Financial review

Management's discussion and analysis

Consolidated Financial Statements

Caution regarding forward-looking statements

From time to time, we make written or oral forward-looking statements within the meaning of certain securities laws, including the "safe harbour" provisions of the *Securities Act* (Ontario) and the *United States Private Securities Litigation Reform Act* of 1995. We may make such statements in this document, in other filings with Canadian regulators or the United States Securities and Exchange Commission, in reports to shareholders or in other communications. These forward-looking statements include, among others, statements with respect to our objectives for 2006, our medium-term goal, and strategies to achieve those objectives and goals, as well as statements with respect to our beliefs, plans, objectives, expectations, anticipations, estimates and intentions. The words "may," "could," "should," "would," "suspect," "outlook," "believe," "plan," "anticipate," "estimate," "expect," "intend," "forecast," "objective," and words and expressions of similar import are intended to identify forward-looking statements.

By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, which give rise to the possibility that predictions, forecasts, projections and other forward-looking statements will not be achieved. We caution readers not to place undue reliance on these statements as a number of important factors could cause our actual results to differ materially from the beliefs, plans, objectives, expectations, anticipations, estimates and intentions expressed in such forward-looking statements. These factors include, but are not limited to, management of credit, market, liquidity and funding and operational risks; the strength of the Canadian and United States economies and the economies of other countries in which we conduct business; the impact of the movement of the Canadian dollar relative to other currencies, particularly the U.S. dollar and British pound; the effects of changes in monetary policy, including changes in interest rate policies of the Bank of Canada and the Board of Governors of the Federal Reserve System in the United States; the effects of competition in the markets in which we operate; the impact of changes in the laws and regulations regulating financial services and enforcement thereof (including banking, insurance and securities); judicial judgments and legal proceedings; our ability to obtain accurate and complete information from or on behalf of our customers and counterparties; our ability to successfully realign our organization, resources and processes; our ability to complete strategic acquisitions and joint ventures and to integrate our acquisitions and joint ventures successfully; changes in accounting policies and methods we use to report our financial condition, including uncertainties associated with critical accounting assumptions and estimates; operational and infrastructure risks; other factors that may affect future results including changes in trade policies, timely development and introduction of new products and services, changes in our estimates relating to reserves and allowances, changes in tax laws, technological changes, unexpected changes in consumer spending and saving habits; natural disasters such as hurricanes, the possible impact on our businesses from public health emergencies, international conflicts and other developments including those relating to the war on terrorism; and our success in anticipating and managing the foregoing risks.

We caution that the foregoing list of important factors that may affect future results is not exhaustive. When relying on our forward-looking statements to make decisions with respect to the bank, investors and others should carefully consider the foregoing factors and other uncertainties and potential events. We do not undertake to update any forward-looking statement, whether written or oral, that may be made from time to time by us or on our behalf.

Website references

Information contained in or otherwise accessible through the websites mentioned in this document does not form a part of this document. All references in this document to websites are inactive textual references and are for your information only.

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's discussion and analysis of our financial condition and results of operations is provided to enable a reader to assess our financial condition, material changes in our financial condition and our results of operations, including our liquidity and capital resources, for the fiscal year ended October 31, 2005, compared to the preceding years. For a complete understanding of trends, events, uncertainties and the effect of critical accounting estimates on our results of operations and financial condition this Management's discussion and analysis should be read carefully together with our Consolidated Financial Statements and related notes. This Management's discussion and analysis is dated November 30, 2005. All amounts are in Canadian dollars and are based on financial statements prepared in accordance with Canadian generally accepted accounting principles (GAAP), unless otherwise specified.

Additional information relating to Royal Bank of Canada, including our 2005 Annual Information Form, is available free of charge on our website at *rbc.com/investorrelations*, on the Canadian Securities Administrators' website at *sedar.com* and on the EDGAR section of the United States Securities and Exchange Commission's website at *sec.gov*.

EXECUTIVE SUMMARY

Royal Bank of Canada is the largest bank in Canada as measured by assets and market capitalization and one of North America's leading diversified financial service companies. We provide personal and commercial banking, wealth management, insurance, corporate and investment banking and transaction processing services on a global basis. We employ approximately 60,000 people who serve more than 14 million clients throughout North America and some 30 countries around the world. The initials RBC are used as a prefix for our business and operating subsidiaries, all of which operate under the master brand name of RBC Financial Group.

Vision and strategy

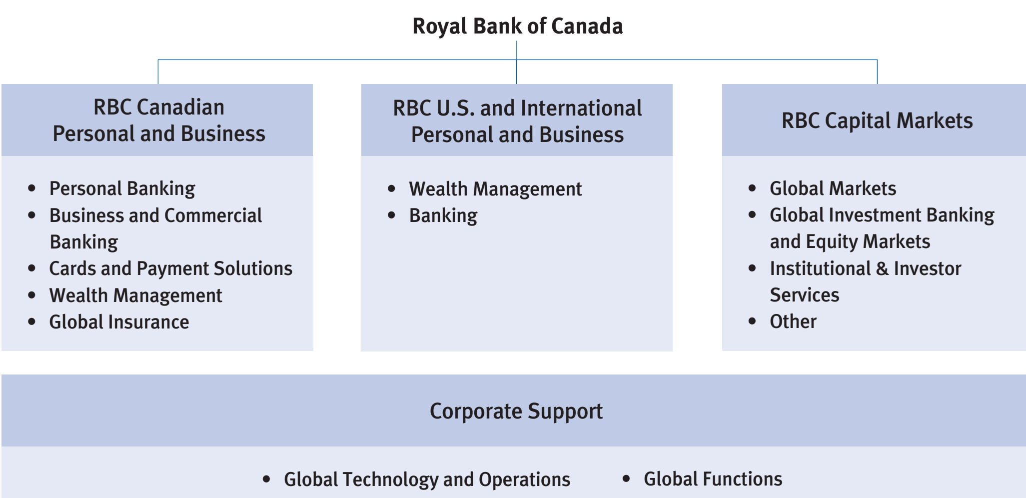
Our business strategies and actions are guided by our corporate vision of "always earning the right to be our clients' first choice". In all of our businesses, we focus on effectively enhancing client satisfaction and loyalty. We believe this focus can help generate strong revenue and earnings growth, continuous improvements in productivity and top quartile financial performance.

In Canada, our objective is to be the undisputed leader in financial services provided to individuals, corporations and institutions. We will continue to build on our strengths in banking, wealth management and capital markets in the United States and continue to be a premier provider of selected financial services globally.

At the beginning of the year, in support of our Client First Initiative, we realigned our operations into three client- and geography-oriented business segments from five segments that were based on business lines. Today, our RBC Canadian Personal and Business segment manages our banking and wealth management businesses in Canada and our global insurance operations. The RBC U.S. and International Personal and Business segment manages our banking and retail brokerage businesses in the U.S., banking in the Caribbean and private banking internationally. The RBC Capital Markets segment provides a wide range of corporate and investment banking, sales and trading, research and related products and services to corporations, governments and institutional clients in North America and specialized products and services globally. All enterprise level activities that are not allocated to these three business segments are reported under our fourth segment, Corporate Support. As part of our realignment we consolidated our technology and operation services and corporate functions at the enterprise level. This allows us to provide more focused, efficient and responsive support to the enterprise and each of our businesses.

Guided by enterprise strategic goals, the realignment enabled our businesses to better tailor their individual strategies and focus their efforts on meeting the needs of our clients within their unique operating and competitive environments. The main focus of our realignment efforts at the beginning of the year was to help our employees make it easier for current and new clients to do business with us by improving our responsiveness, accountability and efficiency. We believe the changes made in 2005 have substantially improved our ability to focus more on solutions and execution of service to our clients.

The successful implementation of our strategy has resulted in the improvement of our core Canadian businesses, rationalization of non-strategic operations, growth of our businesses in the U.S. and internationally and enhancement of the quality and diversity of our earnings.



Overview of 2005

This year was mainly characterized by the successful execution of our Client First Initiative and favourable economic conditions, which resulted in record earnings performance despite the impact of reserves recorded for Enron litigation and estimated net claims from hurricanes Katrina, Rita and Wilma.

Client First Initiative

The Client First Initiative was launched toward the end of 2004 with the objective of improving revenue growth by better meeting client needs, creating a more efficient organization and enhancing shareholder value. The critical activities of the Client First Initiative in 2005 included the realignment of our organization and execution of a broad series of revenue and expense management initiatives.

At the beginning of fiscal 2005, we realigned our organization into three business segments from five so our businesses could respond more effectively to the needs of our distinct client groups within their unique operating and competitive environments. This realignment also provided the opportunity to introduce new leadership at the business segment levels, eliminate redundant positions and streamline processes. By integrating systems and operations and increasing front-line capacity, we helped our employees improve our client experience. We introduced a series of initiatives focused on aggressively controlling costs in part by reducing the size of our support functions, closing redundant premises, establishing procurement initiatives and selling non-core businesses and assets.

In Canada, we enhanced our product offerings, strengthened our distribution capabilities, which included increasing the number of client facing staff, and streamlined technologies and processes.

In the U.S., we strengthened our operations by installing new senior management at RBC Centura and RBC Dain Rauscher, divesting non-strategic operations and assets, and expanding in select high-growth markets.

Internationally, we expanded our distribution network and product offerings and improved our client service organization.

In all of our operations, we sought out new revenue growth opportunities while enhancing the level of service to our clients and carefully controlling costs. These initiatives were integral in achieving strong financial performance in 2005.

Key transactions and events

Enron Corp. (Enron) litigation

During the year we took action to reduce the uncertainty regarding ongoing Enron-related matters. We announced an agreement in the third quarter to settle our part of the MegaClaims bankruptcy lawsuit brought by Enron against us and a number of other financial institutions. We agreed to pay Enron $31 million (US$25 million), which was expensed in the third quarter. In addition, we agreed to pay Enron $29 million (US$24 million) for recognition of claims against the Enron bankruptcy estate and this was expensed in the fourth quarter. The agreement was approved by the U.S. federal bankruptcy court on November 29, 2005.

In the fourth quarter, we established a litigation reserve of $591 million (US$500 million) or $326 million after-tax (US$276 million after-tax) for other Enron-related matters, including a securities class action lawsuit brought on behalf of Enron securities holders in a federal court in Texas. The after-tax amount differs from that originally announced, as it reflects a lower estimated tax rate, which was determined in conjunction with our year-end tax review process. In light of the uncertainties of the timing and outcome of this type of litigation, it is possible that the ultimate costs of these matters may differ from the reserve. We will continue to vigorously defend ourselves in these cases.

Hurricanes (Katrina, Rita and Wilma)

In September 2005, we announced an estimated charge of $152 million (US$130 million) before- and after-tax for estimated net claims from hurricanes Katrina and Rita. In light of additional net claims from hurricane Wilma, which occurred in October, and a further review of claims experience and industry assessments for hurricanes Katrina and Rita through year-end, the total net reserves established in the fourth quarter amounted to $203 million (US$173 million) before- and after-tax.

Divestiture of Liberty Insurance Services Corporation

On December 31, 2004, we completed the sale of Liberty Insurance Services Corporation, our third-party insurance administration business, to IBM Corporation (IBM). We entered into a long-term agreement with IBM to perform key business processes for RBC Insurance's U.S. operations, including contact centre management, policy administration, claims management and payment receipt and reconciliation. This divestiture enables us to focus on our core life insurance businesses in the U.S.

Sale of assets of RBC Mortgage Company

During 2005, we determined that RBC Mortgage Company was no longer a core business that would positively contribute to our U.S. operations. Accordingly, during the year we identified it as discontinued operations. On September 2, 2005, we completed the sale of certain assets of RBC Mortgage Company to Home123 Corporation. The remaining assets are being disposed of in due course and operations are being wound down.

RBC Dexia Investor Services

On June 9, 2005, we announced an agreement with Dexia Banque Internationale à Luxembourg (Dexia) to combine our institutional investor services businesses in an equally owned joint venture to be named RBC Dexia Investor Services. The new company, with expected US$1.8 trillion in client assets under custody, will rank among the world's top 10 global custodians and will offer a complete range of investor services to institutions around the world. This transaction, pending regulatory approvals, is expected to close in fiscal 2006.

2005 Economic and market review

In 2005, North American economic conditions continued to be largely favourable for financial service businesses. In Canada, the economy remained strong, growing at an estimated 2.9%, as trading levels improved, businesses quickly adapted to a stronger Canadian dollar and consumer demand continued to be supported by low interest rates and near record employment levels. In the U.S., interest rates continued to rise in response to strong growth and mounting inflationary pressures.

Strong North American consumer spending and housing markets contributed to increases in mortgages and other consumer-related financing products. Consumer credit quality also continued to remain strong throughout the year buoyed by strong debt servicing capacity and solid balance sheets.

Business lending saw a healthy recovery after nearly four years of weakness that was somewhat constrained by the fact that businesses modestly drew upon high cash reserves in order to fund investment in inventories and infrastructure. Business credit quality continued to reflect a favourable credit and business environment with a general reduction in defaults and bankruptcies.

Capital markets were challenged by difficult equity markets, the flattening of the yield curve and the effects on market activity from the hurricane season. However, our overall equity and debt originations were higher than a year earlier. Equity originations benefited from a robust income trust sector, which weakened after the Canada Revenue Agency announcement in September regarding their review of tax legislation pertaining to flow-through entities. Debt origination activity was higher resulting from a continued low interest rate environment and increased foreign issues in Canada resulting from the change in the *Income Tax Act* (Canada) removing foreign content limits.

Summary

Successful execution of our Client First Initiative and largely favourable economic conditions resulted in strong revenue growth, improved productivity and higher returns from our U.S. banking operations. We grew our core Canadian franchise, rationalized non-strategic operations and grew our U.S. and selected global businesses. Overall, the success of our initiatives and renewed focus on meeting client needs continued to strengthen the quality and diversity of our earnings and have allowed us to weather a number of events this year, while still posting solid results.

Overview of 2004

In 2004, the economic and business environment in Canada was characterized by economic growth of just under 3%, falling interest rates and strengthening consumer demand. The U.S. economy also rapidly expanded and interest rates were near historical lows but began to rise. Credit conditions were largely favourable and included high levels of reversals and recoveries of problem loans and a reversal of general reserves. This environment supported increased demand for loans and investment products in the retail sector while the business sector moved into the early stages of a lending recovery.

In 2004, there were several significant corporate developments. We incurred a $192 million business realignment charge. Of the business realignment charges, $177 million was attributed to continuing operations while $15 million was attributed to discontinued operations in 2005. We had a $130 million write-off of goodwill related to RBC Mortgage Company. We also announced a $74 million after-tax settlement net of a related reduction in compensation and tax expense related to a dispute with Cooperatieve Centrale Raiffeisen-Boerenleenbank, B.A. (Rabobank settlement costs).

Our insurance group completed its acquisition of the Canadian operations of Provident Life and Accident Insurance Company (UnumProvident), a wholly owned subsidiary of UnumProvident Corporation, effective May 1, 2004. This acquisition resulted in an increase in revenue and reserves in our disability insurance business.

On February 27, 2004, we completed a US$112 million acquisition of William R. Hough & Co., a full-service investment firm specializing in fixed income sales, trading and underwriting primarily in the Southeast U.S. This acquisition positively impacted our U.S. debt business in RBC Capital Markets.

On November 21, 2003, we completed the acquisition of Provident Financial Group's Florida banking operations for consideration of US$81 million, providing us with continued expansion opportunities in this fast-growing market.

Overview of 2003

In 2003, there was modest economic growth in both Canada and the U.S., but a variety of risks were tempered by near historic lows in interest rates in Canada and the U.S. Capital markets activity improved during the year as monetary and economic conditions strengthened, creating demand for investment banking, capital markets and wealth management services. Additionally, credit conditions improved over the period as lower impairments and credit losses continued to reflect improving economic conditions.

We acquired the U.S. direct life insurance and mutual fund operations of Business Men's Assurance Company of America for US$207 million, which added to our product portfolio and built on our cross-platform capability for wealth management products. Also in 2003, we acquired Admiralty Bancorp, Inc. (Admiralty) of Palm Beach Gardens, Florida, for US$153 million and Sterling Capital Mortgage Company for US$100 million. Certain assets of Sterling Capital Mortgage Company (part of RBC Mortgage Company) were sold in 2005.

Selected consolidated financial information and other highlights — Table 1

(C$ millions, except per share and percentage amounts)	2005	2004	2003	2005 vs. 2004 Increase (decrease)	
Continuing operations					
Total revenue	$ 19,215	$ 17,802	$ 16,988	$ 1,413	7.9%
Non-interest expense (NIE)	11,388	10,833	10,165	555	5.1%
Provision for credit losses (PCL)	455	346	721	109	n.m.
Insurance policyholder benefits, claims and acquisition expenses	2,625	2,124	1,696	501	23.6%
Business realignment charges	45	177	–	(132)	n.m.
Net income before income taxes	4,702	4,322	4,406	380	8.8%
Net income from continuing operations	3,437	3,023	2,955	414	13.7%
Net income (loss) from discontinued operations	(50)	(220)	13	170	n.m.
Net income	$ 3,387	$ 2,803	$ 2,968	$ 584	20.8%
Selected information					
Earnings per share (EPS) – basic	$ 5.22	$ 4.29	$ 4.44	$ .93	21.7%
Earnings per share (EPS) – diluted	5.13	4.23	4.39	.90	21.3%
Return on common equity (ROE) (1)	18.0%	15.6%	16.7%	240 bps	n.m.
Return on risk capital (RORC) (1)	29.3%	24.6%	26.5%	470 bps	n.m.
Common share price – close (as at October 31)	$ 83.33	$ 63.40	$ 63.48	$ 19.93	31.4%
Selected information for continuing operations					
Earnings per share (EPS) – basic	$ 5.30	$ 4.63	$ 4.42	$ .67	14.5%
Earnings per share (EPS) – diluted	5.21	4.57	4.37	.64	14.0%
Return on common equity (ROE) (1)	18.1%	16.8%	16.7%	130 bps	n.m.
Return on risk capital (RORC) (1)	29.7%	26.5%	26.4%	320 bps	n.m.
Net interest margin (2)	1.52%	1.53%	1.63%	n.m.	n.m.
Capital ratios (3)					
Tier 1 capital ratio	9.6%	8.9%	9.7%	70 bps	n.m.
Total capital ratio	13.1%	12.4%	12.8%	70 bps	n.m.
Selected balance sheet data					
Total assets	469,521	426,222	399,847	43,299	10.2%
Securities	160,495	128,946	128,931	31,549	24.5%
Consumer loans	138,288	125,302	112,792	12,986	10.4%
Business and government loans	53,626	47,258	49,657	6,368	13.5%
Deposits	306,860	270,959	259,145	35,901	13.2%
Average common equity (1)	18,600	17,800	17,550	800	4.5%
Average risk capital (1)	11,450	11,300	11,000	150	1.3%
Other information					
Assets under administration	1,775,700	1,593,900	1,483,800	181,800	11.4%
Assets under management	105,700	93,600	88,800	12,100	12.9%
Business information for continuing operations					
Employees (full-time equivalent)	60,012	61,003	60,812	(991)	(1.6)%
Bank branches	1,419	1,415	1,386	4	n.m.
Business banking centres	65	65	65	–	n.m.
Automated banking machines	4,277	4,432	4,469	(155)	(3.5)%
Period average USD equivalent of C$1.00	.824	.762	.697	.06	8.1%
Period-end USD equivalent of C$1.00	.847	.821	.758	.03	3.2%

Impact of specified items on consolidated results

	For the year ended					
(C$ millions)	October 31 2005		October 31 2004		October 31 2003	
	Pre-tax	After-tax	Pre-tax	After-tax	Pre-tax	After-tax
Enron litigation reserve	$ (591)	$ (326)	$ –	$ –	$ –	$ –
Hurricane-related charges for Katrina, Rita and Wilma (4)	(203)	(203)	–	–	–	–
General allowance reversal	–	–	175	113	–	–
Business realignment charges (5)	(58)	(37)	(192)	(125)	–	–
Goodwill impairment (6)	–	–	(130)	(130)	–	–
Rabobank settlement costs	–	–	n.a.	(74)	–	–

(1) Average common equity and Return on common equity are calculated using month-end balances for the period. Average risk capital and Return on risk capital are non-GAAP financial measures. Refer to the Key financial measures (non-GAAP) section for further discussion.
(2) Net interest margin (NIM) is calculated as Net interest income divided by Average assets. Average assets are calculated using month-end balances for the period.
(3) Calculated using guidelines issued by the Office of the Superintendent of Financial Institutions Canada (OSFI).
(4) These charges represent estimated claims of $223 million less $20 million reserves recorded in the first three quarters of 2005.
(5) For the year ended October 31, 2005, $29 million (after-tax) related to continuing operations and $8 million (after-tax) related to discontinued operations. For October 31, 2004, $116 million (after-tax) related to continuing operations and $9 million (after-tax) related to discontinued operations.
(6) Relates to RBC Mortgage Company, which has been classified as discontinued operations.
n.m. not meaningful
n.a. not available

Financial performance

Net income increased by $584 million or 21% from a year ago. The increase largely reflected strong revenue growth across our lending, deposit and investment management businesses, which was supported by the strong North American economy and the low interest rate environment. Also contributing to this increase were the business realignment charges of $177 million relating to continuing operations and $15 million for discontinued operations, the $130 million charge for goodwill impairment related to RBC Mortgage Company and the Rabobank settlement costs recorded in 2004. The business growth and the above-mentioned factors were partly offset by the 2005 reserves for Enron litigation and estimated net claims related to hurricanes Katrina, Rita and Wilma and a $175 million reversal of the general allowance recorded in the prior year.

Diluted earnings per share (EPS) were $5.13, up $.90 or 21% and return on equity (ROE) was 18.0%, up 240 basis points despite the factors noted on the previous page.

Net income from continuing operations of $3,437 million was up $414 million or 14% from the prior year primarily due to strong revenue growth. Revenue increased by $1,413 million or 8% reflecting increases across our lending, deposit, insurance and wealth management businesses as a result of our growth initiatives and favourable North American business conditions. Non-interest expense increased by $555 million or 5% largely reflecting the Enron litigation reserve of $591 million and higher stock-based compensation in light of the significant appreciation in our common share price. This increase in non-interest expense was partially offset by the Rabobank settlement costs incurred in the prior year, the positive impact of the stronger Canadian dollar on translated U.S. dollar-denominated expenses and improved productivity. Insurance policyholder benefits, claims and acquisition expense increased $501 million or 24% primarily due to higher business volumes in the disability insurance business, which has included UnumProvident since May 1, 2004, and the impact of reserves for estimated net claims related to hurricanes Katrina, Rita and Wilma. The increase in provisions for credit losses of $109 million largely reflects the $175 million reversal of the general allowance recorded in the prior year and higher consumer provisions due to portfolio growth, which were partially offset by higher corporate recoveries.

Diluted EPS, for continuing operations, were $5.21, up $.64 or 14%, despite the impact of a $.50 decrease due to the Enron litigation reserve. ROE, for continuing operations, was 18.1%, up 130 basis points from a year ago.

Net loss from discontinued operations of $50 million for the year compares to a net loss of $220 million a year ago. The loss for 2005 mainly reflects charges related to the sale and wind-down of operations and accounting adjustments related to prior periods. The charges include items such as the cost of closing our Chicago office and certain branches, employee incentive payments and the writedown of certain assets. The prior period loss was primarily due to a goodwill impairment charge of $130 million and higher operating losses.

Capital ratios

The Tier 1 capital ratio and the Total capital ratio of 9.6% and 13.1%, respectively, were up 70 basis points from the prior year. The improvement in our capital ratios reflected our strong internal capital generation, active balance sheet management and the net issuance of capital instruments in 2005.

Impact of U.S. dollar vs. Canadian dollar — Table 2

(C$ millions, except per share amounts)	2005 vs. 2004	2004 vs. 2003
Total revenue (lower) higher	$ (420)	$ (535)
Non-interest expense lower (higher)	260	305
Net income from continuing operations (lower) higher	(65)	(70)
Net income (lower) higher	(61)	(55)
Diluted EPS – continuing operations	$ (.10)	$ (.11)
Diluted EPS	$ (.09)	$ (.08)

Our U.S. dollar-denominated results are affected by fluctuations in the U.S. dollar/Canadian dollar exchange rates. The table quantifies the effect of the decline in the value of the U.S. dollar compared to the Canadian dollar by showing the translated value of current period line items and EPS information based on the prior period's average exchange rate. We believe this provides the ability to assess underlying results on a more comparable basis.

In 2005, the Canadian dollar appreciated 8% on average relative to the U.S. dollar from a year ago, resulting in a $61 million decrease in our U.S. dollar-denominated net income and a reduction of $.09 on our current year's diluted EPS compared to 2004. U.S. dollar-denominated net income from continuing operations was reduced by $65 million and diluted EPS by $.10 compared to the prior year.

2005 Performance versus objectives

Our 2005 financial objectives established in late 2004 were based upon the prevailing and forecast economic conditions, our 2004 performance and our Client First Initiative. In light of our 2004 performance, we established aggressive objectives for 2005 to reposition us as a top quartile performer (relative to the S&P/TSX Banks Index). These objectives were established based on our expectation of an average Canadian dollar value of US$.80 in 2005, while the actual average Canadian dollar value for the year was US$.82.

In 2005 we met or exceeded most of our objectives. Diluted EPS growth was in excess of 20% and ROE of 18% compared favourably to our objectives of 20% plus diluted EPS growth and our 18–20% ROE targeted range. Revenue growth for continuing operations of 8% reflected successful execution of a number of carefully planned initiatives in Canada, the United States and outside North America, and was on the upper end of our 6–8% revenue growth objective. Non-interest expenses for continuing operations rose 5% over the prior year, compared to our objective of less than 3%, largely as a result of the Enron litigation reserve. Strong risk management and a relatively benign credit environment resulted in good portfolio quality performance. Our ratio of specific provisions for credit losses to average loans and acceptances of .21%, calculated on a continuing basis, compared favourably to our objective of .35–.45%. This ratio was favourably impacted by a $52 million transfer of the specific allowance to the general allowance during the first quarter of 2005, which decreased this ratio by .03%. In addition, we strengthened our capital ratio over the prior year to remain comfortably above our objectives and the regulatory targets. Our Tier 1 capital and Total capital ratios were 9.6% and 13.1%, respectively, both significantly above our objectives of 8–8.5% and 11–12%, as well as regulatory targets of 7% and 10%. Finally, our dividend payout ratio of 45% was within our target range of 40–50%.

Outlook and objectives for 2006

Economic outlook

Real GDP growth in Canada is expected to increase from an estimated 2.9% in 2005 to 3.4% in 2006. This growth is expected to be fuelled by strong economic fundamentals, including a strong labour market and an improvement in net exports. We expect the price of oil to fall in 2006 relative to 2005, which may result in the weakening of the Canadian dollar relative to the U.S. dollar. We expect the Bank of Canada to continue to raise interest rates in a measured fashion until late in 2006 in order to keep core inflation close to the target rate of 2%. The increase in rates is expected to have a dampening effect on the housing market.

The U.S. economy is expected to remain strong in 2006, albeit growing at a slower pace, with real GDP growth of 3.2% versus an estimated 3.4% in 2005 due mostly to higher interest rates. Despite a gradual slowing of the economy, inflationary pressures are building in a variety of ways. Higher energy costs, rising unit labour costs and increasing long-term inflation expectations are expected to prompt the U.S. Federal Reserve to increase interest rates further in 2006.

Growth rates across the G7 economies are expected to converge once the U.S. current account deficit starts to improve and the effects of the oil price shock and cleanup from hurricanes Katrina, Rita and Wilma diminish. Central banks of countries with more mature business cycles have already begun to lift rates or are about to do so.

Business outlook

We expect the pace of growth of North American retail lending to slow next year given expected increases in interest rates, an expected softening of the housing and auto markets and the resulting effect on the demand for durable goods. Growth in business lending is expected to be comparable to what was experienced in 2005, helped along by relatively low interest rates and ongoing business investment in inventories and more productive infrastructure.

We expect consumer and business credit quality to remain stable in light of buoyant North American economic conditions with provisions for credit losses increasing commensurate with increases in loan volumes. Increases in credit losses in 2006 are also expected to reflect fewer recovery opportunities.

There are signs of a controlled decrease in household cash reserves, which may put negative pressure on our personal deposit accounts but not fixed term deposits, while mutual fund sales should continue to rise.

The capital markets outlook is mixed as low but rising interest rates, a weakening in the hedge fund industry and a slowing U.S. economy are expected to dampen the demand for origination and advisory services and further reduce trading opportunities.

2006 Objectives

Throughout 2006, we will continue to execute our Client First Initiative and segment priorities. As a result, we have set aggressive financial objectives for 2006 based on our economic and business outlooks. Our 2006 diluted EPS growth objective remains greater than 20% and our revenue growth objective remains 6–8%. Our dividend payout ratio objective remains 40–50%. We have made changes to our ROE, non-interest expense control, portfolio quality and capital management objectives. We raised the ROE objective to 20% plus from 18–20%. We replaced the non-interest expense control objective with an operating leverage objective as we believe it is more meaningful to look at non-interest expense growth relative to revenue growth (Operating leverage is the difference between the revenue growth rate and non-interest expense growth rate). Our new objective is operating leverage of greater than 3%, excluding the impact of the Enron litigation reserve of $591 million on non-interest expense. We also changed the portfolio quality objective as we believe 2006 will present fewer recovery opportunities. Our new objective is a ratio of specific provisions for credit losses to average loans and acceptances of .40–.50% versus our old objective of .35–.45%. In addition, we set a minimum level for the Tier 1 capital objective of greater than 8%, rather than 8–8.5%, which compares favourably to the Office of the Superintendent of Financial Institutions Canada (OSFI)'s target of 7%. While we continue to manage our capital to ensure we meet regulatory requirements for both Tier 1 and Total capital ratios, our 2006 capital objective focuses on our Tier 1 capital ratio only. We believe the Tier 1 capital ratio to be the primary measure of financial strength for our key stakeholders.

Commencing in 2006 our medium-term (defined as three to five years) objectives have been limited to one goal: to generate top quartile total shareholder return relative to our Canadian and U.S. peer group. (1) The external environment is becoming increasingly dynamic and the ability to plan three to five years ahead is becoming more and more difficult. Furthermore, having two sets of financial objectives, for the current year and for the medium term, can cause confusion.

