Note 1 Significant accounting policies and estimates

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

Basis of consolidation

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

Translation of foreign currencies

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

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

Unrealized gains or losses arising as a result of the translation of our foreign self-sustaining operations are included in Shareholders' equity along with related hedge and tax effects. On disposal or upon dilution of our interest in such investments, an appropriate portion of the accumulated net translation gains or losses is included in Non-interest income.

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

Securities

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

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

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

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

Assets purchased under reverse repurchase agreements and sold under repurchase agreements

We purchase securities under agreements to resell (reverse repurchase agreements) and take possession of these securities. Reverse repurchase agreements are treated as collateralized lending transactions, whereby we monitor the market value of the securities purchased and additional collateral is obtained when appropriate. We also have the right to liquidate the collateral held in the event of counterparty default. These agreements are carried on the Consolidated Balance Sheets at the amounts at which the securities were initially acquired plus accrued interest. Interest earned on reverse repurchase agreements is included in Interest income in our Consolidated Statements of Income.

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

Loans

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

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

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

Assets acquired in respect of problem loans are recorded at their fair value less costs of disposition. Fair value is determined based on either current market value where available or discounted cash flows. Any excess of the carrying value of the loan over the recorded fair value of the assets acquired is recognized by a charge to the Provision for credit losses.

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

Allowances for credit losses

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

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

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

Specific allowances

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

General allowance

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

Acceptances

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

Derivatives

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

Derivatives used in sales and trading activities are reported on the Consolidated Balance Sheets at their fair value. Derivatives with a positive fair value are reported as assets in Derivative-related amounts, and derivatives with a negative fair value are reported as liabilities in Derivative-related amounts. Where we have both the legal right and intent to settle derivative assets and liabilities simultaneously with a counterparty, the net fair value of the derivative positions is reported as an asset or liability, as appropriate. Realized and unrealized gains and losses on sales and trading derivatives are recognized in Non-interest income – Trading revenue. Margin requirements and premiums paid are also included in Derivative-related amounts in assets, while premiums received are shown in Derivative-related amounts in Liabilities.

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

Fair value hedge transactions predominantly use interest rate swaps to hedge the changes in the fair value of an asset, liability or firm commitment. Cash flow hedge transactions predominantly use interest rate swaps to hedge the variability in forecasted cash flows. When a derivative that is held or issued for other-than-trading purposes is designated and qualifies as an effective hedging instrument in a fair value or cash flow hedge, the income or expense of the derivative is recognized as an adjustment to Interest income or Interest expense of the hedged item in the same period.

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

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

Other-than-trading derivatives, for which hedge accounting has not been applied, including total return swaps, certain warrants, loan commitments and derivatives embedded in equity-linked deposit contracts, are carried at fair value on a gross basis as Derivative-related amounts in assets and liabilities with changes in fair value recorded in Non-interest income or Non-interest expense. These other-than-trading derivatives are eligible for designation in future hedging relationships. Upon designation of a new effective hedging relationship, any previously recorded fair value on the Consolidated Balance Sheets is amortized to Net interest income.

For derivatives that are carried at fair value and whose fair value is not evidenced at inception by quoted market prices, other current market transactions or observable market inputs, we defer the initial trading profits. The deferred amounts are recognized when they become realized through the receipt and/or payment of cash or once the fair value is observable in the market.

Premises and equipment

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

Business combinations, goodwill and other intangibles

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

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

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

Income taxes

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

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

Pensions and other post-employment benefits

We offer a number of benefit plans, which provide pension and other benefits to eligible employees. These plans include registered defined benefit pension plans, supplemental pension plans, defined contribution plans and health, dental, disability and life insurance plans.

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

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

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

Gains and losses on settlements of defined benefit plans are recognized in income when settlement occurs. Curtailment gains and losses are recognized in the period when the curtailment becomes probable and the impact can be reasonably estimated.

Our defined contribution plan expense is included in Non-interest expense – Human resources for services rendered by employees during the period.

The cumulative excess of pension fund contributions over the amounts recorded as expenses is reported as a Prepaid pension benefit

cost in Other assets. The cumulative excess of expense over fund contributions is reported as Accrued pension and other post-employment benefit expense in Other liabilities.

Stock-based compensation

We offer stock-based compensation plans to certain key employees and to our non-employee directors as described in Note 21.

We use the fair value method to account for stock options granted to employees whereby compensation expense is recognized over the applicable vesting period with a corresponding increase in Contributed surplus. When the options are exercised, the exercise price proceeds together with the amount initially recorded in Contributed surplus are credited to Common shares. Stock options granted prior to November 1, 2002, were accounted for using the intrinsic value method, and accordingly no expense was recognized for these options since the exercise price for such grants was equal to the closing price on the day before the stock options were granted. These awards fully vested during 2006. When these stock options are exercised, the proceeds will be recorded as Common shares.

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

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

The compensation cost attributable to options and awards granted to employees who are eligible to retire or will become eligible to retire during the vesting period is recognized immediately if the employee is eligible to retire on the grant date or over the period between the grant date to the date the employee becomes eligible to retire.

Our contributions to the employee savings and share ownership plans are expensed as incurred.

Loan securitization

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

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

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

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

Insurance

Premiums from long-duration contracts, primarily life insurance, are recognized when due in Non-interest income – Insurance premiums, investment and fee income. Premiums from short-duration contracts, primarily property and casualty, and fees for administrative services are recognized in Insurance premiums, investment and fee income over the related contract period. Unearned premiums of the short-duration contracts, representing the unexpired portion of premiums, are reported in Other liabilities. Investments made by our insurance operations are included in Investment account securities.

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

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

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

Segregated funds are lines of business in which we issue a contract where the benefit amount is directly linked to the market value of the investments held in the underlying fund. The contractual arrangement is such that the underlying assets are registered in our name but the segregated fund policyholders bear the risk and rewards of the fund's investment performance. We provide minimum death benefit and maturity value guarantees on segregated funds. The liability associated with these minimum guarantees is recorded in Insurance claims and policy benefit liabilities. Segregated funds are not included in the Consolidated Financial Statements. We derive only fee income from segregated funds, which is reflected in Insurance premiums, investment and fee income. Fee income includes management fees, mortality, policy, administration and surrender charges.

Liabilities and equity

Financial instruments that will be settled by a variable number of our common shares upon their conversion by the holders as well as the related accrued distributions are classified as liabilities on our Consolidated Balance Sheets. Dividends and yield distributions on these instruments are classified as Interest expense in our Consolidated Statements of Income.

