$ 192,348	$ 306,860	$ 270,959
Non-interest bearing					
Canada				$ 39,680	$ 28,081
United States				3,799	2,284
Other International				908	885
Interest-bearing					
Canada (4)				145,292	140,232
United States				41,399	34,142
Other International				75,782	65,335
				$ 306,860	$ 270,959

(1) Deposits payable on demand include all deposits for which we do not have the right to notice of withdrawal. These deposits are primarily chequing accounts.
(2) Deposits payable after notice include all deposits for which we can legally require notice of withdrawal. These deposits are primarily savings accounts.
(3) Term deposits include deposits payable on a fixed date. These deposits include term deposits, guaranteed investment certificates and similar instruments. At October 31, 2005, the balance of term deposits also includes senior deposit notes we have issued to provide long-term funding of $24.0 billion (2004 – $18.8 billion) and other notes and similar instruments in bearer form we have issued of $24.9 billion (2004 – $21.9 billion).
(4) We deconsolidated Trust II on November 1, 2004, upon adoption of AcG-15, as discussed in Note 6. As a result of deconsolidation, the senior deposit note of $900 million issued to Trust II is no longer considered to be an intercompany liability and is now reflected in Business and Government Deposits. This senior deposit note bears interest at an annual rate of 5.812% and will mature on December 31, 2053. The note is redeemable at our option, in whole or in part, on and after December 31, 2008, subject to the approval of the OSFI. It may be redeemed earlier, at our option in certain specified circumstances, subject to the approval of the OSFI. Each $1,000 of the note principal is convertible at any time into 40 of our non-cumulative redeemable Bank First Preferred Shares Series U at the option of Trust II. Trust II will exercise this conversion right in circumstances in which holders of RBC Trust Capital Securities Series 2013 (RBC TruCS 2013) exercise their holder exchange right. See Note 16 for more information on RBC TruCS 2013.

The following table presents the average deposit balances and average rate of interest paid during 2005 and 2004:

Average deposit balances and rates

	Average balances		Average rate	
	2005	2004	2005	2004
Canada	$ 176,665	$ 160,663	2.11%	1.98%
United States	40,497	39,017	2.59	1.31
Other International	71,035	68,521	3.06	2.11
	$ 288,197	$ 268,201	2.41%	1.92%

NOTE 13 INSURANCE

Actuarial reserves

	2005	2004
Life and Health	$ 6,414	$ 6,112
Property and Casualty	316	211
Reinsurance	387	165
Actuarial reserves, net of unearned premiums	$ 7,117	$ 6,488

	2005	2004
Future policy benefits liabilities	$ 6,360	$ 6,044
Claims liabilities	757	444
Insurance claims and policy benefit liabilities	$ 7,117	$ 6,488

The increase in insurance claims and policy benefit liabilities over the prior year is comprised of a net increase in Life and Health and Property and Casualty reserves attributable to business growth, and a net increase in our Reinsurance reserves, which mainly reflected estimated net claims related to hurricanes Katrina, Rita and Wilma.

As a result of certain actuarial claim and termination studies and review of various actuarial assumptions completed during the year, we recorded a net decrease of $54 million of Life and Health insurance reserves, which was comprised of a net decrease in our Health insurance reserves of $378 million offset by a net increase of $324 million primarily in Life insurance reserves. The net change in Health insurance reserves mainly reflects the favourable impact of improved disability claim and termination experience. The net change in Life insurance reserves was mainly a result of the decrease in long-term rates and changes in the tax treatment of certain invested assets and higher policy maintenance costs.

The changes in the insurance claims and policy benefit reserves are included in Insurance Policyholder Benefits, Claims and Acquisition Expense in the Consolidated Statements of Income in the period in which the estimates change.

Reinsurance

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

Reinsurance recoverables related to property and casualty insurance business, which are included in Other Assets, include amounts related to paid benefits and unpaid claims. During the year, we revisited our presentation of reinsurance recoverables and the portion of $667 million (2004 – $567 million) related to life insurance business was reclassified from Other Assets to offset the related liabilities under Insurance Claims and Policy Benefit Liabilities.

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

Net premiums

	2005	2004	2003
Gross premiums	$ 3,329	$ 2,956	$ 2,979
Ceded premiums	(765)	(574)	(1,014)
	$ 2,564	$ 2,382	$ 1,965

NOTE 14 OTHER LIABILITIES

	2005	2004
Short-term borrowings of subsidiaries	$ 3,309	$ 3,937
Payable to brokers, dealers and clients	3,161	5,069
Accrued interest payable	1,827	1,748
Accrued pension and other postemployment benefit expense (1) (refer to Note 19)	1,195	1,021
Insurance-related liabilities	485	401
Dividends payable	424	347
Other	8,007	7,649
	$ 18,408	$ 20,172

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

NOTE 15 SUBORDINATED DEBENTURES

The debentures are unsecured obligations and are subordinated in right of payment to the claims of depositors and certain other creditors.

All redemptions, cancellations and exchanges of subordinated debentures are subject to the consent and approval of the OSFI.

Maturity	Earliest par value redemption date	Interest rate	Denominated in foreign currency	2005	2004
March 15, 2009		6.50%	US$125	$ 148	$ 152
August 15, 2010	(1)	6.40%		–	688
February 13, 2011	February 13, 2006 (2)	5.50% (3)		124	122
April 26, 2011	April 26, 2006 (4)	8.20% (3)		99	77
September 12, 2011	September 12, 2006 (5)	6.50% (3)		350	349
October 24, 2011	October 24, 2006 (6)	6.75% (7)	US$300	345	350
November 8, 2011	November 8, 2006 (8)	(9)	US$400	473	488
June 4, 2012	June 4, 2007 (5)	6.75% (3)		500	500
January 22, 2013	January 22, 2008 (10)	6.10% (3)		500	497
January 27, 2014	January 27, 2009 (2)	3.96% (3)		498	500
June 1, 2014	June 1, 2009 (11)	4.18% (3)		1,000	1,000
November 14, 2014		10.00%		200	200
January 25, 2015	January 25, 2010 (12)	7.10% (3)		500	498
June 24, 2015	June 24, 2010 (2)	3.70% (3)		800	–
April 12, 2016	April 12, 2011 (13)	6.30% (3)		400	382
November 4, 2018	November 4, 2013 (14)	5.45% (3)		1,000	1,000
June 8, 2023		9.30%		110	110
October 1, 2083	(15)	(16)		246	250
June 6, 2085	(15)	(17)	US$232	274	365
June 18, 2103	June 18, 2009 (18)	5.95% (19)		600	588
				$ 8,167	$ 8,116

The terms and conditions of the debentures are as follows:

(1) Redeemed on August 15, 2005, at par value.
(2) Redeemable at any time prior to the earliest par value redemption date at the greater of (i) the fair value of the subordinated debentures based on the yield on Government of Canada bonds plus 8 basis points and (ii) par value, and thereafter at any time at par value.
(3) Interest at stated interest rate until earliest par value redemption date, and thereafter at a rate of 1.00% above the 90-day Bankers' Acceptance rate.
(4) Redeemable at any time prior to the earliest par value redemption date at the greater of (i) the fair value of the subordinated debentures based on the yield on Government of Canada bonds plus 10 basis points and (ii) par value, and thereafter at any time at par value.
(5) Redeemable at any time prior to the earliest par value redemption date at the greater of (i) the fair value of the subordinated debentures based on the yield on Government of Canada bonds plus 5 basis points and (ii) par value, and thereafter at any time at par value.
(6) Redeemable at any time prior to the earliest par value redemption date at the greater of (i) the fair value of the subordinated debentures based on the yield on U.S. Treasury notes plus 10 basis points and (ii) par value, and thereafter at any time at par value.
(7) Interest at a rate of 6.75% until earliest par value redemption date, and thereafter at a rate of 1.00% above the U.S. dollar 6-month LIBOR.
(8) Redeemable on the earliest par value redemption date at par value.
(9) Interest at a rate of 50 basis points above the U.S. dollar 3-month LIBOR until earliest par value redemption date, and thereafter at a rate of 1.50% above the U.S. dollar 3-month LIBOR.
(10) Redeemable at any time prior to the earliest par value redemption date at the greater of (i) the fair value of the subordinated debentures based on the yield on Government of Canada bonds plus 18 basis points and (ii) par value, and thereafter at any time at par value.
(11) Redeemable at any time prior to the earliest par value redemption date at the greater of (i) the fair value of the subordinated debentures based on the yield on Government of Canada bonds plus 9 basis points and (ii) par value, and thereafter at any time at par value.
(12) Redeemable at any time prior to the earliest par value redemption date at the greater of (i) the fair value of the subordinated debentures based on the yield on Government of Canada bonds plus 12.5 basis points and (ii) par value, and thereafter at any time at par value.
(13) Redeemable at any time prior to the earliest par value redemption date at the greater of (i) the fair value of the subordinated debentures based on the yield on Government of Canada bonds plus 22 basis points and (ii) par value, and thereafter at any time at par value.
(14) Redeemable at any time prior to the earliest par value redemption date at the greater of (i) the fair value of the subordinated debentures based on the yield on Government of Canada bonds plus 14 basis points and (ii) par value, and thereafter at any time at par value.
(15) Redeemable on any interest payment date at par value.
(16) Interest at a rate of 40 basis points above the 30-day Bankers' Acceptance rate.
(17) Interest at a rate of 25 basis points above the U.S. dollar 3-month LIMEAN. In the event of a reduction of the annual dividend we declare on our common shares, the interest payable on the debentures is reduced pro rata to the dividend reduction and the interest reduction is payable with the proceeds from the sale of newly issued common shares.
(18) Redeemable on June 18, 2009, or every fifth anniversary of such date at par value. Redeemable on any other date at the greater of par and the yield on a non-callable Government of Canada bond plus .21% if redeemed prior to June 18, 2014, or .43% if redeemed at any time after June 18, 2014.
(19) Interest at a rate of 5.95% until earliest par value redemption date and every 5 years thereafter at the 5-year Government of Canada yield plus 1.72%.

Maturity schedule

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

At October 31, 2005	Total
1 to 5 years	$ 148
5 to 10 years	5,389
Thereafter	2,630
	$ 8,167

NOTE 16 TRUST CAPITAL SECURITIES

We issue innovative capital instruments, RBC Trust Capital Securities (TruCS), through two SPEs: RBC Capital Trust (Trust) and RBC Capital Trust II (Trust II). As a result of the characteristics associated with both the Trusts and the TruCS, we have revised the accounting treatment for outstanding issuances as at November 1, 2004, in accordance with the revised accounting standards as explained below.

In prior years, we issued non-voting RBC Trust Capital Securities Series 2010 and 2011 (RBC TruCS 2010 and 2011) through our consolidated subsidiary RBC Capital Trust, a closed-end trust established under the laws of the Province of Ontario. The proceeds of the RBC TruCS 2010 and 2011 were used to fund the Trust's acquisition of trust assets. On adoption of revisions to CICA 3860, on November 1, 2004, we reclassified as liabilities $1,400 million (2004 – $1,400 million) of RBC TruCS 2010 and 2011 previously included in Non-controlling Interest in Subsidiaries as well as the related dividend and yield distributions on these instruments as explained in Note 1. Holders of RBC TruCS 2010 and 2011 are eligible to receive semi-annual non-cumulative fixed cash distributions.

During the year, we issued another series of non-voting trust capital securities, RBC Trust Capital Securities Series 2015 (RBC TruCS 2015), through the Trust. Unlike the RBC TruCS 2010 and 2011, the holders of these instruments do not have any conversion rights or any other redemption rights. As a result, upon consolidation of the Trust, RBC TruCS 2015 are classified as Non-controlling Interest in Subsidiaries (refer to Note 18). Holders of RBC TruCS 2015 are eligible to receive semi-annual non-cumulative fixed cash distributions until December 31, 2015, and a floating rate cash distribution thereafter.

Trust II, an open-end trust, has issued non-voting RBC Trust Capital Securities Series 2013 (RBC TruCS 2013), the proceeds of which were used to purchase a senior deposit note from us. Trust II is a VIE under AcG-15 (refer to Note 6). We do not consolidate Trust II as we are not the Primary Beneficiary; therefore, the RBC TruCS 2013 issued by Trust II are not reported on our Consolidated Balance Sheets, but the senior deposit note is reported in Deposits (refer to Note 12). Holders of RBC TruCS 2013 are eligible to receive semi-annual non-cumulative fixed cash distributions.

No cash distributions will be payable by the Trusts on TruCS if we fail to declare regular dividends on our preferred shares and if no preferred shares are then outstanding on our common shares. In this case, the net distributable funds of the Trusts will be distributed to us as holders of residual interest in the Trusts. Should the Trusts fail to pay the semi-annual distributions in full, we will not declare dividends of any kind on any of our preferred or common shares for a specified period of time.

The table below presents our outstanding TruCS as at October 31, 2005:

Issuer	Issuance date	Distribution dates	Annual yield	Redemption date At the option of the issuer	Conversion date At the option of the holder	Principal amount
RBC Capital Trust (1), (2), (3), (4), (5), (6)						
Included in Trust Capital Securities						
650,000 Trust Capital Securities – Series 2010	July 24, 2000	June 30, December 31	7.288%	December 31, 2005	December 31, 2010	$ 650
750,000 Trust Capital Securities – Series 2011	December 6, 2000	June 30, December 31	7.183%	December 31, 2005	December 31, 2011	$ 750
						$ 1,400
Included in Non-controlling Interest in Subsidiaries						
1,200,000 Trust Capital Securities – Series 2015	October 28, 2005	June 30, December 31	4.87% (7)	December 31, 2010	Holder does not have conversion option	$ 1,200
						$ 2,600
RBC Capital Trust II (2), (3), (4), (5), (6), (8)						
900,000 Trust Capital Securities – Series 2013	July 23, 2003	June 30, December 31	5.812%	December 31, 2008	Any time	$ 900

The significant terms and conditions of these TruCS are as follows:

(1) Subject to the approval of the OSFI, the Trust may, in whole (but not in part), on the Redemption date specified above, and on any Distribution date thereafter, redeem the RBC TruCS 2010, 2011 and 2015, without the consent of the holders.

(2) Subject to the approval of the OSFI, upon occurrence of a special event as defined, prior to the Redemption date specified above, the Trusts may redeem all, but not part, RBC TruCS 2010, 2011, 2013 and 2015 without the consent of the holders.