(1) Includes seven large Canadian financial institutions (Manulife Financial Corporation, Bank of Nova Scotia, TD Bank Financial Group, BMO Financial Group, Sun Life Financial Inc., Canadian Imperial Bank of Commerce and National Bank of Canada) and 13 top U.S. financial institutions (Bank of America, JP Morgan Chase & Co., Wells Fargo & Company, Wachovia Corporation, US Bancorp, Sun Trust Banks, Inc., The Bank of New York, BB&T Corporation, Fifth Third Bancorp, National City Corporation, The PNC Financial Services Group, KeyCorp and Northern Trust Corporation).

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Application of critical accounting policies and estimates

Our significant accounting policies are contained in Note 1 to the Consolidated Financial Statements. Certain of these policies, as well as estimates made by management in applying such policies, are recognized as critical because they require us to make particularly subjective or complex judgments about matters that are inherently uncertain and because of the likelihood that significantly different amounts could be reported under different conditions or using different assumptions. Our critical accounting policies and estimates relate to the allowance for credit losses, fair value of financial instruments, securitization, variable interest entities, pensions and other postemployment benefits and income taxes. Our critical accounting policies and estimates have been reviewed and approved by our Audit Committee, in consultation with management, as part of their review and approval of our significant accounting policies and estimates.

Allowance for credit losses

The allowance for credit losses represents management's estimate of probable losses incurred in our lending portfolio including loans, acceptances, letters of credit and guarantees, and unfunded commitments, as at the balance sheet date. The allowance for credit losses is comprised of the specific allowance and the general allowance. The specific allowance is determined through management's identification and determination of losses related to impaired loans. The general allowance is determined on a quarterly basis through management's assessment of probable losses in the remaining portfolio.

The process for determining the allowances involves quantitative and qualitative assessments using current and historical credit information. The process inherently requires the use of certain assumptions and judgments including: (i) assessing the impaired status and risk ratings of loans; (ii) estimating cash flows and collateral values; (iii) developing default and loss rates based on historical and industry data; (iv) adjusting loss rates and risk parameters based on the relevance of historical experience given changes in credit strategies, processes and policies; (v) assessing the current credit quality of the portfolio based on credit quality trends in relation to impairments, write-offs and recoveries, portfolio characteristics and composition; and (vi) determining the current position in the economic and credit cycles. Changes in these assumptions or using other reasonable judgments can materially affect the allowance level and thereby our net income.

Specific allowance

Specific allowances are established to absorb probable losses on impaired loans. Loan impairment is recognized when, based on management's judgment, there is no longer reasonable assurance that all interest and principal payments will be made in accordance with the loan agreement.

For large business and government portfolios, which are continuously monitored, an account is classified as impaired based on our evaluation of the borrower's overall financial condition, its available resources and its propensity to pay amounts as they come due. A specific allowance is then established on individual accounts that are classified as impaired, using management's judgment relating to the timing of future cash flow amounts that can be reasonably expected from the borrower, 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.

For homogeneous portfolios, including residential mortgages and personal and small business loans, accounts are classified as impaired based on contractual delinquency status, generally 90 days past due. The estimation of specific allowance on these accounts is based on formulas that apply product-specific net write-off ratios to the related impaired amounts. The net write-off ratios are based on historical loss experience, adjusted to reflect management's judgment relating to recent credit quality trends, portfolio characteristics and composition, and economic and business conditions. Credit card balances are directly written off after 180 days in arrears.

General allowance

The general allowance is established to absorb probable losses on accounts in the lending portfolio that have not yet been specifically classified as impaired. This estimation is based on a number of assumptions including: (i) the level of unidentified problem loans given current economic and business conditions; (ii) the timing of the realization of impairment; (iii) the committed amount that will be drawn when the account is classified as impaired; and (iv) the ultimate severity of loss. In determining the appropriate level of general allowance, management first employs statistical models using historical loss rates and risk parameters to estimate a range of probable losses over an economic cycle. Management then considers changes in credit process including underwriting, limit setting and the workout process in order to adjust historical experience to better reflect the current environment. In addition, current credit information including portfolio composition, credit quality trends and economic and business information is assessed to determine the appropriate allowance level.

For large business and government loans, the general allowance level is estimated based on management's judgment of business and economic conditions, historical loss experience, the impact of policy changes and other relevant factors. The range of loss is derived through the application of a number of risk parameters related to committed obligations. The key parameters used are probability of default (PD), loss given default (LGD) and usage given default (UGD). PDs are delineated by borrower type and risk rating, LGDs are largely based on transactional structure and client type, and UGDs are applied based on risk rating. These parameters are based on long-term historical loss experience (default migration, loss severity and exposure at default), supplemented by industry studies and are updated on a regular basis. This approach allows us to generate a range of potential losses over an economic cycle. One of the key judgmental factors that influence the loss estimate for this portfolio is the application of the internal risk rating framework, which relies on our quantitative and qualitative assessments of a borrower's financial condition in order to assign it an internal credit risk rating similar to those used by external rating agencies. Any material change in the above parameters or assumptions would affect the range of probable credit losses and consequently may affect the general allowance level.

For homogeneous loans, including residential mortgages, credit cards, and personal and small business loans, probable losses are estimated on a portfolio basis. Long-term historical loss experience is applied to current outstanding loans to determine a range of probable losses over an economic cycle. 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.

Total allowance for credit losses

Based on the procedures discussed above, management is of the opinion that the total allowance for credit losses of $1,568 million is adequate to absorb estimated credit losses incurred in the lending portfolio as at October 31, 2005. This amount includes $70 million classified in other liabilities, which relates to letters of credit and guarantees and unfunded commitments. The year-over-year reduction of $146 million largely reflects the reduction in impaired loans.

Fair value of financial instruments

In accordance with GAAP, certain financial instruments are carried on our balance sheet at their fair value. These financial instruments comprise securities held in our trading portfolio, obligations related to securities sold short and derivative financial instruments (excluding non-trading derivatives subject to hedge accounting). At October 31, 2005, approximately $164 billion or 36% of our financial assets and $75 billion or 19% of our financial liabilities were carried at fair value. Note 2 to our Consolidated Financial Statements provides disclosure of the estimated fair value of all our financial instruments at October 31, 2005. Fair value is defined as the amount at which an instrument could be bought or sold in a current transaction between willing parties, other than in a forced or liquidation sale.

The best evidence of fair value is quoted prices in an active market. Where quoted prices are not available for a particular financial instrument, we use the quoted price of a financial instrument with similar characteristics and risk profile or internal or external valuation models to estimate the fair value.

Where we believe the potential exists that the amount realized on sale will be less than the estimated fair value due to insufficient liquidity over a short period of time, a market valuation reserve is made. We also maintain a provision for model risk, which may occur when the estimated value may not reflect the true value under certain stress market conditions. These provisions reflect varying levels of management judgment based on quantitative research and analysis.

The majority of our trading securities portfolio and obligations related to securities sold short comprise or relate to actively traded debt and equity securities, which are carried at fair value based on available quoted prices.

As few derivative financial instruments are actively quoted, we rely primarily on internally developed pricing models and established industry standard pricing models, such as Black-Schöles, to determine fair value. In determining the assumptions to be used in our pricing models, we look primarily to external readily observable market inputs including factors such as interest rate yield curves, currency rates and price and rate volatilities as applicable. However, certain derivative financial instruments are valued using significant unobservable market inputs such as default correlations, among others. These inputs are subject to significantly more quantitative analysis and management judgment. For further information on our derivative instruments, refer to Note 7 to our Consolidated Financial Statements.

The following table summarizes our significant financial assets and liabilities carried at fair value, by valuation methodology at October 31, 2005.

Assets and liabilities carried at fair value by valuation methodology — **Table 3**

	Financial Assets		Financial Liabilities	
(C$ millions, except percentage amounts)	Trading securities	Derivatives	Obligations related to securities sold short	Derivatives
Fair value	$ 125,760	$ 38,341	$ 32,391	$ 42,404
Based on				
Quoted market prices	85%	–%	93%	–%
Pricing models with significant observable market parameters	15	99	7	100
Pricing models with significant unobservable market parameters	–	1	–	–
	100%	100%	100%	100%

The use of methodologies, models and assumptions in pricing and valuing these financial assets and liabilities is subjective and requires varying degrees of judgment by management, which may result in significantly different fair values and financial results. To mitigate this risk, all significant financial valuation models are strictly controlled and regularly recalibrated and vetted by our risk management function to provide an independent perspective. In addition, the OSFI reviews our models selectively based on the risk profile for appropriateness of the models and validity of the assumptions used by management. Refer to the Risk management section for further details on the sensitivity of financial instruments used in trading and non-trading activities.

As outlined in Note 1 to our Consolidated Financial Statements, changes in the fair value of Trading Securities and Obligations Related to Securities Sold Short are recognized as Trading Revenue in Non-interest Income and changes in the fair value of our trading and non-trading derivatives that do not qualify for hedge accounting are recognized in Non-interest Income.

Securitization

We periodically securitize residential mortgages, credit card receivables and commercial mortgage loans by selling them to special purpose entities (SPEs) or trusts that issue securities to investors. Some of the key accounting determinations in a securitization of our loans are whether the transfer of the loans meets the criteria required to be treated as a sale and, if so, the valuation of our retained interests in the securitized loans. Refer to Note 1 to our Consolidated Financial Statements for a detailed description of the accounting policy on loan securitization.

When we securitize loans and retain an interest in the securitized loans, it is a matter of judgment whether the loans have been legally isolated. We obtain legal opinions where required to establish legal isolation of the transferred loans. We often retain interests in securitized loans such as interest-only strips, servicing rights or cash reserve accounts. Where quoted market prices are not available, the valuation of retained interests in sold assets is based on our best estimate of several key assumptions such as the payment rate of the transferred loans, weighted average life of the prepayable receivables, excess spread, expected credit losses and discount rate. The fair value of such retained interests calculated using these assumptions affects the gain or loss that is recognized from the sale of the loans. Refer to Note 5 to our Consolidated Financial Statements for the volume of securitization activities of our loans, the gain or loss recognized on sale and a sensitivity analysis of the key assumptions used in valuing our retained interests.

Another key accounting determination is whether the SPE that is used to securitize and sell our loans is required to be consolidated. As described in Note 6 to our Consolidated Financial Statements, we concluded that none of the SPEs used to securitize our financial assets should be consolidated.

Variable interest entities

We adopted the new Canadian Institute of Chartered Accountants (CICA) Accounting Guideline 15, *Consolidation of Variable Interest Entities* (AcG-15) on November 1, 2004, which provides guidance on applying the principles of consolidation to certain entities defined as variable interest entities (VIEs). Where an entity is considered a VIE, the Primary Beneficiary is required to consolidate the assets, liabilities and results of operations of the VIE. The Primary Beneficiary is the entity that is exposed, through variable interests, 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.

We use a variety of complex estimation processes involving both qualitative and quantitative factors to determine whether an entity is a VIE, and to analyze and calculate its expected losses and its expected residual returns. These processes involve estimating the future cash flows and performance of the VIE, analyzing the variability in those cash flows, and allocating the losses and returns among the identified parties holding variable interests to then determine who is the Primary Beneficiary. In addition, there is a significant amount of judgment exercised in interpreting the provisions of AcG-15 and applying them to our specific transactions.

AcG-15 applies to a variety of our businesses, including our involvement with multi-seller conduits we administer, repackaging structures and structured finance transactions we facilitate. For further details on our involvement with VIEs, refer to the Off-balance sheet arrangements section and Note 6 to our Consolidated Financial Statements.

Pensions and other postemployment benefits

We sponsor a number of defined benefit and defined contribution plans providing pension and other benefits to eligible employees after retirement. These plans include statutory pension plans, supplemental pension plans and health, dental and life insurance plans. The pension plans provide benefits based on years of service, contributions and average earnings at retirement.

Due to the long-term nature of these plans, the calculation of benefit expenses and obligations depends on various assumptions such as discount rates, expected rates of return on assets, health care cost trend rates, projected salary increases, retirement age, mortality and termination rates. These assumptions are determined by management and are reviewed annually by the actuaries. Actual experience that differs from the assumed experience will affect the amounts of benefit obligation and expense. The weighted average assumptions used and the sensitivity of key assumptions are presented in Note 19 to our Consolidated Financial Statements.

Income taxes

Management exercises judgment in estimating the provision for income taxes. We are subject to income tax laws in various jurisdictions where we operate. These complex tax laws are potentially subject to different interpretations by the taxpayer and the relevant tax authority. The provision for income taxes represents management's interpretation of the relevant tax laws and its estimate of current and future income tax implications of the transactions and events during the period. A future income tax asset or liability is determined for each timing difference based on the future tax rates that are expected to be in effect and management's assumptions regarding the expected timing of the reversal of such temporary differences.

CHANGES IN ACCOUNTING POLICIES AND ESTIMATES

The following new significant accounting policies were adopted effective November 1, 2004, for purposes of preparing our Consolidated Financial Statements:

Consolidation of variable interest entities

As a result of adopting AcG-15, we determined that we would have to consolidate VIEs with assets of $2,722 million as at October 31, 2005. Most of these entities, with assets of $1,376 million as at October 31, 2005, were already consolidated either fully or proportionately prior to November 1, 2004. Accordingly, there was no material impact due to AcG-15 on our Consolidated Financial Statements. In addition, we deconsolidated a capital trust used to raise Innovative Tier 1 capital of $900 million effective November 1, 2004, as a result of adopting AcG-15. These innovative capital instruments are no longer reflected on our Consolidated Balance Sheets; instead, a senior deposit note issued to the capital trust is reflected in Deposits on our Consolidated Balance Sheets. Refer to Note 6 to our Consolidated Financial Statements for further details.

Liabilities and equity

On November 1, 2004, we adopted the revisions to CICA Handbook Section 3860, *Financial Instruments – Disclosure and Presentation*, with retroactive restatement of prior period comparatives. These revisions require liability classification for financial instruments that will be settled by a variable number of our common shares upon their conversion by the holder as well as outstanding returns due thereon. As a result, we reclassified as liabilities, certain preferred shares previously included in Shareholders' Equity, which were $300 million as at October 31, 2005, and certain trust capital securities previously included in Non-controlling Interest in Subsidiaries, which were $1,400 million as at October 31, 2005. Dividends and yield distributions on these instruments, which were shown as Preferred Share Dividends and Non-controlling Interest in Net Income of Subsidiaries, respectively, have been reclassified to Interest Expense in our Consolidated Statements of Income. Net Income Available to Common Shareholders and Earnings per Share were not impacted by these reclassifications.

FUTURE CHANGES IN ACCOUNTING POLICIES

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.

CONSOLIDATED RESULTS FROM CONTINUING OPERATIONS

- **Revenue up $1,413 million or 8% from 2004 due to strong growth across our Canadian and U.S. banking, wealth management and insurance businesses.**
- **Non-interest expense up $555 million or 5% from 2004. Excluding the Enron litigation reserve, non-interest expense was flat.** (1)
- **Provision for credit losses of $455 million or .24% of average loans and acceptances reflects the favourable credit environment.**

The following provides a discussion of our reported results of operations for the year ended October 31, 2005. Factors that primarily relate to a specific segment are discussed in detail in the respective segment results section. In addition to providing an analysis comparing the current year to the prior year, we have also included an analysis of our 2004 results compared to those for 2003.

Total revenue — Table 4

(C$ millions)	2005	2004	2003
Interest income	$ 16,958	$ 13,866	$ 13,899
Interest expense	10,188	7,468	7,563
Net interest income	$ 6,770	$ 6,398	$ 6,336
Investments *(brokerage, investment management and mutual funds)*	$ 3,380	$ 3,142	$ 2,802
Insurance *(premiums, investment and fee income)*	3,270	2,870	2,356
Banking *(service charges, foreign exchange other than trading, card services and credit fees)*	2,326	2,173	2,146
Trading	1,594	1,563	1,908
Underwriting and other advisory	1,026	918	813
Other *(other non-interest income, gain/loss on securities sales and securitization)*	849	738	627
Non-interest income	$ 12,445	$ 11,404	$ 10,652
Total revenue	$ 19,215	$ 17,802	$ 16,988

2005 vs. 2004
Total revenue increased $1,413 million or 8% from a year ago, reflecting revenue growth across all lines of business in part due to our growth initiatives and favourable North American business conditions. These factors resulted in increased revenue from our lending, deposit, insurance and wealth management businesses. The increase was partially offset by a reduction of $420 million due to the negative impact of the stronger Canadian dollar on translated U.S. dollar-denominated revenue.

Net interest income increased $372 million or 6%, largely driven by increased loan and deposit volumes in both Canada and the U.S., partially offset by increased funding costs as a result of higher volumes and rates on funding positions related to equity trading.

Investments-related revenue increased $238 million or 8%, primarily due to higher transaction volumes and growth in client assets in our full-service brokerage business and strong mutual fund sales and capital appreciation.

Insurance-related revenue increased $400 million or 14%, reflecting growth in our disability insurance business, which has included UnumProvident since May 1, 2004, as well as strong growth in our property and casualty, life and reinsurance businesses. This was partially offset by the effect of the sale of Liberty Insurance Services, which occurred in the first quarter of 2005.

Banking revenue increased $153 million or 7%, mainly due to increased foreign exchange revenue and higher service fees.

(1) Non-interest expense and related ratios which exclude the Enron litigation reserve are non-GAAP measures. Refer to the Key financial measures (non-GAAP) section for a discussion and reconciliation.

Trading revenue increased by $31 million or 2%, primarily due to higher equity trading activity, mostly offset by decreases in our fixed income trading, commodity derivatives and foreign exchange businesses.

Underwriting and other advisory revenue increased $108 million or 12% on higher debt originations due to an historically low interest rate environment and higher equity originations arising from strength in income trust and structured products.

Other revenue increased $111 million or 15%, largely due to higher securitization revenue and higher private equity gains, which were partially offset by the gain on sale of real estate in the prior year.

2004 vs. 2003

Total revenue increased $814 million or 5% from 2003, mainly reflecting growth in our insurance and wealth management businesses, partially offset by lower trading revenue and the negative impact of the strengthening of the Canadian dollar on the translation of U.S. dollar-denominated revenue of $535 million.

Net interest income increased $62 million or 1%, largely driven by an increase in trading revenue on higher dividends from our global arbitrage strategies and growth in loans and deposits. This was partially offset by the impact of narrower margins mainly due to price competition in retail banking and low interest rates.

Investments-related revenue increased $340 million or 12%, reflecting increased mutual fund revenue due to strong mutual fund sales, capital appreciation and an increase in the proportion of long-term funds which generate higher fees. Securities brokerage commissions increased due to strong equities markets and higher client trading volumes also contributed to the increase.

Insurance-related revenue increased $514 million or 22%, largely due to higher revenue in our disability insurance business, which has included UnumProvident since May 1, 2004, and growth in our home and auto insurance businesses. This was partially offset by the loss of revenue from a non-renewed block of reinsurance business, which also resulted in lower policyholder benefits, claims and acquisition costs.

Trading revenue decreased $345 million or 18% primarily due to lower returns from our arbitrage trading strategies.

Underwriting and other advisory revenue increased $105 million or 13%, reflecting improvements in capital markets activity over 2003.

Other revenue increased $111 million or 18%, largely due to higher securitization revenue, which was partially offset by lower gains on the sale of investment account securities recorded in 2004 compared to 2003.

Net interest income and margin — **Table 5**

(C$ millions, except percentage amounts)	2005	2004	2003
Average assets (1)	$ 445,300	$ 418,200	$ 387,700
Net interest income	6,770	6,398	6,336
Net interest margin (2)	1.52%	1.53%	1.63%

(1) Calculated using methods intended to approximate the average of the daily balances for the year.
(2) Net interest income as a percentage of average assets.

2005 vs. 2004

Net interest margin decreased by 1 basis point, largely reflecting higher funding costs in RBC Capital Markets in support of their trading activities. This decrease was partially offset by net interest margin improvement in RBC Canadian Personal and Business and RBC U.S. and International Personal and Business largely due to strong loan growth relative to other assets, which earn lower returns. For further details, refer to Tables 50 and 51 in the Additional financial information section.

2004 vs. 2003

The Net interest margin decreased by 10 basis points, which reflected spread compression on Canadian mortgages and deposits resulting from lower interest rates and competitive pressures, as well as growth in capital markets-related assets that generate non-interest income. For further details, refer to Tables 50 and 51 in the Additional financial information section.

Non-interest expense — **Table 6**

(C$ millions)	2005	2004	2003
Salaries	$ 3,155	$ 3,199	$ 3,138
Variable compensation	2,309	2,283	2,102
Stock-based compensation	200	124	80
Benefits and retention compensation	1,103	1,095	977
Human resources	$ 6,767	$ 6,701	$ 6,297
Equipment	960	906	882
Occupancy	749	765	721
Communications	632	672	707
Professional and other external services	825	768	736
Other expenses	1,455	1,021	822
Non-interest expense	$ 11,388	$ 10,833	$ 10,165

2005 vs. 2004

Non-interest expense increased $555 million or 5% from 2004, largely reflecting the Enron litigation reserve of $591 million. Stock-based compensation was also higher in light of the significant appreciation in our common share price in 2005. Higher costs in support of the increased sales and service personnel in our Canadian branch network also contributed to the increase. The increase was partially offset by a $260 million decline in expenses due to the positive impact of the stronger Canadian dollar on the translation of U.S. dollar-denominated expenses and improved productivity reflecting cost reduction efforts attributable to streamlining head office and support operations, procurement initiatives and lower occupancy costs as a result of optimizing our office space. The prior year also included the Rabobank settlement costs.

2004 vs. 2003

Non-interest expense was up $668 million or 7% from 2003. The increase was largely due to higher human resource expenses throughout 2004 (primarily higher variable compensation and benefit costs, driven by increases in revenue) and the Rabobank settlement costs. The increase reflected the positive impact of the strengthening of the Canadian dollar on the translation of U.S. dollar-denominated expenses of $305 million.

Provision for credit losses — Table 7

(C$ millions)	2005	2004	2003
Consumer	$ 455	$ 396	$ 417
Business and government	(66)	125	304
Specific	$ 389	$ 521	$ 721
General	66	(175)	–
Provision for credit losses	$ 455	$ 346	$ 721

2005 vs. 2004

Total provision for credit losses increased by $109 million or 32% from a year ago. This increase was mainly due to the reversal of $175 million in the general allowance in 2004 and higher specific provisions on personal credit lines and credit cards due to portfolio growth in 2005. This was partially offset by higher corporate recoveries and lower student loan losses in the current period. Refer to the Risk management section for further discussion of credit quality.

2004 vs. 2003

The provision for credit losses declined by $375 million or 52% reflecting a $200 million decline in the specific provision and the reversal of $175 million of the general allowance in 2004. The reversal of the general allowance largely reflected improved credit conditions and quality in 2004.

The specific provision on business and government loans decreased by $179 million or 59%, largely due to stronger recoveries and fewer new impairments in the corporate and commercial portfolio. In the consumer portfolio, the specific provision for credit losses decreased by $21 million, primarily reflecting improved credit quality and conditions. This decrease was marginally offset by higher credit card provisions due to volume growth.

Insurance policyholder benefits, claims and acquisition expense

2005 vs. 2004

Insurance policyholder benefits, claims and acquisition expense increased $501 million or 24% compared to the prior year largely due to higher business volumes in the disability insurance business, which has included UnumProvident since May 1, 2004, and the reserve recorded to cover estimated net claims for damages related to hurricanes Katrina, Rita and Wilma. Net increases in Life insurance reserves reflecting decreases in long-term interest rates, a change in the tax treatment of certain invested assets and higher policy maintenance costs also contributed to the increase. These items were partially offset by a net decrease in Health insurance reserves attributable to improved disability claims and termination experience.

The above items are largely reflected in the 10% year-over-year increase in Insurance claims and policy benefit liabilities as described in the Global Insurance discussion in the RBC Canadian Personal and Business results section.

2004 vs. 2003

Insurance policyholder benefits, claims and acquisition expense increased $428 million or 25% over 2003, due to higher volumes in the disability insurance business, which included UnumProvident for six months in 2004. This was partially offset by lower costs associated with the loss of revenue from a non-renewed block of reinsurance business.

Taxes — Table 8

(C$ millions, except percentage amounts)	2005	2004	2003
Income taxes	$ 1,278	$ 1,287	$ 1,439
Other taxes			
Goods and services and sales taxes	$ 218	$ 225	$ 220
Payroll taxes	220	207	210
Capital taxes	164	140	124
Property taxes (1)	93	84	82
Business taxes	9	13	19
Insurance premium taxes	39	33	26
	743	702	681
Total	$ 2,021	$ 1,989	$ 2,120
Effective income tax rate (2)	27.2%	29.8%	32.7%
Effective total tax rate (3)	37.1%	39.6%	41.7%

(1) Includes amounts netted against non-interest income regarding investment properties.
(2) Income taxes, as a percentage of income from continuing operations before income taxes.
(3) Total income and other taxes as a percentage of income from continuing operations before income and other taxes.

Our operations are subject to a variety of taxes, including taxes on income and capital assessed by Canadian federal and provincial governments and taxes on income assessed by the governments of foreign jurisdictions where we operate. Taxes are also assessed on expenditures and supplies consumed in support of our operations.

2005 vs. 2004

As shown in Table 8 on the previous page, income taxes are virtually unchanged from last year, despite $380 million higher income from continuing operations. Consequently, the effective tax rate for the year decreased by 2.6%. This reduction in the effective tax rate was primarily due to higher income reported by our foreign subsidiaries in 2005 that operated in lower tax rate jurisdictions, additional tax-exempt income from securities, and a tax recovery resulting from the Enron litigation reserve.

Other taxes increased by $41 million, largely due to an increase in capital and payroll taxes as a result of higher capital levels and business growth.

In addition to the income and other taxes reported in the Consolidated Statements of Income, we recorded income taxes of $220 million in 2005 ($330 million in 2004) in Shareholders' Equity, a reduction of $110 million, reflecting a decrease in unrealized foreign currency translation gains as shown in Note 22 to our Consolidated Financial Statements.

2004 vs. 2003

Income taxes decreased by $152 million largely due to lower statutory income tax rates and a decrease in net income before income taxes which was primarily the result of business realignment charges. Other taxes increased by $21 million, largely due to an increase in capital taxes as a result of higher capital levels and business growth. The reduction in the effective tax rate of 2.9% from 2003 was primarily due to a reduction in the federal tax rate in Canada. In addition to the income and other taxes reported in the Consolidated Statements of Income, we recorded income taxes from continuing operations of $330 million in 2004 ($1,070 million in 2003) in Shareholders' Equity, a reduction of $740 million reflecting a decrease in unrealized foreign currency translation gains as shown in Note 22 to our Consolidated Financial Statements.

Business realignment charges **Table 9**

	Expense for the year ended October 31			Liability balance as at October 31		
(C$ millions)	2005	2004	2003	2005	2004	2003
Employee-related	$ 45	$ 164	$ –	$ 118	$ 164	$ –
Other	–	13	–	–	13	–
Total business realignment charges from continuing operations	**$ 45**	$ 177	$ –	**$ 118**	$ 177	$ –

We continued to implement the cost-reduction initiatives in connection with our business realignment, which was effective November 1, 2004. Under these initiatives, we eliminated a number of executive and senior management positions and streamlined our resources. In 2004, we recorded business realignment charges of $192 million of which $177 million related to continuing operations and $15 million pertained to discontinued operations. The charge for continuous operations was largely comprised of $164 million of employee-related charges associated with the elimination of approximately 1,480 positions. The remaining $13 million in other charges pertained to professional fees related to strategic and organizational advice provided to us with respect to the business realignment initiatives.

In 2005 we recorded business realignment charges for continuing operations of $45 million mainly relating to the net increase of a further 583 positions. This increase was comprised of 509 new positions identified pertaining to the original initiative and 795 positions related to additional initiatives. These items were partially offset by the reinstatement of 643 positions and the reversal of 78 positions at Liberty Insurance Services, which was sold in the first quarter of 2005.

The business realignment liability from continuing operations decreased by a net of $59 million from the prior year largely reflecting reduced employee-related payments for income-protection and professional fees, partly offset by the additional charges recorded in 2005. Although the majority of our realignment initiatives will be completed by the end of 2006, certain payments related to income-protection will extend beyond that time. Refer to Note 21 to our Consolidated Financial Statements for additional details.

Results by geographic segment **Table 10**

	2005				2004				2003			
(C$ millions)	Canada	United States	Other International	Total	Canada	United States	Other International	Total	Canada	United States	Other International	Total
Net interest income	$ 5,459	$ 754	$ 557	$ 6,770	$ 5,011	$ 934	$ 453	$ 6,398	$ 4,941	$ 1,124	$ 271	$ 6,336
Non-interest income	7,047	3,840	1,558	12,445	6,121	3,743	1,540	11,404	5,418	3,389	1,845	10,652
Total revenue	12,506	4,594	2,115	19,215	11,132	4,677	1,993	17,802	10,359	4,513	2,116	16,988
Provision for credit losses	433	23	(1)	455	343	61	(58)	346	527	106	88	721
Insurance policyholder benefits, claims and acquisition expense	1,270	809	546	2,625	909	872	343	2,124	669	543	484	1,696
Non-interest expense	6,685	3,626	1,077	11,388	6,395	3,457	981	10,833	6,012	3,246	907	10,165
Business realignment charges	45	–	–	45	142	29	6	177	–	–	–	–
Income taxes and non-controlling interest	1,299	(64)	30	1,265	1,172	46	81	1,299	1,173	224	54	1,451
Net income from continuing operations	$ 2,774	$ 200	$ 463	$ 3,437	$ 2,171	$ 212	$ 640	$ 3,023	$ 1,978	$ 394	$ 583	$ 2,955
Net income (loss) from discontinued operations	$ –	$ (50)	$ –	$ (50)	$ –	$ (220)	$ –	$ (220)	$ –	$ 13	$ –	$ 13
Net income	$ 2,774	$ 150	$ 463	$ 3,387	$ 2,171	$ (8)	$ 640	$ 2,803	$ 1,978	$ 407	$ 583	$ 2,968

2005 vs. 2004

Net income in Canada was $2,774 million, up $603 million or 28% from 2004. This increase reflects growth in lending and deposits in the RBC Canadian Personal and Business segment of 10% and 4%, respectively, significant revenue growth in Wealth Management of $279 million or 14%, and volume growth in our disability insurance business as a result of the acquisition of UnumProvident. These factors were offset by higher non-interest expense, largely reflecting higher levels of sales and service personnel in our Canadian distribution network, higher benefit costs and higher advertising and new program costs in support of business growth. The provision for credit losses increased by $90 million, which largely reflected the reversal of the general allowance in the prior year.

