Glossary

Acceptances
A bill of exchange or negotiable instrument drawn by the borrower for payment at maturity and accepted by a bank. The acceptance constitutes a guarantee of payment by the bank and can be traded in the money market. The bank earns a "stamping fee" for providing this guarantee.

Adjusted operating leverage
The difference between revenue growth rate (as adjusted) and non-interest expense growth rate (as adjusted). Revenue is based on a taxable equivalent basis, excluding VIEs, accounting adjustments related to the new Financial Instruments Standard and Insurance-related revenue, while Non-interest expense excludes Insurance-related expense.

Allowance for credit losses
The amount deemed adequate by management to absorb identified credit losses as well as losses that have been incurred but are not yet identifiable as at the balance sheet date. This allowance is established to cover the lending portfolio including loans, acceptances, guarantees, letters of credit, and unfunded commitments. 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 in the period.

Assets-to-capital multiple
Total assets plus specified off-balance sheet items, divided by total regulatory capital.

Assets under administration (AUA)
Assets administered by us which are beneficially owned by clients and are therefore not reported on the Consolidated Balance Sheets. Services provided in respect of assets under administration are of an administrative nature, including safekeeping, collecting investment income, settling purchase and sale transactions, and record keeping.

Assets under management (AUM)
Assets managed by us which are beneficially owned by clients and are therefore not reported on the Consolidated Balance Sheets. Services provided in respect of assets under management include the selection of investments and the provision of investment advice. Assets under management may also be administered by the financial institution.

Average balances
Average balances are calculated using methods intended to approximate the average of the daily balances of the period.

Average earning assets
The average carrying value of deposits with banks, securities, assets purchased under reverse repurchase agreements and certain securities borrowed, and loans based on daily balances for the period ending October 31 in each fiscal year.

Basis point (bp)
One one-hundredth of a percentage point (.01%).

Beta
The measure of a security's volatility relative to a market index.

Canadian GAAP
Canadian generally accepted accounting principles.

Capital ratio
The percentage of risk-adjusted assets supported by capital, using the guidelines of the Office of the Superintendent of Financial Institutions Canada based on standards issued by the Bank for International Settlements and Canadian GAAP financial information.

Cash capital position
Quantifies the extent to which illiquid assets are funded by non-core liabilities and represents a formula-based measure of both comparative and directional structural liquidity risk.

Collateral
Assets pledged as security for a loan or other obligation. Collateral can take many forms: cash, highly rated securities, property, inventory, equipment, receivables, etc.

Collateralized Debt Obligation (CDO)
An investment-grade security backed by a pool of bonds, loans and/or any other type of debt instruments.

Commercial clients
Generally, private companies with revenue in excess of $20 million and less than $1 billion. Typically, clients with revenue of less than $100 million are served in Canada by our RBC Canadian Personal and Business segment and in the U.S. by RBC Centura in our RBC U.S. and International Personal and Business segment. Corporate and larger commercial clients with frequent need to access capital markets and more sophisticated financing requirements are served by our RBC Capital Markets segment.

Commitments to extend credit
Credit facilities available to clients either in the form of loans, bankers' acceptances and other on-balance sheet financing, or through off-balance sheet products such as guarantees and letters of credit.

Cost of capital
Management's estimate of its weighted average cost of equity and debt capital.

De novo
A newly opened bank branch, as opposed to a bank branch acquired through an acquisition.

Derivative
A contract between two parties where payments between the parties are dependent upon the movements in price of an underlying asset, index or financial rate. Examples of derivatives include swaps, options, forward rate agreements and futures. The notional amount of the derivative is the contract amount used as a reference point to calculate the payments to be exchanged between the two parties, and the notional amount itself is generally not exchanged by the parties.

Dividend payout ratio
Common dividends as a percentage of net income after preferred share dividends.

Dividend yield
Dividends per common share divided by the average of the high and low share prices in the relevant period.

Documentary and commercial letters of credit
Written undertakings by a bank on behalf of its client (typically an importer), authorizing a third party (for example, an exporter) to draw drafts on the bank up to a stipulated amount under specific terms and conditions. Such undertakings are established for the purpose of facilitating international trade.

Earnings per share (EPS), basic
Net income less preferred share dividends, divided by the average number of shares outstanding.

Earnings per share (EPS), diluted
Net income less preferred share dividends, divided by the average number of shares outstanding, adjusted for the dilutive effects of stock options and other convertible securities.

Economic capital
An estimate of the amount of equity capital required to underpin risks. It is calculated by estimating the level of capital that is necessary to support our various businesses, given their risks, consistent with our desired solvency standard and credit ratings.

Fair value
The amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

Guarantees and standby letters of credit
Primarily represent irrevocable assurances that a bank will make payments in the event that its client cannot meet its financial obligations to third parties. Certain other guarantees, such as bid and performance bonds, represent non-financial undertakings.

Hedge
A risk management technique used to insulate financial results from market, interest rate or foreign currency exchange risk (exposure) arising from normal banking operations. The elimination or reduction of such exposure is accomplished by establishing offsetting positions. For example, assets denominated in foreign currencies can be offset with liabilities in the same currencies or through the use of foreign exchange hedging instruments such as futures, options or foreign exchange contracts.