(3) The RBC TruCS 2010 and 2011 may be redeemed for cash equivalent to (i) the Early Redemption Price if the redemption occurs earlier than six months prior to the conversion date specified above or (ii) the Redemption Price if the redemption occurs on or after the date that is six months prior to the conversion date as indicated above. The RBC TruCS 2013 and 2015 may be redeemed for cash equivalent to (i) the Early Redemption Price if the redemption occurs prior to December 31, 2013 and 2015, respectively or (ii) the Redemption Price if the redemption occurs on or after December 31, 2013 and 2015, respectively. Redemption Price refers to an amount equal to $1,000 plus the unpaid distributions to the Redemption date. Early Redemption Price refers to an amount equal to the greater of (i) the Redemption Price and (ii) the price calculated to provide an annual yield, equal to the yield on a Government of Canada bond issued on the Redemption date with a maturity date of June 30, 2010 and 2011, plus 33 basis points and 40 basis points, for RBC TruCS 2010 and 2011, respectively, and a maturity date of December 31, 2013 and 2015, plus 23 basis points and 19.5 basis points, for RBC TruCS 2013 and 2015, respectively.

(4) Each RBC TruCS 2010, 2011, 2013 and 2015 will be exchanged automatically without the consent of the holders, for 40 of our non-cumulative redeemable Bank First Preferred Shares Series Q, R, T and Z, respectively upon occurrence of any one of the following events: (i) proceedings are commenced for the winding-up of the Bank; (ii) the OSFI takes control of the Bank; (iii) the Bank has Tier 1 capital ratio of less than 5% or Total capital ratio of less than 8%; or (iv) the OSFI has directed the Bank to increase its capital or provide additional liquidity and Bank elects such automatic exchange or the Bank fails to comply with such direction. The Bank First Preferred Shares Series T and Z pay semi-annual non-cumulative cash dividends and Series T is convertible at the option of the holder into variable number of common shares.

(5) As as October 31, 2005, for regulatory capital purposes, RBC TruCS 2010, 2011 and 2013 remain component of Tier 1 capital. For RBC TruCS 2015, $537 million represents Tier 1 capital, $567 million represents Tier 2B capital and $96 million is currently not recognized as regulatory capital.

(6) Holders of RBC TruCS 2010 and 2011 may exchange, on any Distribution date on or after the conversion date specified above, RBC TruCS 2010 and 2011 for 40 non-cumulative redeemable Bank First Preferred Shares, Series Q and Series R, respectively. Holders of RBC TruCS 2013 may, at any time, exchange all or part of their holdings for 40 non-cumulative redeemable Bank First Preferred Shares Series U, for each RBC TruCS 2013 held. The Bank First Preferred Shares Series Q, R and U pay semi-annual non-cumulative cash dividends as and when declared by our Board of Directors and are convertible at the option of the holder into variable number of common shares. Holders of RBC TruCS 2015 do not have similar exchange rights.

(7) The non-cumulative cash distribution on the RBC TruCS 2015 will be 4.87% paid semi-annually until December 31, 2015, and at one half of the sum of 180-day Bankers' Acceptance rate plus 1.5%, thereafter.

(8) Subject to the approval of the OSFI, Trust II may, in whole or in part, on the Redemption date specified above, and on any Distribution date thereafter, redeem any outstanding RBC TruCS 2013, without the consent of the holders.

NOTE 17 PREFERRED SHARE LIABILITIES AND SHARE CAPITAL

Authorized share capital

Preferred – An unlimited number of First Preferred Shares and Second Preferred Shares without nominal or par value, issuable in series; the aggregate consideration for which all the First Preferred Shares and all the Second Preferred Shares that may be issued may not exceed $10 billion and $5 billion, respectively. In accordance with the requirements of CICA 3860, First Preferred Non-cumulative Series N preferred shares are reported as Preferred Share Liabilities on our Consolidated Balance Sheets and dividend distributions on these shares have been reclassified to Interest Expense in our Consolidated Statements of Income. Refer to Note 1.

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

Issued and outstanding shares

	2005			2004			2003		
	Number of shares (000s)	Amount	Dividends declared per share	Number of shares (000s)	Amount	Dividends declared per share	Number of shares (000s)	Amount	Dividends declared per share
Preferred share liabilities									
First preferred									
Non-cumulative Series J (1)	–	$ –	$ –	–	$ –	$ –	–	$ –	$ .90
US$ Non-cumulative Series K (1)	–	–	–	–	–	–	–	–	US .80
Non-cumulative Series N	12,000	300	1.18	12,000	300	1.18	12,000	300	1.18
Preferred shares									
First preferred									
Non-cumulative Series O	6,000	$ 150	$ 1.38	6,000	$ 150	$ 1.38	6,000	$ 150	$ 1.38
US$ Non-cumulative Series P (2)	–	–	US 1.26	4,000	132	US 1.44	4,000	132	US 1.44
Non-cumulative Series S	10,000	250	1.53	10,000	250	1.53	10,000	250	1.53
Non-cumulative Series W (3)	12,000	300	.99	–	–	–	–	–	–
		$ 700			$ 532			$ 532	
Common shares									
Balance at beginning of year	644,748	$ 6,988		656,021	$ 7,018		665,257	$ 6,979	
Issued under the stock option plan (4)	4,958	214		3,328	127		5,303	193	
Purchased for cancellation	(2,955)	(32)		(14,601)	(157)		(14,539)	(154)	
Balance at end of year	646,751	$ 7,170	$ 2.35	644,748	$ 6,988	$ 2.02	656,021	$ 7,018	$ 1.72
Treasury shares – Preferred shares									
Balance at beginning of year	–	$ –		–	$ –		–	$ –	
Net purchases	(91)	(2)		–	–		–	–	
Balance at end of year	(91)	$ (2)		–	$ –		–	$ –	
Treasury shares – Common shares									
Balance at beginning of year	(4,863)	$ (294)		–	$ –		–	$ –	
Net sales	2,289	132		87	10		–	–	
Initial adoption of AcG-15, *Consolidation of Variable Interest Entities*	(952)	(54)		–	–		–	–	
Reclassified amounts	–	–		(4,950)	(304)		–	–	
Balance at end of year	(3,526)	$ (216)		(4,863)	$ (294)		–	$ –	

(1) On May 26, 2003, we redeemed First Preferred Shares Series J and K.
(2) On October 7, 2005, we redeemed First Preferred Shares Series P.
(3) On January 31, 2005, we issued 12 million First Preferred Shares Non-cumulative Series W at $25 per share.
(4) Includes the exercise of stock options from tandem stock appreciation rights (SARs) awards, resulting in a reversal of the accrued liability, net of related income taxes, of $10 million (2004 – $5 million; 2003 – $4 million) and from renounced tandem SARs, net of related income taxes, of $7 million (2004 – $3 million; 2003 – $6 million).

Terms of preferred share liabilities and preferred shares

	Dividend per share (1)	Redemption date (2)	Redemption price (2), (3)	Conversion date: At the option of the bank (2), (4)	Conversion date: At the option of the holder (5)
Preferred share liabilities					
First preferred					
Non-cumulative Series N	$ .293750	August 24, 2003	$ 25.50	August 24, 2003	August 24, 2008
Preferred shares					
First preferred					
Non-cumulative Series O	$ .343750	August 24, 2004	$ 25.75	August 24, 2004	Not convertible
Non-cumulative Series S	.381250	August 24, 2006	26.00	August 24, 2006	Not convertible
Non-cumulative Series W	.306250	February 24, 2010	26.00	February 24, 2010	Not convertible

(1) Non-cumulative preferential dividends on Series N, O, S and W are payable quarterly, as and when declared by the Board of Directors, on or about the 24th day of February, May, August and November.
(2) The redemption price represents the price as at October 31, 2005 or the contractual redemption price, whichever is applicable. Subject to the consent of the OSFI and the requirements of the *Bank Act* (Canada) (the Act), we may, on or after the dates specified above, redeem First Preferred Shares. These may be redeemed for cash, in the case of Series N at a price per share of $26, if redeemed during the 12 months commencing August 24, 2003, and decreasing by $.25 each 12-month period thereafter to a price per share of $25 if redeemed on or after August 24, 2007, and in the case of Series O at a price per share of $26, if redeemed during the 12 months commencing August 24, 2004, and decreasing by $.25 each 12-month period thereafter to a price per share of $25, if redeemed on or after August 24, 2008, and in the case of Series S at a price per share of $26, if redeemed during the 12 months commencing August 24, 2006, and decreasing by $.25 each 12-month period thereafter to a price per share of $25 if redeemed on or after August 24, 2010, and in the case of Series W at a price per share of $26, if redeemed during the 12 months commencing February 24, 2010, and decreasing by $.25 each period thereafter to a price per share of $25 if redeemed on or after February 24, 2014.
(3) Subject to the consent of the OSFI and the requirements of the Act, we may purchase First Preferred Shares for cancellation at a purchase price, in the case of the Series N, O, S and W at the lowest price or prices at which, in the opinion of the Board of Directors, such shares are obtainable.
(4) Subject to the approval of the Toronto Stock Exchange, we may, on or after the dates specified above, convert First Preferred Shares Series N, O, S and W into our common shares. First Preferred Shares may be converted into that number of common shares determined by dividing the then-applicable redemption price by the greater of $2.50 and 95% of the weighted average trading price of common shares at such time.
(5) Subject to our right to redeem or to find substitute purchasers, the holder may, on or after the dates specified above, convert First Preferred Shares into our common shares. Series N may be converted, quarterly, into that number of common shares determined by dividing the then-applicable redemption price by the greater of $2.50 and 95% of the weighted average trading price of common shares at such time.

NOTE 17 PREFERRED SHARE LIABILITIES AND SHARE CAPITAL (continued)

Restrictions on the payment of dividends

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

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

We have agreed that if RBC Capital Trust or RBC Capital Trust II fail to pay any required distribution on the trust capital securities in full, we will not declare dividends of any kind on any of our preferred or common shares. Refer to Note 16.

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

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

Normal course issuer bid

Details of common shares repurchased under normal course issuer bids during 2005, 2004 and 2003 are given below.

Regulatory capital

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

The OSFI requires Canadian banks to maintain a minimum Tier 1 and Total capital ratio of 4% and 8%, respectively. However, the OSFI has also formally established risk-based capital targets for deposit-taking institutions in Canada. These targets are a Tier 1 capital ratio of 7% and a Total capital ratio of 10%. At October 31, 2005, our Tier 1 and Total capital ratios were 9.6% and 13.1%, respectively (2004 – 8.9% and 12.4%, respectively).

At October 31, 2005, our assets-to-capital multiple was 17.6 times (2004 – 17.9 times), which remains below the maximum permitted by the OSFI.

Dividend reinvestment plan

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

Management has the flexibility to fund the plan through open market share purchases or treasury issuances.

	2005				2004			2003		
	Number of shares eligible for repurchase (000s)	Number of shares repurchased (000s)	Average cost per share	Amount	Number of shares repurchased (000s)	Average cost per share	Amount	Number of shares repurchased (000s)	Average cost per share	Amount
June 24, 2005 – June 23, 2006	10,000	1,950	$ 83.50	$ 163	–	$ –	$ –	–	$ –	$ –
June 24, 2004 – June 23, 2005	25,000	1,005	63.24	63	6,412	60.56	388	–	–	–
June 24, 2003 – June 23, 2004	25,000	–	–	–	8,189	61.54	504	5,910	59.30	350
June 24, 2002 – June 23, 2003	20,000	–	–	–	–	–	–	8,629	58.09	502
		2,955	$ 76.61	$ 226	14,601	$ 61.11	$ 892	14,539	$ 58.58	$ 852

NOTE 18 NON-CONTROLLING INTEREST IN SUBSIDIARIES

	2005	2004 (1)
RBC Trust Capital Securities Series 2015	$ 1,200	$ –
Consolidated VIEs	703	–
Others	41	58
	$ 1,944	$ 58

(1) The 2004 amounts have been restated on adoption of CICA 3860 on November 1, 2004, as explained in Note 1.

During the year, we issued RBC TruCS 2015 (refer to Note 16) which are reported as Non-controlling Interest in Subsidiaries upon consolidation.

Effective November 1, 2004, we consolidate VIEs in which we are the Primary Beneficiary. These VIEs include structured finance VIEs, investment funds, repackaging VIEs and compensation vehicles as described in Note 6.

NOTE 19 PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS

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

We fund our statutory pension plans in accordance with actuarially determined amounts needed to satisfy employee benefit entitlements under current pension regulations. These pension plans provide benefits based on years of service, contributions and average earnings at retirement. The most recent actuarial valuation filed for funding purposes was completed on January 1, 2005. For our principal pension plans, the next required actuarial valuation for funding purposes will be completed on January 1, 2006. Total cash payments were $301 million (2004 – $309 million) for our pension and other postemployment benefits for 2005.