U.S. net income of $150 million in 2005 compared to a net loss of $8 million in 2004. U.S. net income from continuing operations of $200 million in 2005 compared to net income of $212 million in the prior year. Net income from continuing operations in 2005 largely reflected the Enron litigation reserve recorded in the fourth quarter of 2005 and the negative impact of the stronger Canadian dollar on translation of U.S. dollar-denominated earnings. These factors were partially offset by reductions in non-interest expense related to our Client First Initiative and lower provision for credit losses reflecting improved credit conditions. The prior year included the Rabobank settlement costs. Net loss from discontinued operations of $50 million in 2005 compared to a net loss of $220 million in the prior year. The net loss in 2005 reflected charges related to the sale and wind-down of operations, including the costs of closing our Chicago office and certain branches, employee incentive payments and the writedown of certain assets. The prior year net loss of $220 million largely reflected the $130 million goodwill impairment charge related to RBC Mortgage Company.

Other international net income was down $177 million or 28% from 2004, mainly reflecting the $203 million reserve for estimated net claims from hurricanes Katrina, Rita and Wilma.

2004 vs. 2003

Net income from Canadian operations was $2,171 million, up $193 million or 10% from 2003. A majority of this increase came from the RBC Canadian Personal and Business segment, which reflected strong loan and deposit growth, significant revenue growth from the acquisition of the Canadian operations of UnumProvident, and a decline in the provision for credit losses. These positive factors were partially offset by higher non-interest expenses, largely benefit and variable compensation costs, and business realignment charges of $142 million recorded in the fourth quarter of 2004.

Net income from U.S. continuing operations was down $182 million or 46% from a year ago to $212 million, primarily as a result of the Rabobank settlement costs, lower returns in RBC Centura's investment portfolio, and the $29 million in business realignment charges.

Other international net income was $640 million in 2004, up $57 million or 10% from 2003, mainly reflecting a recovery of credit losses of $58 million compared to provisions for credit losses of $88 million in 2003.

Net loss from discontinued operations was $220 million compared to net income of $13 million in 2003. This loss primarily reflects the $130 million goodwill impairment charge recorded in 2004 and losses on the sale of mortgages.

QUARTERLY FINANCIAL INFORMATION

RESULTS AND TREND ANALYSIS

Our quarterly earnings, revenue and expenses are impacted by a number of trends and recurring factors, which include seasonality and general economic conditions.

Seasonality

The summer months (particularly July and August) are characterized by lower levels of capital markets activity, which affect the results of our brokerage and investment management businesses in the third and fourth quarters. Also, during the summer months, our non-interest expense is higher partially due to a seasonal increase in part-time staff. In addition, as the second quarter has three fewer days than the other quarters, our net interest income in particular is negatively impacted by this factor.

General economic conditions

The sustained low interest rate environment, strong employment levels and higher business and consumer confidence and spending have led to higher volumes in loans and deposits and growth in our insurance and wealth management businesses. In addition, many of our businesses are impacted by the credit cycle, which continued to remain favourable through 2005.

Quarterly results — **Table 11**

	2005				2004			
(C$ millions, except per share amounts)	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Net interest income	$ 1,757	$ 1,657	$ 1,662	$ 1,694	$ 1,604	$ 1,634	$ 1,560	$ 1,600
Non-interest income	3,058	3,281	3,027	3,079	2,966	2,874	2,882	2,682
Total revenue	$ 4,815	$ 4,938	$ 4,689	$ 4,773	$ 4,570	$ 4,508	$ 4,442	$ 4,282
Non-interest expense	3,329	2,741	2,664	2,654	2,734	2,675	2,682	2,742
Provision for (recovery of) credit losses	103	128	116	108	97	125	149	(25)
Insurance policyholder benefits, claims and acquisition expense	740	681	622	582	589	575	508	452
Business realignment charges	40	1	2	2	177	–	–	–
Net income before income taxes	$ 603	$ 1,387	$ 1,285	$ 1,427	$ 973	$ 1,133	$ 1,103	$ 1,113
Net income from continuing operations	543	1,001	916	977	687	771	759	806
Net income (loss) from discontinued operations	(21)	(22)	(9)	2	(173)	(28)	1	(20)
Net income	$ 522	$ 979	$ 907	$ 979	$ 514	$ 743	$ 760	$ 786
Earnings per share – basic	$ .80	$ 1.51	$ 1.40	$ 1.52	$ .79	$ 1.14	$ 1.16	$ 1.20
– diluted	$ .79	$ 1.48	$ 1.37	$ 1.50	$ .78	$ 1.12	$ 1.14	$ 1.18
Earnings per share from continuing operations – basic	$ .83	$ 1.54	$ 1.41	$ 1.52	$ 1.06	$ 1.18	$ 1.16	$ 1.23
– diluted	$ .82	$ 1.51	$ 1.38	$ 1.50	$ 1.05	$ 1.16	$ 1.14	$ 1.21

Trend analysis

Over the last eight quarters, net income has increased each quarter in 2005 as compared to the corresponding quarter in 2004. Contributing factors included: increasing total revenue, which is driven by increases in non-interest income primarily from growth in our insurance and wealth management businesses, and steadily decreasing non-interest expense, when expressed as a percentage of total revenue, due to our cost management efforts, which ensures business growth has a positive impact on net income. However, the earnings contribution of our U.S. businesses has been negatively impacted by the weakening of the U.S. dollar over the eight-quarter period.

The provision for credit losses generally decreased through 2004 mainly due to the reversal of the general allowance in the first and fourth quarters of 2004.

Insurance policyholder benefits, claims and acquisition expense has risen over the eight-quarter period, reflecting the growth in all our insurance businesses, including disability insurance, which has included UnumProvident since May 1, 2004. The significant increase in the fourth quarter of 2005 reflects the impact of reserves for estimated net claims related to hurricanes Katrina, Rita and Wilma.

FOURTH QUARTER 2005 PERFORMANCE

Q4 2005 vs. Q4 2004

Net income of $522 million increased by $8 million or 2% compared to the prior year. The current quarter results included reserves for Enron litigation of $591 million ($326 million after-tax) and for estimated net claims related to hurricanes Katrina, Rita and Wilma of $203 million (before- and after-tax). The results a year ago included business realignment charges of $192 million ($125 million after-tax) and a $130 million (before- and after-tax) goodwill impairment charge related to RBC Mortgage Company, which was classified as discontinued operations in 2005. Diluted EPS were $.79, up 1%. Return on common equity of 10.6% was down 70 basis points.

Continuing operations

Net income from continuing operations for the fourth quarter was $543 million, down 21% from a year ago. The decrease largely reflects the reserves recorded in the quarter for the Enron litigation and for the estimated net claims related to hurricanes Katrina, Rita and Wilma. The decrease was partially offset by solid revenue growth across most of our businesses and lower business realignment charges. Diluted EPS were $.82, down $.23 or 22%. ROE was 10.9%, down 420 basis points from a year ago.

Total revenue increased $245 million or 5% from a year ago reflecting solid growth across our lending, deposit and wealth management businesses due to our growth initiatives and favourable North American business conditions. These factors were partially offset by the negative impact of the strengthening of the Canadian dollar on the translation of U.S. dollar-denominated revenue.

Non-interest expense increased $595 million or 22% from a year ago, largely due to the Enron litigation reserve of $591 million.

Insurance policyholder benefits, claims and acquisition expense increased by $151 million or 26% over the prior year, which mainly reflects the reserves for estimated net claims related to hurricanes Katrina, Rita and Wilma, which were partially offset by a net reduction in reserves of $74 million, largely resulting from the combination of improved disability incidence experience, and the unfavourable impact of the decrease in long-term interest rates and other factors.

Discontinued operations

The net loss for discontinued operations of $21 million in the fourth quarter of 2005 compared to a net loss of $173 million a year ago. The current quarter loss includes operations prior to the sale of certain assets of RBC Mortgage Company to Home123 Corporation on September 2, 2005, as well as charges related to the sale and wind-down of operations. The prior year loss included a goodwill impairment charge of $130 million (before- and after-tax), losses on the sale of mortgages and business realignment charges of $15 million.

BUSINESS SEGMENT RESULTS FROM CONTINUING OPERATIONS

Results by business segment **Table 12**

(C$ millions)	2005 RBC Canadian Personal and Business	2005 RBC U.S. and International Personal and Business	2005 RBC Capital Markets	2005 Corporate Support	2005 Total	2004 Total	2003 Total
Net interest income	$ 5,381	$ 1,098	$ 466	$ (175)	$ 6,770	$ 6,398	$ 6,336
Non-interest income	7,169	1,725	3,409	142	12,445	11,404	10,652
Total revenue	$ 12,550	$ 2,823	$ 3,875	$ (33)	$ 19,215	$ 17,802	$ 16,988
Non-interest expense	5,872	2,226	3,257	33	11,388	10,833	10,165
Provision (recovery) for credit losses	542	51	(91)	(47)	455	346	721
Insurance policyholder benefits, claims and acquisition expense	2,625	–	–	–	2,625	2,124	1,696
Business realignment charges (reversals)	7	(2)	1	39	45	177	–
Net income before income taxes and non-controlling interest	$ 3,504	$ 548	$ 708	$ (58)	$ 4,702	$ 4,322	$ 4,406
Net income from continuing operations	$ 2,337	$ 395	$ 725	$ (20)	$ 3,437	$ 3,023	$ 2,955
Return on equity (ROE) (1)	27.5%	12.0%	17.4%	(.9)%	18.1% (2)	16.8% (2)	16.7% (2)
Return on risk capital (RORC) (1)	39.6%	19.9%	22.8%	n.a.	29.7%	26.5%	26.4%
Average assets	$ 167,200	$ 37,800	$ 229,200	$ 11,100	$ 445,300	$ 418,200	$ 387,700

(1) Business segment return on equity and return on risk capital are non-GAAP financial measures. Refer to the Key financial measures (non-GAAP) section for further discussion and reconciliation.
(2) Return on common equity.
n.a. not available

RBC Canadian Personal and Business net income was $2,337 million, up $285 million or 14% from a year ago, mainly due to strong revenue growth in all of our business lines, which was partially offset by the impact of reserves for estimated net claims related to hurricanes Katrina, Rita and Wilma and higher costs in support of the increased sales and service personnel in our Canadian distribution network.

ROE was 27.5%, up 270 basis points from the previous year, primarily due to the increase in net income. The increase was partially offset by an increase in average attributed equity mainly due to loan growth.

RBC U.S. and International Personal and Business net income from continuing operations increased $153 million or 63% from 2004, reflecting strong earnings growth in both our *Banking* and *Wealth Management* operations, despite a $34 million reduction in net income due to the negative impact of the stronger Canadian dollar on the translation of U.S. dollar-denominated earnings.

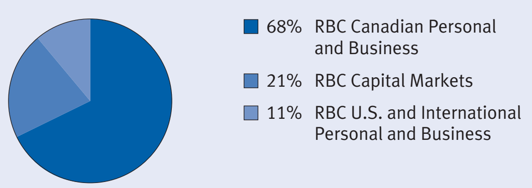
Return on equity of 12.0% in 2005 increased 580 basis points over the prior year, largely due to the increase in net income and a reduction in average attributed equity due to lower balances of goodwill and intangibles.

RBC Capital Markets net income decreased $76 million or 9% over the same period a year ago, primarily due to the Enron litigation reserve of $591 million ($326 million after-tax). The effect of the lower translated value of U.S. dollar- and British pound-denominated earnings due to the relative strengthening of the Canadian dollar also contributed to the decline. This decrease was partially offset by moderate revenue growth, a lower effective tax rate, lower compensation costs and the Rabobank settlement costs incurred in the prior year.

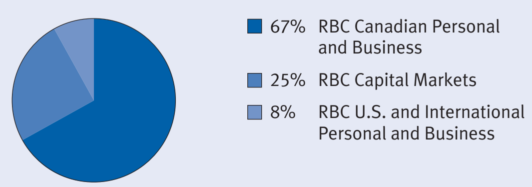
ROE was 17.4%, down 160 basis points from the previous year, primarily due to the decrease in earnings. Attributed equity remained stable during the year.

Corporate Support net loss for the year of $20 million largely reflected business realignment charges of $39 million and mark-to-market losses on derivatives relating to certain hedges, which were partially offset by increased securitization activity and interest refunds relating to the resolution of disputed tax items for the 1993 to 1998 tax periods.

2005 Net income contribution from business segments



2004 Net income contribution from business segments



How we manage our business segments

Our management reporting processes measure the performance of our segments based on our management structure and are not necessarily comparable with similar information for other financial services companies. Operating revenue and expenses directly associated with each segment are included in the operating segment results. We use a management reporting model that includes various assumptions, estimates and methodologies for transfer pricing of funds, attribution of capital, cost transfers and other items, to measure business segment results. These assumptions and methodologies are periodically reviewed by management to ensure they remain valid. 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, detailed in the Capital management section, involve a number of assumptions and judgments that are revised periodically. Any changes to the methodologies, assumptions or judgments directly impact other measures such as business segment return on equity and return on risk capital.

Performance and non-GAAP measures

We measure and evaluate the performance of our consolidated operations and each business segment using a number of financial metrics such as net income, return on average common equity (ROE) and return on average risk capital (RORC). Management also assesses the performance of RBC Capital Markets using revenue on a taxable equivalent basis. While net income is in accordance with GAAP, the others are non-GAAP financial measures. The measures reported that are not defined by GAAP do not have standardized meanings and may not be comparable to similar measures used by other companies.

Return on equity and Return on risk capital

We use ROE and RORC, at both the consolidated and segment levels, as a measure of return on total capital invested in our businesses. Our consolidated ROE calculation is based on net income available to common shareholders divided by total average common equity for the period. Business segment ROE calculations are based on net income available to common shareholders divided by average attributed equity for the period. For each segment average attributed equity is based on attributed risk capital and amounts invested in goodwill and intangibles (1). In the second quarter of 2005, goodwill was reallocated, in accordance with GAAP. For segment reporting purposes the unattributed equity is reported in the Corporate Support segment.

GAAP does not prescribe a methodology for attributing equity or risk capital to business segments or for computing segment ROE or RORC, and there is no generally accepted methodology for doing so.

Such attributions involve the use of assumptions, judgments and methodologies that are regularly reviewed and revised as deemed necessary. The attribution of risk capital is based on certain assumptions, judgments and models that quantify economic risks as described in the Economic Capital section. Changes to such assumptions, judgments and methodologies can have a material effect on the segment ROE and RORC information that we report. Other companies that disclose information on similar attributions and related return measures may use different assumptions, judgments and methodologies.

In 2005, we initiated the use of RORC at both the consolidated and business segment levels, to measure returns on capital required to support the risks related to ongoing operations. Our RORC calculations are based on net income available to common shareholders divided by attributed risk capital (which excludes goodwill and intangibles and unattributed equity). The business segment ROE and RORC measures are viewed as useful measures for supporting investment and resource allocation decisions because they adjust for certain items that may affect comparability between business segments and certain competitors. Table 13 provides a reconciliation of the RORC calculations.

(1) For internal allocation and measurement purposes, total attributed equity is deemed by management to be comprised of amounts necessary to support the risks inherent in the businesses (risk capital) and amounts related to historical investments (goodwill and intangibles). Total risk capital and goodwill and intangibles are referred to as attributed capital as well as Economic Capital. The difference between total average common equity and average attributed equity is classified as unattributed and reported in the Corporate Support segment, for segment reporting purposes.

Return on equity and Return on risk capital reconciliation — **Table 13**

	2005						
(C$ millions) (1), (2)	RBC Canadian Personal and Business	RBC U.S. and International Personal and Business	RBC Capital Markets	Corporate Support	Total (2)	2004 Total (2)	2003 Total (2)
Net income (loss) from continuing operations	$ 2,337	$ 395	$ 725	$ (20)	$ 3,437	$ 3,023	$ 2,955
Net income (loss) from discontinued operations (2)	–	–	–	–	(50)	(220)	13
Net income (loss)	$ 2,337	$ 395	$ 725	$ (20)	$ 3,387	$ 2,803	$ 2,968
less: Preferred dividends (3)	(18)	(6)	(9)	(5)	(38)	(31)	(31)
Net income (loss) available to common shareholders	$ 2,319	$ 389	$ 716	$ (25)	$ 3,349	$ 2,772	$ 2,937
Average equity	$ 8,450	$ 3,250	$ 4,100	$ 2,800	$ 18,600	$ 17,800	$ 17,550
less: Unattributed equity	–	–	–	2,300	2,300	1,100	1,000
less: Goodwill and intangible capital	2,600	1,300	950	–	4,850	5,400	5,550
Average risk capital (4)	$ 5,850	$ 1,950	$ 3,150	$ 500	$ 11,450	$ 11,300	$ 11,000
Return on equity (ROE)	27.5%	12.0%	17.4%	(.9)%	18.0%	15.6%	16.7%
Return on risk capital (RORC)	39.6%	19.9%	22.8%	n.a.	29.3%	24.6%	26.5%

(1) The average risk capital, goodwill and intangible capital, average attributed equity and average equity figures shown above and throughout this document represent rounded figures. These amounts are calculated using month-end balances for the period. The ROE and RORC measures shown above and throughout this document are based on actual balances before rounding.
(2) Business segment return on equity and RORC are calculated on a continuing basis only. Total (consolidated) return on common equity and RORC include continuing and discontinued operations.
(3) Preferred dividends include a net gain on redemption of preferred shares.
(4) Average risk capital includes credit, market (trading and non-trading), insurance, operational, business and fixed assets risk capital. For further details refer to the Capital management section.
n.a. not available

Results excluding Enron litigation reserve

The following table provides a reconciliation of non-interest expense, income taxes, net income, and diluted EPS for continuing operations and consolidated results.

We believe that these non-GAAP financial measures provide investors with supplemental information that may be useful to them in understanding our ongoing operations. These and certain other non-GAAP financial measures facilitate analysis of our financial performance without the impact of certain items that may obscure underlying trends.

Results excluding Enron litigation reserve — **Table 14**

	RBC Consolidated		
(C$ millions, except per share amounts) For the year ended October 31, 2005	GAAP	Enron litigation reserve	Excluding Enron litigation reserve
Continuing operations			
Non-interest expense	$ 11,388	$ 591	$ 10,797
Income taxes	1,278	265	1,543
Net income from continuing operations	$ 3,437	$ 326	$ 3,763
Net loss from discontinued operations	$ (50)	$ –	$ (50)
Net income	$ 3,387	$ 326	$ 3,713
Diluted earnings per share from continuing operations	$ 5.21	$ .50	$ 5.71
Diluted earnings per share	$ 5.13	$ .50	$ 5.63

Taxable equivalent basis

Starting in the third quarter of 2005, net interest income, revenue and net income before income taxes have also been reported on a taxable equivalent basis (teb) in our RBC Capital Markets segment. Total revenue and net interest margin at the consolidated level (1) are also presented on a taxable equivalent basis to reflect the RBC Capital Markets taxable equivalent basis adjustment. These taxable equivalent basis amounts and ratios are non-GAAP measures. The taxable equivalent basis adjustment grosses up net interest income from Canadian taxable dividends to their effective taxable equivalent value. These amounts have been increasing over the last three years in conjunction with our expansion of certain trading strategies and businesses. We believe this adjustment increases the comparability of revenue and related ratios across taxable and tax-advantaged sources and enables a more meaningful comparison with other financial institutions. However, it should be noted that tax-advantaged sources may not be similarly adjusted at other financial institutions, potentially limiting the usefulness of this comparison.

The following table provides a reconciliation of total revenue, net interest income and net income before income taxes on a taxable equivalent basis for the RBC Capital Markets segment.

(1) The consolidated measures only reflect related adjustments in the RBC Capital Markets segment as the other segments do not undertake activities that we include in this measure.

Revenue reconciliation for RBC Capital Markets — **Table 15**

	2005		2004		2003	
(C$ millions)	GAAP	teb	GAAP	teb	GAAP	teb
Net interest income	$ 466	$ 466	$ 772	$ 772	$ 576	$ 576
Tax equivalent basis (teb) adjustment	–	109	–	55	–	35
Net interest income	$ 466	$ 575	$ 772	$ 827	$ 576	$ 611
Non-interest income	3,409	3,409	3,048	3,048	3,135	3,135
Total revenue	$ 3,875	$ 3,984	$ 3,820	$ 3,875	$ 3,711	$ 3,746
Net income before income taxes	$ 708	$ 708	$ 1,070	$ 1,070	$ 1,080	$ 1,080
Taxable equivalent basis (teb) adjustment	–	109	–	55	–	35
Net income before income taxes	$ 708	$ 817	$ 1,070	$ 1,125	$ 1,080	$ 1,115

RBC CANADIAN PERSONAL AND BUSINESS

- **Net income increased by $285 million or 14% reflecting strong revenue growth across all business lines.**
- **Volume growth across all our business lines.**
- **Recorded a charge of $203 million related to estimated net claims for hurricanes Katrina, Rita and Wilma.**

The RBC Canadian Personal and Business segment consists of our banking and wealth management businesses in Canada and our global insurance businesses. This segment provides financial products and services to over 13 million individual and business clients through our extensive branch, automated banking machine, online and telephone banking networks, as well as through a large number of proprietary sales forces and investment advisors in addition to a wide-ranging third-party network of independent insurance distributors. This segment is comprised of *Personal Banking*, *Business and Commercial Banking, Cards and Payment Solutions, Wealth Management* and *Global Insurance*.

Strategy

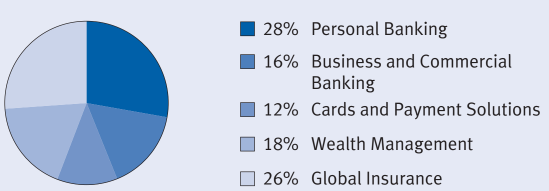
In 2005, we focused on the following three key strategies to help achieve our goals and to distance ourselves from our competitors:

- Building upon our distribution capabilities, breadth of products and services and client insights;
- Focusing on delivering a superior client experience by providing better, faster and more responsive services to our clients; and
- Leveraging our leading positions in banking, wealth management and insurance to develop key growth areas and enhance relationships with key client groups.

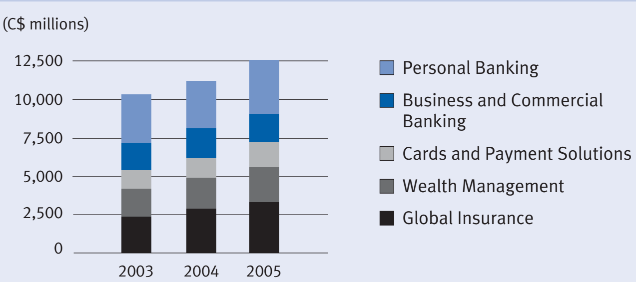
Economic and market review

In Canada, strong economic performance was driven by low interest rates, solid business and household balance sheets and employment gains, which resulted in increased demand for consumer and business loans and related financing products and favourable credit conditions. Our deposit business remains pressured due to the low interest rates and competition from niche players. Strong capital markets during the year benefited the wealth management business as transaction volumes and client assets continued to increase.

2005 Revenue by business line



Revenue by business line



RBC Canadian Personal and Business financial performance — Table 16

(C$ millions, except percentage amounts)	2005	2004	2003
Net interest income	$ 5,381	$ 4,870	$ 4,784
Non-interest income	7,169	6,353	5,573
Total revenue	$ 12,550	$ 11,223	$ 10,357
Non-interest expense	5,872	5,630	5,379
Provision for credit losses (PCL)	542	410	482
Insurance policyholder benefits, claims and acquisition expense	2,625	2,124	1,696
Business realignment charges	7	63	–
Net income before income taxes (1)	$ 3,504	$ 2,996	$ 2,800
Net income	$ 2,337	$ 2,052	$ 1,844
Key ratios			
Return on equity (ROE) (2)	27.5%	24.8%	22.3%
Return on risk capital (RORC) (2)	39.6%	37.7%	34.3%
Net interest margin (NIM)	3.22%	3.20%	3.43%
Operating leverage (excluding Global Insurance) (3)	6.0%	(.4)%	.1%
Selected balance sheet data (average balances)			
Total assets	$ 167,200	$ 152,200	$ 139,600
Deposits	138,800	133,700	126,400
Attributed equity (2)	8,450	8,200	8,200
Risk capital (2)	5,850	5,400	5,350
Credit information			
Gross impaired loans (GILs)	$ 495	$ 633	$ 743
GILs as a % of average loans and acceptances	.33%	.46%	.59%
Specific PCL as a % of average loans and acceptances	.36%	.35%	.38%
Other information			
Number of employees (full-time equivalent)	27,045	27,366	27,199

(1) Net income before income taxes and non-controlling interest.
(2) Average attributed equity and Return on equity are calculated using month-end balances for the period. Segment Return on equity, Average risk capital and Return on risk capital are non-GAAP financial measures. Refer to the Key financial measures (non-GAAP) section for further discussion.
(3) Defined as the difference between revenue growth rate and non-interest expense growth rate for the segment excluding Global Insurance due to the nature of its business.

2005 vs. 2004

Net income increased $285 million or 14% from a year ago. The increase was mainly due to strong revenue growth across all of our business lines, which was partially offset by the impact of reserves for estimated net claims related to hurricanes Katrina, Rita and Wilma and higher costs in support of the increased sales and service personnel in our Canadian branch network. Higher provisions for credit losses largely reflecting a $78 million reversal of general allowance that was recorded in the prior period, also offset the increase.

Total revenue increased by $1,327 million or 12% over the prior year largely due to strong growth in our disability insurance business, which has included UnumProvident since May 1, 2004, and higher volumes in lending and deposits. The increase also resulted from robust mutual fund sales, increased brokerage and investment management fees related to higher client assets, transaction volumes and higher service fees.

Non-interest expense increased by $242 million or 4% primarily due to higher levels of sales and service personnel in our distribution network, increased variable compensation due to strong business performance and higher benefit costs. Higher advertising and new program costs in support of our business growth also contributed to the increase.

The increase of $132 million in the provision for credit losses largely reflects a $78 million reversal of general allowances that was recorded in the first quarter of 2004 and higher provisions commensurate with higher loan volumes.

Insurance policyholder benefits, claims and acquisition expense increased $501 million or 24% over the prior year. This increase was due to higher business volumes in the disability insurance business, which has included UnumProvident since May 1, 2004, and the impact of reserves for estimated net claims related to hurricanes Katrina, Rita and Wilma.

Average assets increased by $15 billion or 10% largely due to the strong growth in loans over the prior year, which was driven largely by the low interest rate environment in 2005, solid business and household balance sheets and employment gains.

2004 vs. 2003

Net income increased $208 million or 11% from a year ago mainly reflecting strong volume growth in loans and deposits and lower provisions for credit losses, which were offset by higher benefit and other compensation costs.

Total revenue increased by $866 million or 8% over the prior year, as strong growth in loans and deposits and higher fee income were partly offset by a narrower net interest margin. Growth in our disability insurance business, which has included UnumProvident since May 1, 2004, stronger credit card revenue due to higher spending volumes and higher mutual fund revenue due to higher net sales and capital appreciation also contributed to the increase.

Non-interest expense increased by $251 million or 5% due to higher benefit costs primarily reflecting pension and postretirement benefit expenses and other compensation costs.

Provision for credit losses decreased by $72 million or 15% reflecting the $78 million reversal of the general allowance in 2004.

Insurance policyholder benefits, claims and acquisition expense increased $428 million or 25% over 2003, due to higher volumes in the disability insurance business, which included UnumProvident for six months in 2004. This was partially offset by lower costs associated with the loss of revenue from a non-renewed block of reinsurance business in 2004.

2006 Outlook and priorities

The Canadian economy continues to be robust as employment rates remain at near record highs. We expect the Bank of Canada to continue to increase interest rates in a measured fashion in light of the strong economic fundamentals and the increasing degree of excess demand in order to keep core inflation close to the target rate of 2%. Given the rising interest rate environment, we believe that housing construction is past its peak and is moving back into line with a more sustainable long-run performance. Fuelled by a low inflation environment, a more accommodative monetary policy and sharply higher commodity prices, real GDP growth is expected to increase from 2.9% in 2005 to 3.4% in 2006.

Our key priorities for 2006 include:

- Optimizing our extensive distribution capabilities to provide our clients with the right product through the right channel at the right time;
- Simplifying structures and streamlining processes for everything from account openings to credit approvals in order to reduce duplication and overlap to make it easier for our clients to do business with us; and
- Expanding and focusing on areas that offer above-average growth potential such as insurance, asset management, credit cards, brokerage, and key markets to accelerate revenue growth.

BUSINESS LINE REVIEW

PERSONAL BANKING

Personal Banking focuses on meeting the needs of our individual clients at every stage of their lives through a wide range of products and services including home equity and automotive financing, personal loans and lines of credit, as well as core deposit accounts.

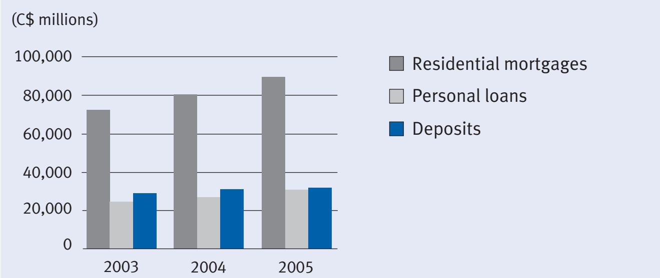
Personal Banking revenue increased by $315 million or 10% over the prior year due to strong demand for credit, supported by the low interest rate environment, strong household balance sheets and employment gains. These conditions drove average personal loans higher by 13%. The strong housing market contributed to an increase in average residential mortgage balances of 11% over the prior year. Average deposit balances grew by 4% over the prior year despite an increasingly competitive market.

Selected highlights — **Table 17**

(C$ millions)	2005	2004	2003
Total revenue	$ 3,432	$ 3,117	$ 3,122
Average residential mortgages (1)	89,500	80,300	72,600
Average personal loans	30,600	27,000	24,200
Average deposits	31,900	30,800	28,700
Number of new accounts opened (thousands)	740	715	662

(1) Includes loans originated and serviced by RBC Royal Bank that have been securitized.