Impaired loans
Loans are classified as impaired when there has been a deterioration of credit quality to the extent that management no longer has reasonable assurance of timely collection of the full amount of principal and interest in accordance with the contractual terms of the loan agreement. Credit card balances are not classified as impaired as they are directly written off after payments are 180 days past due.

Innovative capital instruments
Our innovative capital instruments are transferable trust units issued by the RBC Capital Trust and RBC Capital Trust II special purpose entities. Innovative capital can comprise up to 15% of net Tier 1 capital with an additional 3% eligible for Tier 2B capital.

Mark-to-market
Valuation of financial instruments using prevailing market prices or fair value as of the balance sheet date.

Master netting agreement
An agreement designed to reduce the credit risk of multiple derivative transactions through the creation of a legal right of offset of exposure in the event of a default.

Net interest income
The difference between what is earned on assets such as loans and securities and what is paid on liabilities such as deposits and subordinated debentures.

Net interest margin (average assets)
Net interest income as a percentage of total average assets.

Net interest margin (average earning assets)
Net interest income as a percentage of total average earning assets.

Normal course issuer bid (NCIB)
A repurchase of our own shares for cancellation through a stock exchange; it is subject to the various rules of the relevant exchanges and securities commissions.

Notional amount
The contract amount used as a reference point to calculate payments for derivatives.

Off-balance sheet financial instruments
A variety of products offered to clients, which fall into two broad categories: (i) credit related arrangements, which generally provide clients with liquidity protection, and (ii) derivatives, which are defined on the previous page.

Office of the Superintendent of Financial Institutions Canada (OSFI)
The primary regulator of federally chartered financial institutions and federally administered pension plans in Canada. The OSFI's mission is to safeguard policyholders, depositors and pension plan members from undue loss.

Options
A contract, or a provision of a contract, that gives one party (the option holder) the right, but not the obligation, to perform a specified transaction with another party (the option issuer or option writer) according to specified terms.

Prepaid pension benefit cost
The cumulative excess of amounts contributed to a pension fund over the amounts recorded as pension expense.

Provision for credit losses
The amount charged to income necessary to bring the allowance for credit losses to a level determined appropriate by management. This includes both specific and general provisions.

Qualifying special purposes entities (QSPE)
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.

Repurchase agreements
Involve the sale of securities for cash at a near value date and the simultaneous repurchase of the securities for value at a later date.

Return on common equity (ROE)
Net income, less preferred share dividends, expressed as a percentage of average common equity.

Reverse repurchase agreements
Involve the purchase of securities for cash at a near value date and the simultaneous sale of the securities for value at a later date.

Risk
Financial institutions face a number of different risks that expose them to possible losses. These risks include credit risk, market risk, liquidity and funding risk, insurance risk, operational risk, reputation risk, strategic risk, regulatory and legal risk, and competitive, systemic and environmental risk.

Risk-adjusted assets
Used in the calculation of risk-based capital ratios. The face value of assets is discounted using risk-weighting factors in order to reflect a comparable risk per dollar among all types of assets. The risk inherent in off-balance sheet instruments is also recognized, first by determining a credit equivalent amount, and then by applying appropriate risk-weighting factors.

Securities lending
Transactions in which the owner of a security agrees to lend it under the terms of a prearranged contract to a borrower for a fee. The borrower must fully collateralize the security loan at all times. An intermediary such as a bank often acts as agent for the owner of the security. There are two types of securities lending arrangements, lending with and without credit or market risk indemnification. In securities lending without indemnification, the intermediary bears no risk of loss. For transactions in which the intermediary provides an indemnification, risk of loss occurs if the borrower defaults and the value of the collateral declines concurrently.

Securities sold short
A transaction in which the seller sells securities and then borrows the securities in order to deliver them to the purchaser upon settlement. At a later date, the seller buys identical securities in the market to replace the borrowed securities.

Securitization
The process by which high-quality financial assets are packaged into newly issued securities backed by these assets.

Special purpose entities (SPEs)
SPEs are entities that are typically organized 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. SPEs are principally used to securitize financial and other assets in order to obtain access to funding, to mitigate credit risk and to manage capital.

Taxable equivalent basis (teb)
A measure that increases Net interest income from certain tax-advantaged sources (in our case, Canadian taxable Corporate dividends) to their tax equivalent value, making it comparable to income from taxable sources. There is an offsetting adjustment in the tax provision, thereby generating the same after-tax net income as reported under GAAP.

Trust capital securities (RBC TruCS)
Transferable trust units issued by RBC Capital Trust or RBC Capital Trust II for the purpose of raising innovative Tier 1 capital.

U.S. GAAP
U.S. generally accepted accounting principles.

Value-At-Risk (VAR)
A generally accepted risk-measurement concept that uses statistical models to estimate within a given level of confidence the maximum loss in market value the bank would experience in its trading portfolio from an adverse one-day movement in market rates and prices.

Variable interest entity (VIE)
A variable interest entity is an entity which does not have sufficient equity at risk to finance its activities without additional subordinated financial support or where the holders of the equity at risk lack the characteristics of a controlling financial interest.