Earnings per share

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

Use of estimates and assumptions

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

Significant accounting changes

Implicit variable interests

On November 1, 2005, we adopted CICA Emerging Issues Committee Abstract No. 157, *Implicit Variable Interests under AcG-15* (EIC-157). This EIC clarifies that implicit variable interests are implied financial interests in an entity that change with changes in the fair value of the entity's net assets exclusive of variable interests. An implicit variable interest is similar to an explicit variable interest except that it involves absorbing and/or receiving variability indirectly from the entity. The identification of an implicit variable interest is a matter of judgment that depends on the relevant facts and circumstances. The implementation of this EIC did not have a material impact on our consolidated financial position or results of operations.

Change in financial statement presentation

During the year, we reclassified on our Consolidated Statements of Income changes in the fair value of certain derivative instruments designated as economic hedges of our stock-based compensation plans from Non-interest income – Other to Non-interest expense – Human resources in order to more appropriately reflect the purpose of these instruments and our management of these compensation exposures. The impact of the reclassification on prior periods resulted in corresponding decreases in both Non-interest income – Other and Non-interest expense – Human resources. For the years ended October 31, 2006, 2005 and 2004, $36 million, $31 million and $nil were reclassified, respectively. Certain other comparative amounts have also been reclassified to conform to the current year's presentation.

Future accounting changes

Financial instruments

In 2005, the CICA issued three new accounting standards: Handbook Section 1530, *Comprehensive Income* (Section 1530), Handbook Section 3855, *Financial Instruments – Recognition and Measurement* (Section 3855), and Handbook Section 3865, *Hedges* (Section 3865). These new standards became effective for us on November 1, 2006.

Comprehensive Income

Section 1530 introduces Comprehensive income which is comprised of Net income and Other comprehensive income and represents changes in Shareholders' equity during a period arising from transactions and other events with non-owner sources. Other comprehensive income (OCI) includes 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. Our Consolidated Financial Statements will include a Consolidated Statement of Comprehensive Income while the cumulative amount, Accumulated other comprehensive income (AOCI), will be presented as a new category of Shareholders' equity in the Consolidated Balance Sheets.

Financial Instruments – Recognition and Measurement

Section 3855 establishes standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. It requires that financial assets and financial liabilities including derivatives be recognized on the balance sheet when we become a party to the contractual provisions of the financial instrument or a non-financial derivative contract. All financial instruments should be measured at fair value on initial recognition except for certain related party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified as held-for-trading, available-for-sale, held-to-maturity, loans and receivables, or other liabilities.

Financial assets and financial 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 using the effective interest method of amortization. Available-for-sale financial assets will be measured at fair value with unrealized gains and losses including changes in foreign exchange rates being recognized in OCI. Investments in equity instruments classified as available-for-sale that do not have a quoted market price in an active market will be measured at cost.

Derivative instruments must be recorded on the balance sheet at fair value including those derivatives that are embedded in financial instrument or other contracts but are not closely related to the host financial instrument or contract, respectively. Changes in the fair values of derivative instruments will be recognized in Net income, except for derivatives that are designated as a cash flow hedge, the fair value change for which will be recognized in OCI.

Section 3855 permits an entity to designate any financial instrument as held-for-trading on initial recognition or adoption of the standard, even if that instrument would not otherwise satisfy the definition of held-for-trading set out in Section 3855. Instruments that are classified as held-for-trading by way of this "fair value option" must have reliable fair values and are subject to additional conditions and disclosure requirements set out by the OSFI.

Other significant accounting implications arising on adoption of Section 3855 include the initial recognition of certain financial guarantees at fair value on the balance sheet and the use of the effective interest method of amortization for any transaction costs or fees, premiums or discounts earned or incurred for financial instruments measured at amortized cost.

Hedges

Section 3865 specifies the criteria under which hedge accounting can be applied and how hedge accounting should 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 will be adjusted by gains or losses attributable to the hedged risk and recognized in Net income. The changes in the fair value of the hedged item, to the extent that the hedging relationship is effective, will be offset by changes in the fair value of the hedging 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 OCI. The ineffective portion will be recognized in Net income. The amounts recognized in AOCI 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, the effective portion of foreign exchange gains and losses on the hedging instruments will be recognized in OCI and the ineffective portion is recognized in Net income.

For hedging relationships existing prior to adopting Section 3865 that are continued and qualify for hedge accounting under the new standard, the transition accounting is as follows: (1) Fair value hedges – any gain or loss on the hedging instrument is recognized in the opening balance of retained earnings on transition and the carrying amount of the hedged item is adjusted by the cumulative change in fair value that reflects the designated hedged risk and the adjustment is included in the opening balance of retained earnings on transition; (2) Cash flow hedges and hedge of a net investment in a self-sustaining foreign operation – any gain or loss on the hedging instrument that is determined to be the effective portion is recognized in AOCI and the ineffectiveness in the past periods is included in the opening balance of retained earnings on transition.

Deferred gains or losses on the hedging instrument with respect to hedging relationships that were discontinued prior to the transition date but qualify for hedge accounting under the new standards will be recognized in the carrying amount of the hedged item and amortized to Net income over the remaining term of the hedged item for fair value hedges, and for cash flow hedges it will be recognized in AOCI and reclassified to Net income in the same period during which the hedged item affects Net income. However, for discontinued hedging relationships that do not qualify for hedge accounting under the new standards, the deferred gains and losses are recognized in the opening balance of retained earnings on transition.

In October, 2006, the CICA's Accounting Standards Board issued a Board Notice, *Hedges, Section 3865*, in order to provide guidance with respect to the transition provisions for deferred gains or losses on continuing and discontinued hedging relationships. The amended version of Section 3865 incorporating the clarifying guidance is expected to be issued in December 2006, with early adoption permitted. We adopted the proposed amendments on November 1, 2006.

Impact of adopting Sections 1530, 3855 and 3865

The transition adjustment attributable to the following will be recognized in the opening balance of retained earnings as at November 1, 2006: (i) financial instruments that we will classify as held-for-trading and that were not previously recorded at fair value, (ii) the difference in the carrying amount of loans and deposits prior to November 1, 2006, and the carrying amount calculated using the effective interest rate from inception of the loan, (iii) the ineffective portion of cash flow hedges, (iv) deferred gains and losses on discontinued hedging relationships that do not qualify for hedge accounting under the new standards, (v) unamortized deferred net realized gains or losses on investments that support life insurance liabilities, and (vi) the consequential effect on insurance claims and policy benefit liabilities due to remeasurement of financial assets supporting these liabilities.

Adjustments arising due to remeasuring financial assets classified as available-for-sale and hedging instruments designated as cash flow hedges will be recognized in the opening balance of Accumulated other comprehensive income.

Neither of the transition amounts that will be recorded in the opening retained earnings or in the opening AOCI balance on November 1, 2006 is expected to be material to our consolidated financial position.

The tax consequences, if any, of the new standards on the transition or subsequent accounting are unknown. The tax authorities are currently reviewing the standards to determine any such implications.