Average residential mortgages, personal loans and deposits



BUSINESS AND COMMERCIAL BANKING

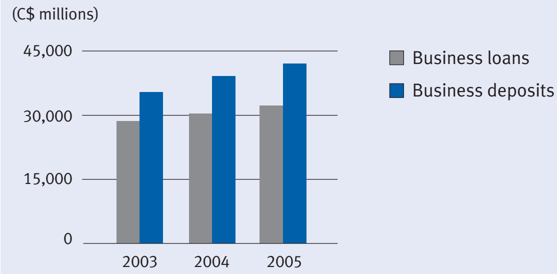
Business and Commercial Banking offers a wide range of lending, leasing, deposit and transaction products and services to small and medium-sized businesses, and commercial, farming and agriculture clients across Canada. Trade-related products, services and counsel are also provided to Canadian and international clients to assist them in the conduct of their import and export operations domestically and around the globe.

Business and Commercial Banking revenue increased by $129 million or 7% over the prior year largely reflecting strong business deposit and loan growth. Average business loans and average business deposits each grew by 8%, underpinned by favourable economic conditions.

Selected highlights — **Table 18**

(C$ millions)	2005	2004	2003
Total revenue	$ 2,004	$ 1,875	$ 1,849
Average business loans	32,400	30,100	28,800
Average business deposits	42,400	39,200	35,800

Average business loans and deposits



CARDS AND PAYMENT SOLUTIONS

Cards and Payment Solutions provides a wide array of convenient and customized credit cards and related payment products and solutions.

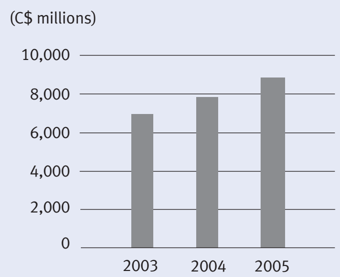
Cards and Payment Solutions revenue increased by $172 million or 13% over the prior year due to increased new clients as a result of our ongoing initiatives to enhance our competitive offerings. These efforts resulted in strong growth in average card balances of 11%. We also experienced strong growth in net purchase volumes of 17% reflecting continued consumer confidence.

Selected highlights — **Table 19**

(C$ millions)	2005	2004	2003
Total revenue	$ 1,522	$ 1,350	$ 1,170
Average card balances (1)	8,800	7,900	6,900

(1) Includes loans originated and serviced by RBC Royal Bank that have been securitized.

Average credit card balances



WEALTH MANAGEMENT

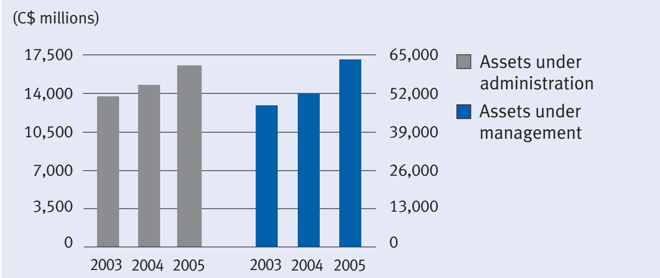
Wealth Management provides investment and trust products and services through our branch network of licensed mutual fund salespeople, as well as through full-service and self-directed brokerage, asset management, trust services, investment counselling and private banking.

Wealth Management revenue increased by $279 million or 14% over the prior year as a result of strong mutual fund and full-service brokerage performance. Long-term mutual fund sales were at record levels throughout the year and coupled with strong capital appreciation resulted in Assets under management increasing 22%. Full-service brokerage benefited from strong capital market performance and contributed to the 13% increase in Assets under administration.

Selected highlights — Table 20

(C$ millions)	2005	2004	2003
Total revenue	$ 2,290	$ 2,011	$ 1,860
Long-term mutual fund net sales	6,077	3,882	365
Assets under administration	166,200	147,600	136,900
Assets under management	63,100	51,900	47,900

Assets under administration and management



GLOBAL INSURANCE

Global Insurance offers a wide range of life, creditor, health, travel, home and auto insurance products and services to individual and business clients in Canada and the U.S., as well as reinsurance for clients around the world. These products and services are offered through a wide variety of distribution channels, including the telephone, independent brokers, travel agents, a proprietary sales force and the Internet.

Net income before income taxes decreased by $60 million or 25% primarily reflecting the net reserves of $203 million (before- and after-tax) for estimated claims from hurricanes Katrina, Rita and Wilma. This was partially offset by business growth, improved claims experience in the individual disability, property and casualty business and the impact of the sale of Liberty Insurance Services which occurred in the first quarter of 2005.

Total revenue increased by 15% over the prior year, reflecting growth in our disability business, which has included UnumProvident since May 1, 2004, and growth in other lines of business, partially offset by the sale of Liberty Insurance Services.

Non-interest expense was flat compared to 2004. Lower costs due to the sale of Liberty Insurance Services in the first quarter of 2005, as well as savings from the Client First Initiative, were offset by growth in our disability insurance business, which has included UnumProvident since May 1, 2004.

Insurance policyholder benefits, claims and acquisition expense increased $501 million or 24% over the prior period primarily due to higher business volumes in the disability insurance business, which has included UnumProvident since May 1, 2004, and the impact of estimated net claims for hurricanes Katrina, Rita and Wilma. Net increases in Life insurance reserves reflecting decreases in long-term interest rates, a change in the tax treatment of certain invested assets and higher policy maintenance costs also contributed to the increase. These items were partially offset by a net decrease in Health insurance reserves attributable to improved disability claims and termination experience.

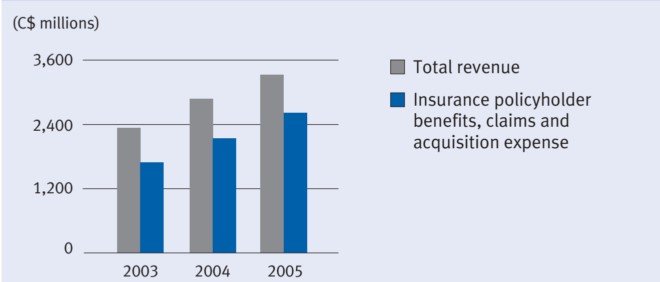
Insurance claims and policy benefit liabilities increased 10% over the prior year. The primary factors were business growth and the net increase in our Reinsurance reserves, which mainly reflected estimated net claims related to hurricanes Katrina, Rita and Wilma. In addition, as a result of certain actuarial claim and termination studies and review of various actuarial assumptions completed during the year we also recorded a net decrease of $54 million of insurance reserves. This amount 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.

Selected highlights — Table 21

(C$ millions)	2005	2004	2003
Total revenue	$ 3,302	$ 2,870	$ 2,356
Non-interest expense	501	501	483
Insurance policyholder benefits, claims and acquisition expense	2,625	2,124	1,696
Net income before income taxes	177	237	177
Insurance claims and policy benefit liabilities	7,117	6,488	4,775
Other selected information (in thousands)			
Canadian life and health policies in force and certificates (1)	2,245	2,203	1,555
U.S. life policies in force	1,860	1,976	2,185
Home and auto – personal lines policies in force	233	193	132
Travel-coverages	2,323	2,121	2,388

(1) Excludes Accidental Death and Dismemberment no longer marketed.

Global Insurance revenue and insurance policyholder benefits, claims and acquisition expense



RBC U.S. AND INTERNATIONAL PERSONAL AND BUSINESS (CONTINUING OPERATIONS)

- **Net income of $395 million in 2005 increased 63% over the prior year, reflecting strong improvement in earnings across all businesses.**
- **Significant progress was made in repositioning our U.S. banking operations, with RBC Centura generating both strong revenue growth and cost savings in U.S. dollar terms.**
- **Continued progress in executing on our Wealth Management strategies led to strong earnings growth at RBC Dain Rauscher and Global Private Banking.**

The RBC U.S. and International Personal and Business segment consists of banking and retail brokerage businesses in the U.S., banking in the Caribbean, and private banking internationally. This segment is comprised of *Wealth Management*, which includes Global Private Banking and certain activities of RBC Dain Rauscher (the fixed income business is reported in RBC Capital Markets as part of its *Global Markets*) and *Banking*, which includes our U.S. and Caribbean banking operations.

Strategy

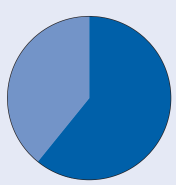
Building on our strengths in banking and wealth management in the United States and Caribbean and private banking globally, our strategy is to:

- Leverage the global resources of RBC to develop local solutions for our individual and business clients;
- Focus on businesses, business owners and professionals to build a leading banking position in the Southeast U.S. market;
- Enhance our market position in the Caribbean; and
- Develop a broad range of integrated advisory and balance sheet solutions for wealth management clients across the U.S. and globally.

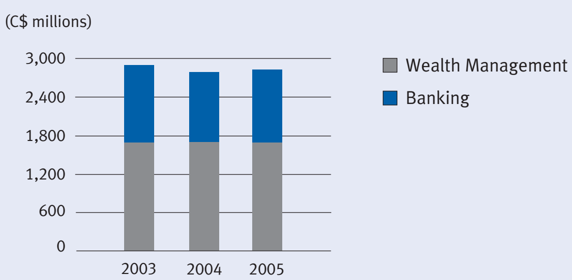
Economic and market review

The U.S. economy experienced solid growth in 2005 and relatively low interest rates by historical standards, although interest rates did continue to rise during the year. These conditions supported demand for consumer and business loans, as well as the credit quality of our loan portfolio. The U.S.-based equity market indices increased during 2005, although retail investor trading activity became relatively flat in the second half of the year. Internationally, solid economic growth in many regions, including the Caribbean, supported loan and deposit growth.

2005 Revenue by business line



Revenue by business line



RBC U.S. and International Personal and Business financial performance — Table 22

(C$ millions, except percentage amounts)	2005	2004	2003
Net interest income	$ 1,098	$ 1,019	$ 1,119
Non-interest income	1,725	1,767	1,780
Total revenue	$ 2,823	$ 2,786	$ 2,899
Non-interest expense	2,226	2,360	2,348
Provision for credit losses (PCL)	51	80	78
Business realignment charges	(2)	23	–
Net income before income taxes (1)	$ 548	$ 323	$ 473
Net income	$ 395	$ 242	$ 340
Key ratios			
Return on equity (ROE) (2)	12.0%	6.2%	9.4%
Return on risk capital (RORC) (2)	19.9%	10.4%	16.9%
Selected balance sheet data (average balances)			
Total assets	$ 37,800	$ 37,200	$ 38,100
Loans and acceptances	20,500	18,800	18,800
Deposits	33,300	33,100	32,100
Attributed equity (2)	3,250	3,800	3,550
Risk capital (2)	1,950	2,300	1,950
Credit information			
Gross impaired loans as a % of average loans and acceptances	.79%	1.17%	1.14%
PCL as a % of average loans and acceptances	.25%	.43%	.41%
Other information			
Number of employees (full-time equivalent)	10,569	10,698	10,134

(1) Net income before income taxes and non-controlling interest.
(2) Average attributed equity and Return on equity are calculated using month-end balances for the period. Segment Return on equity, Average risk capital and Return on risk capital are non-GAAP financial measures. Refer to the Key financial measures (non-GAAP) section for further discussion.

Impact of USD translation on selected items

	2005 vs. 2004	2004 vs. 2003
Total revenue (lower) higher	$ (195)	$ (204)
Wealth Management (lower) higher	(118)	(133)
Banking (lower) higher	(77)	(71)
Non-interest expense lower (higher)	147	178
Net income (lower) higher	(34)	(18)

2005 vs. 2004

Net income increased $153 million or 63% from 2004, mainly reflecting strong earnings growth in both our *Banking* and *Wealth Management* operations, despite the negative impact of the strengthening of the Canadian dollar on translation of U.S. dollar-denominated earnings, which reduced the converted value of net income by $34 million. The prior year included $23 million ($14 million after-tax) of business realignment charges in the fourth quarter.

Revenue increased 1% (10% in U.S. dollars) over the prior year. *Wealth Management* revenue increased 1% (9% in U.S. dollars) largely due to higher investment management fees, the favourable effect of the positive mark-to-market of securities and derivatives held to economically hedge the stock-based compensation plan at RBC Dain Rauscher and higher private banking net interest income. These items were partially offset by weaker brokerage revenue from client trading. *Banking* revenue improved 2% (11% in U.S. dollars) primarily as a result of strong loan and deposit growth, which was partially offset by the $35 million gain from the sale of our merchant acquiring card portfolio to Moneris recorded in the prior year.

Non-interest expense declined 6% (increased 2% in U.S. dollars), primarily reflecting the positive impact of the stronger Canadian dollar on the translation of the U.S. dollar-denominated expenses and the $33 million valuation allowance recorded in the prior period relating to certain mortgage loans believed to have been fraudulently originated in 2001 and 2002. Ongoing cost-containment efforts also contributed to the decrease. The decrease in expenses was partially offset by an increase in stock-based compensation, reflecting strong stock appreciation and higher variable compensation on better performance of our core businesses.

Provision for credit losses decreased $29 million or 36% largely reflecting improved credit quality of our loan portfolio and favourable economic conditions.

2004 vs. 2003

Net income declined $98 million or 29% from 2003, mainly reflecting an earnings decline in our U.S. banking operations.

Revenue declined 4% (increased 5% in U.S. dollars) from the prior year. *Wealth Management* revenue increased 1% (10% in U.S. dollars), reflecting stronger brokerage activity both at RBC Dain Rauscher and Global Private Banking. *Banking* revenue declined 10% (decreased by 2% in U.S. dollars), as strong loan growth at RBC Centura was more than offset by lower returns in our investment portfolio and the negative impact of the stronger Canadian dollar on the translation of U.S. dollar-denominated revenue.

Non-interest expense increased 1% (10% in U.S. dollars), reflecting higher staff costs, particularly variable compensation, and the $33 million valuation allowance noted above, largely offset by the positive impact of the stronger Canadian dollar on the translation of U.S. dollar-denominated expenses.

2006 Outlook and priorities

We expect solid economic conditions in the U.S. and internationally will continue to support growth in each of our businesses. In addition, our focus on revenue and cost management initiatives should also yield favourable results.

Our key priorities for 2006 are to:

- Significantly enhance RBC Centura's performance through continued implementation of its local accountability model, optimization and transformation initiatives, and business and commercial banking strategies;
- Build on our solid Caribbean results, by deepening client relationships;
- Accelerate growth at RBC Dain Rauscher, focusing on its primary financial advisor strategy, enhanced wealth management solutions and financial consultant hiring and retention; and
- Continue to grow Global Private Banking through its integrated service model, added distribution and expanded product offerings.

BUSINESS LINE REVIEW

WEALTH MANAGEMENT

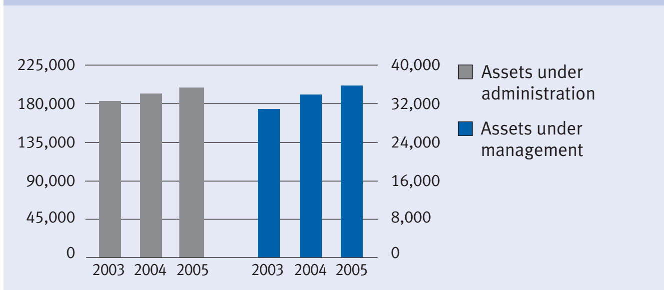
Wealth Management offers investment, advisory and asset management services to individuals, and clearing and execution services to small and mid-sized independent broker-dealers and institutions in the U.S. through RBC Dain Rauscher. Internationally, Global Private Banking provides high net worth individuals and corporate clients with private banking and credit, trust services, discretionary investment management, full-service brokerage and global custody and fund administration.

Revenue in 2005 increased 1% (9% in U.S. dollars) compared to the prior year, as higher investment management fees, the favourable effect of the positive mark-to-market of securities and derivatives held to economically hedge the stock-based compensation plan at RBC Dain Rauscher and higher private banking net interest income were largely offset by the negative impact of the stronger Canadian dollar on the translation of U.S. dollar-denominated revenue and lower brokerage revenue from client trading. Assets under administration and assets under management were flat and 2% higher, respectively (increased 3% and 6% in U.S. dollars, respectively) over 2004, reflecting continued execution of our strategy to deliver relationship-based, integrated, wealth management solutions, offset by the negative impact of the stronger Canadian dollar on the translation of U.S. dollar- and British pound-denominated assets.

Selected highlights — Table 23

(C$ millions)	2005	2004	2003
Total revenue	$ 1,708	$ 1,694	$ 1,685
Other information			
Assets under administration	$ 234,300	$ 233,700	$ 241,200
Assets under management	42,300	41,300	40,500

Assets under administration and management (US$ millions)



BANKING

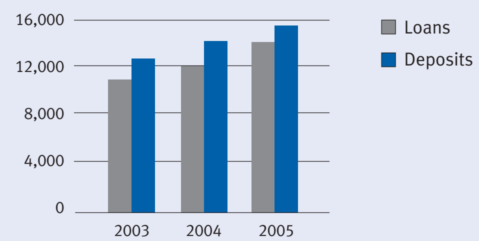
Banking comprises our U.S. and Caribbean banking operations. These businesses offer a broad range of banking products and services to personal and business clients in their respective markets.

Banking revenue in 2005 increased 2% (11% in U.S. dollars) over the prior year, despite the negative impact of the stronger Canadian dollar on the translation of U.S. dollar-denominated revenue, which reduced the converted value of revenue and the $35 million gain from the sale of our merchant acquiring card portfolio to Moneris recorded in the first quarter of 2004. This growth was primarily driven by strong loan and deposit growth (16% and 9%, respectively) in U.S. dollar terms, particularly at RBC Centura.

Selected highlights — Table 24

(C$ millions)	2005	2004	2003
Total revenue	$ 1,115	$ 1,092	$ 1,214
Selected balance sheet data (average balances)			
Average loans and acceptances	17,200	16,000	15,800
Average deposits	18,800	18,700	18,300
Number of:			
Automated banking machines	371	372	345
Branches	315	317	282

Banking average loans and deposits (US$ millions)



RBC CAPITAL MARKETS

- **Net income down 9%.**
- **Revenue (teb) growth of 3% despite challenging market conditions and a strengthening Canadian dollar.**
- **Executed on our strategy to be a top-tier global fixed income provider by integrating the fixed income business of Dain Rauscher.**
- **In the U.S. we continued to build our mid-market client base, particularly in energy and real estate, advancing our strategy to be a leading provider in this market.**

The RBC Capital Markets segment provides a wide range of corporate and investment banking, sales and trading, research and related products and services to corporations, governments and institutional clients in North America and specialized products and services globally. This segment is comprised of *Global Markets*, *Global Investment Banking and Equity Markets*, *Institutional & Investor Services* and *Other*.

Strategy

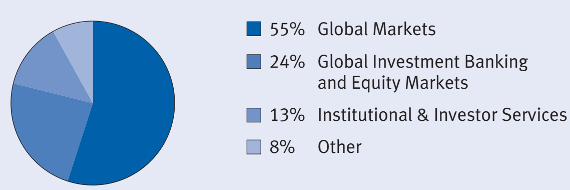
In the pursuit of establishing a strong global franchise, our strategy is to:

- Advance our leadership in Canada;
- Achieve a sustainable leadership in the U.S. mid market;
- Become a leading trader and structurer of converging asset classes; and
- Build a top-tier global fixed income bank.

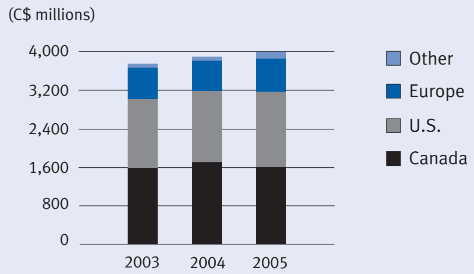
Economic and market review

During the year the wholesale banking industry was adversely affected by challenging market conditions, which deteriorated as the year progressed. In Canada increased competition from U.S. investment banks was also a factor. Trading businesses remained under pressure for most of the year as a result of difficult equity market conditions, a flat yield curve environment, the effects on financial markets from the hurricane season and a weakened outlook for the hedge fund sector. Debt origination activity increased, buoyed by low interest rates and the change in the *Income Tax Act* (Canada) removing limits on foreign investment. Growth in equity origination activity was primarily driven by income trusts and structured products. Excluding income trusts and structured products, traditional equity financing volumes were below 2004 levels while mergers and acquisition activity improved in Canada. The credit markets were active, creating highly competitive pricing conditions in the low interest rate environment. High and rising oil and commodity prices contributed to a strengthening of the Canadian dollar relative to the U.S. dollar and British pound.

2005 Revenue (teb) by business line



Revenue (teb) by geography



2005 vs. 2004

Net income decreased $76 million or 9% over the same period a year ago, primarily due to the Enron litigation reserve of $591 million ($326 million after-tax). The effect of the lower translated value of U.S. dollar- and British pound-denominated earnings due to the relative strengthening of the Canadian dollar also contributed to the decline. This decrease was partly offset by moderate revenue growth, a lower effective tax rate resulting from increased earnings in lower tax jurisdictions, lower compensation costs and the Rabobank settlement costs incurred in the prior year.

Total revenue (teb) increased $109 million or 3%. The increase was primarily due to higher global debt origination and higher equity originations in Canada, mainly income trusts and structured products. Also contributing to the increase was $47 million from the sale of an Enron-related claim. Partially offsetting the increase was lower trading revenue in challenging market conditions. Also contributing to the decline was the negative impact of the lower translated value of U.S. dollar- and British pound-denominated revenue of $172 million. Net interest income (teb) declined primarily due to increased volumes and higher rates on funding positions related to certain equity trading strategies and spread compression and reduced volumes in our lending portfolios. Non-interest income increased mainly due to an increase in equity trading asset levels and higher debt and equity originations.

Non-interest expense increased $426 million or 15%, largely reflecting the Enron litigation reserve of $591 million and the Enron MegaClaims bankruptcy settlement costs of $60 million, partly offset by a $119 million reduction in the translated value of U.S. dollar- and British pound-denominated expenses, lower compensation costs, and Rabobank settlement costs and business realignment charges incurred in the prior year.

Recoveries of credit losses of $91 million reflected higher corporate recoveries in the current period. This compares to a recovery of $108 million a year ago, which largely comprised a $99 million reversal of the general allowance.

Average assets grew by $10 billion or 5% primarily due to increased trading assets related to growth in certain equity trading strategies. Loans and acceptances decreased $1 billion or 5% primarily due to the continued run-off of our non-core lending volumes and lower utilization rates of authorized credit facilities. Deposits increased $11 billion or 12% due to the increased funding requirement associated with growth in trading securities in support of certain trading strategies. Credit quality continued to be strong. Gross impaired loans decreased by $288 million or 71% from last year primarily reflecting the favourable credit market conditions and the resolution of a number of corporate accounts.

2004 vs. 2003

Net income increased $107 million or 15% from a year ago, primarily due to robust origination activity, solid mergers and acquisition activity, higher returns from private debt and equity investments and recovery of credit losses in 2004.

RBC Capital Markets financial performance — Table 25

(C$ millions, except percentage amounts)	2005	2004	2003
Net interest income (teb) (1)	$ 575	$ 827	$ 611
Non-interest income	3,409	3,048	3,135
Total revenue (teb) (1)	$ 3,984	$ 3,875	$ 3,746
Non-interest expense	3,257	2,831	2,442
Provision for (recovery of) credit losses (PCL)	(91)	(108)	189
Business realignment charges	1	27	–
Net income before income taxes (teb) (1), (2)	$ 817	$ 1,125	$ 1,115
Net income	$ 725	$ 801	$ 694
Key ratios			
Return on equity (ROE) (3)	17.4%	19.0%	15.6%
Return on risk capital (RORC) (3)	22.8%	25.6%	20.9%
Selected balance sheet data (average balances)			
Total assets	$ 229,200	$ 219,200	$ 200,800
Trading securities	109,600	91,100	75,300
Loans and acceptances	17,600	18,600	25,000
Deposits	98,900	88,400	80,800
Attributed equity (3)	4,100	4,200	4,400
Risk capital (3)	3,150	3,100	3,300
Credit information			
Gross impaired loans (GILs)	$ 118	$ 406	$ 788
GIL as a % of average loans and acceptances	.67%	2.18%	3.15%
Specific PCL as a % of average loans and acceptances	(.52)%	(.05)%	.76%
Other selected balances			
Number of employees (full-time equivalent)	4,613	4,586	4,399

(1) Total revenue (teb), net interest income (teb) and net income (teb) before income taxes are non-GAAP financial measures. For a further discussion and reconciliation, refer to the Key financial measures (non-GAAP) section.
(2) Net income before income taxes and non-controlling interest.
(3) Average attributed equity and Return on equity are calculated using month-end balances for the period. Segment Return on equity, Average risk capital and the Return on risk capital are non-GAAP financial measures. For a further discussion and reconciliation, refer to the Key financial measures (non-GAAP) section.

Total revenue (teb) increased $129 million or 3%. The increase mainly resulted from improved returns on private debt and equity investments, improved equity origination activity across all our markets, higher debt origination activity in the U.S. and solid mergers and acquisition activity in Canada. These increases more than offset the $118 million negative effect of the lower translated value of U.S. dollar- and British pound-denominated earnings due to the relative strengthening of the Canadian dollar in 2004 and lower trading revenue, primarily in the fixed income business.

Non-interest expense increased $389 million or 16%, largely reflecting the Rabobank settlement costs incurred in 2004. Higher variable compensation, resulting from improved business performance, legal costs associated with the Enron litigation and relocation expenses for RBC Capital Markets' London office also contributed to this increase.

Recovery of credit losses of $108 million in 2004, which largely reflected a $99 million reversal of the general allowance, compared to the $189 million provision for credit losses in the prior year.

2006 Outlook and priorities

The outlook for capital markets in Canada and the U.S. is mixed as softer economic conditions, rising interest rates and a weaker outlook for the hedge fund industry are expected to dampen the demand for new issues and advisory services, while exerting downward pressure on trading businesses. Equity markets and originations are forecast to be relatively flat. The outlook for U.S. and international debt based businesses is positive as the yield curve shifts upward. Mergers and acquisition activity is also anticipated to increase. The Canadian dollar is expected to weaken against the U.S. and other foreign currencies as commodity and energy prices begin to ease. We expect that our performance will improve modestly in 2006, driven by growth in our U.S. and international debt businesses and increased activity in investment banking in the U.S. Our deal pipeline in Canada and the U.S. is encouraging. The development of new trading and product strategies within *Global Markets* is expected to mitigate reduced trading opportunities. Credit market conditions are expected to remain favourable though the level of loan recovery opportunities is expected to decrease. A highly competitive lending environment is anticipated to continue to fuel spread compression in our lending portfolios.

Our key priorities for 2006 are to:

- Advance our leadership position as a premier Canadian investment bank by providing a seamless North American platform to facilitate cross-border transactions;
- Build a top-tier specialized investment grade business in the U.S. by leveraging existing product capabilities with the U.S. Debt Markets Group middle-market investor base;
- Continue to invest in our proprietary trading, structuring and derivatives businesses; and
- Achieve cost reductions through more efficient distribution driven by technology and convergence of sales forces.

BUSINESS LINE REVIEW

GLOBAL MARKETS

Global Markets is the centre for origination, trading and distribution of predominately investment grade fixed income, foreign exchange and derivative products. It also houses our proprietary trading operations, alternative asset and private equity businesses.

Revenue (teb) decreased by $27 million or 1% over the prior year primarily due to lower trading revenue and a reduction in the translated value of U.S. dollar and British pound revenue as a result of a stronger Canadian dollar. This decrease was largely offset by improved global debt origination.

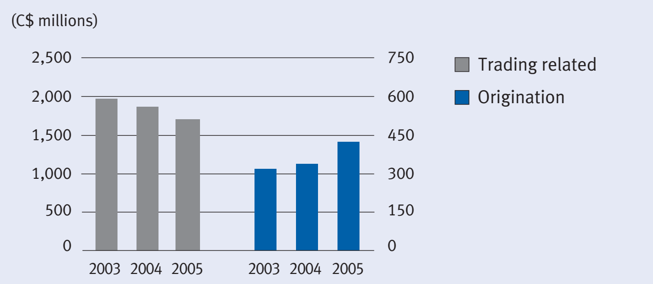
Trading-related revenue (teb) was down 8% on difficult equity market conditions, a flat yield curve environment, the effects of the hurricane season and the subsequent impact on the financial markets, and weakened hedge fund sector performance. Debt origination and other revenue was up 33% primarily due to increased global debt issuance activity in part due to the change in Canadian pension fund legislation which increased foreign issuance in Canada.

Selected highlights — Table 26

(C$ millions)	2005	2004	2003
Total revenue (teb) (1)	$ 2,189	$ 2,216	$ 2,109
Trading-related	1,706	1,853	1,958
Origination and other	483	363	151

(1) Total revenue (teb) is a non-GAAP financial measure. For a further discussion and reconciliation, refer to the Key financial measures (non-GAAP) section.

Trading-related and Origination revenue



GLOBAL INVESTMENT BANKING AND EQUITY MARKETS

Global Investment Banking and Equity Markets (GIBEM) brings together investment banking and equity sales and trading to provide complete advisory and equity-related services to clients from origination, structuring and advising to distribution, sales and trading.

GIBEM revenue (teb) increased $36 million or 4% over the prior year primarily due to improved equity origination activity, improved performance in high yield businesses and moderate growth in M&A activity. Equity sales and trading results were also higher than the prior year reflecting improved performance in our cash equities business and solid distribution fees for new issues.

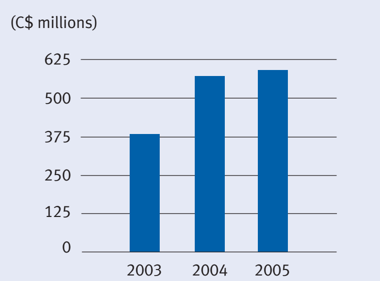
Gross underwriting and advisory revenue was up $21 million or 4% in part due to a number of key transactions including Telus Corporation, SunGard Data Systems Inc., Southwestern Energy Company, Ace Aviation Holding Inc. and Terasen Inc. In 2005, the group advised on the three largest announced Canadian M&A transactions.

Selected highlights — Table 27

(C$ millions)	2005	2004	2003
Total revenue (teb) (1)	$ 975	$ 939	$ 857
Gross underwriting and advisory fees	592	571	380
Other	383	368	477

(1) Total revenue (teb) is a non-GAAP financial measure. For a further discussion and reconciliation, refer to the Key financial measures (non-GAAP) section.

Gross underwriting and advisory fees



INSTITUTIONAL & INVESTOR SERVICES

Institutional & Investor Services (I&IS) provides custody and investment administration services to corporate and institutional investors worldwide.

In 2005 we announced an agreement to combine our business with Dexia in a joint venture that will rank among the top 10 global custodians in the world. The combined business will offer a complete range of investor services to institutions around the world. The transaction, pending regulatory approvals, is expected to close in fiscal 2006.