For financial reporting purposes, we measure our benefit obligations and pension plan assets as at September 30 each year. The following tables present financial information related to our pension and other postemployment plans:

Plan assets, benefit obligation and funded status

	Pension plans (1)		Other postemployment plans (2)	
	2005	2004	**2005**	2004
Change in fair value of plan assets (3)				
Opening fair value of plan assets	$ 5,067	$ 4,657	$ 31	$ 26
Actual return on plan assets	751	475	4	3
Company contributions	179	221	55	49
Plan participant contributions	24	24	3	2
Benefits paid	(295)	(284)	(64)	(49)
Other	18	–	–	–
Change in foreign currency exchange rate	(25)	(26)	–	–
Closing fair value of plan assets	$ 5,719	$ 5,067	$ 29	$ 31
Change in benefit obligation				
Opening benefit obligation	$ 5,503	$ 5,282	$ 1,620	$ 1,577
Service cost	138	136	49	72
Interest cost	344	330	101	99
Plan participant contributions	24	24	3	2
Actuarial loss (gain)	798	34	180	(65)
Benefits paid	(295)	(284)	(64)	(49)
Plan amendments and curtailments	1	20	(1)	–
Other	49	–	6	(6)
Change in foreign currency exchange rate	(38)	(39)	(3)	(10)
Closing benefit obligation	$ 6,524	$ 5,503	$ 1,891	$ 1,620
Funded status				
Excess of benefit obligation over plan assets	$ (805)	$ (436)	$ (1,862)	$ (1,589)
Unrecognized net actuarial loss	1,127	855	604	455
Unrecognized transitional (asset) obligation	(14)	(17)	140	157
Unrecognized prior service cost	136	168	11	12
Contributions between September 30 and October 31	3	1	5	4
Prepaid asset (accrued liability) as at October 31	$ 447	$ 571	$ (1,102)	$ (961)
Amounts recognized in the Consolidated Balance Sheets consist of:				
Other assets	$ 540	$ 631	$ –	$ –
Other liabilities	(93)	(60)	(1,102)	(961)
Net amount recognized as at October 31	$ 447	$ 571	$ (1,102)	$ (961)
Weighted average assumptions to calculate benefit obligation				
Discount rate	5.25%	6.25%	5.41%	6.35%
Rate of increase in future compensation	4.40%	4.40%	4.40%	4.40%

Asset category

	Actual	
	2005	2004
Equity securities	60%	59%
Debt securities	40%	41%
Total	100%	100%

(1) For pension plans with projected benefit obligations that were more than plan assets, the benefit obligation and fair value of plan assets for all these plans totalled $5,872 million (2004 – $4,953 million) and $5,026 million (2004 – $4,437 million), respectively.
(2) We have revised our presentation of Other postemployment plans to include other postemployment plans in addition to our postretirement plans. These plans include long-term disability, health, dental and life insurance coverage. The assumed health care cost trend rates for the next year used to measure the expected cost of benefits for the postemployment health and life plans were 7.9% for medical and 4.5% for dental, decreasing to an ultimate rate of 4.3% in 2013.
(3) Plan assets include 829,250 (2004 – 680,400) of our common shares having a fair value of $70 million (2004 – $41 million). In addition, dividends amounting to $1.6 million (2004 – $1.4 million) were received on our common shares held in the plan assets during the year.

Pension benefit expense

	2005	2004	2003
Service cost	$ 138	$ 136	$ 120
Interest cost	344	330	306
Expected return on plan assets	(328)	(315)	(300)
Amortization of transitional asset	(2)	(2)	(2)
Amortization of prior service cost	32	32	31
Amortization of actuarial loss (gain)	90	84	15
Other	3	–	–
Defined benefit pension expense	277	265	170
Defined contribution pension expense	63	64	67
Pension benefit expense	$ 340	$ 329	$ 237
Weighted average assumptions to calculate pension benefit expense			
Discount rate	6.25%	6.25%	6.75%
Assumed long-term rate of return on plan assets	7.00%	7.00%	7.00%
Rate of increase in future compensation	4.40%	4.40%	4.40%

Other postemployment benefit expense

	2005	2004	2003
Service cost	$ 49	$ 72	$ 68
Interest cost	101	99	89
Expected return on plan assets	(2)	(1)	(2)
Amortization of transitional obligation	17	17	17
Amortization of actuarial loss (gain)	30	26	45
Amortization of prior service cost	1	1	1
Curtailment gain	(1)	–	–
Other postemployment benefit expense	$ 195	$ 214	$ 218
Weighted average assumptions to calculate other postemployment benefit expense			
Discount rate	6.35%	6.34%	6.85%
Rate of increase in future compensation	4.40%	4.40%	4.40%

2005 Sensitivity of key assumptions

Pension	Change in obligation	Change in expense
Impact of .25% change in discount rate assumption	$ 229	$ 27
Impact of .25% change in rate of increase in future compensation assumption	29	6
Impact of .25% change in the long-term rate of return on plan assets assumption	–	12
Other postemployment	Change in obligation	Change in expense
Impact of .25% change in discount rate assumption	$ 81	$ 12
Impact of .25% change in rate of increase in future compensation assumption	3	–
Impact of 1.00% increase in health care cost trend rates	297	30
Impact of 1.00% decrease in health care cost trend rates	(240)	(23)

Discount rate

For the Canadian pension and other postemployment plans, at each measurement date, all future expected benefit payment cash flows are discounted at spot rates developed from a yield curve of AA corporate debt securities. It is assumed that spot rates beyond 30 years are equivalent to the 30-year spot rate. The discount rate is selected as the equivalent level rate that would produce the same discounted value as that determined by using the applicable spot rates. This methodology does not rely on assumptions regarding reinvestment rates. For the U.S. plans, at each measurement date, the discount rate is based on the yield for high-quality, long-term corporate debt securities with durations comparable to our liabilities.

Reconciliation of defined benefit expense recognized with defined benefit expense incurred

The cost of pension and other postemployment benefits earned by employees is actuarially determined using the projected benefit method pro-rated on services, and based on management's best estimate of expected plan investment performance, salary escalation, discount rate, retirement ages of employees and costs of long-term disability, health, dental and life insurance.

Actuarial gains or losses arise from changes in benefit obligation assumptions and the difference between the expected and actual investment performance. Adoption of the CICA Handbook Section 3461, *Employee Future Benefits*, resulted in recognition of the transitional asset and obligation at the date of adoption.

The transitional asset or obligation, actuarial gains or losses and prior service costs resulting from plan amendments are amortized over the expected average remaining service lifetime of active members expected to receive benefits under the plan. The following tables present the differences between the benefit expenses with and without amortization:

Defined benefit pension expense incurred

	2005	2004	2003
Defined benefit pension expense recognized	$ 277	$ 265	$ 170
Difference between expected and actual return on plan assets	(423)	(160)	(115)
Difference between actuarial losses (gains) amortized and actuarial losses (gains) arising	708	(50)	428
Difference between prior service costs amortized and prior service costs arising	(31)	(12)	(31)
Amortization of transitional asset	2	2	2
Defined benefit pension expense incurred	$ 533	$ 45	$ 454

Other postemployment benefit expense incurred

	2005	2004	2003
Other postemployment benefit expense recognized	$ 195	$ 214	$ 218
Difference between expected and actual return on plan assets	(2)	(2)	(1)
Difference between actuarial losses (gains) amortized and actuarial losses (gains) arising	150	(91)	191
Difference between prior service costs amortized and prior service costs arising	(1)	(1)	–
Amortization of transitional obligation	(17)	(17)	(17)
Other postemployment benefit expense incurred	$ 325	$ 103	$ 391

NOTE 20 STOCK-BASED COMPENSATION

Stock option plans

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

For options issued prior to November 1, 2002, that were not accompanied by tandem stock appreciation rights (SARs), no compensation expense was recognized as the option's exercise price was not less than the market price of the underlying stock on the day of grant. When the options are exercised, the proceeds received are credited to Common Shares.

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

The compensation expense for these grants, which is amortized over the associated option's vesting period, was $42 million for the year ended October 31, 2005 (2004 – $3 million; 2003 – $34 million).

A summary of our stock option activity and related information

	2005		2004		2003	
	Number of options (000s)	Weighted average exercise price	Number of options (000s)	Weighted average exercise price	Number of options (000s)	Weighted average exercise price
Outstanding at beginning of year	22,372	$ 44.04	24,803	$ 42.06	28,479	$ 39.54
Granted	1,027	63.40	1,189	62.63	1,985	58.03
Exercised – Common shares	(4,958)	39.69	(3,328)	35.94	(5,303)	34.48
– SARs	(160)	42.01	(176)	41.35	(170)	37.35
Cancelled	(40)	60.88	(116)	47.86	(188)	47.55
Outstanding at end of year	18,241	$ 46.29	22,372	$ 44.04	24,803	$ 42.06
Exercisable at end of year	14,432	$ 43.12	16,401	$ 40.43	15,415	$ 38.24
Available for grant	12,250		13,215		14,309	

Options outstanding and options exercisable as at October 31, 2005, by range of exercise price are as follows:

	Options outstanding			Options exercisable	
	Number outstanding (000s)	Weighted average exercise price	Weighted average remaining contractual life	Number exercisable (000s)	Weighted average exercise price
$14.46 – $15.68	21	$ 15.68	.1	21	$ 15.68
$24.80 – $28.25	721	26.56	3.7	721	26.56
$30.00 – $39.64	6,493	36.66	3.3	6,493	36.66
$43.59 – $49.36	7,010	49.12	5.6	6,052	49.12
$50.00 – $59.35	1,830	57.96	7.1	878	57.92
$62.63 – $63.40	2,166	63.00	8.6	267	62.63
Total	18,241	$ 46.29	5.2	14,432	$ 43.12

Fair value method

CICA Handbook Section 3870, *Stock-based Compensation and Other Stock-based Payments* (CICA 3870), recommends recognition of an expense for option awards using the fair value method of accounting. It permits the use of other methods, including the intrinsic value based method, provided that pro forma disclosures of net income and earnings per share under the fair value method are made. We adopted the fair value method recommended by CICA 3870 prospectively for new stock option awards granted on or after November 1, 2002. The fair value compensation expense recorded for the year ended October 31, 2005, in respect of these plans was $14 million (2004 – $9 million; 2003 – $6 million).

The following table provides pro forma information that demonstrates the effect as if we had adopted the recommended recognition provisions of CICA 3870 in 2005, 2004 and 2003 for awards granted before 2003:

	As reported			Pro forma (1)		
	2005	2004	2003	2005	2004	2003
Net income from continuing operations (2)	$ 3,437	$ 3,023	$ 2,955	$ 3,424	$ 2,991	$ 2,920
Net income (loss) from discontinued operations (3)	(50)	(220)	13	(50)	(220)	13
Net income (2)	$ 3,387	$ 2,803	$ 2,968	$ 3,374	$ 2,771	$ 2,933
Basic earnings (loss) per share						
From continuing operations	$ 5.30	$ 4.63	$ 4.42	$ 5.28	$ 4.58	$ 4.37
From discontinued operations	(.08)	(.34)	.02	(.08)	(.34)	.02
Total	$ 5.22	$ 4.29	$ 4.44	$ 5.20	$ 4.24	$ 4.39
Diluted earnings (loss) per share						
From continuing operations	$ 5.21	$ 4.57	$ 4.37	$ 5.19	$ 4.52	$ 4.32
From discontinued operations	(.08)	(.34)	.02	(.08)	(.34)	.02
Total	$ 5.13	$ 4.23	$ 4.39	$ 5.11	$ 4.18	$ 4.34

(1) Compensation expense under the fair value method is recognized over the vesting period of the related stock options. Accordingly, the pro forma results of applying this method may not be indicative of future amounts.
(2) Net Income from Continuing Operations and Net Income for 2004 and 2003 have been restated as a result of amendments to the definitions of liabilities and equity. Refer to Note 1.
(3) Refer to Note 10.

The fair value of options granted during 2005 was estimated at $9.32 (2004 – $10.93; 2003 – $11.60) using an option pricing model on the date of grant. The following assumptions were used:

For the year ended October 31	2005	2004	2003
Risk-free interest rate	3.75%	4.22%	4.61%
Expected dividend yield	3.25%	2.90%	2.95%
Expected share price volatility	17%	18%	20%
Expected life of option	6 years	6 years	6 years

Employee share ownership plans

We offer many employees an opportunity to own our shares through RBC savings and share ownership plans. Under these plans, the employees can generally contribute between 1% and 10% of their annual salary or benefit base for commissioned employees. For each contribution between 1% and 6%, we will match 50% of the employee contributions in common shares. For the RBC Dominion Securities Savings Plan our maximum annual contribution is $4,500 per employee. For the RBC UK Share Incentive Plan our maximum annual contribution is £1,500 per employee. We contributed $56 million (2004 – $54 million; 2003 – $55 million), under the terms of these plans, towards the purchase of common shares. As at October 31, 2005, an aggregate of 17,865,398 common shares were held under these plans.

Deferred share and other plans

We offer deferred share unit plans to executives, non-employee directors and previously to certain key employees. Under these plans, each executive or director may choose to receive all or a percentage of their annual incentive bonus or directors' fee in the form of deferred share units (DSUs). The executives or directors must elect to participate in the plan prior to the beginning of the fiscal year. DSUs earn dividend equivalents in the form of additional DSUs at the same rate as dividends on common shares. The participant is not allowed to convert the DSUs until retirement, permanent disability or termination of employment/directorship. The cash value of the DSUs is equivalent to the market value of common shares when conversion takes place. The value of the DSUs as at October 31, 2005, was $172 million (2004 – $120 million; 2003 – $113 million). The share appreciation and dividend-related compensation expense recorded for the year ended October 31, 2005, for these plans was $42 million (2004 – $3 million; 2003 – $29 million).

We have a deferred bonus plan for certain key employees within RBC Capital Markets. Under this plan, a percentage of each employee's annual incentive bonus is deferred and accumulates dividend equivalents at the same rate as dividends on common shares. The employee will receive the deferred bonus in equal amounts paid within 90 days of the three subsequent year-end dates. The value of the deferred bonus paid will be equivalent to the original deferred bonus adjusted for dividends and changes in the market value of common shares at the time the bonus is paid. The value of the deferred bonus as at October 31, 2005, was $320 million (2004 – $241 million; 2003 – $215 million). The share appreciation and dividend-related compensation expense for the year ended October 31, 2005, in respect of this plan was $57 million (2004 – $4 million; 2003 – $22 million).

We offer performance deferred award plans to certain key employees, all of which vest at the end of three years. Awards under the plans are deferred in the form of common shares which are held in trust until they fully vest, or in the form of DSUs. A portion of the award under some plans can be increased or decreased by 50%, depending on our total shareholder return compared to a defined peer group of North American financial institutions. The value of the award paid will be equivalent to the original award adjusted for dividends and changes in the market value of common shares at the time the award vests. The value of common shares held in trust as at October 31, 2005, was $311 million (2004 – $251 million; 2003 – $147 million). The value of the DSUs as at October 31, 2005, was $82 million (2004 – nil; 2003 – nil). The compensation expense recorded for the year ended October 31, 2005, in respect of these plans was $113 million (2004 – $84 million; 2003 – $45 million).

We offered a mid-term compensation plan to certain senior executive officers. Awards under this program are converted into share units equivalent to common shares. The share units vest over a three-year period in equal installments of one-third per year. The units have a value equal to the market value of common shares on each vesting date and are paid in either cash or common shares at our option. No awards have been made under this program since 2001. The value of the share units as at October 31, 2005, was nil (2004 – nil; 2003 – $9 million). The compensation expense recorded for the year ended October 31, 2005, in respect of this plan was nil (2004 – nil; 2003 – $5 million).