Stock-based compensation

On July 6, 2006, the Emerging Issues Committee (EIC) issued Abstract No. 162, *Stock-Based Compensation for Employees Eligible to Retire Before the Vesting Date* (EIC-162). This EIC clarifies that the compensation cost attributable to options and awards, granted to employees who are eligible to retire or will become eligible to retire during the vesting period, should be recognized immediately if the employee is eligible to retire on the grant date or over the period between the grant date to the date the employee becomes eligible to retire. This EIC became effective for us on November 1, 2006, and requires retroactive application to all stock-based compensation awards accounted for in accordance with the CICA Handbook Section 3870, *Stock-Based Compensation and Other Stock-Based Payments* (CICA 3870). Our current recognition policy for stock-based compensation is consistent with this guidance.

Variability in variable interest entities

On September 15, 2006, the EIC issued Abstract No. 163, *Determining the Variability to be Considered in Applying AcG-15* (EIC-163). This EIC provides additional clarification on how to analyze and consolidate VIEs. EIC-163 will be effective for us on February 1, 2007 and its implementation will result in the deconsolidation of certain investment funds. However, the impact is not expected to be material to our consolidated financial position or results of operations.

Note 2 Estimated fair value of financial instruments

The fair value of a financial instrument is the amount at which the financial instrument could be exchanged in an arm's length transaction between knowledgeable and willing parties under no compulsion to act. Fair value is based on quoted market prices when available. However, when financial instruments lack an available trading market, fair value is based on prevailing market rates for instruments with similar characteristics and risk profile or internal or external valuation models using observable market-based inputs. Fair values determined using valuation models require the use of assumptions concerning the amount and timing of estimated future cash flows and discount rates. These assumptions reflect the risks inherent in the financial instrument. Valuation adjustments are required to adjust the quoted market prices or valuation model outputs for additional market factors which are required to ensure the financial instruments are recorded at fair value.

Liquidity adjustments are calculated when market prices are not observable due to insufficient trading volume or a lack of recent trades in a less active or inactive market. Liquidity adjustments are also calculated to reflect the cost of unwinding a larger than normal market size risk position.

Adjustments for counterparty credit risk are calculated to include the credit quality of the counterparty in determining the fair value of derivative transactions. The market-based parameters used in the derivative valuation models do not take into account the credit quality of the counterparties to the transactions. As a result, we calculate a valuation adjustment for each counterparty in arriving at the fair value of the transactions reported.

We have documented internal policies that detail our processes for determining fair value, including the methodologies used in establishing our valuation adjustments. These methodologies are consistently applied and periodically reviewed by Group Risk Management.

The aggregate fair value amounts represent point-in-time estimates only and should not be interpreted as the amounts realizable in an immediate settlement of the instruments.

The following table presents the carrying value and estimated fair value of our financial assets and liabilities; accordingly, it does not reflect the value of assets and liabilities that are not considered financial instruments, such as premises and equipment, goodwill and other intangibles.

	2006			2005		
	Book value	Estimated fair value	Difference	Book value	Estimated fair value	Difference
Financial assets						
Cash and deposits with banks	$ 14,903	$ 14,903	$ –	$ 10,238	$ 10,238	$ –
Securities	184,869	185,239	370	160,495	160,684	189
Assets purchased under reverse repurchase agreements and securities borrowed	59,378	59,378	–	42,973	42,973	–
Loans (net of allowance for loan losses)	208,530	208,638	108	190,416	190,506	90
Derivative-related amounts	37,733	37,682	(51)	39,008	39,123	115
Other assets	22,660	22,660	–	18,194	18,194	–
Financial liabilities						
Deposits	$ 343,523	$ 343,312	$ 211	$ 306,860	$ 308,047	$ (1,187)
Derivative-related amounts	42,340	42,108	232	43,001	42,817	184
Other liabilities	28,736	28,736	–	24,330	24,330	–
Subordinated debentures	7,103	7,384	(281)	8,167	8,503	(336)
Trust capital securities	1,383	1,532	(149)	1,400	1,582	(182)
Preferred share liabilities	298	304	(6)	300	310	(10)

Methodologies and assumptions used to estimate fair value of financial instruments

Financial instruments valued at carrying value

Due to their short-term nature, the fair values of Cash and deposits with banks and Assets purchased under reverse repurchase agreements and securities borrowed are assumed to approximate their carrying values.

Securities

The fair values of securities are based on quoted market prices, when available. If quoted market prices are not available, fair values are estimated using quoted market prices of similar securities or other third-party information. Liquidity adjustments, including adjustments for resale restrictions greater than one year, are recorded as appropriate.

Loans

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

Derivative financial instruments

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

Other assets/liabilities

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

Deposits

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

Subordinated debentures

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

Trust capital securities and preferred share liabilities

The fair values of Trust capital securities and preferred share liabilities are based on quoted market prices.