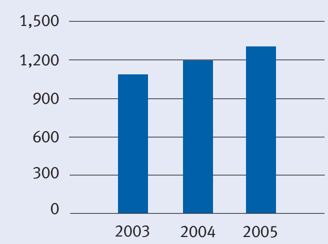
Revenue increased by $44 million or 10% over the prior year primarily due to growth in securities lending activity, foreign exchange activity and higher deposit revenue. Assets under administration increased by $158 billion or 13% year-over-year driven by strong global capital markets performance and business growth from new and existing clients.

Selected highlights — Table 28

(C$ millions)	2005	2004	2003
Total revenue (teb) (1)	$ 499	$ 455	$ 418
Assets under administration	1,361,100	1,202,900	1,096,200

(1) Total revenue (teb) is a non-GAAP financial measure. For a further discussion and reconciliation, refer to the Key financial measures (non-GAAP) section.

Assets under administration



OTHER

The *Other* line of business consists of National Clients group, Research, and, aggregated under Global Credit, the non-strategic lending portfolio and centralized management associated with the segment's core lending portfolios.

Revenue (teb) from *Other* of $321 million increased by $56 million or 21% over the prior year primarily due to $47 million related to the sale of an Enron-related claim and higher lending-related activity in the National Client group. The increase was partly offset by lower earnings from the strategic run-off of our non-core lending portfolio.

CORPORATE SUPPORT

Corporate Support segment activities include our global technology and operations group, corporate treasury and capital management, finance, human resources, risk management and other global functions. The reported results for the Corporate Support segment largely reflect consolidation adjustments and activities that are undertaken for the benefit of the organization and are not allocated to the business segments.

Due to the nature of activities reported in this segment, we believe that a period over period trend analysis is not relevant. The following identifies the material items affecting the reported results in each period.

2005

Net loss for the year of $20 million largely reflected business realignment charges of $39 million, and mark-to-market losses on derivatives relating to certain economic hedges, which were partially offset by increased securitization activity and interest refunds relating to the resolution of disputed tax items for the 1993 to 1998 tax periods.

2004

Net loss of $72 million primarily reflected the $64 million in business realignment charges, a $42 million charge for equity losses on investments, a $68 million charge for consolidation adjustments to eliminate intercompany items such as underwriting fees, the $26 million write-down of an investment in AOL Canada and $19 million of costs relating to a processing disruption partially offset by increases in the values of certain derivative positions.

Corporate Support financial performance — Table 29

(C$ millions)	2005	2004	2003
Net interest income	$ (175)	$ (263)	$ (143)
Non-interest income	142	236	164
Total revenue	$ (33)	$ (27)	$ 21
Non-interest expense	33	12	(4)
Recovery of credit losses	(47)	(36)	(28)
Business realignment charges	39	64	–
Net income (loss) before income taxes	$ (58)	$ (67)	$ 53
Net income (loss)	$ (20)	$ (72)	$ 77
Selected balance sheet data (average balances)			
Total assets	$ 11,100	$ 9,600	$ 9,200
Attributed equity (1)	2,800	1,600	1,400

(1) Attributed equity is calculated using month-end balances for the period.

Selected balance sheet data (period end) **Table 30**

(C$ millions)	2005	2004
Trading account	$ 125,760	$ 89,322
Investment account and loan substitutes	34,735	39,624
Total securities	$ 160,495	$ 128,946
Assets purchased under reverse repurchase agreements and securities borrowed	$ 42,973	$ 46,949
Residential mortgages	91,043	81,998
Personal loans	41,045	36,848
Credit cards	6,200	6,456
Business and government loans	53,626	47,258
Total loans	$ 191,914	$ 172,560
Other assets	$ 65,399	$ 69,433
Total assets	$ 469,521	$ 426,222
Deposits	$ 306,860	$ 270,959
Other liabilities	$ 131,003	$ 126,585
Non-controlling interest in subsidiaries	$ 1,944	$ 58
Shareholders' equity	$ 19,847	$ 17,904

2005 vs. 2004

Total Assets increased $43.3 billion or 10% from a year ago. This is largely attributable to the increases in *Total Securities* and *Total Loans*.

Total Securities increased $31.5 billion or 24% from a year ago as a result of an increase of $36.4 billion in trading balances in support of growth across several trading businesses which was partially offset by a decline in investment account and loan substitutes.

Assets Purchased Under Reverse Repurchase Agreements and Securities Borrowed decreased $4.0 billion or 8% from a year ago due to our efforts to manage client and collateral financing requirements more efficiently.

Total Loans increased by $19.4 billion from the same period a year ago with increases in Residential Mortgages and Personal and Business Loans reflecting continued loan demand in a low interest rate environment.

Residential Mortgages increased by $9.0 billion or 11% from a year ago (after $6.5 billion in securitizations during the year). This increase reflects high consumer housing demand.

Personal Loans were up $4.2 billion or 11%. The increase largely reflects continued growth in the secured and unsecured credit lines due to the low interest rate environment and strong consumer demand.

Credit Cards decreased $256 million or 4%. We securitized $1.2 billion of credit cards during this year, which offset the year-over-year volume growth in credit cards resulting from new product launches, strong utilization and rising client average balances.

Business and Government Loans were up $6.4 billion or 13%. The increase largely reflects the higher utilization of operating lines by business and commercial clients domestically and new business internationally.

Other Assets were down $4.0 billion or 6%. This was primarily driven by a decrease in receivables from brokers and dealers due to reduced activities.

Deposits increased $35.9 billion from the same period a year ago. This increase was largely driven by higher volume growth in business and government.

Other Liabilities increased $4.4 billion or 3%. The growth was mainly a result of an increase in business activities related to securities sold short.

Non-controlling Interest in Subsidiaries increased $1.9 billion and consists primarily of our interest in innovative capital instruments issued by RBC Capital Trust of $1.2 billion and our non-controlling interest in variable interest entities of $703 million. Refer to Note 18 to our Consolidated Financial Statements.

Shareholders' Equity was up $1.9 billion from the same period a year ago largely from retention of strong earnings despite higher dividend payments. Also partially offsetting the impact of our strong earnings growth was the negative impact of the stronger Canadian dollar on the translation of our foreign currency-denominated operations. The table below provides details on our common and preferred share balances in our Shareholders' Equity and Preferred share liabilities. Refer to Note 17 to our Consolidated Financial Statements for additional information.

Share data and dividends **Table 31**

	October 31 2005			October 31 2004			October 31 2003		
(C$ millions, except number of shares and per share amounts)	Number of shares (000s)	Amount	Dividends per share	Number of shares (000s)	Amount	Dividends per share	Number of shares (000s)	Amount	Dividends per share
First Preferred									
Non-cumulative Series J	–	$ –	$ –	–	$ –	$ –	–	$ –	$ .90
US$ Non-cumulative Series K	–	–	–	–	–	–	–	–	US .80
Non-cumulative Series N (1)	12,000	300	1.18	12,000	300	1.18	12,000	300	1.18
Non-cumulative Series O (1)	6,000	150	1.38	6,000	150	1.38	6,000	150	1.38
US$ Non-cumulative Series P	–	–	US 1.26	4,000	132	US 1.44	4,000	132	US 1.44
Non-cumulative Series S (1)	10,000	250	1.53	10,000	250	1.53	10,000	250	1.53
Non-cumulative Series W (1)	12,000	300	.99	–	–	–	–	–	–
Total First Preferred		$ 1,000			$ 832			$ 832	
Common shares outstanding	646,751	$ 7,170	$ 2.35	644,748	$ 6,988	$ 2.02	656,021	$ 7,018	$ 1.72
Stock options									
Outstanding	18,241			22,372			24,803		
Exercisable	14,432			16,401			15,415		
Treasury shares – preferred	(91)	(2)		–	–		–	–	
Treasury shares – common	(3,526)	(216)		(4,863)	(294)		–	–	

(1) As at October 31, 2005, the aggregate number of common shares issuable on the conversion of the First Preferred Shares Series N and O was approximately 3,833,000 and 1,935,000, respectively. As at October 31, 2005, the First Preferred Shares Series S and W were not yet convertible.

As at November 18, 2005, the number of outstanding common shares and stock options were 646,080,280 and 18,213,616, respectively. The number of other securities disclosed in Table 31 are unchanged. Refer to Notes 17 and 20 to our Consolidated Financial Statements.

CAPITAL MANAGEMENT

Capital management framework

We actively manage our capital to balance the desire to maintain strong capital ratios and high ratings with the desire to provide strong returns to our shareholders. In striving to achieve this balance, we consider the requirements of regulators, rating agencies, depositors and shareholders, as well as our future business plans, peer comparisons and our relative position to board-approved capital ratio goals. Additional considerations include the costs and terms of current and potential capital issuances and projected capital requirements.

Our Capital management framework serves to define, measure, raise and invest all forms of capital in a co-ordinated and consistent manner. We manage and monitor our capital from three perspectives: (i) regulatory capital, (ii) Economic Capital and (iii) subsidiary capital. This co-ordinated approach to capital management serves an important business function, optimizing our capital usage and structure. It provides more efficient support for our business segments and clients and better returns to our shareholders while protecting our depositors and senior creditors.

Governance

The Board of Directors is responsible for the annual review and approval of our capital plan, including all capital transactions, in conjunction with our operating plan. The Audit Committee, as delegated by the Board of Directors, is responsible for the governance of capital management, which includes the review and ongoing monitoring of internal controls and the control environment as well as establishing and approving policies for their compliance with regulatory standards and internal objectives.

The Asset and Liability Committee and Group Executive share management oversight responsibility for capital management and receive regular reports detailing compliance with the established limits and guidelines. In addition, the OSFI meets with our Audit Committee and the Conduct Review and Risk Policy Committee to discuss our policies and procedures regarding capital management.

The Capital Management group is responsible for the design and implementation of policies for regulatory, economic and subsidiary capital management. Other key responsibilities include the monitoring and reporting of our capital position along with recommending and co-ordinating the execution of capital transactions.

Risk-adjusted assets

Risk-adjusted assets, as shown in the table below, are determined by applying the OSFI prescribed rules to all on-balance sheet and off-balance sheet exposures. They also include an amount for the market risk exposure associated with our trading portfolio.

Over the last year, risk-adjusted assets increased $14 billion to $197 billion, due primarily to strong mortgage and loan growth, the new OSFI guidelines regarding liquidity facilities and growth in market risk, primarily due to the structured credit business.

Risk-adjusted assets (1) — **Table 32**

(C$ millions, except percentage amounts)			Balance sheet amount	Weighted average of risk weights (2)	Risk-adjusted balance 2005	Risk-adjusted balance 2004
Balance sheet assets						
Cash and deposits with banks			$ 12,355	15%	$ 1,830	$ 1,833
Securities						
Issued or guaranteed by Canadian or other OECD governments			23,815		48	30
Other			136,680	4%	5,278	7,062
Residential mortgages (3)						
Insured			35,047	1%	385	390
Conventional			56,121	46%	25,592	24,561
Other loans and acceptances (3)						
Issued or guaranteed by Canadian or other OECD governments			14,681	20%	2,991	2,828
Other			134,684	71%	95,639	88,412
Other assets			56,081	13%	7,014	7,852
			$ 469,464		$ 138,777	$ 132,968
	Contract amount	Credit conversion amount	Credit equivalent amount			
Off-balance sheet financial instruments						
Credit instruments						
Guarantees and standby letters of credit						
Financial	$ 14,644	100%	$ 14,644	71%	$ 10,329	$ 12,627
Non-financial	4,142	50%	2,071	88%	1,825	1,503
Documentary and commercial letters of credit	685	20%	137	41%	56	46
Securities lending	48,750	100%	48,750	5%	2,299	2,158
Commitments to extend credit						
Original term to maturity of 1 year or less	23,382	–	–	–	–	–
Original term to maturity of more than 1 year	32,837	50%	16,418	91%	14,968	13,828
Liquidity facilities						
Original term to maturity of 1 year or less with general market disruption clause	188	–	–	–	–	–
Original term to maturity of 1 year or less without general market disruption clause	27,273	10%	2,727	100%	2,727	–
Original term to maturity of more than 1 year without general market disruption clause	1,573	50%	786	100%	786	–
Uncommitted amounts	44,915	–	–	–	–	–
Note issuance/revolving underwriting facilities	7	50%	3	100%	3	12
	$ 198,396		$ 85,536		$ 32,993	$ 30,174
Derivatives (4)	3,000,269		37,822	26%	9,696	8,030
Total off-balance sheet financial instruments	$ 3,198,665		$ 123,358		$ 42,689	$ 38,204
Total specific and general risk					15,538	12,237
Total risk-adjusted assets					$ 197,004	$ 183,409

(1) Calculated using guidelines issued by the OSFI.
(2) Represents the weighted average of counterparty risk weights within a particular category.
(3) Amounts are shown net of allowance for loan losses.
(4) Excludes amounts related to non-trading credit derivatives which are given guarantee treatment for credit risk capital purposes.

Regulatory capital and capital ratios

Capital levels for Canadian banks are regulated pursuant to guidelines issued by the OSFI, based on standards issued by the Bank of International Settlements. Regulatory capital is allocated into two tiers, with Tier 1 capital comprising the more permanent components of capital. Tier 1 capital consists primarily of common shareholders' equity, non-cumulative preferred shares, and the eligible amount of innovative capital instruments less a deduction for goodwill. Tier 2 capital consists mainly of subordinated debentures, the eligible amount of excess innovative capital instruments that could not be included in Tier 1 capital and an eligible portion of the general allowance for credit losses. Total capital is defined as the total of Tier 1 and Tier 2 capital less deductions as prescribed by the OSFI.

Regulatory capital ratios are calculated by dividing Tier 1 and Total capital by risk-adjusted assets derived from GAAP financial information. In 1999, the OSFI 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%. In addition to the Tier 1 and Total capital ratios, Canadian banks need to operate within a leverage constraint and ensure that their assets-to-capital multiple, which is calculated by dividing gross adjusted assets by Total capital, does not exceed the level prescribed by regulators.

The components of regulatory capital and our regulatory capital ratios are shown in Table 33.

Regulatory capital and capital ratios (1)			Table 33
(C$ millions, except percentage amounts)	2005	2004	2003
Tier 1 capital			
Common equity (2)	$ 19,115	$ 17,349	$ 17,543
Non-cumulative preferred shares	997	832	832
Innovative capital instruments	2,835	2,300	2,300
Other Non-controlling interest in subsidiaries	28	27	27
Goodwill	(4,074)	(4,236)	(4,443)
	18,901	16,272	16,259
Tier 2 capital			
Permanent subordinated debentures (3)	874	954	396
Other subordinated debentures (3)	7,234	7,131	5,847
Innovative capital instruments	567	–	–
General allowance	1,286	1,227	1,407
	9,961	9,312	7,650
Other deductions from capital			
Investment in insurance subsidiaries	(2,642)	(2,532)	(2,143)
Other substantial investments	(293)	(302)	(371)
First-loss facility	(114)	(17)	(21)
Total capital	$ 25,813	$ 22,733	$ 21,374
Capital ratios			
Tier 1 capital to risk-adjusted assets	9.6%	8.9%	9.7%
Total capital to risk-adjusted assets	13.1%	12.4%	12.8%
Assets-to-capital multiple	17.6 X	17.9 X	18.0 X

(1) As defined in the guidelines issued by the OSFI.
(2) This amount is shareholders' equity less preferred shares of $700 million and other items of $32 million.
(3) Subordinated debentures that are within five years of maturity are subject to straight-line amortization to zero during their remaining term and, accordingly, are included above at their amortized value.

Tier 1 capital rose to $18.9 billion, an increase of $2.6 billion over last year. The increase was primarily due to strong internal capital generation, the issuance of $197 million of common shares due to the exercise of options and the net impact of the capital management activities described below. As well, cumulative unrealized foreign currency translation losses reduced common shareholders' equity by $218 million, as a result of a strengthening of the Canadian dollar.

Tier 2 capital increased in 2005 by $649 million. The increase was a result of our innovative capital issuance in excess of the amount eligible for inclusion in Tier 1 capital, as well as the net impact of the issuances and redemptions of subordinated debentures as detailed in our capital management activities.

The increase in our regulatory capital and our active balance sheet management resulted in a strengthening of our Tier 1 and Total capital ratios. As at October 31, 2005, our Tier 1 and Total capital ratios were 9.6% and 13.1%, respectively, compared to 8.9% and 12.4% as at October 31, 2004. Throughout fiscal 2005, we maintained capital ratios that exceeded our goals of 8.0–8.5% for the Tier 1 capital ratio and 11–12% for the Total capital ratio.

As at October 31, 2005, our assets-to-capital multiple was 17.6 times, which remains below the maximum permitted by the OSFI and compares to 17.9 times as at October 31, 2004.

Capital management activity

In 2005, we undertook several initiatives to effectively manage our capital.

Tier 1

In 2005, we repurchased 3 million common shares for $226 million, of which 1 million shares were repurchased for $63 million under our normal course issuer bid that expired in June 2005; and 2 million shares were repurchased for $163 million under our normal course issuer bid that commenced on June 23, 2005. The current normal course issuer bid, which runs for a one-year period, allows for the repurchase of up to 10 million common shares, representing approximately 1.5% of our outstanding common shares at October 31, 2005.

On January 31, 2005, we issued $300 million of Non-cumulative First Preferred Shares Series W at $25 per share.

On October 7, 2005, we redeemed all of the issued and outstanding US$100 million Non-cumulative First Preferred Shares Series P.

Tier 2

On March 22, 2005, we announced that, from time to time, we may purchase and cancel some or all of our outstanding $250 million debentures maturing in 2083, and some or all of our outstanding US$300 million debentures maturing in 2085.

During the year, we purchased $3.5 million of the outstanding 2083 debentures and $83 million (US$68 million) of the outstanding 2085 debentures.

On June 21 and July 14, 2005, we issued $500 million and $300 million, respectively, of subordinated debentures Series 9 under our Canadian Medium Term Note program.

On August 15, 2005, we redeemed all of our $700 million of outstanding 6.40% subordinated debentures due August 15, 2010 for 100% of their principal amount plus accrued interest.

Innovative capital instruments

Innovative capital instruments, as defined by the OSFI guidelines, refer to instruments issued by a special purpose entity (SPE), which is a non-operating entity whose primary purpose is to raise capital. The OSFI guidelines limit the amount of innovative capital that can be included in Tier 1 and Tier 2 capital. We issue innovative capital instruments – Trust Capital Securities (TruCS) – through two SPEs, RBC Capital Trust and RBC Capital Trust II.

On October 28, 2005, we issued $1.2 billion of Innovative Tier 1 capital through RBC Capital Trust, of which $537 million was included in Tier 1 capital, $567 million was included in Tier 2B capital with the remaining $96 million currently not recognized as capital. All our previously issued TruCS, totalling $2.3 billion, were fully included in Tier 1 capital. For a discussion and details related to the accounting treatment and terms of the RBC TruCS issuances, refer to Note 16 to our Consolidated Financial Statements.

Dividends
Our common share dividend policy reflects our earnings outlook, desired payout ratios and the need to maintain adequate levels of capital to fund business opportunities. The targeted common share dividend payout ratio for 2005 was 40–50%. In 2005, the dividend payout ratio was 45%, down from 47% in 2004. Common share dividends during the year were $1.5 billion, up 16% from a year ago.

The following table summarizes our capital activity in 2005, 2004 and 2003.

Selected capital management activity — Table 34

(C$ millions)	2005	2004	2003
Dividends			
Common	$ 1,512	$ 1,303	$ 1,137
Preferred	42	31	31
Preferred shares issued	300	–	–
Preferred shares redeemed	(132)	–	–
Treasury shares net sales – common	132	10	–
Repurchase of common shares – normal course issuer bid (1)	(226)	(892)	(852)
Repurchase and cancellation of debentures (1)	(786)	(1,025)	(100)
Issuance of Trust Capital Securities (1)	1,200	–	900

(1) For further details, refer to Notes 15, 16 and 17, respectively, to our Consolidated Financial Statements.

Hedging foreign currency-denominated operations
Rising U.S. dollar-denominated assets and deductions from regulatory capital have prompted the development of a policy regarding the hedging of our foreign exchange exposure with respect to our foreign operations. The objectives of our hedging policy are: (i) immunization of our consolidated regulatory capital ratios from currency fluctuations and (ii) mitigation of potential earnings volatility that might result at disposition of these foreign operations. The outcome is to promote orderly and efficient capital management to enable us to comply with regulatory requirements on an ongoing basis and maintain greater control over key capital ratios, thereby reducing the need for capital transactions in response to currency fluctuations.

Economic Capital
Economic Capital is management's quantification of risks associated with our business activities. Economic Capital is attributed to each business segment in proportion to the risk inherent in the business activities. It provides directly comparable performance measurements through Return on equity (ROE) and Return on risk capital (RORC), which are described in detail in the Key financial measures (non-GAAP) section. It also aids senior management in strategic planning and resource allocation decisions and serves as a reference point for the assessment of our aggregate risk appetite in relation to our financial resources, recognizing that factors outside the scope of Economic Capital must be taken into consideration. Economic Capital is defined as the capital required to remain solvent and in business even under extreme market conditions, given our desire to maintain an AA debt rating. Economic Capital represents the shareholders' perspective and drives the optimization of shareholder returns in terms of risk and reward.

Economic Capital is a non-GAAP measure and its calculation and attribution involves a number of assumptions and judgments. The methodologies are continually monitored to ensure the Economic Capital framework is comprehensive, consistent, unbiased, supports decisions and creates the proper incentives. The identified risks for which we calculate Economic Capital are credit, market (trading and non-trading), operational, business and fixed asset and insurance risk. In addition, goodwill and intangibles are also underpinned by Economic Capital. See the Risk management section for further discussion of credit, market, operational and insurance risk. Business risk is the risk of loss due to variances in volumes, prices and costs caused by competitive forces, regulatory changes, and reputational and strategic risks. Fixed asset risk is defined as the risk that the value of these assets will be less than their book value at a future date.

Economic Capital — Table 35

(C$ millions average balances)	2005	2004	2003
Credit risk	$ 5,069	$ 5,171	$ 5,503
Market risk (trading and non-trading)	2,210	2,068	1,592
Operational risk	2,364	2,213	2,168
Business and fixed asset risk	1,584	1,657	1,725
Insurance risk	214	166	620
Risk capital	$ 11,441	$ 11,275	$ 11,608
Goodwill and intangibles	4,855	5,449	5,542
Attributed capital (Economic Capital)	$ 16,296	$ 16,724	$ 17,150
Unattributed equity (1)	2,304	1,076	400
Common equity	$ 18,600	$ 17,800	$ 17,550

(1) Equity in excess of Economic Capital is reported in the Corporate Support segment.

Attributed Economic Capital decreased $428 million year-over-year primarily driven by a decrease in Economic Capital underpinning Goodwill and intangibles, resulting from the impact of a stronger Canadian dollar on U.S. dollar-denominated assets and goodwill impairment charge related to discontinued operations. The decrease in Economic Capital underpinning Goodwill and intangibles was partially offset by an increase in Economic Capital attributed to market risk, operational risk and insurance risk. The growth in Economic Capital attributed to market risk was a result of an increase in capital underpinning interest rate risk in our non-trading portfolios, whereas growth in Economic Capital attributed to both operational risk and insurance risk was related to an increase in overall business activities.

We remain well capitalized with current levels of qualified equity exceeding the Economic Capital required to underpin all of our risks.

Subsidiary capital
Structured management of consolidated capital has become a key strategic objective as the amount of capital deployed in subsidiaries has

grown to build their business in response to pressures to maximize profits and returns to shareholders. Accordingly, regulatory bodies have focused on ensuring that for all internationally active banks, capital recognized in regulatory capital measurements is accessible by the parent entity. To meet these new regulatory requirements and facilitate the co-ordinated generation and allocation of capital across the organization, we have put in place a comprehensive subsidiary capital framework. This framework sets guidelines for defining capital investments in our subsidiaries and establishes minimum targets in relation to our total investment in those subsidiaries.

While each of our subsidiaries has individual responsibility for calculating, monitoring and maintaining capital adequacy in compliance with the laws of its local jurisdiction, the Capital Management group is mandated to provide centralized oversight and consolidated capital base management across various entities.

Future developments

We closely monitor changes in the accounting framework and their potential impact on our capitalization levels through ongoing dialogue with our external auditors, other financial institutions, the Canadian Bankers Association and the OSFI. Several changes in accounting principles have either been introduced or are being proposed in the areas of financial instruments (as described in the Critical accounting policies and estimates section and Note 1 to our Consolidated Financial Statements), and requirements for contracts that can be settled in cash or shares to be settled in shares for the calculation of diluted EPS. These changes could significantly affect our capital requirements and activities.

Basel II capital accord

The implementation of the capital adequacy requirements for Basel II will begin with a parallel run in 2007 and full compliance is expected at the beginning of fiscal 2008. We are actively preparing for the implementation of the Basel II framework as detailed in the Risk management section.

OFF-BALANCE SHEET ARRANGEMENTS

In the normal course of business, we engage in a variety of financial transactions that, under GAAP, are not recorded on our balance sheet. Off-balance sheet transactions are generally undertaken for risk management, capital management and/or funding management purposes for our benefit and the benefit of our clients. These transactions include derivative financial instruments, transactions with special purpose entities and issuance of guarantees. These transactions give rise to, among other risks, varying degrees of market, credit and liquidity risk, which are discussed in the Risk management section.

Derivative financial instruments

Derivative financial instruments are primarily used in sales and trading activities to enable our clients to transfer, modify or reduce current or expected risks. These trading derivatives are fully recognized at their fair values on our Consolidated Balance Sheets.

We also use derivatives to manage our exposures to interest, currency, credit and other market risks. We may 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 (economic hedges). These economic hedges are also carried at fair value on our Consolidated Balance Sheets.

Certain derivatives that are used to manage our risks are specifically designated and qualify for hedge accounting (accounting hedges). We apply hedge accounting to minimize significant unplanned fluctuations in earnings and cash flows caused by changes in interest rates or exchange rates. These hedging derivatives represent off-balance sheet items, as they are not carried at fair value.

Notes 1 and 7 to our Consolidated Financial Statements provide more detail on our accounting for, and types of, derivatives. The following are the net fair values of the derivatives by category:

Derivatives		Table 36
(C$ millions)	2005	2004
On-balance sheet:		
Trading derivatives	$ (3,628)	$ (3,521)
Economic hedges	(452)	148
Off-balance sheet:		
Accounting hedges	386	389
Total net fair value	$ (3,694)	$ (2,984)

Special purpose entities

Special purpose entities (SPEs) are typically set up for a single, discrete purpose, have a limited life and serve to legally isolate the financial assets held by the SPE from the selling organization. They are not operating entities, and usually have no employees. SPEs may be variable interest entities (VIEs) as defined by the Canadian Institute of Chartered Accountants (CICA) Accounting Guideline 15, *Consolidation of Variable Interest Entities* (AcG-15). Refer to the Critical accounting policies and estimates section and Notes 1 and 6 to our Consolidated Financial Statements, for our consolidation policy and information about the VIEs that we have consolidated, or in which we have significant variable interests. Pursuant to the CICA Accounting Guideline 12, *Transfers of Receivables* (AcG-12), qualifying SPEs (QSPE) are legal entities that are demonstrably distinct from the transferor, have limited and specified permitted activities, have defined asset holdings and may only sell or dispose of selected assets in automatic response to specified conditions.

We manage and monitor our involvement with SPEs through our Structured Transactions Oversight Committee. Refer to the Risk management section for further details.

Securitization of our financial assets

We periodically securitize our credit card receivables and residential and commercial mortgage loans primarily to diversify our funding sources and enhance our liquidity position. Gains and losses on securitizations are included in Non-interest Income.

Credit card receivables

We securitize a portion of our credit card receivables through an SPE on a revolving basis. The SPE is funded through the issuance of senior and subordinated notes collateralized by the underlying credit card receivables. This SPE meets the criteria for a QSPE and, accordingly, as the transferor of the credit card receivables, we are precluded from consolidating this SPE.

We continue to service the credit card receivables sold to the QSPE and perform an administrative role for the QSPE. We also provide first-loss protection to the QSPE in two forms. We have an interest in the excess spread from the QSPE which is subordinate to the QSPE's obligation to the holders of its asset-backed securities. Excess spread is the residual net interest income after all trust expenses have been paid. Therefore, our excess spread serves to absorb losses with respect to the credit card receivables before payments to the QSPE's noteholders are affected. The present value of this excess spread is reported as a retained interest within Investment Account Securities on our Consolidated Balance Sheets. In addition, we provide loans to the QSPE to pay upfront expenses. These loans rank subordinate to all notes issued by the QSPE.

Residential mortgage loans
We routinely securitize residential mortgage loans through the creation of mortgage-backed securities (MBS) and sell a portion of these MBS to an independent SPE on a revolving basis. We retain interests in the excess spread on the sold MBS and continue to service the mortgages underlying these MBS.

Commercial mortgage loans
We securitize commercial mortgages by selling them in collateral pools, which meet certain diversification, leverage and debt coverage criteria, to an SPE. The SPE finances the purchase of these pools by way of issuing certificates that carry varying degrees of subordination. These certificates range from AAA to B- when rated, and the most subordinated are unrated. The certificates represent undivided interests in the collateral pool, and the SPE, having sold all undivided interests available in the pool, retains none of the risk of the collateral pools. As part of the SPE pooling and servicing agreement, we continue to be the primary servicer of the loans under contract with a master servicer for the SPE.

Financial asset securitizations — Table 37

(C$ millions)	2005	2004
Outstanding securitized assets		
Residential mortgages	$ 9,561	$ 5,983
Credit cards	3,100	1,900
Commercial mortgages	1,237	603
Total	$ 13,898	$ 8,486
Retained interests		
Residential mortgages:		
Mortgage-backed securities retained	$ 2,654	$ 3,068
Retained rights to future excess interest	172	127
Credit cards:		
Asset backed securities purchased	596	–
Retained rights to future excess interest	21	13
Subordinated loan receivables	6	5
Total	$ 3,449	$ 3,213

The increase in outstanding securitized assets is due to the securitization activities during the year. Refer to Note 5 to our Consolidated Financial Statements for further details.