We maintain a non-qualified deferred compensation plan for key employees in the United States under an arrangement called the RBC U.S. Wealth Accumulation Plan. This plan allows eligible employees to make deferrals of a portion of their annual income and allocate the deferrals among various fund choices, which include a share unit fund that tracks the value of our common shares. Certain deferrals may also be eligible for matching contributions, all of which are allocated to the RBC share unit fund. The value of the RBC share units held under the plan as at October 31, 2005, was $244 million (2004 – $159 million; 2003 – $111 million). The compensation expense recorded for the year ended October 31, 2005, was $90 million (2004 – $56 million; 2003 – $38 million). On the acquisition of Dain Rauscher, certain key employees of Dain Rauscher were offered retention unit awards totalling $318 million in award value to be paid out evenly over expected service periods of between three and four years. During fiscal 2005 these retention unit awards were fully paid out to participants based on the market value of common shares on the vesting date. The liability under this plan as at October 31, 2005, was nil (2004 – $36 million; 2003 – $100 million). The compensation expense recorded for the year ended October 31, 2005, in respect of this plan was $1 million (2004 – $16 million; 2003 – $63 million).

For other stock-based plans, compensation expense of $8 million was recognized for the year ended October 31, 2005 (2004 – $5 million; 2003 – $14 million). The value of the share units and shares held under these plans as at October 31, 2005, was $36 million (2004 – $29 million; 2003 – $44 million).

We use derivatives to mitigate our economic exposure to volatility in the price of our common shares under many of these deferred share plans.

NOTE 21 BUSINESS REALIGNMENT CHARGES

During the year, we implemented most of the cost-reduction activities (the original initiatives) that were approved by the Board of Directors on September 9, 2004, in connection with our business realignment. The objectives of the business realignment were to reduce costs, accelerate revenue growth, and improve the efficiency of our operations in order to better serve our clients. We identified additional opportunities (the additional initiatives) during the year that are consistent with these objectives and which will primarily impact our RBC Canadian Personal and Business and Corporate Support segments. Coincident with implementing the original initiatives and identifying the additional ones (collectively, the initiatives), we determined that some of the employee-positions initially identified for elimination at October 31, 2004, should be retained while certain others should be eliminated.

The following table sets out the changes in our business realignment charges since October 31, 2004. Although the initiatives will be substantially completed by the end of fiscal 2006, the associated income-protection payments to severed employees and certain lease obligations will extend beyond that time. The $118 million of business realignment charges pertaining to continuing operations to be paid in future periods are recorded in Other Liabilities on the Consolidated Balance Sheets while the $13 million pertaining to RBC Mortgage Company, which has been identified as discontinued operations (refer to Note 10), are recorded in Liabilities of Operations Held for Sale. The charges recorded by each segment during the year are disclosed in Note 28.

Business realignment charges

	Employee-related charges	Premises-related charges	Other charges	Total
Balance as at October 31, 2004 for continuing operations	$ 164	$ –	$ 13	$ 177
Initial initiatives				
Reversal for positions not eliminated	(55)	–	–	(55)
Accrual for new positions identified	52	–	–	52
Cash payments	(82)	–	(12)	(94)
Additional initiatives	43	–	–	43
Other adjustments including foreign exchange	(4)	–	(1)	(5)
Balance as at October 31, 2005 for continuing operations	$ 118	$ –	$ –	$ 118
Balance as at October 31, 2004 for discontinued operations	$ 2	$ 13	$ –	$ 15
Adjustments for closure of branches and headquarters	1	12	–	13
Cash payments	(2)	(13)	–	(15)
Balance as at October 31, 2005 for discontinued operations	$ 1	$ 12	$ –	$ 13
Total balance as at October 31, 2005	**$ 119**	**$ 12**	**$ –**	**$ 131**

Our business realignment charges include the income-protection payments for severed employees. For continuing operations, the number of employee positions identified for termination increased to 2,063 from 1,480 at October 31, 2004. The increase in the accrual corresponds to the net increase of 583 positions which is comprised of the following: for the original initiatives, 643 positions were re-instated, 509 new positions were identified, and 78 were reversed to reflect the employees of Liberty Insurance Services Corporation which was sold to IBM Corporation during the first quarter; in connection with the additional initiatives, 795 positions were identified. As at October 31, 2005, 1,442 employees had been terminated, 164 of which related to RBC Mortgage Company.

During the year we closed 11 of RBC Centura Bank's branches. We also closed the Chicago headquarters of RBC Mortgage Company and 40 of its branches. Although we have vacated these premises, we remain the lessee; accordingly, we have accrued the fair value of the remaining future lease obligations. We expensed the lease cancellation payments for those locations for which we have legally extinguished our lease obligation. The carrying value of redundant assets in the closed premises has been included in premises-related costs.

We incurred approximately $4 million in connection with employee outplacement services during the year. The other charges represent fees charged by a professional services firm for strategic and organizational advice provided to us with respect to the business realignment initiatives.

NOTE 22 INCOME TAXES

	2005	2004	2003
Income taxes in Consolidated Statements of Income			
Continuing operations			
Current			
Canada – Federal	$ 739	$ 659	$ 733
Provincial	431	338	326
International	478	217	298
	1,648	1,214	1,357
Future			
Canada – Federal	(206)	12	75
Provincial	(96)	12	29
International	(68)	49	(22)
	(370)	73	82
Subtotal	1,278	1,287	1,439
Discontinued operations			
Current			
International	(35)	(59)	24
Future			
International	3	4	(11)
Subtotal	1,246	1,232	1,452
Income taxes (recoveries) in Consolidated Statements of Changes in Shareholders' Equity			
Continuing operations			
Unrealized foreign currency translation gains and losses, net of hedging activities	204	328	1,069
Issuance costs	2	–	(3)
Stock appreciation rights	5	3	4
Wealth accumulation plan gains	7	–	–
Other	2	(1)	–
Subtotal	220	330	1,070
Discontinued operations			
Unrealized foreign currency translation gains and losses, net of hedging activities	–	–	(5)
Subtotal	220	330	1,065
Total income taxes	$ 1,466	$ 1,562	$ 2,517

Sources of future income taxes

	2005	2004
Future income tax asset (1)		
Allowance for credit losses	$ 464	$ 452
Deferred compensation	545	318
Pension related	168	100
Business realignment charges	38	60
Tax loss carryforwards	25	29
Deferred income	160	176
Enron litigation reserve	265	–
Other	331	261
	1,996	1,396
Valuation allowance	(11)	(12)
	1,985	1,384
Future income tax liability		
Premises and equipment	(183)	(188)
Deferred expense	(245)	(226)
Other	(309)	(204)
	(737)	(618)
Net future income tax asset	$ 1,248	$ 766

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

Reconciliation to statutory tax rate

	2005		2004		2003	
Income taxes at Canadian statutory tax rate	$ 1,632	34.7%	$ 1,513	35.0%	$ 1,604	36.4%
Increase (decrease) in income taxes resulting from						
Lower average tax rate applicable to subsidiaries	(251)	(5.3)	(164)	(3.8)	(145)	(3.3)
Tax-exempt income from securities	(85)	(1.8)	(54)	(1.3)	(44)	(1.0)
Tax rate change	–	–	(10)	(.2)	31	.7
Other	(18)	(.4)	2	.1	(7)	(.1)
Income taxes reported in Consolidated Statements of Income before discontinued operations and effective tax rate	$ 1,278	27.2%	$ 1,287	29.8%	$ 1,439	32.7%

International earnings of certain subsidiaries would be taxed only upon their repatriation to Canada. We have not recognized a future income tax liability for these undistributed earnings as we do not currently expect them to be repatriated. Taxes that would be payable if all foreign subsidiaries' accumulated unremitted earnings were repatriated are estimated at $745 million as at October 31, 2005 (2004 – $714 million; 2003 – $728 million).

NOTE 23 EARNINGS PER SHARE

	2005	2004	2003
Basic earnings per share			
Net income from continuing operations (1)	$ 3,437	$ 3,023	$ 2,955
Net income (loss) from discontinued operations (2)	(50)	(220)	13
Net Income	3,387	2,803	2,968
Preferred share dividends	(42)	(31)	(31)
Net gain on redemption of preferred shares	4	–	–
Net income available to common shareholders	$ 3,349	$ 2,772	$ 2,937
Average number of common shares (in thousands)	641,717	646,732	662,080
Basic earnings (loss) per share			
Continuing operations	$ 5.30	$ 4.63	$ 4.42
Discontinued operations	(.08)	(.34)	.02
Total	$ 5.22	$ 4.29	$ 4.44
Diluted earnings per share			
Net income available to common shareholders	$ 3,349	$ 2,772	$ 2,937
Average number of common shares (in thousands)	641,717	646,732	662,080
Stock options (3)	6,843	6,075	6,936
Issuable under other stock-based compensation plans	3,780	2,701	–
Average number of diluted common shares (in thousands)	652,340	655,508	669,016
Diluted earnings (loss) per share			
Continuing operations	$ 5.21	$ 4.57	$ 4.37
Discontinued operations	(.08)	(.34)	.02
Total	$ 5.13	$ 4.23	$ 4.39

(1) Net Income from Continuing Operations and Net Income for 2004 and 2003 have been restated as a result of amendments to the definitions of liabilities and equity. Refer to Note 1.
(2) Refer to Note 10.
(3) The dilutive effect of stock options was calculated using the treasury stock method. During 2005, no option was outstanding with an exercise price exceeding the average market price of our common shares. For 2004, we excluded from the calculation of diluted earnings per share 1,087,188 average options outstanding with an exercise price of $62.63 (2003 – 25,205 options at $59.35) as the exercise price of these options was greater than the average market price of our common shares.

NOTE 24 CONCENTRATIONS OF CREDIT RISK

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

	2005									2004								
	Canada	%	United States	%	Europe	%	Other International	%	Total	Canada	%	United States	%	Europe	%	Other International	%	Total
On-balance sheet assets (1)	$186,663	77%	$ 32,366	13%	$ 18,813	8%	$ 4,119	2%	$241,961	$174,191	77%	$ 29,661	13%	$ 17,788	8%	$ 4,053	2%	$225,693
Off-balance sheet credit instruments (2)																		
Committed and uncommitted (3)	$ 68,391	53%	$ 46,221	35%	$ 13,014	10%	$ 2,542	2%	$130,168	$ 54,979	41%	$ 49,099	36%	$ 21,850	16%	$ 9,638	7%	$135,566
Other	33,608	49	11,835	18	22,609	33	176	–	68,228	25,503	54	14,233	30	7,025	15	238	1	46,999
Derivatives before master netting agreement (4), (5)	10,276	27	9,682	25	16,638	42	2,146	6	38,742	9,968	25	9,947	25	18,324	45	1,891	5	40,130
	$112,275	47%	$ 67,738	29%	$ 52,261	22%	$ 4,864	2%	$237,138	$ 90,450	41%	$ 73,279	33%	$ 47,199	21%	$11,767	5%	$222,695

(1) Includes assets purchased under reverse repurchase agreements and securities borrowed, loans and customers' liability under acceptances. The largest concentrations in Canada are Ontario at 41% (2004 – 41%), the Prairies at 12% and British Columbia at 11% (2004 – 10%). No industry accounts for more than 10% of total on-balance sheet credit instruments.
(2) Represents financial instruments with contractual amounts representing credit risk.
(3) Of the commitments to extend credit, the largest industry concentration relates to financial institutions of 37% (2004 – 37%), government of 6% (2004 – 13%), commercial real estate of 5% (2004 –2%), transportation of 5% (2004 – 4%), wholesale of 5% (2004 – 4%), manufacturing of 4% (2004 – 3%) and mining and energy of 2% (2004 – 11%).
(4) The largest concentration by counterparty type of this credit risk exposure is with banks at 60% (2004 – 66%).
(5) Excludes credit derivatives classified as "other than trading" with a replacement cost of $20 million (2004 – $4 million) which are given guarantee treatment.

NOTE 25 GUARANTEES, COMMITMENTS AND CONTINGENCIES

Guarantees

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

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

Maximum potential amount of future payments

	2005	2004
Securities lending indemnifications	$ 32,550	$ 23,084
Backstop liquidity facilities	29,611	24,464
Credit derivatives and written put options (1)	28,662	32,342
Financial standby letters of credit and performance guarantees	14,417	14,138
Stable value products (1)	12,567	7,709
Credit enhancements	3,179	3,395
Mortgage loans sold with recourse (2)	214	296

(1) The notional amount of the contract approximates maximum potential amount of future payments.
(2) In 2005 there was no amount related to discontinued operations (2004 – $296 million). Refer to Note 10.

The current carrying amount of our liability for credit derivatives, written put options and stable value products as at October 31, 2005, was $465 million ($109 million as at October 31, 2004) and this amount was included in Other – Derivative-related Amounts on our Consolidated Balance Sheets. The current carrying amount of our liability for other significant guarantees we have provided to third parties was $16 million as at October 31, 2005 ($15 million as at October 31, 2004).

Securities lending indemnifications

During the quarter ended January 31, 2005, we reassessed our securities lending transactions and concluded that certain securities lending agreements with security lender indemnifications meet the definition of a guarantee under AcG-14. In securities lending transactions, we act as an agent for the owner of a security, who agrees to lend the security to a borrower for a fee, under the terms of a pre-arranged contract. The borrower must fully collateralize the security loaned at all times. As part of this custodial business, an indemnification may be provided to security lending customers to ensure that the fair value of securities loaned will be returned in the event that the borrower fails to return the borrowed securities and the collateral held is insufficient to cover the fair value of those securities. These indemnifications normally terminate without being drawn upon. The term of these indemnifications varies, as the securities loaned are recallable on demand. Collateral held for our securities lending transactions typically includes cash or securities that are issued or guaranteed by the Canadian government, U.S. government or other OECD countries.

Backstop liquidity facilities

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

Credit derivatives and written put options
Our clients may enter into credit derivatives or written put options for speculative or hedging purposes. AcG-14 defines a guarantee to include derivative contracts that contingently require us to make payments to a guaranteed party based on changes in an underlying that is related to an asset, a liability or an equity security of a guaranteed party. We have only disclosed amounts for transactions where it would be probable, based on the information available to us, that the client would use the credit derivative or written put option to protect against changes in an underlying that is related to an asset, a liability or an equity security held by the client.