Note 3 Securities

	Term to maturity (1)								
	Within 3 months	3 months to 1 year	1 to 5 years	Over 5 years to 10 years	Over 10 years	With no specific maturity	2006 Total	2005 Total	2004 Total
Trading account									
Canadian government debt	$ 3,041	$ 2,148	$ 4,646	$ 2,547	$ 1,518	$ –	$ 13,900	$ 11,814	$ 11,082
U.S. government debt	2,290	1,649	1,379	493	3,331	–	9,142	8,687	1,794
Other OECD government debt (2)	164	1,071	1,148	1,587	688	–	4,658	6,476	3,844
Mortgage-backed securities	2,255	7	206	269	1,104	–	3,841	2,281	1,017
Asset-backed securities	293	81	1,528	3,375	2,438	–	7,715	7,375	8,689
Corporate debt and other debt									
Bankers' acceptances	705	61	–	–	–	–	766	998	1,078
Certificates of deposit	1,062	2,799	1,355	29	–	–	5,245	8,705	4,973
Other	9,121	5,702	21,247	3,752	3,783	534	44,139	33,714	24,895
Equities	–	–	–	–	–	57,831	57,831	45,710	31,950
	18,931	13,518	31,509	12,052	12,862	58,365	147,237	125,760	89,322
Investment account									
Canadian government debt									
Federal									
Amortized cost	828	86	2,514	208	13	–	3,649	6,214	6,898
Estimated fair value	828	86	2,539	211	13	–	3,677	6,205	6,939
Yield (3)	4.2%	4.4%	4.2%	4.6%	3.6%	–	4.2%	3.6%	3.4%
Provincial and municipal									
Amortized cost	1	55	245	363	1,023	–	1,687	2,035	2,010
Estimated fair value	1	55	247	373	1,259	–	1,935	2,229	2,118
Yield (3)	6.1%	4.5%	4.5%	4.7%	5.9%	–	5.4%	4.9%	5.2%
U.S. government debt									
Federal									
Amortized cost	24	6	449	45	12	–	536	633	475
Estimated fair value	24	6	421	45	12	–	508	628	466
Yield (3)	3.3%	4.0%	4.6%	4.7%	5.3%	–	4.5%	2.2%	4.1%
State, municipal and agencies									
Amortized cost	42	368	982	286	–	–	1,678	2,199	3,419
Estimated fair value	42	364	953	289	–	–	1,648	2,139	3,388
Yield (3)	2.5%	2.4%	3.6%	5.5%	–	–	3.6%	2.5%	2.4%
Other OECD government debt (2)									
Amortized cost	376	2	241	91	48	–	758	1,595	1,725
Estimated fair value	376	2	241	93	49	–	761	1,599	1,739
Yield (3)	1.3%	4.1%	4.3%	4.6%	–	–	2.6%	1.9%	1.2%
Mortgage-backed securities									
Amortized cost	15	490	5,544	1,242	4,514	–	11,805	8,254	6,038
Estimated fair value	15	488	5,474	1,231	4,484	–	11,692	8,183	6,082
Yield (3)	5.7%	4.0%	3.9%	5.4%	5.2%	–	4.5%	4.4%	4.4%
Asset-backed securities									
Amortized cost	62	64	2,321	158	559	–	3,164	1,442	1,392
Estimated fair value	62	65	2,327	158	559	–	3,171	1,445	1,395
Yield (3)	4.4%	5.4%	4.8%	5.2%	5.5%	–	5.0%	4.2%	3.0%
Corporate debt and other debt									
Amortized cost	2,241	1,419	3,726	1,266	2,148	362	11,162	10,676	15,948
Estimated fair value	2,248	1,428	3,766	1,277	2,279	362	11,360	10,839	16,121
Yield (3)	5.1%	5.2%	4.6%	4.6%	5.5%	–	4.8%	3.7%	2.8%
Equities									
Cost	–	–	–	–	–	2,537	2,537	1,012	1,018
Estimated fair value	–	–	–	–	–	2,592	2,592	974	1,022
Amortized cost	3,589	2,490	16,022	3,659	8,317	2,899	36,976	34,060	38,923
Estimated fair value	3,596	2,494	15,968	3,677	8,655	2,954	37,344	34,241	39,270
Loan substitute									
Cost	–	–	–	–	400	256	656	675	701
Estimated fair value	–	–	–	–	400	258	658	683	715
Total carrying value of securities	$ 22,520	$ 16,008	$ 47,531	$ 15,711	$ 21,579	$ 61,520	$184,869	$160,495	$128,946
Total estimated fair value of securities	$ 22,527	$ 16,012	$ 47,477	$ 15,729	$ 21,917	$ 61,577	$185,239	$160,684	$129,307

(1) Actual maturities may differ from contractual maturities shown above, since borrowers may have the right to prepay obligations with or without prepayment penalties.
(2) OECD stands for Organisation for Economic Co-operation and Development.
(3) The weighted average yield is based on the carrying value at the end of the year for the respective securities.

Unrealized gains and losses on Investment account securities

	2006				2005			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Canadian government debt								
Federal	$ 3,649	$ 29	$ (1)	$ 3,677	$ 6,214	$ 16	$ (25)	$ 6,205
Provincial and municipal	1,687	248	–	1,935	2,035	195	(1)	2,229
U.S. government debt								
Federal	536	–	(28)	508	633	4	(9)	628
State, municipal and agencies	1,678	5	(35)	1,648	2,199	–	(60)	2,139
Other OECD government debt	758	4	(1)	761	1,595	5	(1)	1,599
Mortgage-backed securities	11,805	17	(130)	11,692	8,254	15	(86)	8,183
Asset-backed securities	3,164	11	(4)	3,171	1,442	6	(3)	1,445
Corporate debt and other debt	11,162	238	(40)	11,360	10,676	204	(41)	10,839
Equities	2,537	110	(55)	2,592	1,012	17	(55)	974
	$ 36,976	$ 662	$ (294)	$ 37,344	$ 34,060	$ 462	$ (281)	$ 34,241

Realized gains and losses on sale of Investment account securities

	2006	2005	2004
Realized gains	$ 177	$ 141	$ 136
Realized losses and writedowns	(89)	(56)	(116)
Gain on sale of Investment account securities	$ 88	$ 85	$ 20

Fair value and unrealized losses position for Investment account securities as at October 31, 2006

	Less than 12 months		12 months or more		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Canadian government debt						
Federal	$ –	$ 1	$ 18	$ –	$ 18	$ 1
Provincial and municipal	10	–	24	–	34	–
U.S. government debt						
Federal	61	1	85	27	146	28
State, municipal and agencies	56	1	1,157	34	1,213	35
Other OECD government debt	387	1	–	–	387	1
Mortgage-backed securities	4,512	63	4,492	67	9,004	130
Asset-backed securities	120	1	2,002	3	2,122	4
Corporate debt and other debt	602	6	1,093	34	1,695	40
Equities	125	1	373	54	498	55
Total temporarily impaired securities	$ 5,873	$ 75	$ 9,244	$ 219	$ 15,117	$ 294

The unrealized losses for Canadian government debt, U.S. government debt, mortgage-backed securities and asset-backed securities were caused by increases in interest rates. The contractual terms of these investments either do not permit the issuer to settle the securities at a price less than the amortized costs of the investment or permit prepayment of contractual amounts owing only with prepayment penalties assessed to recover interest foregone. As a result, it is not expected that these investments would be settled at a price less than the amortized cost. Unrealized losses for corporate debt and other debt were caused by either increases in interest rates or, in some cases, credit rating downgrades; however, given that we have the ability and intent to hold these investments until there is a recovery of fair value, which may be at maturity, we believe it is probable that we will be able to collect all amounts due according to the contractual terms of the investments. Accordingly, we do not consider these investments to be other-than-temporarily impaired as at October 31, 2006.

Unrealized losses on equity securities are primarily due to the timing of the market prices, foreign exchange movements, or the early years in the business cycle of the investees for certain investments. We do not consider these investments to be other-than-temporarily impaired as at October 31, 2006, as we have the ability and intent to hold them for a reasonable period of time until the recovery of fair value.

Note 4 Loans (1)

	2006	2005
Canada		
Residential mortgage	$ 94,272	$ 88,808
Personal	37,946	33,986
Credit card	6,966	6,024
Business and government	37,053	34,443
	176,237	163,261
United States		
Residential mortgage	1,518	1,375
Personal	6,011	6,248
Credit card	123	118
Business and government	14,935	13,517
	22,587	21,258
Other International		
Residential mortgage	885	860
Personal	945	811
Credit card	66	58
Business and government	9,219	5,666
	11,115	7,395
Total loans (2)	209,939	191,914
Allowance for loan losses	(1,409)	(1,498)
Total loans net of allowance for loan losses	$ 208,530	$ 190,416

(1) Includes all loans booked by location, regardless of currency or residence of borrower.
(2) Loans are net of unearned income of $62 million (2005 – $67 million).