Capital trusts
We issue innovative capital instruments, RBC Trust Capital Securities (TruCS), through two SPEs: RBC Capital Trust (Trust) and RBC Capital Trust II (Trust II). Prior to November 1, 2004, we consolidated both of these SPEs, and TruCS were reported as Non-controlling Interest in Subsidiaries. Our adoption of certain revisions to GAAP effective November 1, 2004, as described in Notes 1, 6 and 16 to our Consolidated Financial Statements, resulted in reclassification of RBC Trust Capital Securities Series 2010 and 2011 issued by Trust as liabilities, and deconsolidation of Trust II, which issued RBC Trust Capital Securities Series 2013. As at October 31, 2005, we held the residual interest of $1 million (2004 – $1 million) in Trust II and reported the senior deposit note of $900 million (2004 – $900 million) we issued to Trust II in our deposit liabilities. During 2005, Trust issued $1.2 billion RBC Trust Capital Securities Series 2015, which we classified as Non-controlling Interest in Subsidiaries on our Consolidated Balance Sheets. Under certain circumstances, TruCS will be automatically exchanged for our preferred shares. In addition, holders of RBC Trust Capital Securities Series 2010, 2011 and 2013 have the right to exchange for our preferred shares as outlined in Note 16 to our Consolidated Financial Statements.

Dividend and yield distributions on these instruments included in Interest Expense and Non-controlling Interest in Net Income of Subsidiaries totalled $153 million (2004 – $152 million, 2003 – $115 million) during the year. For further details on the capital trusts and the terms of the TruCS issued and outstanding, refer to the Capital management section and Note 16 to our Consolidated Financial Statements.

Securitization of client financial assets
Within our Global Securitization Group, our principal relationship with SPEs comes in the form of administering five multi-seller asset-backed commercial paper conduit programs (multi-seller conduits) – three in Canada and two in the United States. We are involved in the multi-seller conduit markets because our clients value these transactions, they offer a growing source of revenue and they generate a favourable risk-adjusted return for us. Our clients primarily utilize multi-seller conduits to diversify their financing sources and to reduce funding costs by leveraging the value of high-quality collateral. The multi-seller conduits purchase various financial assets from clients and finance the purchases by issuing highly rated asset-backed commercial paper. The multi-seller conduits typically purchase the financial assets as part of a securitization transaction by our clients. In these situations, the sellers of the financial assets continue to service the respective assets and generally provide some amount of first-loss protection on the assets. The commercial paper issued by each multi-seller conduit is in the multi-seller conduit's own name with recourse to the financial assets owned by the multi-seller conduit. The multi-seller conduit commercial paper is non-recourse to us except through our participation in liquidity and/or credit enhancement facilities, and non-recourse to the other multi-seller conduits that we administer.

We do not maintain any ownership or retained interests in these multi-seller conduits. We provide services such as transaction structuring and administration as specified by the multi-seller conduit program documents, for which we receive fees. In addition, we provide backstop liquidity facilities and partial credit enhancements to the multi-seller conduits. We have no rights to, or control of, the assets owned by the multi-seller conduits. Fee revenue for all such services, which is reported as Non-interest Income, amounted to $58 million during the year (2004 – $70 million, 2003 – $66 million).

At fiscal years ended October 31, total commitments and amounts outstanding under liquidity and credit enhancement facilities for the multi-seller conduits, which are also included in our discussion in the Guarantees section, are shown below:

Liquidity and credit facilities — Table 38

	2005		2004	
(C$ millions)	Committed (1)	Outstanding	Committed (1)	Outstanding
Liquidity facilities	$ 29,442	$ –	$ 25,443	$ –
Credit facilities	2,832	–	3,935	–

(1) Our maximum exposure to loss under these facilities was $29.4 billion for 2005 and $25.4 billion for 2004. The increase in liquidity facilities is due to the increase in the multi-seller conduits' activities during the year.

All the multi-seller conduits were restructured in 2004. As part of the restructurings, an unrelated third party (expected loss investor) agreed to absorb credit losses (up to a maximum contractual amount) that may occur in the future on the assets in the multi-seller conduits (multi-seller conduit first-loss position) before us and the multi-seller conduit's debt holders. In return for assuming this multi-seller conduit first-loss position, the expected loss investor is paid by the multi-seller conduit a return commensurate with its risk position. Moreover, each multi-seller conduit has granted to the expected loss investor material voting rights, including the right to approve any transaction prior to the multi-seller conduit purchasing and financing a transaction. As a result of the restructurings, we do not consolidate any of the multi-seller conduits. These five multi-seller conduits have financial assets totalling $20.2 billion as at October 31, 2005 (2004 – $18.5 billion). The maximum assets that may have to be purchased by the conduits under purchase commitments outstanding as at October 31, 2005 were $29.3 billion (2004 – $25.6 billion).

Creation of investment products

We use repackaging SPEs, which generally transform credit derivatives into cash instruments, to distribute credit risk and to create customized credit products to meet the needs of investors with specific requirements. As part of this process, we may transfer our assets to the SPEs with an obligation to buy these assets back in the future and may enter into derivative contracts with these SPEs in order to convert various risk factors such as yield, currency or credit risk of underlying assets to meet the needs of the investors. In this role as derivative counterparty to the SPE, we also assume the associated counterparty credit risk of the SPE.

These SPEs often issue notes. The notes may be rated by external rating agencies, as well as listed on a stock exchange, and are generally traded via recognized bond clearing systems. While the majority of the notes that are created in repackagings are expected to be sold on a "buy & hold" basis, we may on occasion act as market maker. We do not, however, provide any repackaging SPE with any guarantees or other similar support commitments; rather, we buy credit protection from these SPEs through credit derivatives. The investors in the notes ultimately bear the cost of any payments made by the SPE under these credit derivatives.

There are many functions required to create a repackaged product. We fulfill some of these functions and independent third parties or specialist service providers fulfill the remainder. Currently we act as sole arranger and swap provider for SPEs where we are involved and, in most cases, act as paying and issuing agent as well. As with all our trading derivatives, the derivatives with these SPEs are carried at fair value in derivative-related assets and liabilities. The assets in these SPEs amounted to $3.3 billion as at October 31, 2005 (2004 – $2.4 billion).

Asset management

Collateralized Debt Obligation (CDO) SPEs raise capital by issuing debt and equity securities and invest their capital proceeds in portfolios of debt securities. Any net income or loss is shared by the CDO's equity and debt investors. In July 2005 we sold our CDO management business to a third party. Through our former CDO management 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 collateral manager, we were engaged by the CDO SPE to advise the SPE on the purchase and sale of collateral assets it holds, and were required to invest in a portion of the CDO's first-loss tranche, which represented our exposure to loss. The CDOs we managed purchased collateral assets originated by third parties or us. For these advisory services, we were paid a market-based fee based on a percentage of assets held by the SPE. We recognized fee income from structuring and collateral management services provided up until the sale of the business. We continue to hold investments in the individual CDOs we formerly managed and, as appropriate, we recognized interest income from these investments. This revenue totalled $9 million in 2005 (2004 – $10 million; 2003 – $3 million).

The notional amount of the CDOs we managed at the time we sold the business in July 2005 was $1.7 billion compared to $1.6 billion for these CDOs as at October 31, 2004. Although we continue to have nominal investments in the first-loss tranche of the CDOs with assets of $1.1 billion (2004 – $1.1 billion), we provide no liquidity or credit support to these SPEs beyond this investment.

Structured finance

We occasionally make loan substitute and equity investments in off-balance sheet entities that are part of transactions structured to achieve a desired outcome, such as limiting exposure to specific assets or risks, achieving indirect (and usually risk mitigated) exposure to financial assets, supporting an enhanced yield and meeting client requirements. These transactions usually yield a higher return, either before- or after-tax, than financing non-SPE counterparties, or holding an interest in financial assets directly. These transactions are structured to mitigate risks associated with directly investing in the underlying financial assets and may be structured so that our ultimate credit risk is that of the non-SPE, which in most cases is another financial institution. Exit mechanisms are built into these transactions to curtail exposure from changes in law or regulations. The entities in which we have significant investments or loans had total assets of $6.5 billion as at October 31, 2005 (2004 – $6.8 billion). At October 31, 2005, our total investments in and loans to these entities were $2.9 billion (2004 – $3 billion), which were reflected on our Consolidated Balance Sheets. 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. The total assets held in the funds where we have significant exposure and which we did not consolidate were $6.7 billion (2004 – $3.6 billion) as at October 31, 2005. At October 31, 2005, our total exposure to these funds was $908 million (2004 – $834 million).

Trusts, mutual and pooled funds

We act as a trustee and/or a custodian for a number of personal and institutional trusts, and have a fiduciary responsibility to act in the best interests of the beneficiaries of the trusts. We earn a fee for acting as a trustee and/or a custodian.

We manage assets in mutual and pooled funds and earn fees at market rates from these funds, but do not guarantee either principal or returns to investors in any of these funds.

Guarantees

We issue guarantee products, as defined by the CICA Accounting Guideline 14, *Disclosure of Guarantees* (AcG-14), in return for fees recorded in Non-interest Income. Significant types of guarantee products we have provided to third parties include credit derivatives, written put options, securities lending indemnifications, backstop liquidity facilities, financial standby letters of credit, performance guarantees, stable value products, credit enhancements, mortgage loans sold with recourse and certain indemnification agreements.

Our maximum potential amount of future payments in relation to our guarantee products as at October 31, 2005, amounted to $121 billion (2004 – $105 billion). 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.

Note 25 to our Consolidated Financial Statements provides detailed information regarding the nature and maximum potential exposure for the above-mentioned types of guarantee products.

In addition to guarantees, we also provide commercial commitments to our clients to help them meet their financing needs. On behalf of our clients we undertake written documentary and commercial letters of credit, authorizing a third party to draw drafts on us up to a stipulated amount and typically having underlying shipments of goods as collateral. We make commitments to extend credit, which represent unused portions of authorizations to extend credit in the form of loans, bankers' acceptances or letters of credit. We also have uncommitted amounts, for which we retain the option to extend credit to a borrower. The following is a summary of our off-balance sheet commercial commitments.

Commercial commitments (1)					Table 39
(C$ millions)	Within 1 year	1 to 3 years	Over 3 to 5 years	Over 5 years	Total
Documentary and commercial letters of credit	$ 676	$ 9	$ –	$ –	$ 685
Commitments to extend credit and liquidity facilities	54,751	8,148	19,825	2,529	85,253
Uncommitted amounts	44,915	–	–	–	44,915
	$ 100,342	$ 8,157	$ 19,825	$ 2,529	$ 130,853

(1) Based on remaining term to maturity.

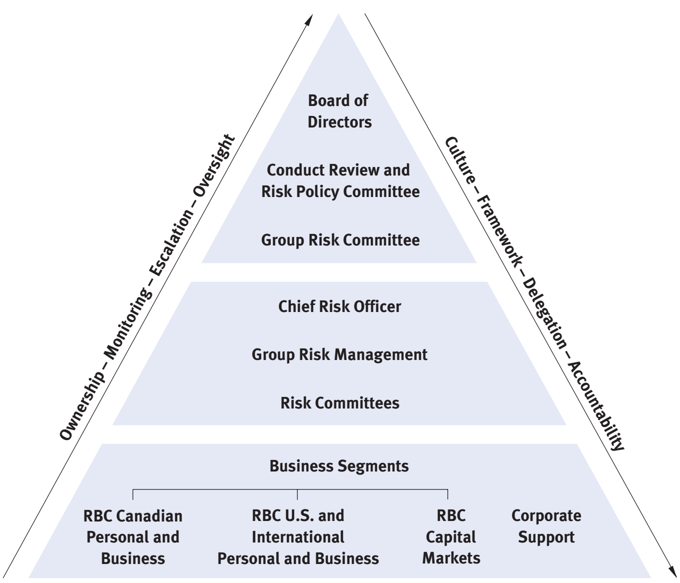
RISK MANAGEMENT

Sound risk management practices are fundamental to the long-term success of financial institutions. Our management of risk is a core competency supported by a strong risk management culture and an effective risk management framework. Risk management ensures risks being taken are within our risk appetite and are assessed from a risk/return perspective. This is achieved by taking an enterprise-wide risk management approach to the identification, measurement, control and reporting of significant risks facing the organization.

Governance

The cornerstone of our risk management framework is a strong risk management culture, supported by a robust enterprise-wide set of policies and procedures, which involve our risk management professionals and the business segments. This partnership is designed to ensure the ongoing alignment of risk appetite and business strategies.

Risk Pyramid: Roles and Responsibilities



The above graphic illustrates the roles and responsibilities of our various stakeholders of risk.

The Board of Directors carries out its risk management mandate through the Conduct Review & Risk Policy Committee (CR&RPC). This committee ensures we have risk policies and processes in place to manage the significant risks to which we are exposed. It ensures that we are complying with the *Bank Act* (Canada) and other relevant laws and regulations in all areas of risk management. Key responsibilities are: (i) shape, influence and communicate the organization's risk culture, (ii) determine and communicate the organization's risk appetite, (iii) define the organizational structure for Group Risk Management (GRM), (iv) review and approve policies for controlling risk, (v) review and monitor the major risks being assumed by, or facing, the organization and provide direction as required and (vi) ensure there are sufficient and appropriate risk management resources across the organization.

The Group Risk Committee (GRC) is comprised of the Group Executive, the Chief Risk Officer (CRO) and is chaired by the President and Chief Executive Officer. This management committee ensures that (i) our overall risk profile is consistent with strategic objectives, and (ii) there is an ongoing, appropriate and effective risk management process to identify, measure and manage our risks on an aggregate basis. GRC recommends risk limits and controls including aggregate exposure limits for credit, market and insurance risks to CR&RPC for approval. In addition, it recommends the liquidity and funding management framework and the liquidity contingency plan to the Audit Committee for approval.

The middle level of the organizational perspective pyramid comprises the Chief Risk Officer, GRM and the primary Risk Committees. The key responsibilities of the Chief Risk Officer, GRM and the supporting Risk Committees structure include:

- Establishing comprehensive risk identification, assessment and approval processes.
- Establishing appropriate methodologies for risk measurement. As discussed in the following sections, we use risk measures appropriate to the risk being measured. For example, Value-At-Risk is used to measure market risk. On an enterprise-wide basis, we use Economic Capital to quantify risks associated with our business activities. For more discussion on Economic Capital, refer to the Capital management section.
- Establishing controls and limits to ensure appropriate risk diversification and optimization of risk/return on both a portfolio and transactional basis. Key controls include risk approval limits and an enterprise-wide risk policy framework to ensure effective creation, approval and communication of policies.
- Reporting to senior management and the Board of Directors on major risks being assumed by or facing the organization, allowing appropriate management and oversight. Reports are actionable, forward looking, timely and include an overview of the economy and the significant risks facing the organization such as (i) credit risk, (ii) market risk, (iii) liquidity and funding risk, (iv) insurance risk and (v) operational risk. Reports also include information on regulatory and compliance risk, capital management, policy exceptions, large counterparty exposures, and significant counterparty downgrades.

During 2005, we realigned our Risk Committees structure to facilitate a more efficient and effective operating environment. As a result, we have five primary committees, each reporting to the GRC, which ensure appropriate governance and compliance is maintained. The committees are as follows:

- Asset and Liability Committee: Reviews, recommends and approves broad policy frameworks pertaining to capital management, interest rate risk related to traditional non-trading banking activities, funds transfer pricing, liquidity and funding, and subsidiary governance. The committee also provides regular oversight and strategic direction in light of expected returns and the impact of competitive and regulatory environments. In addition to reporting to GRC, this committee also reports through Group Executive to the Audit Committee on capital and liquidity items.

- Ethics and Compliance Committee: Approves our ethics and compliance program, which includes the Employee Code of Conduct. It informs and advises the GRC and the Board of Directors on significant compliance and regulatory issues and addresses appropriate corrective measures where patterns of non-compliance are discovered. The committee also oversees policies and procedures for programs such as Anti-Money Laundering, Know Your Client, Privacy, Conflicts of Interest and Insider Trading.
- Policy Review Committee: Responsible for the approval of (i) our risk management framework, (ii) enterprise-wide risk policies, (iii) new or changed products, services and initiatives with significant risk implications and (iv) risk measurement approaches and methodologies.
- Structured Transactions Oversight Committee: Provides risk oversight through the review of structured transactions and complex credits with potentially significant reputational, legal, regulatory, accounting or tax risks.
- U.S. Corporate Governance Committee: Responsible for oversight, monitoring and reporting with respect to corporate governance matters affecting our U.S. operations. The committee formally reviews significant risk issues that arise including regulatory and legal, strategic, reputational, credit, market, liquidity and operational risks.

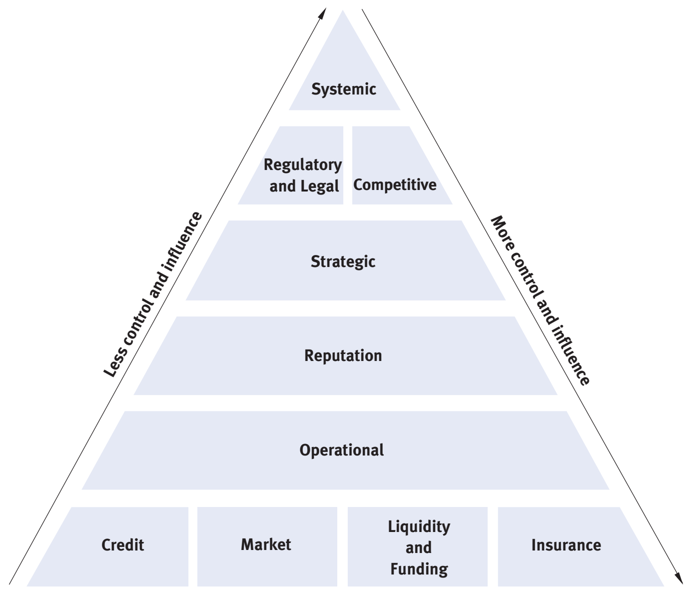
Risk management responsibilities of the business segments and Corporate Support include: (i) ownership and accountability of their risks, (ii) alignment of business strategy with corporate risk culture and risk appetite and (iii) identification, control and management of their risks.

Risk types

Risk is inherent in virtually all aspects of our business. We use the following pyramid graphic as a frame of reference for the identification and categorization of risks. Within the pyramid, risks are shown according to the level of control and influence that we can exert to manage each specific risk type. By strategically managing our risks, we seek to strike an optimal balance between risk and return. In addition, the risk pyramid provides us with a common language and discipline for evaluating risk in business reviews, new businesses, products, initiatives, acquisitions and alliances.

We have the greatest level of control and influence over credit risk, market risk, liquidity and funding risk, insurance risk and operational risk. In addition to these risks, which are discussed in the following sections, environmental risk is a component of a number of these risks and so its management is a significant factor in our overall risk management practices. We have a comprehensive set of environmental policies and sector-specific procedures designed to assess the environmental implications of any deal or project.

Risk Pyramid: Risk types



Basel II

Basel II is a new capital adequacy framework that will more closely align regulatory capital requirements with underlying economic risks, while encouraging improved risk management practices and market discipline. Taken together, these measures are intended to enhance the safety and soundness of the international financial industry. The Basel Committee on Banking Supervision, consisting of central banks and bank supervisors from 13 countries, approved the final text of the new framework in June 2004, after a five-year consultation period.

This new capital framework, which will replace the existing Basel Accord (1988), is comprehensive and far-reaching. It provides a menu of approaches for the calculation of regulatory capital, including the introduction of a new regulatory capital charge for operational risk.

Compliance will be mandatory for all internationally active banks in affected jurisdictions, however domestic regulators determine the timing of implementation in their respective jurisdictions. The OSFI has established November 1, 2007, as the official implementation date for Canada, following a one-year "parallel run" with the current framework.

Our Basel Program Management Office is responsible for co-ordinating the implementation initiative and ensuring enterprise-wide compliance with Basel II. While this is not a transformational initiative, there are opportunities to achieve internal efficiencies through the modernization and upgrading of risk practices, policies, processes and technologies, which enable us to manage credit, market and operational risk more efficiently and effectively.

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. It also refers to loss in market value due to the deterioration of a counterparty's financial position. A counterparty may be an issuer, debtor, borrower, reinsurer or guarantor.

Our risk appetite, in conjunction with a robust set of policies and procedures, guides the day-to-day management of credit risk exposure. In order to meet our corporate objectives, we aim to ensure earnings volatility and exposure to large single-name defaults are within our risk appetite, as agreed to by our Board of Directors, without jeopardizing our competitive position in the marketplace.

While the process of managing credit risk is centralized from a strategic perspective, ownership and accountability resides within the business segments. For example, our risk adjudication function, which is centralized within GRM, works closely with the business segments in order to ensure alignment between risk appetite and business strategies.

Measurement

Credit risk is measured on an ongoing basis in order to ensure management is aware of shifts in loan quality and portfolio performance. Critical measurement processes include credit scoring models, risk ratings and expected loss analysis.

Credit scoring models are used for underwriting and ongoing monitoring of consumer and small business credit. Applicant scoring is used for approval/adjudication purposes and utilizes established statistical methods of analyzing applicant characteristics and past performance to estimate future credit performance.

Each commercial and corporate counterparty is assigned an internal risk rating, which is similar to those of the public rating agencies. Each rating is based on a 22-point scale and is underpinned by methodologies developed by industry experts in GRM. The risk ratings quantify risk exposures facilitating the management of our portfolios and providing the ability to statistically predict default rates. The ratings are determined by analyzing the industry, business and financial risks of a counterparty. By keeping the process of assigning risk ratings within the GRM function, we ensure consistency of ratings on an enterprise-wide basis. In addition, the facilities approved for any particular counterparty are assigned a rating that quantifies the severity of loss given a default.

These risk ratings are used as the basis of determining our current one-year expected loss (EL) for the portfolio. EL is a forward-looking statistically based concept that provides a good indicator of credit quality trends.

Control

GRM establishes approval authorities, risk rating methodologies (as noted above), concentration limits and problem loan management protocol. These policies and procedures ensure that credit risks are thoroughly assessed and properly authorized, and that they are continuously monitored and controlled at both the individual client level and at the portfolio level.

Vigorous testing methods are in place to monitor the performance of the credit models and we continually evaluate our methodologies to ensure that our portfolios are managed within a range of acceptable outcomes.

Behavioural scoring is used for ongoing management of credit exposures in the consumer and small business credit portfolios. Behavioural scoring utilizes statistical techniques that capture past performance to predict future behaviour. Our behaviour scoring models incorporate information such as cash flow and borrowing trends, as well as the extent of our relationship with the customer. Combined with risk indicators from external sources, this tool has proven to be a leading indicator of risk for our existing accounts, and has identified significant opportunities for improving the risk/return trade-offs.

Credit risk is also managed through the use of: (i) Limits, (ii) Structuring, (iii) Credit derivatives, (iv) Loan sales and (v) Problem loan workout.

Limits are used to ensure our portfolio is well diversified and within our risk appetite as approved by the Board of Directors. A diversified portfolio is not overexposed to any given single name, industry sector, country or product. We have notional and Economic Capital limits for aggregate single-name and sector exposures. Country exposure is managed by a set of notional limits. Finally, product limits ensure we are not overexposed to any one structure.

Proper structuring of a credit facility is key in mitigating risk at the transaction level. This includes guarantees, collateral and covenants.

We also mitigate risk through credit derivatives that serve to transfer risk to a third party. As at October 31, 2005, credit mitigation was in place to cover $3.1 billion in credit exposure compared to $1.5 billion as at October 31, 2004. Procedures are in place that are designed to ensure these hedges are efficient and effective.

We identify and sell loans to borrowers whose risk/reward profiles no longer satisfy our requirements. Decisions on loan sales are made based on an assessment of the market price, our view of the underlying borrower risk as well as the impact on our overall portfolio.

To respond proactively to credit deterioration, a problem loan workout group with specialized expertise handles the management of problem loans. Solutions include collection, restructuring and selling of loans.

Reporting

Actionable, forward-looking and timely enterprise-level credit risk reports are provided to senior management and the Board of Directors on an ongoing basis to ensure any shifts in credit profile are highlighted. Key components of this reporting include a dashboard for consumer and small business lending, and overall analysis of the commercial and corporate portfolios including classification reporting.

The dashboard is a reporting mechanism in place for all consumer and small business loan portfolios. In order to assess and monitor shifts in portfolio quality, each portfolio is assigned one of the following portfolio quality trend indicators – declining, stable or improving. At year-end, over 90% of the portfolio balances reflect a stable or improving portfolio quality trend.

For commercial and corporate portfolios, a comprehensive analysis is provided. This includes reporting on significant shifts in exposures, expected loss, Economic Capital, risk rating and loan classifications. In addition, policy exceptions, large counterparty exposures, and significant counterparty downgrades are also reported. Analysis is provided on a portfolio basis and an industry sector basis. Results of stress testing and sensitivity analysis are also presented.

At year-end, expected losses on the commercial and corporate portfolios are stable. Stress and sensitivity tests simulating interest rate shocks and market disruptions indicate these portfolios are well positioned.

Credit portfolio analysis

2005 vs. 2004

During 2005, our credit portfolio continued to show strong growth across North America in both our consumer, and our business and government portfolios. This was driven by strong economic conditions in Canada and the U.S. High levels of business and consumer confidence combined with a low interest rate environment provided good conditions for this broad-based growth. Loans and acceptances net of allowance for loan losses increased 12% during 2005, compared to 6% during 2004. The portfolio mix did not change significantly from the prior year. The portfolio remains well balanced across residential mortgages (46%), business and government (30%), and personal (21%) while credit cards (3%) made up the residual balance.

Consumer loans grew 10% or $13.0 billion during 2005. Growth in residential mortgages and personal loans was offset by a slight decline in credit cards. Residential mortgages grew 11% or $9.0 billion. Most of this growth was in Canada ($8.6 billion) and was due to a strong housing market, driven by low interest rates, low unemployment rates and continued consumer confidence. Residential mortgages in the U.S. and Other International were also up. Personal loans grew $4.2 billion or 11% during the year. This increase is largely attributable to growth in credit lines due to the low interest rate environment and strong consumer spending.

Business and government loans grew by $7.3 billion or 14% during 2005, with most of the growth occurring in Canada. Growth was broad-based across small business, commercial and corporate clients. With respect to industry sectors, the largest increases occurred in energy ($2.2 billion), real estate and related ($1.6 billion) and financial services ($1.1 billion). Growth in these sectors was largely driven by increased demand.

Five-year trend

Over the last five years, there has been a change in the overall mix of the credit portfolio. The most significant change has been an increase in consumer loans compared to an overall decrease in business and government loans. This was driven by both positive economic conditions and sales efforts increasing the consumer portfolio while the size of the business and government portfolio has decreased due to our efforts to (i) reduce our exposure to certain risk sensitive areas, (ii) reduce single-name concentrations and (iii) exit non-core client relationships. These efforts are largely completed and, as discussed above, growth during 2005 was broad-based over both the consumer, and business and government portfolios.

Diversification by credit portfolio — **Table 40**

(C$ millions)	2005	2004	2003	2002	2001
Consumer					
Residential mortgages	$ 91,043	$ 81,998	$ 75,790	$ 72,840	$ 67,442
Personal	41,045	36,848	32,186	30,588	31,395
Credit card	6,200	6,456	4,816	4,914	4,283
Total consumer	138,288	125,302	112,792	108,342	103,120
Business and government					
Agriculture	5,509	5,207	4,955	5,039	5,571
Automotive (1)	2,637	2,451	2,427	2,164	1,825
Consumer goods	4,731	4,821	5,180	5,246	5,811
Energy	5,648	3,493	3,711	6,775	7,444
Financial services	2,661	1,609	2,315	5,518	8,238
Forest products	1,249	1,181	1,554	1,670	1,956
Government	2,444	2,319	2,096	1,323	1,733
Industrial products	3,229	2,887	3,012	3,728	5,206
Mining and metals	553	671	1,056	1,630	1,771
Real estate and related	13,977	12,420	12,463	11,673	10,830
Technology and media	2,310	2,192	2,782	4,630	5,986
Transportation and environment (1)	2,062	2,749	3,290	4,518	4,314
Other	13,690	11,442	10,759	13,568	14,499
Total business and government (2)	60,700	53,442	55,600	67,482	75,184
Total loans and acceptances	$ 198,988	$ 178,744	$ 168,392	$ 175,824	$ 178,304
Total allowance for loan losses	(1,498)	(1,644)	(2,055)	(2,203)	(2,278)
Total loans and acceptances, net of allowance for loan losses	$ 197,490	$ 177,100	$ 166,337	$ 173,621	$ 176,026

(1) Commencing in 2002, certain amounts were reclassified from the transportation and environment sector grouping to the automotive group.
(2) Includes Small business loans of $10,757 million in 2005 (2004 – $10,137 million; 2003 – $9,705 million; 2002 – $9,470 million; 2001 – $9,788 million). For further details, see Table 52 in the Additional financial information section.

Diversification by geographical area (1) — **Table 41**

(C$ millions)	2005	2004	2003	2002	2001
Geographical area					
Canada					
Residential mortgages	$ 88,808	$ 80,168	$ 73,978	$ 67,700	$ 64,066
Personal	33,986	30,415	26,445	24,550	26,086
Credit cards	6,024	6,298	4,663	4,740	4,110
Business and government	44,929	37,783	36,576	41,585	48,428
Total Canada	173,747	154,664	141,662	138,575	142,690
United States					
Residential mortgages	1,375	1,053	1,067	4,351	2,664
Personal	6,248	5,849	5,015	5,269	4,621
Credit cards	118	108	107	125	128
Business and government	12,317	11,698	13,213	16,537	15,972
Total United States	20,058	18,708	19,402	26,282	23,385
Other International					
Residential mortgages	860	777	745	789	712
Personal	811	584	726	769	688
Credit cards	58	50	46	49	45
Business and government	3,454	3,961	5,811	9,360	10,784
Total Other International	5,183	5,372	7,328	10,967	12,229
Total loans and acceptances	$ 198,988	$ 178,744	$ 168,392	$ 175,824	$ 178,304
Total allowance for loan losses	(1,498)	(1,644)	(2,055)	(2,203)	(2,278)
Total loans and acceptances, net of allowance for loan losses	$ 197,490	$ 177,100	$ 166,337	$ 173,621	$ 176,026

(1) Based on residence of borrower.

Impaired loans

Loans are generally classified as impaired (meaning interest is not being accrued) when there is no longer reasonable assurance of timely collection of the full amount of principal or interest. Refer to Note 1 to our Consolidated Financial Statements for additional details.

2005 vs. 2004

Gross impaired loans decreased $485 million or 39% during the year. This was largely due to resolution efforts, resulting in a number of problem accounts being repaid, sold or written off. In addition, the strong credit environment has resulted in fewer new problem loans. The decrease occurred across all geographic areas served, but mainly in Canada and the U.S. and across all portfolios, but most significantly in the business and government portfolio. The reductions in the business and government portfolio occurred across almost all sectors, with the majority realized in forest products, energy, agriculture and technology and media. The large decrease in the forest products portfolio was due to a significant repayment relating to a Canadian company.