We enter into written credit derivatives that are over-the-counter contractual agreements to compensate another party for its financial loss following the occurrence of a credit event in relation to a specified reference obligation, such as a bond or loan. The terms of these credit derivatives vary based on the contract and can range up to 15 years.

We enter into written put options that are contractual agreements under which we grant the purchaser the right, but not the obligation to sell, by or at a set date, a specified amount of a financial instrument at a predetermined price. Written put options that typically qualify as guarantees include foreign exchange contracts, equity-based contracts, and certain commodity-based contracts. The term of these options varies based on the contract and can range up to five years.

Collateral we hold for credit derivatives and written put options is managed on a portfolio basis and may include cash, government T-bills and bonds.

Financial standby letters of credit and performance guarantees
Financial standby letters of credit and performance guarantees represent irrevocable assurances that we will make payments in the event that a client cannot meet its obligations to third parties. The term of these guarantees can range up to eight years. Our policy for requiring collateral security with respect to these instruments and the types of collateral security held is generally the same as for loans. When collateral security is taken, it is determined on an account by account basis according to the risk of the borrower and the specifics of the transaction. Collateral security may include cash, securities and other assets pledged.

Stable value products
We sell stable value products that offer book value protection primarily to plan sponsors of *Employee Retirement Income Security Act of 1974* (ERISA)-governed pension plans such as 401(k) plans, 457 plans, etc. The book value protection is provided on portfolios of intermediate/short-term investment grade fixed income securities and is intended to cover any shortfall in the event that plan participants withdraw funds when market value is below book value. We retain the option to exit the contract at any time. For stable value products, collateral we hold is managed on a portfolio basis and may include cash, government T-bills and bonds.

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

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

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

Off-balance sheet credit instruments
We utilize off-balance sheet credit instruments to meet the financing needs of our clients. The contractual amounts of these credit instruments represent the maximum possible credit risk without taking into account the fair value of any collateral, in the event other parties fail to perform their obligations under these instruments. Our credit review process, our policy for requiring collateral security and the types of collateral security held are generally the same as for loans. Many of these instruments expire without being drawn upon. As a result, the contractual amounts may not necessarily represent our actual future credit risk exposure or cash flow requirements.

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

In securities lending transactions, we lend our own or our clients' securities to a borrower for a fee under the terms of a pre-arranged contract. The borrower must fully collateralize the security loaned at all times.

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

Guarantees and standby letters of credit include credit enhancement facilities, written, other than trading credit derivatives, and standby and performance guarantees. These instruments represent irrevocable assurances that we will make payments in the event that a client cannot meet its obligations to third parties.

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

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

NOTE 25 GUARANTEES, COMMITMENTS AND CONTINGENCIES (continued)

The following table summarizes the contractual amounts of our off-balance sheet credit instruments:

Off-balance sheet credit instruments

	2005	2004
Commitments to extend credit (1)		
Original term to maturity of 1 year or less	$ 50,843	$ 45,682
Original term to maturity of more than 1 year	34,410	28,912
Securities lending	48,750	27,055
Uncommitted amounts	44,915	60,972
Guarantees and standby letters of credit	18,786	19,329
Documentary and commercial letters of credit	685	592
Note issuance and revolving underwriting facilities	7	23
	$ 198,396	$ 182,565

(1) Includes liquidity facilities.

Pledged assets

In the ordinary course of business, we pledge assets recorded on our balance sheet. Details of assets pledged against liabilities are shown in the following tables:

Pledged assets

	2005	2004
Assets pledged to:		
Foreign governments and central banks	$ 1,370	$ 1,172
Clearing systems, payment systems and depositories	1,510	1,257
Assets pledged in relation to:		
Securities borrowing and lending	35,858	33,810
Obligations related to securities sold under repurchase agreements	18,998	19,234
Derivative transactions	5,506	3,759
Other	3,411	3,298
	$ 66,653	$ 62,530

	2005	2004
Cash and due from banks	$ 64	$ 70
Interest-bearing deposits with banks	1,488	876
Loans	624	255
Securities	44,853	41,993
Assets purchased under reverse repurchase agreements	18,998	19,234
Other assets	626	102
	$ 66,653	$ 62,530

Collateral

As at October 31, 2005, the approximate market value of collateral accepted that may be sold or repledged by us was $82.2 billion (2004 – $63.5 billion). This collateral was received in connection with reverse repurchase agreements, securities borrowings and loans, and derivative transactions. Of this amount, $47.8 billion (2004 – $28.2 billion) has been sold or repledged, generally as collateral under repurchase agreements or to cover short sales.

Lease commitments

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

Lease commitments (1)

2006	$ 410
2007	351
2008	304
2009	259
2010	213
Thereafter	971
	$ 2,508

(1) Substantially all of our lease commitments are operating.

Litigation

Enron Corp. (Enron) litigation

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

We review the status of these matters on an ongoing basis and will exercise our judgment in resolving them in such manner as we believe to be in our best interests. As with any litigation, there are significant uncertainties surrounding the timing and outcome. Uncertainty is exacerbated as a result of the large number of cases, the multiple defendants in many of them, the novel issues presented, and the current difficult litigation environment. Although it is not possible to predict the ultimate outcome of these lawsuits or the timing of their resolution, during the fourth quarter, we established a litigation reserve of $591 million (US$500 million) or $326 million after-tax (US$276 million). We believe the ultimate resolution of these lawsuits and other proceedings, while not likely to have a material adverse effect on our consolidated financial position, may be material to our operating results for the particular period in which the resolution occurs, notwithstanding the reserve established this quarter. We will continue to vigorously defend ourselves in these cases.

On July 27, 2005, Royal Bank of Canada reached an agreement to settle its part of the MegaClaims lawsuit brought by Enron in the United States Bankruptcy Court for the Southern District of New York against Royal Bank of Canada and a number of other financial institutions. Under the agreement, Royal Bank of Canada agreed to pay Enron, and expensed in the third quarter, $31 million (US$25 million) in cash to settle the claims that have been asserted by Enron against the bank and certain related entities. Enron will allow $140 million (US$114 million) in claims filed against the Enron bankruptcy estate by the bank, including a $61 million (US$50 million) claim previously transferred by the bank, that is the subject of a separate proceeding in the bankruptcy court, in exchange for a cash payment to Enron of $29 million (US$24 million) which was expensed in the fourth quarter. The agreement was approved by U.S. federal bankruptcy court on November 29, 2005, and resolves all claims between the bank and Enron related to Enron's bankruptcy case.

Rabobank settlement

On June 21, 2002, in New York State Court, Cooperatieve Centrale Raiffeisen-Boerenleenbank B.A. (Rabobank) initiated an action against us in an effort to nullify its obligation under the terms of a total return swap. We instituted proceedings against Rabobank on June 24, 2002, in the High Court in London. In October 2003, we received a settlement valued at approximately US$195 million plus interest in accordance with the terms of a settlement agreement with Enron, the Enron Creditors' Committee and Rabobank. The settlement reduced the amount owing by Rabobank to us to US$322 million plus interest. On February 16, 2004, Royal Bank of Canada announced that it had reached a confidential settlement, through non-binding mediation with Rabobank. The settlement, net of a related reduction in compensation and tax expenses, decreased Net Income in 2004 by $74 million.

Other

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

NOTE 26 CONTRACTUAL REPRICING AND MATURITY SCHEDULE

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

The table below does not incorporate management's expectation of future events where expected repricing or maturity dates differ significantly from the contractual dates. We incorporate these assumptions in the management of interest rate risk exposure. These assumptions include expected repricing of trading instruments and certain loans and deposits. Taking into account these assumptions on the consolidated contractual repricing and maturity schedule at October 31, 2005, would result in a change in the under-one-year gap from $(77.2) billion to $(39.7) billion (2004 – $(58.3) billion to $(19.1) billion).

Carrying amount by earlier of contractual repricing or maturity date

	Immediately rate-sensitive	Under 3 months	3 to 6 months	Over 6 to 12 months	Over 1 to 5 years	Over 5 years	Non-rate-sensitive	Total
Assets								
Cash and deposits with banks	$ –	$ 7,794	$ 15	$ –	$ 820	$ 175	$ 1,434	$ 10,238
Effective interest rate		3.13%	3.30%	–	3.89%	4.15%		
Securities								
Trading account	–	24,170	6,258	6,272	21,708	20,700	46,652	125,760
Effective interest rate		3.55%	3.72%	3.50%	4.11%	4.67%		
Investment account and loan substitute	–	11,361	1,409	2,198	11,925	6,262	1,580	34,735
Effective interest rate		3.75%	3.88%	4.03%	4.18%	4.76%		
Assets purchased under reverse repurchase agreements	–	42,337	540	96	–	–	–	42,973
Effective interest rate		3.57%	3.60%	3.67%	–	–		
Loans (net of allowance for loan losses)	88,825	14,549	6,275	8,281	66,367	4,564	1,555	190,416
Effective interest rate		4.41%	5.16%	5.42%	5.19%	6.00%		
Other assets	–	–	–	–	–	–	65,399	65,399
	$ 88,825	$100,211	$ 14,497	$ 16,847	$100,820	$ 31,701	$116,620	$469,521
Liabilities								
Deposits	$118,210	$105,135	$ 13,088	$ 23,966	$ 39,475	$ 3,638	$ 3,348	$306,860
Effective interest rate		3.22%	2.92%	2.77%	3.43%	4.85%		
Obligations related to assets sold under repurchase agreements	–	22,723	590	68	–	–	–	23,381
Effective interest rate		3.54%	3.40%	3.62%	–	–		
Obligations related to securities sold short	–	2,368	366	976	9,375	11,761	7,545	32,391
Effective interest rate		3.16%	3.48%	3.56%	4.10%	4.48%		
Other liabilities	–	–	–	–	–	1,400	75,531	76,931
Effective interest rate						7.23%		
Subordinated debentures	–	993	224	695	4,545	1,710	–	8,167
Effective interest rate		4.35%	6.70%	6.62%	5.20%	6.43%		
Non-controlling interest in subsidiaries	–	–	–	–	–	1,200	744	1,944
Effective interest rate		–	–	–	–	4.87%		
Shareholders' equity	–	–	–	250	300	–	19,297	19,847
Effective interest rate		–	–	6.10%	4.90%	–		
	$118,210	$131,219	$ 14,268	$ 25,955	$ 53,695	$ 19,709	$106,465	$469,521
On-balance sheet gap	$ (29,385)	$ (31,008)	$ 229	$ (9,108)	$ 47,125	$ 11,992	$ 10,155	$ –
Off-balance sheet financial instruments (1)								
Derivatives used for asset liability management purposes								
Pay side instruments	–	(52,025)	(2,180)	(3,503)	(28,040)	(7,408)	–	(93,156)
Effective interest rate		3.19%	4.16%	4.68%	4.20%	4.87%		
Receive side instruments	–	48,033	3,371	9,114	21,572	11,066	–	93,156
Effective interest rate		3.19%	3.57%	3.56%	4.46%	5.20%		
Derivatives used for trading purposes	–	2,846	(18,193)	2,306	26,329	9,246	(22,534)	–
Effective interest rate		3.13%	3.30%	3.54%	3.89%	4.38%		
Total off-balance sheet financial instruments	–	(1,146)	(17,002)	7,917	19,861	12,904	(22,534)	–
Total gap	$ (29,385)	$ (32,154)	$(16,773)	$ (1,191)	$ 66,986	$ 24,896	$ (12,379)	$ –
Canadian dollar	(14,858)	(34,024)	2,619	(6,791)	48,941	11,125	(7,010)	2
Foreign currency	(14,527)	1,870	(19,392)	5,600	18,045	13,771	(5,369)	(2)
Total gap	$ (29,385)	$ (32,154)	$(16,773)	$ (1,191)	$ 66,986	$ 24,896	$ (12,379)	$ –
Canadian dollar – 2004	(21,350)	(22,833)	1,731	247	49,983	3,568	(11,328)	18
Foreign currency – 2004	(12,244)	9,789	(14,282)	614	7,817	15,983	(7,695)	(18)
Total gap – 2004	$ (33,594)	$ (13,044)	$(12,551)	$ 861	$ 57,800	$ 19,551	$ (19,023)	$ –

(1) Represents net notional amounts.

NOTE 27 RELATED PARTY TRANSACTIONS

In the ordinary course of business, we provide normal banking services or enter into other transactions with associated and other related corporations on terms similar to those offered to non-related parties. We grant loans to directors, officers and other employees at rates normally accorded to preferred customers. In addition, we offer deferred share and other plans to non-employee directors, executives and certain other key employees. Please refer to Note 20 – Stock-based Compensation, for more details.