Loan maturities and rate sensitivity

	Maturity term (1)				Rate sensitivity			
As at October 31, 2006	Under 1 year	1 to 5 years	Over 5 years	Total	Floating	Fixed rate	Non-rate-sensitive	Total
Residential mortgage	$ 20,678	$ 68,401	$ 7,596	$ 96,675	$ 21,257	$ 75,391	$ 27	$ 96,675
Personal	34,386	7,925	2,591	44,902	34,338	10,555	9	44,902
Credit card	7,155	–	–	7,155	189	5,542	1,424	7,155
Business and government	39,520	16,428	5,259	61,207	40,097	21,018	92	61,207
Total loans	$ 101,739	$ 92,754	$ 15,446	$ 209,939	$ 95,881	$ 112,506	$ 1,552	$ 209,939
Allowance for loan losses				(1,409)				(1,409)
Total loans net of allowance for loan losses				$ 208,530				$ 208,530

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

Impaired loans (1), (2)

	2006			2005
	Gross	Specific allowance	Net	Net
Residential mortgage	$ 154	$ (13)	$ 141	$ 126
Personal	190	(90)	100	66
Business and government	490	(160)	330	300
	$ 834	$ (263)	$ 571	$ 492

(1) There are $305 million (2005 – $304 million) of loans that are contractually 90 days past due but are not considered impaired.
(2) Average balance of gross impaired loans was $805 million (2005 – $903 million).

Note 4 Loans (continued)

Allowance for loan losses

	2006						2005
	Balance at beginning of year	Write-offs	Recoveries	Provision for credit losses	Adjustments (1)	Balance at end of year	Balance at end of year
Residential mortgage	$ 10	$ (5)	$ –	$ 7	$ 1	$ 13	$ 10
Personal	103	(374)	64	306	(9)	90	103
Credit card	–	(204)	41	163	–	–	–
Business and government	169	(130)	100	6	15	160	169
Specific allowances	$ 282	$ (713)	$ 205	$ 482	$ 7	$ 263	$ 282
General allowance (2)	1,286	–	–	(53)	(10)	1,223	1,286
Total allowance for credit losses	$ 1,568	$ (713)	$ 205	$ 429	$ (3)	$ 1,486	$ 1,568
Allowance for off-balance sheet and other items (3)	(70)	–	–	–	(7)	(77)	(70)
Total allowance for loan losses	$ 1,498	$ (713)	$ 205	$ 429	$ (10)	$ 1,409	$ 1,498

(1) Primarily represent the translation impact of foreign currency-denominated Allowance for loan losses.
(2) Includes $77 million (2005 – $70 million) related to off-balance sheet and other items.
(3) The allowance for off-balance sheet and other items is reported separately under Other liabilities.

Net interest income after provision for credit losses

	2006	2005	2004
Net interest income	$ 6,762	$ 6,770	$ 6,398
Provision for credit losses	429	455	346
Net interest income after provision for credit losses	$ 6,333	$ 6,315	$ 6,052

Note 5 Securitizations

The following table summarizes our securitization activities for 2006, 2005 and 2004 (1):

	2006			2005			2004 (2)	
	Credit card loans	Residential mortgage loans (3)	Commercial mortgage loans	Credit card loans	Residential mortgage loans (3)	Commercial mortgage loans	Residential mortgage loans (3)	Commercial mortgage loans
Securitized and sold	$ 1,200	$ 6,329	$ 718	$ 1,200	$ 3,752	$ 655	$ 3,074	$ 486
Net cash proceeds received	400	6,210	729	600	3,739	667	3,035	497
Asset-backed securities purchased	794	–	–	596	–	–	–	–
Retained rights to future excess interest	9	121	–	8	100	–	75	–
Pre-tax gain on sale	3	2	11	4	87	12	36	11
Securities created and retained as Investment account securities	–	7,262	–	–	2,706	–	1,903	–

(1) We did not recognize a servicing asset or servicing liability for our servicing rights with respect to the securitized loans as we received adequate compensation for our services.
(2) There was no credit card loans securitization in 2004.
(3) All residential mortgage loans securitized are government guaranteed.

In addition to the above securitization transactions, we sold $815 million of residential mortgage loans in 2006, resulting in a pre-tax loss of $3 million.

Cash flows from securitizations (1)

	2006			2005			2004	
	Credit card loans	Residential mortgage loans – Variable rate	Residential mortgage loans – Fixed rate	Credit card loans	Residential mortgage loans – Variable rate	Residential mortgage loans – Fixed rate	Credit card loans	Residential mortgage loans (2) – Fixed rate
Proceeds reinvested in revolving securitizations	$ 17,107	$ 466	$ 2,251	$ 12,076	$ 419	$ 1,520	$ 10,028	$ 1,202
Cash flows from retained interests in securitizations	187	10	111	118	2	81	84	46

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

The key assumptions used to value the retained interests at the date of the securitization activities are as follows:

Key assumptions (1), (2)

	2006			2005			2004 (3)
	Credit card loans	Residential mortgage loans		Credit card loans	Residential mortgage loans		Residential mortgage loans (4)
		Variable rate	Fixed rate		Variable rate	Fixed rate	Fixed rate
Expected weighted average life of prepayable receivables (in years)	.16	2.61	3.60	.15	3.48	3.59	3.88
Payment rate	40.02%	30.00%	15.39%	40.06%	13.52%	13.36%	12.00%
Excess spread, net of credit losses	5.13	1.18	.99	6.88	.20	1.06	.74
Expected credit losses	2.15	–	–	1.75	–	–	–
Discount rate	10.00	4.32	4.36	10.00	3.64	3.59	3.83

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

Static pool credit losses include actual incurred and projected credit losses divided by the original balance of the loans securitized. The expected static pool credit loss ratio for securitized credit card loans at October 31, 2006 was .46%. Static credit pool losses are not applicable to residential mortgages as the mortgages are government guaranteed.

The following table summarizes the loan principal, past due and net write-offs for total loans reported on our Consolidated Balance Sheets and securitized loans that we manage as at October 31, 2006 and 2005:

Loans managed

	2006			2005		
	Loan principal	Past due (1)	Net write-offs	Loan principal	Past due (1)	Net write-offs
Residential mortgage	$ 116,397	$ 308	$ 5	$ 103,258	$ 302	$ 5
Personal	44,902	235	310	41,045	216	279
Credit card	10,805	65	248	9,300	61	240
Business and government	61,207	531	30	53,626	499	118
Total loans managed (2)	233,311	1,139	593	207,229	1,078	642
Less: Loans securitized and managed						
Credit card loans	3,650	–	85	3,100	–	46
Mortgage-backed securities created and sold	14,131	–	–	9,561	–	–
Mortgage-backed securities created and retained	5,591	–	–	2,654	–	–
Total loans reported on the Consolidated Balance Sheets	$ 209,939	$ 1,139	$ 508	$ 191,914	$ 1,078	$ 596

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

At October 31, 2006, key economic assumptions and the sensitivity of the current fair value of our retained interests to immediate 10% and 20% adverse changes in key assumptions are shown in the table below.