Gross impaired loans as a percentage of loans and acceptances decreased from .70% last year to .39% largely driven by reductions in the business and government portfolio.

Five-year trend

There has been a steady decline in gross impaired loans from a high of $2,465 million in 2001 and this trend was consistent in Canada, the U.S. and Other International. This trend mainly reflects our portfolio quality and favourable credit and economic conditions over this period.

Impaired loans by credit portfolio — Table 42

(C$ millions, except percentage amounts)	2005	2004	2003	2002	2001
Consumer					
Residential mortgages	$ 136	$ 146	$ 131	$ 131	$ 179
Personal	169	189	235	306	325
Total consumer	$ 305	$ 335	$ 366	$ 437	$ 504
Business and government					
Agriculture	48	89	146	159	111
Automotive	2	4	7	39	51
Consumer goods	53	36	48	57	20
Energy	46	162	240	243	30
Financial services	16	14	45	77	90
Forest products	10	151	169	199	205
Industrial products	2	38	25	53	55
Mining and metals	3	8	57	128	1
Real estate and related	54	84	97	115	198
Small business (1)	108	142	169	205	261
Technology and media	48	86	122	225	402
Transportation and environment	8	12	136	206	365
Other	71	98	118	145	172
Total business and government	469	924	1,379	1,851	1,961
Total impaired loans (2), (3)	$ 774	$ 1,259	$ 1,745	$ 2,288	$ 2,465
Specific allowance for credit losses	$ (282)	$ (487)	$ (757)	$ (894)	$ (982)
Net impaired loans	$ 492	$ 772	$ 988	$ 1,394	$ 1,483
By geographical area					
Canada	$ 503	$ 783	$ 1,064	$ 1,272	$ 1,623
United States	189	376	361	584	626
Other International	82	100	320	432	216
Total impaired loans	$ 774	$ 1,259	$ 1,745	$ 2,288	$ 2,465
Gross impaired loans as a % of loans and acceptances:					
Consumer					
Residential mortgages	.15%	.18%	.17%	.18%	.27%
Personal	.36	.51	.73	1.00	1.04
Total consumer	.22	.27	.32	.40	.49
Business and government	.77	1.73	2.48	2.74	2.61
Total	.39%	.70%	1.04%	1.30%	1.38%
Specific allowance for credit losses as a % of gross impaired loans	36.43%	38.68%	43.38%	39.07%	39.84%

(1) Includes government guaranteed portions of impaired loans of $18 million in small business in 2005 (2004 – $24 million; 2003 – $39 million; 2002 – $64 million; 2001 – $95 million) and $5 million in agriculture (2004 – $9 million; 2003 – $9 million; 2002 – $10 million; 2001 – $6 million).
(2) Includes foreclosed assets of $17 million in 2005 (2004 – $27 million; 2003 – $34 million; 2002 – $32 million; 2001 – $37 million).
(3) Past due loans greater than 90 days not included in impaired loans was $304 million in 2005 (2004 – $219 million; 2003 – $222 million; 2002 – $217 million; 2001 – $245 million).

Provision for credit losses

The provision for credit losses is charged to income by an amount necessary to bring the allowance for credit losses to a level determined appropriate by senior management, as discussed in the Critical accounting policies and estimates section and Note 1 to our Consolidated Financial Statements.

2005 vs. 2004

Total provision for credit losses increased by $109 million or 32% from a year ago. The increase was mainly due to the reversal of $175 million in the general allowance in 2004 and higher specific provisions on personal credit lines and credit cards due to portfolio growth in 2005. This was partially offset by higher corporate recoveries in the current period particularly in the energy and forest products portfolios.

Specific provision for credit losses for consumer loans increased $59 million or 15% from a year ago. The increase was largely due to higher provisions in our personal loans and credit card portfolios reflecting portfolio growth. The increase was partially offset by a year-over-year decrease in the student loan portfolio, as it is being run-off.

Specific provisions on the business and government portfolio changed by $191 million reflecting the difference between the recovery of credit losses of $66 million in 2005 and the provision for credit losses of $125 million in the prior year. This change largely reflected higher corporate recoveries mainly in the forest products, energy and agriculture sectors and lower provisions for small businesses in 2005.

Also contributing to the change was the transfer of $52 million of specific allowances to the general allowance in 2005, which was required as part of our realignment of our enterprise-wide accounting treatment for the allowance for credit losses.

By geographical region, specific provisions were down $164 million in the U.S. largely reflecting corporate recoveries, and up $22 million in Canada mainly due to consumer portfolio growth.

General provisions for credit losses of $66 million in 2005 compared to the recovery of credit losses of $175 million in 2004. General provisions for credit losses in 2005 primarily reflected the $52 million transfer of specific allowance to general allowance in 2005 as previously noted. The recovery of credit losses in 2004 reflected the $175 million reversal of the general allowance.

The specific provisions for credit losses for 2005 were $389 million or .21% of average loans and acceptances, compared to $521 million or .30% in 2004. The 2005 ratio includes the effect of the $52 million transfer of the specific allowance to the general allowance, which decreased this ratio by .03%.

Five-year trend

Over the last five years, there has been a decreasing trend with respect to provision for credit losses. This is consistent with the overall improving credit environment and our efforts to reduce our exposure to certain risk sensitive areas.

Provision for credit losses by portfolio — Table 43

(C$ millions, except percentage amounts)	2005	2004	2003	2002	2001
Consumer					
Residential mortgages	$ 2	$ 7	$ 8	$ 2	$ 9
Personal	259	222	254	289	270
Credit card	194	167	155	140	127
Total consumer	455	396	417	431	406
Business and government					
Agriculture	(12)	7	–	22	20
Automotive	–	1	(1)	1	24
Consumer goods	21	(19)	10	17	2
Energy	(20)	50	78	145	9
Financial services	10	–	(1)	(6)	(12)
Forest products	(53)	3	13	4	7
Industrial products	(9)	5	1	(2)	17
Mining and metals	(1)	(4)	5	27	–
Real estate and related	(15)	(7)	(12)	(16)	87
Small business	44	75	77	110	164
Technology and media	(7)	1	30	298	298
Transportation and environment	7	(35)	77	2	21
Other	(31)	48	27	32	6
Total business and government	$ (66)	$ 125	$ 304	$ 634	$ 643
Total specific provision for loan losses	$ 389	$ 521	$ 721	$ 1,065	$ 1,049
Total general provision	$ 66	$ (175)	$ –	$ –	$ 70
Total provision for credit losses	$ 455	$ 346	$ 721	$ 1,065	$ 1,119
By geographical area					
Canada	435	$ 413	$ 527	$ 529	$ 689
United States	(45)	119	108	440	377
Other International	(1)	(11)	86	96	(17)
Total specific provision for loan losses	$ 389	$ 521	$ 721	$ 1,065	$ 1,049
Total general provision	$ 66	$ (175)	$ –	$ –	$ 70
Total provision for credit losses	$ 455	$ 346	$ 721	$ 1,065	$ 1,119
Specific provision as a % of average loans and acceptances	.21%	.30%	.43%	.62%	.62%

Allowance for credit losses

The allowance for credit losses is maintained at a level that management believes is sufficient to absorb probable losses in both the on- and off-balance sheet portfolios. The allowance is evaluated quarterly based on our assessment of problem accounts, recent loss experience and changes in other factors, including the composition and quality of the portfolio and economic conditions. The allowance is increased by the provision for credit losses (which is charged to income) and decreased by the amount of write-offs, net of recoveries. Refer to the Critical accounting policies and estimates section and Note 1 to our Consolidated Financial Statements for additional details.

2005 vs. 2004

The allowance for credit losses decreased by $146 million or 9% on a year-over-year basis. Specific allowances decreased by $205 million or $153 million excluding the transfer of $52 million of specific allowances to the general allowance in 2005 as discussed earlier. This decrease was in line with the reduction in impaired loans over the same period. Excluding the transfer mentioned above, the general allowance remained relatively stable as the credit quality of individual portfolios and economic conditions remained healthy.

During the year, write-offs, net of recoveries, declined to $596 million or .32% of average loans and acceptances, from $785 million or .46% a year ago. This decline is consistent with the favourable credit environment.

Five-year trend

The allowance levels have been declining since 2001 in line with lower impaired loans, the majority of which were in the business and government portfolio due to an improving North American economy over the five-year period.

Allowance for credit losses by credit portfolio — Table 44

(C$ millions, except percentage amounts)	2005	2004	2003	2002	2001
Allowance at beginning of year	$ 1,714	$ 2,164	$ 2,314	$ 2,392	$ 1,975
Provision for credit losses	455	346	721	1,065	1,119
Write-offs by portfolio					
Consumer					
Residential mortgages	(5)	(7)	(10)	(12)	(24)
Personal	(347)	(325)	(373)	(398)	(401)
Credit card	(237)	(207)	(192)	(178)	(171)
Total consumer	$ (589)	$ (539)	$ (575)	$ (588)	$ (596)
Business and government	(181)	(462)	(407)	(836)	(529)
LDC exposures		–	–	(33)	–
Total write-offs by portfolio	$ (770)	$ (1,001)	$ (982)	$ (1,457)	$ (1,125)
Recoveries by portfolio					
Consumer					
Residential mortgages	–	–	–	–	–
Personal	69	68	68	70	67
Credit card	43	39	37	38	44
Total consumer	$ 112	$ 107	$ 105	$ 108	$ 111
Business and government	62	109	65	90	74
Total recoveries business and government	$ 174	$ 216	$ 170	$ 198	$ 185
Net write-offs	$ (596)	$ (785)	$ (812)	$ (1,259)	$ (940)
Adjustments (1)	(5)	(11)	(59)	116	238
Total allowance for credit losses at end of year	$ 1,568	$ 1,714	$ 2,164	$ 2,314	$ 2,392
By geographical area					
Canada	$ 1,135	$ 1,197	$ 1,377	$ 1,442	$ 1,550
United States	298	257	280	380	391
Other International	65	190	398	381	337
Total allowance for loan losses	$ 1,498	$ 1,644	$ 2,055	$ 2,203	$ 2,278
Allowance for off-balance sheet and other items	70	70	109	111	114
Total allowance for credit losses	$ 1,568	$ 1,714	$ 2,164	$ 2,314	$ 2,392
Allowance for credit losses					
Specific	$ 282	$ 487	$ 757	$ 894	$ 951
Country risk	–	–	–	–	31
General allowance	1,286	1,227	1,407	1,420	1,410
Total allowance for credit losses	$ 1,568	$ 1,714	$ 2,164	$ 2,314	$ 2,392
As a % of loans and acceptances	.8%	1.0%	1.3%	1.3%	1.3%
As a % of impaired loans (coverage ratio), excluding LDCs	203%	136%	124%	103%	97%
Net write-offs (excluding LDCs) as a % of average loans and acceptances	.32%	.46%	.49%	.72%	.56%
Net write-offs as a % of average loans and acceptances	.32%	.46%	.49%	.74%	.56%

(1) Other adjustments include primarily foreign exchange translations on non-Canadian dollar denominated allowance for credit losses and acquisition adjustments for: Provident Financial Group Inc. $6 million in Q1/04; Admiralty Bancorp, Inc. $8 million in Q1/03; Eagle Bancshares, Inc. $18 million in Q3/02; and RBC Centura $157 million in 2001.

Market risk is the risk of loss that results from changes in interest rates, foreign exchange rates, equity prices and commodity prices. The level of market risk to which we are exposed varies depending on market conditions, expectations of future price and market movements, and the composition of our trading portfolio. We attract market risk in our trading activity and asset and liability management activities. Trading market risk encompasses various risks associated with activities in the equity, foreign exchange, commodities, interest rate and credit markets. Asset and liability management is largely related to the interest rate risk resulting from traditional banking activities such as deposit taking and lending.

Market risk is comprised of the following components:

- Interest rate risk – the potential adverse impact on our earnings and economic value due to changes in interest rates. It is composed of: (i) repricing risk – arising from differences in the maturity of timing of repricing of the assets, liabilities and off-balance sheet instruments, (ii) directional risk – arising from parallel shifts in the yield curve, (iii) yield curve risk – arising from changing rate relationships across a spectrum of maturities, (iv) basis risk – resulting from an imperfect hedge of one instrument type by another instrument type whose changes in price or yield as a result of a change in interest rates are not identical and (v) option risks – from changes in the value of embedded options due to changes in interest rates. Most of our holdings in financial instruments result in exposure to interest rate risk.
- Foreign exchange rate risk – the potential adverse impact on our earnings and economic value due to currency rate movements and volatilities. In our proprietary positions, we are exposed to the spot, forward and derivative markets.
- Equity risk – the potential adverse impact on our earnings due to movements in individual equity prices or general movements in the level of the stock market. We are exposed to equity risk from the buying and selling of equities as principal in conjunction with our investment banking activities and from our trading activities, which include tailored equity derivative products, arbitrage trading and proprietary trading.
- Commodities risk – the potential adverse impact on our earnings and economic value due to commodities price movements and volatilities. Specific commodities traded may include crude oil, heating oil and natural gas. In our proprietary positions, we are exposed to the spot, forwards and derivative markets.
- Debt specific risk – the potential adverse impact on our earnings and economic value due to changes in the creditworthiness and credit ratings of issuers of bonds and money market instruments, or the names underlying credit derivatives.
- Credit spread risk – the potential adverse impact on our earnings and economic value due to changes in the credit spreads associated with issuers of bonds and money market instruments, or credit derivatives.

Trading market risk

We conduct trading activities over-the-counter and on exchanges in the spot, forward, futures and options markets, and we participate in structured derivative transactions. Market risks associated with trading activities are a result of market-making, positioning, and sales and arbitrage activities in the interest rate, foreign exchange, equity, commodities and credit markets. Our trading operation primarily acts as a market maker, executing transactions that meet the financial requirements of our clients and transferring the market risks to the broad financial market. We also act as principal and take proprietary market risk positions within the authorizations granted by the Board of Directors. The trading book consists of positions that are held for short-term resale, taken on with the intent of benefiting in the short term from actual or expected differences between their buying and selling prices or to lock in arbitrage profits.

The independent oversight of trading market risk management activities is the responsibility of GRM – Market Risk and Trading Credit, which includes geographic units in Toronto, London, New York and Sydney. Market Risk and Trading Credit establishes market risk limits, quantitative techniques and analytical tools, vets trading models and systems, maintains the Value-At-Risk (VAR) system, and provides enterprise risk reporting on trading activities. This group also provides independent oversight on trading activities, including the establishment and administration of specific trading limits, market risk compliance, risk analytics, and the review and oversight of non-traditional or complex transactions.

Measurement

We employ risk measurement tools such as VAR, sensitivity analysis and stress testing. GRM uses these measures to assess global risk-return trends and to alert senior management of adverse trends or positions.

VAR is a statistical technique that measures the range of market losses over a specified holding period expressed in terms of a specific confidence interval. VAR is the worst-case loss expected over the period within the probability set out by the confidence interval. Larger losses are possible, but with low probability. For example, based on a 99% confidence interval, a portfolio with a VAR of $15 million held over one day would have a one in one hundred chance of suffering a loss greater than $15 million in that day.

To ensure VAR effectively captures our market risk, we continuously monitor and enhance our methodology. Daily back-testing against hypothetical profit and loss is used to monitor the statistical validity of VAR models.

Sensitivity analysis is used to measure the impact of small changes in individual risk factors such as interest rates and foreign exchange rates and is designed to isolate and quantify exposure to the underlying risk factors that affect option prices. Stress testing is used to measure the impact of extreme market movements and is intended to alert senior management to our exposure to potential political, economic or other disruptive events.

Control

A comprehensive risk policy framework governs trading-related risks and activities and provides guidance to trading management, middle office compliance functions and operations. We employ an extensive set of principles, rules, controls and limits, which is in line with industry best practice. Our market risk management framework is designed to ensure that our risks are appropriately diversified on a global basis.

Reporting

GRM provides an independent assessment of market risk and trading performance. Reports on trading risks are provided to the Chief Risk Officer (CRO) and the Operating Committee meeting of RBC Capital Markets on a weekly basis and to senior management on a daily basis. Enterprise-wide reporting is used to monitor compliance against VAR and stress limits approved by the Board of Directors, and the operating limits derived from these board limits. In addition to this monitoring, the Market Risk function pre-approves excesses and reports any breach to the CRO and the Operating Committee of RBC Capital Markets. The Market Risk function is responsible for the determination and reporting of regulatory capital requirements for market risk. It also provides assurance to regulators in regular filings, on reporting accuracy, timeliness and the functioning of statistical models within approved confidence levels.

Global VAR by major risk category — Table 45

(C$ millions)	2005 Year-end	2005 High	2005 Average	2005 Low	2004 Year-end	2004 High	2004 Average	2004 Low	2003 Year-end	2003 High	2003 Average	2003 Low
Equity	$ 7	$ 10	$ 6	$ 4	$ 4	$ 20	$ 8	$ 4	$ 4	$ 12	$ 7	$ 4
Foreign exchange	1	5	2	1	2	5	2	1	2	7	3	1
Commodities (1)	1	2	1	–	–	–	–	–	–	–	–	–
Interest rate (2), (3)	12	16	10	6	8	14	9	6	8	13	9	6
Debt specific (3)	2	3	2	1	2	2	1	1	–	–	–	–
Global VAR	$ 15	$ 17	$ 12	$ 8	$ 10	$ 25	$ 13	$ 8	$ 8	$ 19	$ 13	$ 8

(1) Commodities reflect market risk for energy-related trading activities such as crude, heating oil or natural gas. Effective May 2005, these activities have been included in our models and reported alongside other market risk trading activities. Prior to this period these activities had been subject to the standardized approach for capital allocation.
(2) Also includes credit spread risk.
(3) Prior to 2004, interest rate and debt specific risk were reported in aggregate as interest rate risk.

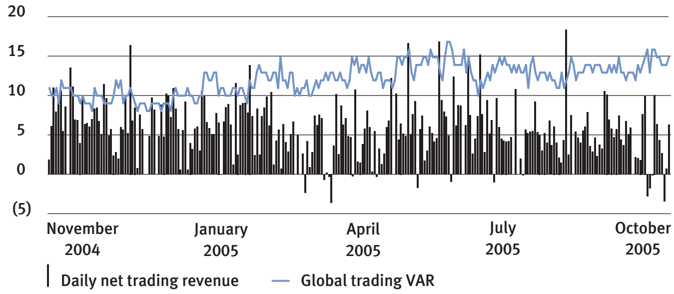
2005 Analysis

The year-end, high, average and low VAR by major risk category for our combined trading activities as at year-end are shown in the table above. The table also shows our global VAR, which incorporates the effects of correlation in the movements of interest rates, exchange rates, equity prices and commodity prices and highlights the benefit of diversification within our trading portfolio. Effective May 2005, commodity-trading activities were included in our models based approach for capital allocation. As a result, these activities are now reported alongside other market risk trading activities and are included in our enterprise-wide market risk framework. Prior to this period, these activities were subject to the standardized approach for capital allocation.

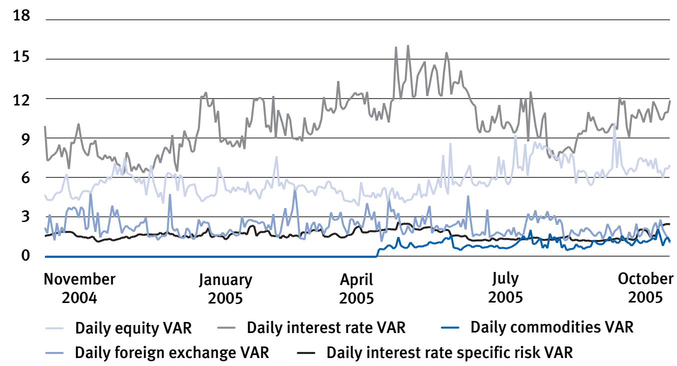
The year-over-year drop in average and high Equity VAR is due to a larger than usual value in the previous period due to a large residual underwriting position which was present in 2004. This position caused a much larger than usual VAR for both the equity component and also for the Global VAR. The overall VAR decreased slightly from 2004 to 2005. The impact from the decrease in the Equity VAR was offset by the higher levels of Interest Rate VAR which occurred throughout the second and third quarter of 2005 as noted above.

The Daily Net Trading Revenue versus Global Trading VAR indicates that we experienced five days of net trading losses, and net trading losses in any single day did not exceed the VAR estimate for that day. The breadth of our trading activities is designed to diversify market risk to any particular strategy, and to reduce trading revenue volatility.

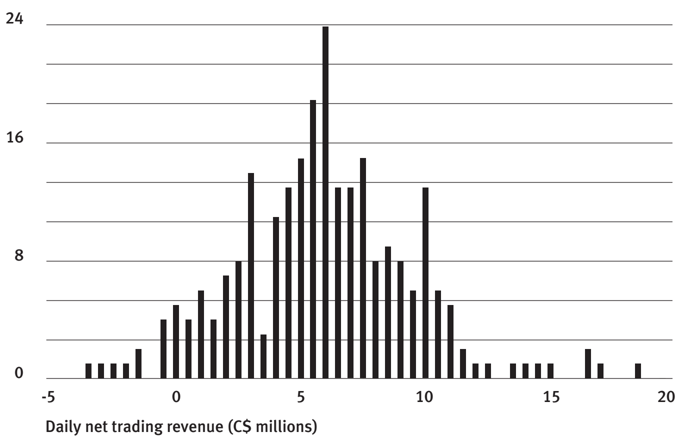
DAILY NET TRADING REVENUE AND GLOBAL TRADING VAR
(C$ millions)



2005 GLOBAL VAR BY MAJOR RISK CATEGORY
(C$ millions)



HISTOGRAM OF DAILY NET TRADING REVENUE
(number of days)



Asset and liability management

Traditional non-trading banking activities, such as deposit taking and lending, expose us to market risk, of which interest rate risk is the largest component.

While our individual subsidiaries and business segments manage the daily activities, our Corporate Treasury group is responsible for managing our enterprise-wide interest rate risk, monitoring approved limits and compliance with policies and operating standards. Our Asset and Liability Committee (ALCO) provides oversight to Corporate Treasury. ALCO reviews policy developed by Corporate Treasury and provides recommendations to CR&RPC for approval.

Measurement and funds transfer pricing

We endeavour to keep pace with best practices in instrument valuation, econometric modeling and new hedging techniques on an ongoing basis. Our investigations range from the evaluation of traditional asset/liability management processes to pro forma application of recent developments in quantitative methods.

We use a funds transfer pricing mechanism at the transaction level to transfer interest rate risk to Corporate Treasury and to quantify the spread earned by the various products. The funds transfer pricing rates are market-based and are aligned with interest rate risk management principles. They are supported by empirical research into client behaviour and are an integral input to the retail business pricing decisions.

We also focus on developing retail product valuation models that incorporate the impact of consumer behaviour. These valuation models are typically derived through econometric estimation of consumer exercise of options embedded in retail products. The most significant embedded options are mortgage rate commitments and prepayment options. In addition, we model the sensitivity of the value of deposits with an indefinite maturity to interest rate changes.

Our risk position is measured daily, weekly or monthly based on the size and complexity of the portfolio. Measurement of risk is based on client rates as well as funds transfer pricing rates. Key rate analysis is utilized as a primary tool for risk management. It provides us with an assessment of the sensitivity of the exposure of our economic value of equity to instantaneous changes in individual points on the yield curve.

We supplement our assessment by measuring interest rate risk for a range of dynamic and static market scenarios. Dynamic scenarios simulate our interest income in response to various combinations of business and market factors. Business factors include assumptions about future pricing strategies and volume and mix of new business, whereas market factors include assumed changes in interest rate levels and changes in the shape of the yield curve. Static scenarios supplement dynamic scenarios and are employed for assessing the risks to the value of equity and net interest income.

Control

The interest rate risk policies define the management standards and acceptable limits within which risks to net interest income over a 12-month horizon, and the economic value of equity, are to be contained. These ranges are based on immediate and sustained ± 200 basis point parallel shift of the yield curve. The limit for net interest income risk is 6% of projected net interest income, and for economic value of equity risk is 12% of projected common equity. The economic value of equity is equal to the net present value of our assets, liabilities and off-balance sheet instruments. Interest rate risk policies and limits are reviewed annually.

Our goal is to manage the interest rate risk of the non-trading balance sheet to a target level. We modify the risk profile of the balance sheet through proactive hedging to achieve our target level. We continually monitor the effectiveness of our interest rate risk mitigation activity within Corporate Treasury on a value basis. As a part of this exercise, the model assumptions are validated against actual client behaviour.

Reporting

The individual subsidiaries and business segments report the interest rate risk management activity on a monthly basis. An annual assessment of management's performance is submitted to ALCO.

The individual subsidiaries and business segments must immediately report any exceptions to the established policy to Corporate Treasury and seek approval of the corrective actions.

Market risk measures – Non-trading activities — Table 46

(C$ millions)	2005 Economic value of equity risk	2005 Net interest income risk	2004 Economic value of equity risk	2004 Net interest income risk	2003 Economic value of equity risk	2003 Net interest income risk
Before-tax impact of: 100bp increase in rates	$ (435)	$ 106	$ (412)	$ 70	$ (423)	$ 115
100bp decrease in rates	291	(181)	215	(150)	261	(126)
Before-tax impact of: 200bp increase in rates	(920)	162	(882)	107	(869)	207
200bp decrease in rates	461	(365)	405	(314)	545	(294)

2005 Analysis

The above table provides the potential before-tax impact of an immediate and sustained 100 basis point and 200 basis point increase or decrease in interest rates on net interest income and economic value of equity of our non-trading portfolio, assuming that no further hedging is undertaken. These measures are based upon assumptions made by senior management and validated by empirical research. All interest rate risk measures are based upon interest rate exposures at a specific time and continuously change as a result of business activities and our risk management initiatives. Over the course of 2005, our interest rate risk exposure was well within our target level.

LIQUIDITY AND FUNDING RISK

Liquidity and funding risk arises when an institution is unable to obtain sufficient cash or its equivalent in a timely and cost-effective manner to meet its commitments as they come due.

Framework

Our liquidity and funding management framework is designed to ensure that reliable and cost-effective sources of cash or its equivalents are available to satisfy our current and prospective financial commitments under normal and contemplated stress conditions. To achieve this goal, we are dedicated to the preservation of the following key liquidity and funding risk mitigation strategies:

- A large base of core customer deposits,
- Continual access to diversified sources of wholesale funding, and
- A comprehensive and enterprise-wide liquidity contingency plan supported by an earmarked pool of unencumbered marketable securities (referred to as "contingency liquidity assets") that provide assured access to cash in a crisis.

On a consolidated basis, our liquidity and funding management practices and processes reinforce these risk mitigation strategies by assigning prudential limits to or targets for these activities and regularly measuring and monitoring various sources of liquidity risk.

The responsibility for oversight and implementation of our liquidity and funding management framework is shared by senior management and the Board of Directors.

- The Audit Committee approves our liquidity and funding management framework, pledging framework and liquidity contingency plan, and the Board of Directors is informed on a periodic basis about our current and prospective liquidity condition.
- The GRC and the Asset and Liability Committee share management oversight responsibility for liquidity and funding policies and receive regular reports detailing compliance with limits and guidelines.
- Corporate Treasury has global responsibility for the development of liquidity and funding management policies, strategies and contingency plans and for recommending and monitoring limits within the framework. In this role, Corporate Treasury is assisted by GRM.
- Treasury departments of business platforms and key subsidiaries execute transactions in line with liquidity management policies and strategies.

Policies and procedures

Our principal liquidity and funding policies are reviewed and approved annually by the Board of Directors and senior management committees. These broad policies authorize senior management committees or Corporate Treasury to approve more detailed policies and limits on specific topics. Policies and procedures govern management, measurement and reporting requirements and define approved liquidity and funding limits.

Measurement

The assessment of our liquidity position reflects management estimates and judgments pertaining to current and prospective firm-specific and market conditions and the related behaviour of our customers and counterparties. Since we provide the majority of funding to our subsidiaries, we manage our liquidity position on a consolidated basis. We consider legal, regulatory, tax, operational and any other restrictions when analyzing our ability to lend or borrow funds between our legal entities. Subsidiaries are responsible for managing their own liquidity in compliance with policies and practices established under advice and counsel by Corporate Treasury and within governing regulatory requirements.

We measure our liquidity condition from three risk perspectives: structural, tactical and contingent.

Structural liquidity risk management addresses the risk due to mismatches in effective maturities between assets and liabilities, more specifically the risk of over-reliance on short-term liabilities to fund longer-term illiquid assets. We use the cash capital methodology to assist in the evaluation of balance sheet liquidity and determination of the appropriate term structure of our debt financing. It also allows us to measure and monitor the relationship between illiquid assets and core funding, including our exposure to a protracted loss of unsecured wholesale deposits.

Tactical liquidity risk management addresses our normal day-to-day funding requirements, which are managed by imposing prudential limits on net fund outflows in Canadian dollar and foreign currencies for key short-term time horizons, as well as on our pledging activities, which are subject to an enterprise-wide framework that assigns risk-adjusted limits to all transaction types. Pledged assets include a pool of eligible assets that are reserved exclusively to support our participation in Canadian payment and settlement systems.

Contingent liquidity risk management addresses the risk of and our intended responses to general market disruptions or adverse economic developments which could jeopardize our ability to meet commitments. The liquidity contingency plan identifies comprehensive action plans that would be implemented under different market scenarios of varying duration and severity. Corporate Treasury maintains and administers the liquidity contingency plan. The Liquidity Crisis Team meets regularly to engage in stress and scenario test exercises and to modify the liquidity contingency plan in light of lessons learned.

We maintain a segregated portfolio of contingency liquidity assets to address potential on- and off-balance sheet liquidity exposures (e.g., deposit erosion, loan drawdowns and higher collateral demands) analyzed through models we have developed or identified by our scenario analyses and stress tests. Minimum holdings and strict eligibility guidelines are imposed on these assets to ensure ready access to cash in emergencies.

Liquid assets and assets purchased under reverse repurchase agreements and securities borrowed (before pledging as detailed below) totalled $213 billion or 45% of total assets at October 31, 2005, as compared to $185 billion or 43% at October 31, 2004. Liquid assets are primarily a diversified pool of highly rated marketable securities. As at October 31, 2005, $15 billion of assets had been pledged as collateral, down from $18 billion at October 31, 2004. We have another $52 billion in obligations related to assets sold under repurchase agreements and securities loaned and securities sold short at October 31, 2005 compared to $45 billion at October 31, 2004. For further details, see Note 25 to our Consolidated Financial Statements.