NOTE 28 RESULTS BY BUSINESS AND GEOGRAPHIC SEGMENT

2005	RBC Canadian Personal and Business	RBC U.S. and International Personal and Business	RBC Capital Markets	Corporate Support	Total	Canada	United States	Other International
Net interest income	$ 5,381	$ 1,098	$ 466	$ (175)	$ 6,770	$ 5,459	$ 754	$ 557
Non-interest income	7,169	1,725	3,409	142	12,445	7,047	3,840	1,558
Total revenue	12,550	2,823	3,875	(33)	19,215	12,506	4,594	2,115
Provision for (recovery of) credit losses	542	51	(91)	(47)	455	433	23	(1)
Insurance policyholder benefits, claims and acquisition expense	2,625	–	–	–	2,625	1,270	809	546
Non-interest expense	5,872	2,226	3,257	33	11,388	6,685	3,626	1,077
Business realignment charges (reversal)	7	(2)	1	39	45	45	–	–
Net income before income taxes	3,504	548	708	(58)	4,702	4,073	136	493
Income taxes	1,167	141	7	(37)	1,278	1,329	(76)	25
Non-controlling interest	–	12	(24)	(1)	(13)	(30)	12	5
Net income (loss) from continuing operations	$ 2,337	$ 395	$ 725	$ (20)	$ 3,437	$ 2,774	$ 200	$ 463
Net loss from discontinued operations	–	(50)	–	–	(50)	–	(50)	–
Net income (loss)	$ 2,337	$ 345	$ 725	$ (20)	$ 3,387	$ 2,774	$ 150	$ 463
Total average assets from continuing operations (1)	$ 167,200	$ 37,800	$ 229,200	$ 11,100	$ 445,300	$ 263,200	$ 92,400	$ 89,700
Total average assets from discontinued operations (1)	$ –	$ 1,800	$ –	$ –	$ 1,800	$ –	$ 1,800	$ –
Total average assets	$ 167,200	$ 39,600	$ 229,200	$ 11,100	$ 447,100	$ 263,200	$ 94,200	$ 89,700

2004	RBC Canadian Personal and Business	RBC U.S. and International Personal and Business	RBC Capital Markets	Corporate Support	Total	Canada	United States	Other International
Net interest income	$ 4,870	$ 1,019	$ 772	$ (263)	$ 6,398	$ 5,011	$ 934	$ 453
Non-interest income	6,353	1,767	3,048	236	11,404	6,121	3,743	1,540
Total revenue	11,223	2,786	3,820	(27)	17,802	11,132	4,677	1,993
Provision for (recovery of) credit losses	410	80	(108)	(36)	346	343	61	(58)
Insurance policyholder benefits, claims and acquisition expense	2,124	–	–	–	2,124	909	872	343
Non-interest expense	5,630	2,360	2,831	12	10,833	6,395	3,457	981
Business realignment charges	63	23	27	64	177	142	29	6
Net income before income taxes	2,996	323	1,070	(67)	4,322	3,343	258	721
Income taxes	944	72	267	4	1,287	1,166	45	76
Non-controlling interest	–	9	2	1	12	6	1	5
Net income (loss) from continuing operations	$ 2,052	$ 242	$ 801	$ (72)	$ 3,023	$ 2,171	$ 212	$ 640
Net loss from discontinued operations	–	(220)	–	–	(220)	–	(220)	–
Net income (loss)	$ 2,052	$ 22	$ 801	$ (72)	$ 2,803	$ 2,171	$ (8)	$ 640
Total average assets from continuing operations (1)	$ 152,200	$ 37,200	$ 219,200	$ 9,600	$ 418,200	$ 238,000	$ 89,500	$ 90,700
Total average assets from discontinued operations (1)	$ –	$ 3,200	$ –	$ –	$ 3,200	$ –	$ 3,200	$ –
Total average assets	$ 152,200	$ 40,400	$ 219,200	$ 9,600	$ 421,400	$ 238,000	$ 92,700	$ 90,700

2003	RBC Canadian Personal and Business	RBC U.S. and International Personal and Business	RBC Capital Markets	Corporate Support	Total	Canada	United States	Other International
Net interest income	$ 4,784	$ 1,119	$ 576	$ (143)	$ 6,336	$ 4,941	$ 1,124	$ 271
Non-interest income	5,573	1,780	3,135	164	10,652	5,418	3,389	1,845
Total revenue	10,357	2,899	3,711	21	16,988	10,359	4,513	2,116
Provision for (recovery of) credit losses	482	78	189	(28)	721	527	106	88
Insurance policyholder benefits, claims and acquisition expense	1,696	–	–	–	1,696	669	543	484
Non-interest expense	5,379	2,348	2,442	(4)	10,165	6,012	3,246	907
Net income before income taxes	2,800	473	1,080	53	4,406	3,151	618	637
Income taxes	956	125	382	(24)	1,439	1,173	217	49
Non-controlling interest	–	8	4	–	12	–	7	5
Net income from continuing operations	$ 1,844	$ 340	$ 694	$ 77	$ 2,955	$ 1,978	$ 394	$ 583
Net income from discontinued operations	–	13	–	–	13	–	13	–
Net income	$ 1,844	$ 353	$ 694	$ 77	$ 2,968	$ 1,978	$ 407	$ 583
Total average assets from continuing operations (1)	$ 139,600	$ 38,100	$ 200,800	$ 9,200	$ 387,700	$ 230,000	$ 74,400	$ 83,300
Total average assets from discontinued operations (1)	$ –	$ 3,000	$ –	$ –	$ 3,000	$ –	$ 3,000	$ –
Total average assets	$ 139,600	$ 41,100	$ 200,800	$ 9,200	$ 390,700	$ 230,000	$ 77,400	$ 83,300

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

Revenue by business lines

	2005	2004	2003
Banking (1)	$ 8,073	$ 7,434	$ 7,355
Wealth management	3,998	3,705	3,545
Global insurance	3,302	2,870	2,356
Global markets	2,089	2,170	2,085
Global investment banking and equity markets	968	930	846
Institutional investor services	499	455	418
Other (2)	286	238	383
Total	$ 19,215	$ 17,802	$ 16,988

(1) Includes cards and payment solutions.
(2) Consists of National Client Group, Global Financial Institutions and Research.

Effective November 1, 2004, we reorganized our previous five business segments (RBC Banking, RBC Insurance, RBC Investments, RBC Capital Markets and RBC Global Services) into three (RBC Canadian Personal and Business, RBC U.S. and International Personal and Business, and RBC Capital Markets). RBC Canadian Personal and Business consists of banking and investments in Canada, and our global insurance businesses. RBC U.S. and International Personal and Business consists of our banking and retail brokerage businesses in the U.S., banking in the Caribbean and international private banking. RBC Capital Markets includes corporate, commercial and investment banking, securities custody and transaction processing. The fixed income business of RBC Dain Rauscher Corporation, which was previously recorded in RBC Investments, is now recorded in RBC Capital Markets. All other enterprise level activities that are not allocated to these three business segments are reported under our fourth segment, Corporate Support. Consolidation adjustments are also included in Corporate Support. The comparative results have been restated to conform with the new basis of segment presentation.

Our management-reporting process measures the performance of our business segments based on our management structure and is not necessarily comparable with similar information of other financial services companies. We use a management-reporting model that includes methodologies for funds transfer pricing, attribution of Economic Capital and cost transfers to measure business segment results. Operating revenue and expenses directly associated with each segment are included in the business segment results. Transfer pricing of funds and inter-segment transactions are generally at market rates. Overhead costs, indirect expenses and capital are attributed to the business segments based on allocation and risk-based methodologies. The capital attribution methodologies involve a number of assumptions and judgments, and directly impact other measures such as business return on equity and return on risk capital. We revised certain methodologies effective November 1, 2004, in conjunction with our new management-reporting model. All methodologies are periodically reviewed to ensure they remain valid.

For geographic reporting, our segments are grouped into Canada, United States and Other International. Transactions are primarily recorded in the location that best reflects the risk due to negative changes in economic conditions, and prospects for growth due to positive economic changes. This location frequently corresponds with the location of the legal entity through which the business is conducted and the location of the customer. Transactions are recorded in the local currency and are subject to foreign exchange rate fluctuations with respect to the movement in the Canadian dollar.

NOTE 29 RECONCILIATION OF CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

The Consolidated Financial Statements are prepared in accordance with Subsection 308 of the *Bank Act* (Canada), which states that except as otherwise specified by the OSFI, the Consolidated Financial Statements are to be prepared in accordance with Canadian GAAP. As required by the U.S. Securities and Exchange Commission (SEC), material differences between Canadian and U.S. GAAP are quantified and described below:

Condensed Consolidated Balance Sheets

	2005			2004		
	Canadian GAAP	Differences	U.S. GAAP	Canadian GAAP	Differences	U.S. GAAP
Assets						
Cash and due from banks	$ 5,001	$ –	$ 5,001	$ 3,711	$ –	$ 3,711
Interest-bearing deposits with banks	5,237	(32)	5,205	6,267	16	6,283
Securities						
Trading account	125,760	(977)	124,783	89,322	(1,687)	87,635
Investment account	34,060	(34,060)	–	38,923	(38,923)	–
Loan substitute	675	(675)	–	701	(701)	–
Available for sale	–	34,729	34,729	–	39,861	39,861
	$ 160,495	$ (983)	$ 159,512	$ 128,946	$ (1,450)	$ 127,496
Assets purchased under reverse repurchase agreements and securities borrowed	42,973	–	42,973	46,949	–	46,949
Loans (net of allowance for loan losses)	190,416	939	191,355	170,916	967	171,883
Other						
Customers' liability under acceptances	7,074	–	7,074	6,184	–	6,184
Derivative-related amounts	38,834	1,157	39,991	38,897	1,198	40,095
Premises and equipment	1,708	(33)	1,675	1,738	(25)	1,713
Goodwill	4,203	45	4,248	4,280	47	4,327
Other intangibles	409	–	409	521	–	521
Reinsurance recoverables	–	1,190	1,190	–	1,701	1,701
Separate account assets	–	105	105	–	120	120
Assets of operations held for sale	263	–	263	2,457	(5)	2,452
Other assets	12,908	26,917	39,825	15,356	16,484	31,840
	65,399	29,381	94,780	69,433	19,520	88,953
	$ 469,521	$ 29,305	$ 498,826	$ 426,222	$ 19,053	$ 445,275
Liabilities and shareholders' equity						
Deposits	$ 306,860	$ 28	$ 306,888	$ 270,959	$ 616	$ 271,575
Other						
Acceptances	7,074	–	7,074	6,184	–	6,184
Obligations related to securities sold short	32,391	1,647	34,038	25,005	(1,190)	23,815
Obligations related to assets sold under repurchase agreements and securities loaned	23,381	–	23,381	26,473	–	26,473
Derivative-related amounts	42,592	579	43,171	42,201	669	42,870
Insurance claims and policy benefit liabilities	7,117	2,643	9,760	6,488	3,081	9,569
Separate account liabilities	–	105	105	–	120	120
Liabilities of operations held for sale	40	–	40	62	–	62
Other liabilities	18,408	23,916	42,324	20,172	16,014	36,186
	131,003	28,890	159,893	126,585	18,694	145,279
Subordinated debentures	8,167	407	8,574	8,116	406	8,522
Trust capital securities	1,400	(1,400)	–	2,300	(2,300)	–
Preferred share liabilities	300	(300)	–	300	(300)	–
Non-controlling interest in subsidiaries	1,944	1,434	3,378	58	1,466	1,524
Shareholders' equity	19,847	246	20,093	17,904	471	18,375
	$ 469,521	$ 29,305	$ 498,826	$ 426,222	$ 19,053	$ 445,275

Ratios (1)

	2005	2004	2003
Return on assets	.73%	.64%	.77%
Return on common equity	18.0%	15.9%	17.0%
Dividend payout ratio	44%	47%	38%
Equity to assets ratio	4.24%	4.14%	4.71%

(1) Where applicable, ratios are calculated using methods intended to approximate the average of the daily balances for the period.

Condensed Consolidated Statements of Income

	2005	2004	2003
Net income from continuing operations, Canadian GAAP (1)	$ 3,437	$ 3,023	$ 2,955
Differences:			
Net interest income			
Derivative instruments and hedging activities	36	10	(1)
Variable interest entities	–	(19)	(15)
Joint ventures	–	–	(2)
Liabilities and equity	115	166	152
Non-interest income			
Insurance accounting	(606)	(603)	(311)
Derivative instruments and hedging activities	11	(1)	29
Reclassification of securities	27	7	(12)
Variable interest entities	–	–	1
Limited partnerships	(9)	(11)	–
Joint ventures	(171)	(146)	(147)
Other	(4)	–	5
Provision for (recovery of) credit losses			
Reclassification of securities	–	(1)	6
Joint ventures	18	–	–
Insurance policyholder benefits, claims and acquisition expense			
Insurance accounting	584	582	270
Non-interest expense			
Stock appreciation rights	25	(3)	16
Insurance accounting	72	47	58
Joint ventures	118	114	122
Variable interest entities	–	(35)	–
Other	–	(1)	(1)
Income taxes and net differences in income taxes due to the above items (3)	(13)	35	9
Non-controlling interest in net income of subsidiaries			
Variable interest entities	–	52	14
Liabilities and equity	(101)	(152)	(115)
Net income from continuing operations, U.S. GAAP	$ 3,539	$ 3,064	$ 3,033
Net income (loss) from discontinued operations, Canadian GAAP	(50)	(220)	13
Differences – Other	$ 5	$ (5)	$ (10)
Net income (loss) from discontinued operations, U.S. GAAP	$ (45)	$ (225)	$ 3
Net income, U.S. GAAP	$ 3,494	$ 2,839	$ 3,036
Earnings per share (2), (3)			
Canadian GAAP	5.22	4.29	4.44
U.S. GAAP	5.34	4.31	4.47
Basic earnings per share from continuing operations			
Canadian GAAP	5.30	4.63	4.42
U.S. GAAP	5.41	4.66	4.47
Basic earnings per share from discontinued operations			
Canadian GAAP	(.08)	(.34)	.02
U.S. GAAP	(.07)	(.35)	–
Diluted earnings per share (2), (3)			
Canadian GAAP	5.13	4.23	4.39
U.S. GAAP	5.26	4.25	4.42
Diluted earnings per share from continuing operations			
Canadian GAAP	5.21	4.57	4.37
U.S. GAAP	5.33	4.59	4.42
Diluted earnings per share from discontinued operations			
Canadian GAAP	(.08)	(.34)	.02
U.S. GAAP	(.07)	(.34)	–

(1) Comparative information has been restated as a result of amendments to the definitions of liabilities and equity (refer to Note 1) and the identification of discontinued operations (refer to Note 10).
(2) Two-class method of calculating earnings per share: The impact of calculating earnings per share using the two-class method reduced U.S. GAAP basic and diluted earnings per share for the year ended October 31, 2005, by two cents and one cent, respectively. For all other years presented, this method reduced earnings per share (basic and diluted) by less than one cent except for the year ended October 31, 2004, where the reduction in basic earnings per share was approximately one cent.
(3) Please refer to Other major differences between U.S. and Canadian GAAP section in this note for more details.