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

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

Sensitivity of key assumptions to adverse changes (1), (2)

	2006		
	Credit card loans	Residential mortgage loans	
		Variable rate	Fixed rate
Fair value of retained interests	$ 17.9	$ 14.2	$ 211.0
Weighted average remaining service life (in years)	.25	.48–3.02	3.06–3.85
Payment rate	36.55%	30.00–40.00%	10.00–18.00%
Impact on fair value of 10% adverse change	$ (1.0)	$ (.4)	$ (5.1)
Impact on fair value of 20% adverse change	(2.0)	(.8)	(10.2)
Excess spread, net of credit losses	5.71%	.80–.93%	.83–1.88%
Impact on fair value of 10% adverse change	$ (1.8)	$ (1.0)	$ (21.2)
Impact on fair value of 20% adverse change	(3.5)	(3.1)	(42.5)
Expected credit losses	1.87%	–%	–%
Impact on fair value of 10% adverse change	$ (.6)	$ –	$ –
Impact on fair value of 20% adverse change	(1.2)	–	–
Discount rate	10.00%	4.24–6.00%	4.24–4.33%
Impact on fair value of 10% adverse change	$ –	$ –	$ (2.3)
Impact on fair value of 20% adverse change	–	(.1)	(4.6)

(1) All rates are annualized except for the credit card loans payment rate which is monthly.
(2) This analysis is not applicable for commercial mortgage loans securitizations as we have no retained interest in these transactions.

Note 6 Variable interest entities

The following table provides information about VIEs as at October 31, 2006 and 2005, in which we have a significant variable interest and those that we consolidate under Accounting Guideline 15, *Consolidation of Variable Interest Entities* (AcG-15) because we are the Primary Beneficiary.

	Total assets as at October 31, 2006	Maximum exposure to loss at October 31, 2006	Total assets as at October 31, 2005	Maximum exposure to loss at October 31, 2005
Unconsolidated VIEs in which we have a significant variable interest (1)				
Multi-seller conduits (2)	$ 34,258	$ 35,031	$ 29,253	$ 29,442
Third-party conduits	2,697	1,018	2,162	672
Structured finance VIEs	2,592	1,465	1,907	1,410
Investment funds	3,390	303	6,634	899
Other	128	84	915	57
Collateralized Debt Obligations	–	–	1,104	16
	$ 43,065	$ 37,901	$ 41,975	$ 32,496
Consolidated VIEs (3), (4)				
Investment funds	$ 1,851		$ 1,140	
Credit investment product VIEs	689		660	
Structured finance VIEs	409		471	
Compensation vehicles	355		311	
Other	151		140	
	$ 3,455		$ 2,722	

(1) The maximum exposure to loss resulting from our significant variable interest in these VIEs consists mostly of investments, loans, liquidity facilities and fair value of derivatives. We have recognized $2,130 million (2005 – $2,628 million) of this exposure on our Consolidated Balance Sheets.
(2) Total assets represent maximum assets that may have to be purchased by the conduits under purchase commitments outstanding as at October 31, 2006. Actual assets held by these conduits as at October 31, 2006, were $24,811 million (2005 – $20,191 million).
(3) The assets that support the obligations of the consolidated VIEs are reported on our Consolidated Balance Sheets primarily as follows: Interest-bearing deposits with banks of $120 million (2005 – $152 million), Trading account securities of $2,483 million (2005 – $1,733 million), Investment account securities of $409 million (2005 – $406 million) and Other assets of $287 million (2005 – $246 million). The compensation vehicles hold $156 million (2005 – $185 million) of our common shares, which are reported as Treasury shares. The obligation to provide common shares to employees is recorded as an increase to Contributed surplus as the expense for the corresponding stock-based compensation plan is recognized.
(4) Investors have recourse only to the assets of the related VIEs and do not have recourse to our general assets, unless we breach our contractual obligations relating to those VIEs, provide liquidity facilities or credit enhancement facilities to, or enter into derivative transactions with, the VIEs.

Multi-seller and third-party conduits

We administer six multi-seller asset-backed commercial paper conduit programs (multi-seller conduits). These conduits primarily purchase financial assets from clients and finance those purchases by issuing asset-backed commercial paper. Our clients primarily utilize multi-seller conduits to diversify their financing sources and to reduce funding costs.

During 2006, the multi-seller conduits also financed assets in the form of either securities or instruments that closely resemble securities such as credit-linked notes. In these situations, the multi-seller conduit is often one of many investors in the securities or security-like instruments.

An unrelated third party (expected loss investor) absorbs credit losses, up to a maximum contractual amount, that may occur in the future on the assets in the multi-seller conduits (multi-seller conduit first-loss position) before the multi-seller conduits' debt holders and us. In return for assuming this multi-seller conduit first-loss position, each multi-seller conduit pays the expected loss investor a return commensurate with its risk position. The expected loss investor absorbs a majority of each multi-seller conduit's expected losses, when compared to us; therefore, we are not the Primary Beneficiary and are not required to consolidate these conduits under AcG-15. However, we continue to hold a significant variable interest in these multi-seller conduits resulting from our provision of backstop liquidity facilities, partial credit enhancement and our entitlement to residual fees.

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

The liquidity and credit enhancement facilities are included and described in our disclosure on guarantees in Note 27.

Investment funds

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

Structured finance VIEs

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

Collateralized Debt Obligations

Through our Collateral Debt Obligation (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 loans. As part of our role, we were required to invest in a portion of the CDOs' first-loss tranche. Our total exposure to loss was through fees we earned as a collateral manager and our share of the first-loss tranche. This exposure comprised less than a majority of the total expected losses of the CDOs and therefore, we were not the Primary Beneficiary. We sold our CDO management business in 2005 to a third party, excluding the first-loss tranche investments which were sold during 2006.

Creation of credit investment products

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

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

Capital trusts
RBC Capital Trust II (Trust II) was created in 2003 to issue $900 million innovative capital instruments. We issued a senior deposit note of the same amount to this trust. Although we own the common equity and voting control of the trust, we are not the Primary Beneficiary since we are not exposed to the majority of the expected losses, and we do not have a significant interest in the trust. For details on our innovative capital instruments, refer to Note 17.