Control

Targets for our structural liquidity position are approved at least annually and monitored regularly.

With respect to net short-term funding requirements, all limits are monitored regularly to ensure compliance. The prescribed treatment of cash flow assets and liabilities under varying conditions are reviewed periodically to determine if they remain valid or changes to assumptions and limits are required in light of internal and/or external developments.

Reporting

Detailed reports on our principal short-term asset/liability mismatches are monitored on a daily basis to ensure compliance with the limits for overall group exposure and by major currency and geographic locations. As set out in our liquidity and funding management framework, any potential exceptions to established limits on net fund outflows or other rules, whether monitored on a daily, weekly or monthly basis, are reported immediately to Corporate Treasury which provides or arranges for approval after reviewing a remedial action plan.

Funding

Funding strategy

Diversification of funding sources is a crucial component of our overall liquidity management strategy. Diversification expands our funding flexibility while minimizing funding concentration and dependency and generally reducing financing costs. Maintaining competitive credit ratings is also key to cost-effective funding. Core funding, comprising capital, longer-term liabilities and a diversified pool of personal and, to a lesser extent, commercial deposits, is the foundation of our strong structural liquidity position.

Credit ratings

Our ability to access unsecured funding markets and to engage in certain collateralized business activities on a cost-effective basis is primarily dependent upon maintaining competitive credit ratings. Our credit ratings are largely determined by the quality of our earnings, the adequacy of our capital and the effectiveness of our risk management programs. We estimate, based on periodic reviews of ratings triggers embedded in our existing businesses and of our funding capacity sensitivity, that a minor downgrade would not materially influence our liability composition, funding access, collateral usage and associated costs. However, a series of downgrades could have adverse consequences for our funding capacity, collateral requirements and on the results of our operations.

Credit ratings — Table 47

As at October 31, 2005	Short-term debt	Senior long-term debt
Moody's Investor Services	P-1	Aa2
Standard & Poor's	A-1+	AA-
Fitch Ratings	F1+	AA
Dominion Bond Rating Service	R-1(middle)	AA(low)

Our major credit ratings remained unchanged during 2005. However, during the first quarter of 2005, Standard & Poor's changed its rating outlook on our senior debt to negative from stable, citing concerns relating to our U.S. banking operations. Moody's rating remained unchanged at Aa2 with a stable outlook.

These strong credit ratings support our ability to competitively access unsecured funding markets.

All of our ratings are among the highest categories assigned by the respective agencies to a Canadian bank (our current ratings are at par with, or at a one-notch premium to, our major Canadian banking peers). Internationally, we were again ranked among the World's Safest Banks (based on *Global Finance*'s latest top 50 ranking) and were second highest among North American banks.

Citing our improved financial performance, Fitch Ratings removed its Rating Negative Watch on our ratings, which had been in effect since late last year. Standard & Poor's has reaffirmed their outlook in the fourth quarter of 2005 despite recognizing the improvement in our U.S. banking operations, citing new concerns they have relating to our potential exposure to Enron-related matters.

Deposit profile

The composition of our global deposit liabilities is summarized in Note 12 to our Consolidated Financial Statements. In 2005, personal deposits remained the prime source of funding for our Canadian dollar balance sheet while most foreign currency deposits originated from unsecured, wholesale sources, including large corporate and institutional clients and foreign commercial and central banks.

Our personal deposit franchise constitutes the principal source of constant funding while certain commercial and institutional client groups also maintain relational balances with low volatility profiles. Taken together, these customers represent a highly stable supply of core deposits in most prospective environments as they typically are less responsive to market developments than transactional lenders and investors due to the impact of deposit insurance and extensive and, at times, exclusive relationships with us. As at October 31, 2005, our core deposits represented about 55% of our total deposits. We encourage wholesale funding diversity and regularly review sources of short-term funds to ensure they are well diversified by provider, product, market and geographic origin. In addition, we maintain an ongoing presence in different funding markets, which allows us to constantly monitor market developments and trends in order to identify opportunities and risks and to take appropriate and timely actions.

Term funding sources — Table 48

(C$ millions)	2005	2004	2003
Long-term funding outstanding	$ 24,004	$ 18,831	$ 20,442
Total mortgage-backed securities sold	8,487	5,983	2,936
Commercial mortgage loans financed through notes issued by a securitization SPE	1,237	603	129
Credit card receivables financed through notes issued by a securitization SPE	2,500	1,900	2,675

Our long-term funding sources are managed to minimize cost by limiting concentration by geographic location, investor segment, currency and maturity profile. In addition, liquidity objectives, market conditions, interest rates, credit spreads and desired financial structure influence our long-term funding activities. We operate debt issuance programs in Canada, the United States and Europe. Diversification into new markets and untapped investor segments is also constantly evaluated against relative issuance costs.

During 2005, we continued to expand our long-term funding base by issuing, either directly or through our subsidiaries, $10.9 billion of senior deposit notes in various currencies and markets. Total long-term funding outstanding increased $5.2 billion. Outstanding senior debt containing ratings triggers, which would accelerate repayment, constitutes a very small proportion of our overall outstanding debt.

Other funding sources

We use commercial mortgage, residential mortgage and credit card receivable-backed securitization programs as alternative sources of funding and for liquidity and asset/liability management purposes. We hold retained interests in our residential mortgage and credit card securitization programs. Our total outstanding mortgage-backed securities sold increased year-over-year by $2,504 million as shown in the table above. Our credit card receivables securitized increased year-over-year by $600 million financed through notes issued by a securitization special purpose entity (see the Off-balance sheet arrangements section and Note 5 to our Consolidated Financial Statements).

Our liquidity and funding position remains sound and adequate to execute our strategy. There are no known trends, demands, commitments, events or uncertainties that are presently viewed as likely to materially change this position.

Contractual obligations

In the normal course of business, we enter into contracts that give rise to commitments of future minimum payments that affect our liquidity. Depending on the nature of these commitments, the obligation may be recorded on- or off-balance sheet. The table below provides a summary of our future contractual funding commitments.

Contractual obligations — Table 49

	2005					2004	2003
(C$ millions) (1)	Within 1 year	1 to 3 years	3 to 5 years	Over 5 years	Total	Total	Total
Unsecured long-term funding	$ 7,265	$ 10,088	$ 4,795	$ 1,856	$ 24,004	$ 18,831	$ 20,442
Subordinated debentures	–	–	148	8,019	8,167	8,116	6,243
Obligations under leases (2)	410	655	472	971	2,508	2,418	2,218
	$ 4,270	$ 8,869	$ 5,106	$ 10,699	$ 28,944	$ 25,754	$ 22,705

(1) Amounts represent principal only and exclude accrued interest.
(2) Substantially all of our lease commitments are operating.

INSURANCE RISK

Insurance risk is the risk of loss that may occur when assumptions made in insurance product design and pricing activities differ from actual experience. Insurance risk can be categorized into the following sub-risks:

- Claims Risk: The risk that the actual severity and/or frequency of claims differs from the levels assumed in pricing calculations. This risk can occur through (i) a misestimation of expected claims activities to actual activities or (ii) the mis-selection of a risk during the underwriting process.
- Policyholder Behaviour Risk: The risk that the behaviour of policyholders relating to premium payments, policy withdrawals or loans, policy lapses, surrenders and other voluntary terminations differ from the behaviour assumed in pricing calculations.
- Expense Risk: The risk that the expense of acquiring or administering policies, or of processing claims, exceeds the costs assumed in pricing calculations.

Measurement

Risks are measured using in-house models developed by Corporate Actuarial and comply with the GRM Model Risk Policy. These measurements are used for Economic Capital attribution and valuation of liability reserves.

Control

A robust insurance risk management framework, maintained by an independent Group Risk Management Insurance function, ensures that policies, procedures and practices are in place to efficiently manage insurance risk. The framework comprises five primary risk management activities: risk policies, risk oversight and monitoring, risk approvals, risk event escalation and risk reporting.

Risk policies document our strategies for identifying, prioritizing and managing risk. Policies communicate a consistent message about risk tolerance and ensure accountability through clear roles and responsibilities. Enterprise-wide policies on insurance risk are centrally managed within risk management and promote a consistent approach to risk mitigation.

Insurance risk is monitored, in part, via independent middle office functions that provide risk monitoring and oversight. Through daily interaction and end-of-period management reporting, the middle office works with business partners to monitor business activities and risks. On a monthly basis, management analyzes product design and pricing risk and adjusts products or pricing accordingly.

Risks arising from new or revised products or services are monitored through a risk analysis and approval process. This process is a collaborative effort between risk management and business partners to identify and prioritize inherent risks and to ensure the appropriate measures are employed to manage risks to levels consistent with the organization's risk appetite. The details of new initiatives are reviewed against a set of significance scales, which identify the appropriate approval authority within the organization.

Risk events are escalated in a timely manner to the appropriate level of risk and business management ensuring appropriate actions are taken to mitigate risks to acceptable levels. A risk event occurs when a potential risk manifests into consequences that inherently could materially impact a business unit's financial results, reputation, regulatory compliance, operational efficiency or its ability to achieve its business objectives.

Reporting

Risks are evaluated and communicated to management at the business unit level and enterprise level on a regular basis. A dashboard reporting mechanism is used to monitor the various insurance businesses. Ratings are assigned (positive, stable or negative) based on the performance of each business, which includes interest rate trends, claim costs, policy lapses, expenses and overall risk/return profile. A summarized view of this dashboard is reported to senior management and CR&RPC on a quarterly basis. Risks are also reported via a series of reports to the various businesses, their operating committees and the subsidiary legal entity's board of directors. These reports identify and rank key risks as well as provide information on Economic Capital.

OPERATIONAL RISK

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. It is imbedded in all of RBC's activities. We manage operational risk by ensuring that effective infrastructure, controls, systems and individuals are in place throughout our organization and complemented by the operational risk management framework. The framework encompasses a common language of risk coupled with enterprise-wide programs and methodologies for the identification, measurement, control and management of operational risks. The framework is supported by strong principles of governance; our values and employee code of conduct; independent, risk-based internal auditing; and corporate and business level compliance activities.

Measurement

Risk and control assessments form the basis of proactive identification and assessment of operational risk. During 2005, we pursued a multi-pronged approach regarding operational risk and control assessment. Our original risk and control self-assessment program (RCSA) continued in parallel with several other assessment programs including *Sarbanes-Oxley Act* of 2002, privacy, outsourcing and money-laundering. Key risk indicators also help us recognize and address our operational risk exposures and potential losses more quickly. Use of risk indicators was expanded during the past year by drawing from the Risk Management Association's recently published industry library of indicators.

Notwithstanding active operational risk management, operational risk failures can and do occur. Enterprise-wide loss event data collection and analysis lead to better understanding of the root causes of operational failures and improved risk mitigation strategies. Data on our operational events and on external losses also support quantitative analysis related to determination and attribution of operational risk capital.

Control

Fundamentally, we manage operational risk by having appropriate infrastructure, controls, systems and people in place throughout the organization. Complementing these are the activities of several central enterprise-wide groups which focus on aspects such as control effectiveness, fraud management, compliance with applicable laws and regulations, management of business disruption and crisis situations, and transfer of risk.

Key risk indicators are used on an ongoing basis to monitor risk environments and levels and the effectiveness of controls. The operational risk team monitors a growing set of indicators for escalation to senior management and the Board of Directors. Internal audit group makes extensive use of risk indicators in the continuous auditing programs which supplement its cyclical auditing activities. Fraud management activities focus on prevention, detection and intervention regarding both internal and external fraud. The compliance group ensures a complete view of our regulatory demands and a co-ordinated, effective response to these. The business continuity management group co-ordinates planning, preparation and response for business disruption situations which may affect our ability to provide quality and timely services to our clients. We elect to transfer some of our operational risk exposure through the purchase of insurance coverage, the nature and amounts of which are determined on a central, enterprise-wide basis.

Reporting

Quarterly enterprise-level reporting provides senior management and the Board of Directors with an overview of our operational risk profile, derived from risk identification and monitoring activities, significant operational events and losses, and conclusions drawn from enterprise-wide risk indicators. The reporting also includes details on significant actual or emerging operational risk exposures.

ADDITIONAL RISKS THAT MAY AFFECT FUTURE RESULTS

In addition to credit risk, market risk, liquidity and funding management risk, insurance risk and operational risk, as described in the Risk management section, there are numerous other risk factors, many beyond our control, that could cause our results to differ significantly from our beliefs, plans, objectives, expectations, anticipations, estimates and intentions. Some of these factors are described below.

By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and risks that predictions, forecasts, projections and other forward-looking statements will not be achieved. We caution readers not to place undue reliance on such statements in this document as a number of important factors could cause actual results to differ materially from the beliefs, plans, objectives, expectations, anticipations, estimates and intentions expressed in such forward-looking statements.

Industry and non-company factors

General business and economic conditions in the regions in which we conduct business

Interest rates, foreign exchange rates, consumer spending, business investment, government spending, the health of the capital markets, inflation and terrorism impact the business and economic environments in which we operate and, ultimately, the amount of business we conduct in a specific geographic region. For example, in an economic downturn in a particular country that is characterized by higher unemployment and lower family income, corporate earnings, business investment and consumer spending, the demand for our loan and other products would be adversely affected and the provision for credit losses would likely increase, resulting in lower earnings. Similarly, a downturn in a particular equity market could cause a reduction in new issue and investor trading activity, assets under management and assets under administration, resulting in lower fee, commission and other revenue.

Foreign currency exchange rates

Our revenue, expenses and income denominated in currencies other than the Canadian dollar are subject to fluctuations in the movement of the Canadian dollar relative to such currencies. Such fluctuations may affect our overall business and financial results. Our most significant exposure is to the U.S. dollar on account of our level of operations in the U.S., and the strengthening of the Canadian dollar compared to the U.S. dollar has had a material effect on our results in the past three years. We are also exposed to the British pound on account of our level of operations internationally in RBC Capital Markets. Further appreciation of the Canadian dollar relative to the U.S. dollar or British pound would reduce the translated value of U.S. dollar- and British pound-denominated revenue, expenses and earnings, respectively, compared to prior periods.

Monetary policy

Bond and money market expectations about inflation and central bank monetary policy decisions have an impact on the level of interest rates, the fluctuation of which can have an impact on our earnings. Our policy for the non-trading balance sheet is to manage the interest rate risk to a target level. We have defined this target level as a risk neutral balance sheet where the interest rate exposures of most assets and liabilities are matched, with the residual assets representing a notional investment of equity spread evenly across a term of 60 months. As a result, our interest rate risk profile has slightly faster repricing of assets than liabilities. Consequently, a decline in interest rates would tend to reduce the net interest income earned on our non-trading portfolio as shorter-term assets reprice and to increase the value of our longer-term assets. Conversely, an increase in interest rates would result in an increase in the net interest income and a decrease in the value of our longer-term assets. For a more complete discussion of our interest rate risk refer to the Market risk discussion in the Risk management section.

Level of competition

The competition for customers among financial services companies in the consumer and business markets in which we operate is intense. Customer loyalty and retention can be influenced by a number of factors, including relative service levels, the prices and attributes of our products or services, our reputation and actions taken by our competitors. Non-financial companies can provide consumers with the option to pay bills and transfer funds without involving banks. Securities transactions can be conducted through the Internet and other alternative, non-trading systems. Such disintermediation could also reduce fee revenue and adversely affect our earnings.

Changes in laws and regulations

Regulations are in place to protect the financial and other interests of our clients. Changes to statutes, regulations or regulatory policies, including changes in the interpretation, implementation or enforcement of statutes, could adversely affect us, for example, by lowering barriers to entry in the business in which we operate or increasing our costs of compliance. In addition, our failure to comply with applicable statutes, regulations or regulatory policies could result in sanctions and financial penalties by regulatory agencies that could adversely impact our reputation and earnings.

Judicial or regulatory judgments and legal proceedings

Although we take what we believe to be reasonable measures designed to ensure compliance with governing statutes, laws, regulations and regulatory policies in the jurisdictions in which we conduct business, there is no assurance that we will always be in compliance or deemed to be in compliance. Accordingly, it is possible that we could receive a judicial or regulatory judgment or decision that results in fines, damages and other costs that would damage our reputation and have a negative impact on our earnings.

We are also subject to litigation arising in the ordinary course of our business. The adverse resolution of any litigation could have a material adverse effect on our results or could give rise to significant reputational damage, which could impact our future business prospects.

Accuracy and completeness of information on customers and counterparties

When deciding to extend credit or enter into other transactions with customers and counterparties, we may rely on information provided to us by or on behalf of customers and counterparties, including audited financial statements and other financial information. We also may rely on representations of customers and counterparties as to the completeness and accuracy of that information. Our financial results could be adversely impacted if the financial statements and other financial information relating to customers and counterparties on which we rely do not comply with GAAP or are materially misleading.

Company specific factors

Our financial performance may be affected by our ability to successfully complete our business realignment

Effective November 1, 2004, in support of our Client First Initiative, we realigned our organizational structure, resources and processes in order to serve our clients better and more efficiently across all our businesses, to find new ways to generate stronger revenue growth, and to streamline our organization and processes for faster decision-making, quicker implementation and better productivity. Although we believe that our initiatives have helped us to better meet our clients' needs, acccelerate revenue growth and control costs, there is no assurance that we will continue to achieve our objectives and improve our financial performance.

Acquisitions and joint ventures

Although we regularly explore opportunities for strategic acquisitions of or joint ventures with companies in our lines of business, there is no assurance that we will be able to complete acquisitions or joint ventures on terms and conditions that satisfy our investment criteria. There is also no assurance we will achieve anticipated cost savings following acquisitions or joint ventures. Our performance is contingent on retaining the clients and key employees of acquired companies, and there can be no assurance that we will always succeed in doing so.

Accounting policies and estimates

The accounting policies and methods we utilize determine how we report our financial condition and results of operations, and they require management to make estimates or rely on assumptions about matters that are inherently uncertain. Such estimates and assumptions may require revision, and changes to them may materially adversely affect our results of operations and financial condition.

Our financial condition and results of operations are reported using accounting policies and methods prescribed by GAAP. In certain cases, GAAP allows accounting policies and methods to be selected from two or more alternatives, any of which might be reasonable, yet result in our reporting materially different amounts.

Management exercises judgment in selecting and applying our accounting policies and methods to ensure that, while GAAP compliant, they reflect our best judgment of the most appropriate manner in which to record and report our financial condition and results of operations. Significant accounting policies are described in Note 1 to our Consolidated Financial Statements.

As detailed in the Critical accounting policies and estimates section, we have identified six accounting policies as being "critical" to the presentation of our financial condition and results of operations as they (i) require management to make particularly subjective and/or complex judgments about matters that are inherently uncertain and (ii) carry the likelihood that materially different amounts could be reported under different conditions or using different assumptions and estimates. The reporting of such materially different amounts could materially and adversely affect our results of operations or reported financial condition. These critical accounting policies and estimates relate to the determination of our allowances for credit losses, the determination of the fair value of certain of our financial instruments, securitization, variable interest entities, pensions and other post-employment benefits and income taxes.

As a large corporation, we are exposed to operational and infrastructure risks

Similar to all large corporations, we are exposed to many types of operational risk, including the risk of fraud by employees or outsiders, unauthorized transactions by employees, or operational errors, including clerical or record keeping errors or errors resulting from faulty or disabled computer or telecommunications systems. Given the high volume of transactions we process on a daily basis certain errors may be repeated or compounded before they are discovered and successfully rectified. Shortcomings or failures in our internal processes, people or systems, including any of our financial accounting or other data processing systems, could lead to, among other consequences, financial loss and reputational damage. In addition, despite the contingency plans we have in place, our ability to conduct business may be adversely impacted by a disruption in the infrastructure that supports our businesses and the communities in which they are located. This may include a disruption involving electrical, communications, transportation or other services used by us or third parties with which we conduct business.

As a larger corporation, we are exposed to reputational risk

Similar to all large corporations, we are exposed to reputational risk. Reputational risk is the risk that an activity by us or one of our representatives will impair our image in the community or public confidence, which may result in legal action, additional regulatory oversight or have a negative impact on our earnings. Factors that can heighten reputational risk include breach of confidentiality or lack of privacy, lack of professionalism, inappropriate resolution of conflicts of interest, fraudulent or criminal activity, or misrepresentation (or withholding) of information for shareholders, clients and employees.

We manage reputational risk through the integration of reputational risk assessment into our transactional approval process, strategy development decisions, strategic and operational implementation and control processes. Our corporate governance practices, codes of conduct and risk management policies, procedures and training also assist in the management of reputational risk.

Other factors

Other factors that may affect future results include changes in government trade policy, the timely development and introduction of new products and services in receptive markets, changes in our estimates for reserves and allowances, changes in tax laws, technological changes, unexpected changes in consumer spending and saving habits, natural disasters, such as hurricanes, the possible impact on our business from public health emergencies, international conflicts and other developments including those relating to the war on terrorism, and our success in anticipating and managing the associated risks.

We caution that the foregoing discussion of risk factors that may affect future results is not exhaustive. When relying on our forward-looking statements to make decisions with respect to us, investors and others should carefully consider the foregoing factors, other uncertainties and potential events, and other external and company specific factors that may adversely affect future results and the market valuation placed on our common shares. We do not undertake to update any forward-looking statement, whether written or oral, that may be made from time to time by us, or on our behalf.

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.

CONTROLS AND PROCEDURES

As of October 31, 2005, an evaluation was carried out, under the supervision of and with the participation of management, including the President and Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures as defined in Rule 13a-15 under the *U.S. Securities and Exchange Act* of 1934 and under *Multilateral Instrument* 52-109. Based on that evaluation, the President and Chief Executive Officer and Chief Financial Officer concluded that the design and operation of these disclosure controls and procedures were effective. No changes were made in our internal control over financial reporting during the year ended October 31, 2005, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ADDITIONAL FINANCIAL INFORMATION

Net interest income on average assets and liabilities from continuing operations (1) — Table 50

	Average balances (2)			Interest (3)			Average rate		
(C$ millions, except percentage amounts)	2005	2004	2003	2005	2004	2003	2005	2004	2003
Assets									
Deposits with other banks									
Canada	$ 915	$ 629	$ 428	$ 31	$ 8	$ 4	3.39%	1.27%	.93%
United States	1,587	1,093	2,490	55	7	30	3.47	.64	1.20
Other International	4,068	3,897	4,401	145	88	67	3.56	2.26	1.52
	6,570	5,619	7,319	231	103	101	3.52	1.83	1.38
Securities									
Trading account	110,356	94,178	77,422	3,711	2,718	2,049	3.36	2.89	2.65
Investments	37,198	43,146	35,639	839	837	959	2.26	1.94	2.69
Loan substitute	678	358	354	33	17	17	4.87	4.75	4.80
	148,232	137,682	113,415	4,583	3,572	3,025	3.09	2.59	2.67
Assets purchased under reverse repurchase agreements and securities borrowed	44,420	43,920	42,386	1,354	656	873	3.05	1.49	2.06
Loans (4)									
Canada									
Residential mortgages	82,960	75,722	69,911	4,090	3,903	3,896	4.93	5.15	5.57
Personal	32,864	28,857	25,614	2,055	1,813	1,837	6.25	6.28	7.17
Credit cards	6,238	5,656	5,197	753	674	615	12.07	11.92	11.83
Business and government	30,026	27,616	26,632	1,401	1,342	1,755	4.67	4.86	6.59
	152,088	137,851	127,354	8,299	7,732	8,103	5.46	5.61	6.36
United States	20,572	21,329	22,678	1,626	1,134	1,225	7.90	5.32	5.40
Other International	6,993	6,586	9,905	865	669	572	12.37	10.16	5.77
	179,653	165,766	159,937	10,790	9,535	9,900	6.01	5.75	6.19
Total interest-earning assets	378,875	352,987	323,057	16,958	13,866	13,899	4.48	3.93	4.30
Non-interest-bearing deposits with other banks	2,567	2,758	1,947	–	–	–	–	–	–
Customers' liability under acceptances	6,411	6,047	6,838	–	–	–	–	–	–
Other assets	57,447	56,408	55,858	–	–	–	–	–	–
Total assets	$ 445,300	$ 418,200	$ 387,700	$ 16,958	$ 13,866	$ 13,899	3.81%	3.32%	3.58%
Liabilities and shareholders' equity									
Deposits (5)									
Canada	$ 152,218	$ 139,466	$ 121,690	$ 3,724	$ 3,186	$ 3,311	2.45%	2.28%	2.72%
United States	39,944	38,501	40,126	1,047	510	564	2.62	1.32	1.41
Other International	69,607	68,052	68,316	2,175	1,446	1,577	3.12	2.12	2.31
	261,769	246,019	230,132	6,946	5,142	5,452	2.65	2.09	2.37
Obligations related to securities sold short	34,169	27,013	22,898	1,381	978	839	4.04	3.62	3.66
Obligations related to assets sold under repurchase agreements and securities loaned	25,912	29,159	20,575	1,120	677	614	4.32	2.32	2.98
Subordinated debentures	8,359	8,000	6,455	442	429	376	5.29	5.36	5.82
Other interest-bearing liabilities	4,041	3,458	4,109	299	242	282	7.40	7.00	6.86
Total interest-bearing liabilities	334,250	313,649	284,169	10,188	7,468	7,563	3.05	2.38	2.66
Non-interest-bearing deposits	26,428	22,183	20,640	–	–	–	–	–	–
Acceptances	6,414	6,049	6,838	–	–	–	–	–	–
Other liabilities	58,757	57,697	57,292	–	–	–	–	–	–
Total liabilities	$ 425,849	$ 399,578	$ 368,939	$ 10,188	$ 7,468	$ 7,563	2.39%	1.87%	2.05%
Shareholders' equity									
Preferred	811	832	1,210	–	–	–	–	–	–
Common	18,640	17,790	17,551	–	–	–	–	–	–
Total liabilities and shareholders' equity	$ 445,300	$ 418,200	$ 387,700	$ 10,188	$ 7,468	$ 7,563	2.29%	1.79%	1.95%
Net interest income as a % of total average assets	$ 445,300	$ 418,200	$ 387,700	$ 6,770	$ 6,398	$ 6,336	1.52%	1.53%	1.63%
Net interest income as a % of total average interest-earning assets									
Canada	$ 229,184	$ 212,562	$ 199,841	$ 5,379	$ 4,870	$ 4,988	2.35%	2.29%	2.50%
United States	74,842	61,716	52,870	774	922	1,066	1.03	1.49	2.02
Other International	74,849	78,709	70,346	617	606	282	.82	.77	.40
Total	$ 378,875	$ 352,987	$ 323,057	$ 6,770	$ 6,398	$ 6,336	1.79%	1.81%	1.96%

(1) Geographic classification for selected assets and liabilities is based on the domicile of the booking point of the subject assets and liabilities.
(2) Calculated using methods intended to approximate the average of the daily balances for the period.
(3) Interest income includes loan fees of $343 million (2004 – $336 million; 2003 – $303 million).
(4) Average balances include impaired loans.
(5) Deposits include savings deposits with average balances of $46 billion (2004 – $45 billion; 2003 – $38 billion), interest expense of $.3 billion (2004 – $.2 billion; 2003 – $.3 billion) and average rates of .6% (2004 – .5%; 2003 – .8%). Deposits also includes term deposits with average balances of $181 billion (2004 – $169 billion; 2003 – $160 billion), interest expense of $5.3 billion (2004 – $4.0 billion; 2003 – $4.1 billion) and average rates of 2.95% (2004 – 2.34%; 2003 – 2.53%).

Change in net interest income from continuing operations (1) — Table 51

(C$ millions)	2005 vs. 2004 Increase (decrease) due to changes in Average volume (2)	Average rate (2)	Net change	2004 vs. 2003 Increase (decrease) due to changes in Average volume (2)	Average rate (2)	Net change
Assets						
Deposits with other banks						
Canada	$ 5	$ 18	$ 23	$ 2	$ 2	$ 4
United States	4	44	48	(13)	(10)	(23)
Other International	4	53	57	(8)	29	21
Securities						
Trading account	506	487	993	472	197	669
Investments	(125)	127	2	177	(299)	(122)
Loan substitute	16	–	16	–	–	–
Assets purchased under reverse repurchase agreements and securities borrowed	8	690	698	31	(248)	(217)
Loans						
Canada						
Residential mortgages	362	(175)	187	311	(304)	7
Personal	251	(9)	242	218	(242)	(24)
Credit cards	70	9	79	55	4	59
Business and government	114	(55)	59	63	(476)	(413)
United States	(42)	534	492	(72)	(19)	(91)
Other International	43	153	196	(237)	334	97
Total interest income	$ 1,216	$ 1,876	$ 3,092	$ 999	$ (1,032)	$ (33)
Liabilities						
Deposits						
Canada	$ 303	$ 235	$ 538	$ 447	$ (572)	$ (125)
United States	20	517	537	(22)	(32)	(54)
Other International	34	695	729	(6)	(125)	(131)
Obligations related to securities sold short	280	123	403	149	(10)	139
Obligations related to assets sold under repurchase agreements and securities loaned	(83)	526	443	219	(156)	63
Subordinated debentures	19	(6)	13	85	(32)	53
Other interest-bearing liabilities	42	15	57	(47)	7	(40)
Total interest expense	615	2,105	2,720	825	(920)	(95)
Net interest income	$ 601	$ (229)	$ 372	$ 174	$ (112)	$ 62

(1) Geographic classification for selected assets and liabilities is based on the domicile of the booking point of the subject assets and liabilities.
(2) Volume/rate variance is allocated on the percentage relationship of changes in balances and changes in rates to the total net change in net interest income.

Small business loans and acceptances by credit portfolio — Table 52

(C$ millions)	2005	2004	2003	2002	2001
Agriculture	$ 715	$ 519	$ 70	$ 67	$ 71
Automotive	490	463	462	377	434
Consumer goods	1,728	1,764	1,777	1,583	1,665
Energy	182	150	137	125	157
Financial services	78	51	97	93	57
Forest products	311	276	298	278	296
Government	182	156	161	187	8
Industrial products	1,057	999	952	887	916
Mining and metals	57	62	65	69	64
Real estate and related	1,982	1,821	1,777	1,737	1,788
Technology and media	243	232	242	204	262
Transportation and environment	549	502	503	552	605
Other	3,183	3,142	3,164	3,311	3,465
Total small business loans	$ 10,757	$ 10,137	$ 9,705	$ 9,470	$ 9,788