Condensed Consolidated Statements of Cash Flows

	2005 (1)	2004 (1)	2003 (1)
Cash flows from operating activities, Canadian GAAP	$ (29,529)	$ 1,931	$ (9,672)
Net income from continuing operations	102	41	78
Adjustments to determine net cash from (used in) operating activities			
Provision for (recovery of) credit losses	(18)	1	(6)
Depreciation	(4)	(12)	(18)
Future income taxes	(135)	256	(155)
Gain on sale of premises and equipment	–	–	(3)
Loss on investment in associated corporations and limited partnerships	–	15	(5)
Gain on sale of investment account securities	91	20	31
Gain on sale of available for sale securities	(88)	(79)	(19)
Changes in operating assets and liabilities			
Insurance claims and policy benefit liabilities	(438)	(1,385)	1,515
Net change in accrued interest receivable and payable	(1)	(83)	9
Derivative-related assets	41	(186)	(36)
Derivative-related liabilities	(90)	12	52
Trading account securities	(710)	314	1,942
Reinsurance recoverable	(511)	1,620	(1,375)
Net change in brokers and dealers receivable and payable	(2,504)	(118)	–
Other	1,984	(33)	(1,986)
Net cash from (used in) operating activities from continuing operations, U.S. GAAP	(31,810)	2,314	(9,648)
Net cash used in operating activities from discontinued operations, U.S. GAAP	–	(10)	–
Net cash from (used in) operating activities, U.S. GAAP	(31,810)	2,304	(9,648)
Cash flows from investing activities, Canadian GAAP	(7,725)	(15,765)	(5,511)
Change in interest-bearing deposits with banks	48	551	4
Change in loans, net of loan securitizations	28	1,027	(30)
Proceeds from sale of investment account securities	(25,628)	(18,427)	(19,340)
Proceeds from maturity of investment account securities	(18,405)	(38,088)	(26,983)
Purchases of investment account securities	36,373	50,911	49,750
Proceeds from sale of available for sale securities	25,651	18,453	19,575
Proceeds from maturity of available for sale securities	18,405	38,093	26,993
Purchases of available for sale securities	(36,130)	(51,328)	(49,734)
Change in loan substitute securities	(26)	376	(69)
Net acquisitions of premises and equipment	12	22	22
Net cash used in investing activities, U.S. GAAP	(7,397)	(14,175)	(5,323)
Cash flows from financing activities, Canadian GAAP	38,666	14,675	15,613
Change in deposits	(35,001)	(11,814)	(14,800)
Change in deposits – Canada	15,522	14,927	11,564
Change in deposits – International	19,791	(3,870)	3,055
Issue of RBC Trust Capital Securities (RBC TruCS)	(1,200)	–	(900)
Redemption of preferred shares for cancellation	–	–	11
Issuance costs	3	–	(11)
Issue of common shares	(1)	–	–
Net sales of treasury shares	7	(12)	–
Dividends paid	(14)	(14)	(37)
Dividends/distributions paid by subsidiaries to non-controlling interests	13	(102)	(102)
Change in obligations related to securities sold short	2,837	(1,078)	1,008
Change in short-term borrowings of subsidiaries	(4)	–	–
Net cash from financing activities, U.S. GAAP	40,619	12,712	15,401
Effect of exchange rate changes on cash and due from banks	(122)	(17)	(77)
Net change in cash and due from banks	1,290	824	353
Cash and due from banks at beginning of year	3,711	2,887	2,534
Cash and due from banks at end of year	$ 5,001	$ 3,711	$ 2 ,887

(1) Comparative information has been restated as a result of amendments to the definitions of liabilities and equity (refer to Note 1) and the identification of discontinued operations (refer to Note 10).

Accumulated other comprehensive income (loss), net of income taxes (1)

	2005	2004	2003
Unrealized gains and losses on available for sale securities	$ 83	$ 178	$ 113
Unrealized foreign currency translation gains and losses, net of hedging activities	(1,768)	(1,551)	(893)
Gains and losses on derivatives designated as cash flow hedges	(165)	(192)	(104)
Additional pension obligation	(313)	(67)	(490)
Accumulated other comprehensive income (loss), net of income taxes	$ (2,163)	$ (1,632)	$ (1,374)

(1) Accumulated Other Comprehensive Income is a separate component of Shareholders' Equity under U.S. GAAP.

Consolidated Statements of Comprehensive Income

	2005	2004	2003
Net income, U.S. GAAP	$ 3,494	$ 2,839	$ 3,036
Other comprehensive income, net of tax			
Changes in unrealized gains (losses) on available for sale securities (1)	(95)	65	(89)
Net unrealized foreign currency translation loss	(618)	(1,336)	(2,988)
Net foreign currency gain from hedging activities (2)	401	678	2,149
Change in losses on derivatives designated as cash flow hedges (3)	(97)	(147)	(57)
Reclassification to earnings of gains on cash flow hedges (4)	124	59	80
Additional pension obligation (5)	(246)	423	(197)
Total comprehensive income	$ 2,963	$ 2,581	$ 1,934

(1) Excludes income taxes (recovery) of $(55) million (2004 – $42 million; 2003 – $(71) million).
(2) Excludes income taxes of $204 million (2004 – $328 million; 2003 – $1,064 million).
(3) Excludes income taxes recovery of $(51) million (2004 – $(79) million; 2003 – $(32) million).
(4) Excludes income taxes of $66 million (2004 – $58 million; 2003 – $45 million).
(5) Excludes income taxes (recovery) of $(132) million (2004 – $245 million; 2003 – $(113) million).

Significant balance sheet reconciling items

The following tables present the increases or (decreases) in assets, liabilities and shareholders' equity by significant reconciling items between U.S. and Canadian GAAP:

As at October 31, 2005	Derivative instruments and hedging activities	Variable interest entities	Joint ventures	Insurance accounting	Reclassification of securities	Limited partnerships	Stock appreciation rights	Liabilities and equity	Additional pension obligation	Trade date accounting	Non-cash collateral	Right of offset	Guarantees, loan commitments and other minor items	Total
Assets														
Interest-bearing deposits with banks	$ (32)	–	–	–	–	–	–	–	–	–	–	–	–	$ (32)
Securities	$ –	–	–	–	165	(140)	–	–	–	(977)	–	–	(31)	$ (983)
Loans	$ 42	–	–	–	–	–	–	–	–	–	–	897	–	$ 939
Other assets	$ 813	–	(74)	2,819	(61)	127	(17)	–	167	9,143	16,339	–	125	$ 29,381
Liabilities and shareholders' equity														
Deposits	$ 28	–	–	–	–	–	–	–	–	–	–	–	–	$ 28
Other liabilities	$ 416	–	(74)	2,661	–	–	(45)	(34)	480	8,166	16,339	897	84	$ 28,890
Subordinated debentures	$ 407	–	–	–	–	–	–	–	–	–	–	–	–	$ 407
Trust capital securities	$ –	–	–	–	–	–	–	(1,400)	–	–	–	–	–	$ (1,400)
Preferred share liabilities	$ –	–	–	–	–	–	–	(300)	–	–	–	–	–	$ (300)
Non-controlling interest in subsidiaries	$ –	–	–	–	–	–	–	1,434	–	–	–	–	–	$ 1,434
Shareholders' equity	$ (28)	–	–	158	104	(13)	28	300	(313)	–	–	–	10	$ 246

As at October 31, 2004	Derivative instruments and hedging activities	Variable interest entities	Joint ventures	Insurance accounting	Reclassification of securities	Limited partnerships	Stock appreciation rights	Liabilities and equity	Additional pension obligation	Trade date accounting	Non-cash collateral	Right of offset	Guarantees, loan commitments and other minor items	Total
Assets														
Interest-bearing deposits with banks	$ (33)	49	–	–	–	–	–	–	–	–	–	–	–	$ 16
Securities	$ –	(624)	–	–	374	(102)	–	–	–	(1,250)	–	189	(37)	$ (1,450)
Loans	$ 43	924	–	–	–	–	–	–	–	–	–	–	–	$ 967
Other assets	$ 910	44	(80)	2,615	(140)	95	(10)	–	35	8,567	7,363	3	118 (1)	$ 19,520
Liabilities and shareholders' equity														
Deposits	$ 158	266	–	–	–	–	–	–	–	–	–	192	–	$ 616
Other liabilities	$ 464	1,012	(80)	2,516	–	–	(27)	(51)	102	7,317	7,363	–	78	$ 18,694
Subordinated debentures	$ 406	–	–	–	–	–	–	–	–	–	–	–	–	$ 406
Trust capital securities	$ –	–	–	–	–	–	–	(2,300)	–	–	–	–	–	$ (2,300)
Preferred share liabilities	$ –	–	–	–	–	–	–	(300)	–	–	–	–	–	$ (300)
Non-controlling interest in subsidiaries	$ –	(885)	–	–	–	–	–	2,351	–	–	–	–	–	$ 1,466
Shareholders' equity	$ (108)	–	–	99	234	(7)	17	300	(67)	–	–	–	3	$ 471

(1) Includes $(5) million related to discontinued operations. Refer to Note 10.

Changes in significant accounting policies affecting U.S. and Canadian GAAP

No.	Item	U.S. GAAP	Canadian GAAP
1	Variable interest entities	On January 17, 2003, the Financial Accounting Standards Board (FASB) issued Interpretation No. 46, *Consolidation of Variable Interest Entities* (FIN 46), which clarifies the application of Accounting Research Bulletin 51, *Consolidated Financial Statements*, to VIEs. This interpretation applied immediately to all VIEs we created after January 31, 2003. On December 24, 2003, the FASB issued a revision to Interpretation No. 46 (FIN 46R), which required application to new and existing VIEs by the end of the first reporting period that ended after March 15, 2004. Pursuant to FIN 46R, we consolidate VIEs, where we are the entity's Primary Beneficiary. VIEs are entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. The Primary Beneficiary is the party that has exposure to a majority of the expected losses and/or expected residual returns of the VIE.	Prior to our adoption of AcG-15, we consolidated an entity when we effectively controlled the entity, usually through the ownership of more than 50% of the voting shares. With the adoption of AcG-15 on November 1, 2004, the treatment of VIEs is consistent in all material aspects with U.S. GAAP.
		Implicit Variable Interests: In March 2005, the FASB issued FASB Staff Position No. FIN 46(R)-5, *Implicit Variable Interests Under FASB Interpretation No. 46 (revised December 2003), Consolidation of Variable Interest Entities* (FSP No. FIN 46(R)-5). This FSP clarifies that implicit variable interests are implied financial interests in an entity that change with changes in the fair value of the entity's net assets exclusive of variable interests. An implicit variable interest is similar to an explicit variable interest except that it involves absorbing and/or receiving variability indirectly from the entity. The identification of an implicit variable interest is a matter of judgment that depends on the relevant facts and circumstances. For entities that have already adopted FIN 46R, this FSP was effective in the first reporting period beginning after March 3, 2005. We implemented the FSP effective the third quarter of 2005. The resulting impact was not material to our financial results.	Currently, there is no corresponding guidance for implicit variable interests. However, EIC-157 is substantially the same as FSP No. FIN 46 (R)-5, and will be effective for us in the first quarter of 2006. The adoption of EIC-157 will harmonize the guidance under the two GAAPs.
2	Liabilities and equity	Shares issued with conversion or conditional redemption features are classified as equity.	Effective November 1, 2004, we adopted the revisions to CICA 3860, which require liability classification for financial instruments that can be settled by a variable number of our common shares upon their conversion by the holder as well as the outstanding returns due. As a result, we reclassified certain Preferred Shares and Non-controlling Interest in Subsidiaries as liabilities. Dividends and yield distributions on these instruments have been reclassified to Interest Expense in our Consolidated Statements of Income.
3	Non-traditional long-duration contracts and separate accounts	Statement of Position 03-1, *Accounting and Reporting by Insurance Enterprises for Certain Non-traditional Long-Duration Contracts and for Separate Accounts* (SOP 03-1), issued by the American Institute of Certified Public Accountants, became effective for us on November 1, 2004. The most significant requirements of SOP 03-1 include reporting and measurement of separate account assets and liabilities when specified criteria are not met, classification and valuation of certain non-traditional long-duration contract liabilities, and capitalization and amortization of sales inducements. The implementation of SOP 03-1 did not have a significant impact on our financial position or results of operations.	Canadian GAAP does not have corresponding requirements.

Other major differences between U.S. and Canadian GAAP

No.	Item	U.S. GAAP	Canadian GAAP
1	Derivative instruments and hedging activities	All derivatives are recorded on the Consolidated Balance Sheets at fair value, including certain derivatives embedded within hybrid instruments. For derivatives that do not qualify for hedge accounting, changes in their fair value are recorded in Non-interest Income. For derivatives that are designated and qualify as Cash flow hedges, changes in fair value related to the effective portion of the hedge are recorded in Accumulated Other Comprehensive Income within Shareholders' Equity, and are subsequently recognized in Net Interest Income in the same period when the cash flow of the hedged item affects earnings. For derivatives that are designated and qualified as Fair value hedges, the carrying amount of the hedged item is adjusted by gains or losses attributable to the hedged risk and recorded in Non-interest Income. This change in fair value of the hedged item is generally offset by changes in the fair value of the derivative.	Derivatives embedded within hybrid instruments are generally not separately accounted for except for those related to equity-linked deposit contracts. For derivatives that do not qualify for hedge accounting, changes in their fair value are recorded in Non-interest Income. Non-trading derivatives where hedge accounting has not been applied upon adoption of Accounting Guideline 13, *Hedging Relationships*, are recorded at fair value with transitional gains or losses being recognized in income as the original hedged item affects Net Interest Income. Where derivatives have been designated and qualified as effective hedges, they are accounted for on an accrual basis with gains or losses deferred and recognized over the life of the hedged assets or liabilities as adjustments to Net Interest Income.
2	Joint ventures	Investments in joint ventures other than VIEs are accounted for using the equity method.	Investments in joint ventures other than VIEs are proportionally consolidated.
3	Insurance accounting	*Fixed income investments:* Fixed income investments are classified as Available for Sale Securities and are carried at estimated fair value. Unrealized gains and losses, net of income taxes, are reported in Accumulated Other Comprehensive Income within Shareholders' Equity. Realized gains and losses are included in Non-interest Income when realized.	*Fixed income investments:* Fixed income investments are classified as Investment Account Securities and carried at amortized cost. Realized gains and losses on disposal of fixed income investments that support life insurance liabilities are deferred and amortized to Non-interest Income over the remaining term to maturity of the investments sold, up to a maximum period of 20 years.
		Equity investments: Equity securities are classified as Available for Sale Securities and are carried at estimated fair value. Unrealized gains and losses, net of income taxes, are included in Accumulated Other Comprehensive Income. Realized gains and losses are included in Non-interest Income when realized.	*Equity investments:* Equity securities are classified as Investment Account Securities and initially recorded at cost. The carrying value of the equity securities that are held to support non-universal life insurance products is adjusted quarterly by 5% of the difference between market value and previously adjusted carrying cost. Realized gains and losses of these equity securities are deferred and recognized as Non-interest Income at the quarterly rate of 5% of unamortized deferred gains and losses.
		Insurance claims and policy benefit liabilities: Liabilities for insurance contracts, except universal life and investment-type contracts, are determined using the net level premium method, which includes assumptions for mortality, morbidity, policy lapses, surrenders, investment yields, policy dividends and direct operating expenses. These assumptions are not revised unless it is determined that existing deferred acquisition costs cannot be recovered. For universal life and investment-type contracts, liabilities represent policyholder account balances and include a net level premium reserve for some contracts. The account balances represent an accumulation of gross deposits received plus credited interest less withdrawals, expenses and mortality charges. Underlying reserve assumptions of these contracts are subject to review at least annually.	*Insurance claims and policy benefit liabilities:* Liabilities for insurance contracts are determined using the CALM, which incorporates assumptions for mortality, morbidity, policy lapses and surrenders, investment yields, policy dividends, operating and policy maintenance expenses. To recognize the uncertainty in the assumptions underlying the calculation of the liabilities, a margin (provision for adverse deviations) is added to each assumption. These assumptions are reviewed at least annually and updated in response to actual experience and market conditions.
		Insurance revenue: Amounts received for universal life and other investment-type contracts are not included as revenue, but are reported as deposits to policyholders' account balances in Insurance Claims and Policy Benefit Liabilities. Revenue from these contracts are limited to amounts assessed against policyholders' account balances for mortality, policy administration and surrender charges, and are	*Insurance revenue:* Premiums for universal life and other investment-type contracts are recorded as Non-interest Income, and a liability for future policy benefits is established as a charge to Insurance Policyholder Benefits, Claims and Acquisition Expense.