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

Note 7 Derivative financial instruments

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

Types of derivatives

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

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

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

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

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

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

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

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

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

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

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

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

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

Derivatives held or issued for trading purposes

Most of our derivative transactions relate to sales and trading activities. Sales activities include the structuring and marketing of derivative products to clients to enable them to transfer, modify or reduce current or expected risks. Trading involves market-making, positioning and arbitrage activities. Market-making involves quoting bid and offer prices to other market participants with the intention of generating revenue based on spread and volume. Positioning involves managing market risk positions with the expectation of profiting from favourable movements in prices, rates or indices. Arbitrage activities involve identifying and profiting from price differentials between markets and products. We do

not deal, to any significant extent, in leveraged derivative transactions. These transactions contain a multiplier which, for any given change in market prices, could cause the change in the transactions' fair values to be significantly different from the change in fair values that would occur for similar derivatives without the multiplier.

Derivatives held or issued for other-than-trading purposes

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

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

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

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

We did not apply hedge accounting to any anticipated transactions for the year ended October 31, 2006.

Derivatives – Notional amounts

Notional amounts, which are off-balance sheet, serve as a point of reference for calculating payments and are a common measure of business volume. The following table provides the notional amounts of our derivative transactions by term to maturity. Excluded from the table below are notional amounts of $121 million (2005 – $198 million), relating to certain warrants and loan commitments reported as derivatives.

Notional amount of derivatives by term to maturity

	Term to maturity			2006			2005	
	Within 1 year	1 to 5 years	Over 5 years (1)	Total	Trading	Other than trading	Trading	Other than trading
Over-the-counter contracts								
Interest rate contracts								
Forward rate agreements	$ 302,435	$ 12,943	$ –	$ 315,378	$ 315,378	$ –	$ 124,504	$ –
Swaps	812,548	847,446	354,444	2,014,438	1,874,206	140,232	1,014,868	138,117
Options purchased	34,122	40,397	24,739	99,258	99,172	86	58,571	53
Options written	28,878	33,906	10,782	73,566	73,566	–	53,420	–
Foreign exchange contracts								
Forward contracts	626,968	31,484	1,065	659,517	626,484	33,033	518,109	33,128
Cross currency swaps	2,678	9,586	7,361	19,625	18,553	1,072	15,565	407
Cross currency interest rate swaps	48,497	133,383	66,917	248,797	228,090	20,707	175,417	10,389
Options purchased	52,395	13,203	45	65,643	65,572	71	100,710	23
Options written	54,874	13,498	16	68,388	68,337	51	111,322	16
Credit derivatives (2)	16,096	114,419	91,261	221,776	219,054	2,722	169,412	3,843
Other contracts (3)	38,916	21,516	26,689	87,121	86,548	573	77,993	216
Exchange-traded contracts								
Interest rate contracts								
Futures – long positions	140,939	6,465	6	147,410	146,886	524	74,440	644
Futures – short positions	177,930	32,413	1,689	212,032	211,131	901	110,874	1,208
Options purchased	66,647	5,279	–	71,926	71,926	–	83,926	–
Options written	119,034	160	–	119,194	119,194	–	38,028	–
Foreign exchange contracts								
Futures – long positions	5,149	921	–	6,070	6,070	–	9,785	–
Futures – short positions	26,088	–	–	26,088	26,088	–	2,230	–
Other contracts (3)	250,199	6,955	–	257,154	257,154	–	76,894	–
	$ 2,804,393	$ 1,323,974	$ 585,014	$ 4,713,381	$ 4,513,409	$ 199,972	$2,816,068	$ 188,044

(1) Includes contracts maturing in over 10 years with a notional value of $135,951 million (2005 – $87,299 million). The related gross positive replacement cost is $3,857 million (2005 – $2,556 million).
(2) Comprises credit default swaps, total return swaps and credit default baskets, including credit derivatives given guarantee treatment for OSFI regulatory reporting purposes.
(3) Comprises precious metal, commodity and equity-linked derivative contracts other than embedded equity-linked contracts.

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

Fair value of derivative instruments

	2006				2005			
	Average fair value for year ended (1)		Year-end fair value		Average fair value for year ended (1)		Year-end fair value	
	Positive	Negative	Positive	Negative	Positive	Negative	Positive	Negative
Held or issued for trading purposes								
Interest rate contracts								
Forward rate agreements	$ 52	$ 50	$ 44	$ 60	$ 26	$ 11	$ 21	$ 19
Swaps	12,150	12,003	12,258	11,969	15,898	15,655	13,298	12,954
Options purchased	795	–	602	–	713	–	989	–
Options written	–	888	–	698	–	749	–	1,079
	12,997	12,941	12,904	12,727	16,637	16,415	14,308	14,052
Foreign exchange contracts								
Forward contracts	6,740	6,969	5,493	5,758	8,064	8,467	6,696	7,059
Cross currency swaps	2,041	1,522	2,151	1,522	1,503	1,316	1,788	1,388
Cross currency interest rate swaps	7,010	8,275	6,703	8,319	6,191	6,630	6,163	7,397
Options purchased	1,571	–	1,055	–	2,088	–	2,149	–
Options written	–	1,582	–	994	–	1,841	–	2,049
	17,362	18,348	15,402	16,593	17,846	18,254	16,796	17,893
Credit derivatives (2)	1,139	975	1,795	1,580	992	873	914	908
Other contracts (3)	5,623	8,803	5,798	9,221	2,888	6,732	5,605	8,398
	$ 37,121	$ 41,067	$ 35,899	$ 40,121	$ 38,363	$ 42,274	$ 37,623	$ 41,251
Held or issued for other-than-trading purposes								
Interest rate contracts								
Swaps			$ 1,100	$ 940			$ 982	$ 937
Options purchased			–	–			1	–
			1,100	940			983	937
Foreign exchange contracts								
Forward contracts			102	236			173	221
Cross currency swaps			5	5			–	56
Cross currency interest rate swaps			607	631			423	365
Options purchased			1	–			–	–
Options written			–	1			–	–
			715	873			596	642
Credit derivatives (2)			20	30			20	20
Other contracts (3)			85	281			45	111
			1,920	2,124			1,644	1,710
Total gross fair values before netting			37,819	42,245			39,267	42,961
Impact of master netting agreements								
With intent to settle net or simultaneously (4)			(137)	(137)			(144)	(144)
Without intent to settle net or simultaneously (5)			(18,952)	(18,952)			(20,822)	(20,822)
Total			$ 18,730	$ 23,156			$ 18,301	$ 21,995

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

Derivative-related credit risk

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

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

Netting is a technique that can reduce credit exposure from derivatives and is generally facilitated through the use of master netting agreements. A master netting agreement provides for a single net settlement of all financial instruments covered by the agreement in the event of default on, or termination of, any one contract. However, credit risk is eliminated only to the extent that our financial obligations to the same counterparty can be settled after we have realized contracts with a favourable position. The two main categories of netting are close-out netting and settlement netting. Under the close-out netting provision, if the counterparty defaults, we have the right to terminate all transactions covered by the master netting agreement at the then-prevailing market values and to sum the resulting market values, offsetting negative against positive values, to arrive at a single net amount owed by either the counterparty or us. Under the settlement netting provision, all payments and receipts in the same currency and due on the same day between specified branches are netted, generating a single payment in each currency, due either by us or the counterparty. We maximize

the use of master netting agreements to reduce derivative-related credit exposure. Our overall exposure to credit risk reduced through master netting agreements may change substantially following the reporting date as the exposure is affected by each transaction subject to the agreements as well as changes in underlying market rates. However, measurement of our credit exposure arising out of derivative transactions is not reduced to reflect the effects of netting unless the enforceability of that netting is supported by appropriate legal analysis, as documented in our policy.