No.	Item	U.S. GAAP	Canadian GAAP
		included in Non-interest Income when earned. Payments upon maturity or surrender are reflected as reductions in the Insurance Claims and Policy Benefit Liabilities.	
		Policy acquisition costs: Acquisition costs of life insurance and annuity business are deferred in Other Assets. The amortization method of the acquisition costs is dependent on the product to which the costs relate. For long-duration contracts, they are amortized in proportion to premium revenue. For universal life and investment-type contracts, amortization is based on a constant percentage of estimated gross profits.	*Policy acquisition costs:* The costs of acquiring new life insurance and annuity business are implicitly recognized as a reduction in Insurance Claims and Policy Benefit Liabilities.
		Reinsurance: Reinsurance recoverables for life insurance business are recorded as an asset on the Consolidated Balance Sheets.	*Reinsurance:* Reinsurance recoverables for life insurance business related to the risks ceded to other insurance or reinsurance companies are recorded as an offset to Insurance Claims and Policy Benefit Liabilities.
		Separate accounts: Separate accounts are recognized on the Consolidated Balance Sheets.	*Separate accounts:* Assets and liabilities of separate accounts (known as segregated funds in Canada) are not recognized on the Consolidated Balance Sheets.
4	Reclassification of securities	Securities are classified as Trading Account or Available for Sale, and are carried on the Consolidated Balance Sheets at their estimated fair value. The net unrealized gain (loss) on Available for Sale Securities, net of related income taxes, is reported in Accumulated Other Comprehensive Income within Shareholders' Equity except where the changes in market value are effectively hedged by derivatives. These hedged unrealized gains (losses) are recorded in Non-interest Income, where they are generally offset by the changes in fair value of the hedging derivatives. Writedowns to reflect other-than-temporary impairment in the value of Available for Sale Securities are included in Non-interest Income.	Securities are classified as Trading Account (carried at estimated fair value), Investment Account (carried at amortized cost) or Loan Substitute. Writedowns to reflect other-than-temporary impairment in the value of Investment Account Securities are included in Non-interest Income. Loan Substitute Securities are accorded the accounting treatment applicable to loans and, if required, are reduced by an allowance.
5	Limited partnerships	The equity method is used to account for investments in limited partnerships if we own at least 3% of the total ownership interest.	We use the equity method to account for investments in limited partnerships if we have the ability to exercise significant influence, generally indicated by an ownership interest of 20% or more.
6	Stock appreciation rights (SARs)	Between November 29, 1999, and June 5, 2001, grants of options under the employee stock option plan were accompanied with SARs, whereby participants could choose to exercise a SAR instead of the corresponding option. In such cases, the participants would receive a cash payment equal to the difference between the closing price of our common shares on the day immediately preceding the day of exercise and the exercise price of the option. For such a plan, compensation expense would be measured using estimates based on past experience of participants exercising SARs rather than the corresponding options.	For such a plan, a liability is recorded for the potential cash payments to participants and compensation expense is measured assuming that all participants will exercise SARs.
7	Additional pension obligation	For defined benefit pension plans, an unfunded accumulated benefit obligation is recorded as an additional minimum pension liability, an intangible asset is recorded up to the amount of unrecognized prior service cost, and the excess of unfunded accumulated benefit obligation over unrecognized prior service cost is recorded as a reduction in Other Comprehensive Income.	There is no requirement to recognize additional pension obligation.

Other major differences between U.S. and Canadian GAAP (continued)

No.	Item	U.S. GAAP	Canadian GAAP
8	Trade date accounting	For securities transactions, trade date basis of accounting is used for both the Consolidated Balance Sheets and the Consolidated Statements of Income.	For securities transactions, settlement date basis of accounting is used for the Consolidated Balance Sheets whereas trade date basis of accounting is used for the Consolidated Statements of Income.
9	Non-cash collateral	Non-cash collateral received in securities lending transactions is recorded on the Consolidated Balance Sheets as an asset and a corresponding obligation to return it is recorded as a liability, if we have the ability to sell or repledge it.	Non-cash collateral received in securities lending transactions is not recognized on the Consolidated Balance Sheets.
10	Right of offset	When financial assets and liabilities are subject to a legally enforceable right of offset and we intend to settle these assets and liabilities with the same party either on a net basis or simultaneously, the financial assets and liabilities may be presented on a net basis.	Net presentation of financial assets and liabilities is required when the same criteria under U.S. GAAP are met. In addition, the netting criteria may be applied to a tri-party transaction.
11	Guarantees	For guarantees issued or modified after December 31, 2002, a liability is recognized at the inception of a guarantee, in the amount of the fair value of the obligation undertaken in issuing the guarantee.	Canadian GAAP only has disclosure requirements.
12	Loan commitments	For loan commitments entered into after March 31, 2004, and issued for loans that will be held for sale when funded, revenue associated with servicing assets embedded in these commitments should be recognized only when the servicing asset has been contractually separated from the underlying loans.	Canadian GAAP does not have such a requirement.
13	Two-class method of calculating earnings per share	When calculating earnings per share, we are required to give effect to securities or other instruments or contracts that entitle their holders to participate in undistributed earnings when such entitlement is nondiscretionary and objectively determinable.	Canadian GAAP does not have such a requirement.
14	Income taxes	In addition to the tax impact of the differences outlined previously, the effects of changes in tax rates on deferred income taxes are recorded when the tax rate change has been passed into law.	These effects are recorded when the tax rate change has been substantively enacted.

Significant acquisitions

We did not have any significant acquisitions in 2005.

The following tables present the difference in the allocation of purchase considerations due to Canadian and U.S. GAAP differences as explained in Item 3 above for significant acquisitions that occurred in 2004 and 2003:

2004

	Provident			William R. Hough			UnumProvident (1)		
	Canadian GAAP	Difference	U.S. GAAP	Canadian GAAP	Difference	U.S. GAAP	Canadian GAAP	Difference	U.S. GAAP
Value of business acquired (VOBA)	–	–	–	–	–	–	–	611	611
Fair value of liabilities assumed	(1,180)	–	(1,180)	(21)	–	(21)	(1,617)	(611)	(2,228)

(1) In connection with the acquisition of the Canadian operations of UnumProvident, we assumed UnumProvident's policy liabilities and received assets with the equivalent fair value to support future payments.

2003

	Admiralty			BMA			SCMC		
	Canadian GAAP	Difference	U.S. GAAP	Canadian GAAP	Difference	U.S. GAAP	Canadian GAAP	Difference	U.S. GAAP
Fair value of identifiable net tangible assets acquired	76	–	76	277	(69)	208	33	–	33
Value of business acquired (VOBA) (1)	–	–	–	–	69	69	–	–	–

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

Pensions and other postemployment benefits

The following is not disclosed in our Canadian GAAP financial statements:

Plan assets, benefit obligations and funded status

	Pension plans		Other postemployment plans	
	2005	2004	**2005**	2004
Amounts recognized on the Consolidated Balance Sheets consist of:				
Prepaid pension benefit cost	**$ 137**	$ 571	**$ –**	$ –
Accrued pension benefit expense	**(300)**	(137)	**(1,102)**	(961)
Intangible asset	**130**	35	**–**	–
Accumulated other comprehensive income (before taxes)	**480**	102	**–**	–
Net amount recognized as at October 31	**447**	571	**(1,102)**	(961)
Accumulated benefit obligation (1)	**$ 5,944**	$ 5,036	**n.a.**	n.a.

(1) For all plans where the accumulated benefit obligations exceed the fair value of the plan assets, the accumulated benefit obligations and the fair value of the assets were $5,265 million (2004 – $790 million) and $4,987 million (2004 – $657 million), respectively.

Overall expected long-term rate of return on assets assumption

The assumed expected rate of return on assets is determined by considering long-term expected returns on risk-free investments (primarily government bonds) and a reasonable assumption for an equity risk premium. The expected long-term return for each asset class is then weighted based on the target asset allocation to develop the expected long-term rate of return on assets assumption for the portfolio. This resulted in the selection of an assumed expected rate of return of 7% for 2006 (7% for 2002–2005).

Investment policy and strategies

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

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

Benefits payment projection

	Pension plans	Other postemployment plans
2006	$ 303	$ 63
2007	315	65
2008	325	68
2009	336	72
2010	349	76
2011–2015	1,957	469

For 2006, total contributions to the defined benefit pension plans and other postemployment benefit plans are expected to be approximately $185 million and $63 million, respectively.

Hedging activities

Fair value hedge

For the year ended October 31, 2005, the ineffective portion recognized in Non-interest Income amounted to a net unrealized gain of $4 million (2004 – $4 million loss). All components of each derivative's change in fair value have been included in the assessment of fair value hedge effectiveness. We did not hedge any firm commitments for the year ended October 31, 2005.

Cash flow hedge

For the year ended October 31, 2005, a net unrealized loss of $97 million (2004 – $147 million loss) was recorded in Other Comprehensive Income for the effective portion of changes in fair value of derivatives designated as cash flow hedges. The amounts recognized in Other Comprehensive Income are reclassified to Net Interest Income in the periods in which Net Interest Income is affected by the variability in cash flows of the hedged item. A net loss of $ 124 million (2004 – $59 million loss) was reclassified to Net Income during the year. A net loss of $111 million (2004 – $77 million loss) deferred in Accumulated Other Comprehensive Income as at October 31, 2005, is expected to be reclassified to Net Income during the next 12 months.

For the year ended October 31, 2005, a net unrealized loss of $3 million (2004 – $20 million loss) was recognized in Non-interest Income for the ineffective portion of cash flow hedges. All components of each derivative's change in fair value have been included in the assessment of cash flow hedge effectiveness. We did not hedge any forecasted transactions for the year ended October 31, 2005.

Hedges of net investments in foreign operations

For the year ended October 31, 2005, we experienced foreign currency loss of $618 million (2004 – $1,336 million loss) related to our net investments in foreign operations, which were offset by gains of $401 million (2004 – $678 million gain) related to derivative and non-derivative instruments designated as hedges for such foreign currency exposures. The net foreign currency gains (losses) are recorded as a component of Other Comprehensive Income.

NOTE 29 RECONCILIATION OF CANADIAN AND UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (continued)

Average assets, U.S. GAAP

	2005		2004		2003	
	Average assets	% of total average assets	Average assets	% of total average assets	Average assets	% of total average assets
Domestic	$ 277,442	58%	$ 253,100	57%	$ 233,900	59%
United States	97,002	20%	94,231	21%	78,402	20%
Other International	101,961	21%	96,267	22%	83,966	21%
	$ 476,405	100%	$ 443,598	100%	$ 396,268	100%

Future accounting changes

Share-based payment

The FASB issued FASB Statement No. 123 (revised 2004), *Share-Based Payment* (FAS 123R) in December 2004 and its related Staff Positions (FSPs) during 2005. FAS123R requires that compensation costs relating to share-based payment transactions be measured and recognized in financial statements based on the fair value of the equity or liability instruments issued. In March 2005, the SEC issued Staff Accounting Bulletin No. 107, *Share-Based Payment*, which expresses the SEC staff's views on FAS 123R and is effective upon adoption of FAS 123R. Pursuant to the SEC's announcement in April 2005, companies are allowed to implement the standard at the beginning of their next fiscal year, instead of their next reporting period, that begins after June 15, 2005. FAS 123R and its related FSPs are effective for us as of November 1, 2005.
We are currently assessing the impact of adopting FAS 123R on our financial positions and results of operations, but we do not expect it to be material.

Impairment of certain investments (FSP FAS 115-1 and FAS 124-1)

Further to the issuance of FSP EITF 03-1-1 on September 30, 2004, to defer indefinitely the effective date for recognition and impairment guidance under EITF 03-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*, the FASB issued a Staff Position, FSP FAS 115-1 and FAS 124-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*, on November 3, 2005, which officially nullifies EITF 03-1's guidance on determining whether an impairment is other-than-temporary, and effectively retains the previous guidance in this area. The FSP generally encompasses EITF 03-1's guidance for determining when an investment is impaired, how to measure the impairment loss, and what disclosures should be made regarding impaired securities. This FSP is effective for our financial statements on February 1, 2006, and our preliminary assessment to date does not indicate that it will have significant impact on our Consolidated Financial Statements.

NOTE 30 SUBSEQUENT EVENT

On November 30, 2005, we purchased 100 per cent of the shares of Abacus Financial Services Group Limited, which is based in Jersey, Channel Islands, and provides wealth management and fiduciary services to private and corporate clients primarily in the United Kingdom and Continental Europe.