To further manage derivative-related counterparty credit exposure, we include mark-to-market provisions, typically in the form of a Credit Support Annex, in our agreements with some counterparties. Under such provisions, we have the right to request that the counterparty pay down or collateralize the current market value of its derivatives position with us when the position passes a specified threshold. The use of collateral is another significant credit mitigation technique for managing derivative-related counterparty credit risk with other banks and broker-dealers.

The tables below show replacement cost, credit equivalent and risk-adjusted amounts of our derivatives both before and after the impact of netting. During 2006, 2005 and 2004, neither our actual credit losses arising from derivative transactions nor the level of impaired derivative contracts were significant.

Replacement cost represents the total fair value of all outstanding contracts in a gain position, before factoring in the master netting agreements. The amounts in the table below exclude fair value of $734 million (2005 – $504 million) relating to exchange-traded instruments as they are subject to daily margining and are deemed to have no credit risk. Fair value of $nil (2005 – $1 million) relating to certain warrants and loan commitments that meet the definition of derivatives for financial reporting purposes is also excluded.

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

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

Derivative-related credit risk

	2006			2005		
	Replacement cost	Credit equivalent amount	Risk-adjusted balance	Replacement cost	Credit equivalent amount	Risk-adjusted balance
Interest rate contracts						
Forward rate agreements	$ 44	$ 109	$ 22	$ 21	$ 44	$ 10
Swaps	13,358	21,031	4,452	14,280	19,496	4,742
Options purchased	591	1,164	260	958	1,182	338
	13,993	22,304	4,734	15,259	20,722	5,090
Foreign exchange contracts						
Forward contracts	5,595	12,413	3,310	6,869	12,389	3,408
Swaps	9,466	22,697	4,305	8,374	18,935	3,744
Options purchased	1,056	2,244	502	2,149	3,625	971
	16,117	37,354	8,117	17,392	34,949	8,123
Credit derivatives (1)	1,795	6,975	2,009	914	4,663	1,453
Other contracts (2)	5,160	8,696	2,760	5,177	8,670	2,886
Derivatives before master netting agreements	$ 37,065	$ 75,329	$ 17,620	$ 38,742	$ 69,004	$ 17,552
Impact of master netting agreements	(19,089)	(31,831)	(7,188)	(20,966)	(31,182)	(7,856)
Total derivatives after master netting agreement	$ 17,976	$ 43,498	$ 10,432	$ 17,776	$ 37,822	$ 9,696

(1) Comprises credit default swaps, total return swaps and credit default baskets. Credit derivatives classified as "other-than-trading" with a replacement cost of $20 million (2005 – $20 million), credit equivalent amount of $283 million (2005 – $390 million) and risk-adjusted asset amount of $283 million (2005 – $390 million), which are given guarantee treatment per the OSFI guidance, are excluded from this table.
(2) Comprises precious metal, commodity and equity-linked derivative contracts.

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

	Risk rating (1)					Counterparty type (2)			
As at October 31, 2006	AAA, AA	A	BBB	BB or lower	Total	Banks	OECD governments	Other	Total
Gross positive replacement cost	$ 21,139	$ 9,666	$ 4,053	$ 2,227	$ 37,085	$ 21,693	$ 5,891	$ 9,501	$ 37,085
Impact of master netting agreements	(12,566)	(4,273)	(1,783)	(467)	(19,089)	(16,015)	–	(3,074)	(19,089)
Replacement cost (after netting agreements) (3)	$ 8,573	$ 5,393	$ 2,270	$ 1,760	$ 17,996	$ 5,678	$ 5,891	$ 6,427	$ 17,996
Replacement cost (after netting agreements) – 2005 (3)	$ 8,149	$ 4,943	$ 2,174	$ 2,530	$ 17,796	$ 6,631	$ 5,273	$ 5,892	$ 17,796

(1) Our internal risk ratings for major counterparty types approximate those of public rating agencies. Ratings of AAA, AA, A and BBB represent investment grade ratings and ratings of BB or lower represent non-investment grade ratings.
(2) Counterparty type is defined in accordance with the capital adequacy requirements of the OSFI.
(3) Includes credit derivatives classified as "other than trading" with a total replacement cost of $20 million (2005 – $20 million).

Note 8 Premises and equipment

	2006			2005		
	Cost	Accumulated depreciation	Net book value	Cost	Accumulated depreciation	Net book value
Land	$ 134	$ –	$ 134	$ 143	$ –	$ 143
Buildings	511	321	190	591	312	279
Computer equipment	2,462	1,698	764	2,184	1,502	682
Furniture, fixtures and other equipment	1,012	736	276	996	720	276
Leasehold improvements	1,127	673	454	956	628	328
	$ 5,246	$ 3,428	$ 1,818	$ 4,870	$ 3,162	$ 1,708

The depreciation expense for premises and equipment for 2006 was $405 million (2005 – $414 million; 2004 – $387 million).

Note 9 RBC Dexia Investor Services joint venture

On January 2, 2006, we combined our Institutional & Investor Services business (IIS), previously operated mainly through our wholly-owned subsidiaries Royal Trust Corporation of Canada, The Royal Trust Company, and RBC Global Services Australia Pty Limited, with the Dexia Funds Services business of Dexia Banque Internationale à Luxembourg (Dexia) in return for a 50% joint venture interest in a newly formed company known as RBC Dexia Investor Services (RBC Dexia IS). Under the agreement with Dexia, we contributed net assets with a carrying value of approximately $895 million, of which $84 million was related to IIS goodwill. We did not recognize a gain or loss on this transaction.

RBC Dexia IS, which provides an integrated suite of institutional investor products and services, including global custody, fund and pension administration, securities lending, shareholder services, analytics and other related services to institutional investors worldwide, is a holding company headquartered in London, United Kingdom. Operations of RBC Dexia IS are conducted mainly through RBC Dexia Investor Services Trust in Canada and RBC Dexia Investor Services Bank in Luxembourg and their respective subsidiaries and branches around the world.

We report the results of RBC Dexia IS on a one-month lag basis. For our year ended October 31, 2006, we have included our proportionate share of RBC Dexia IS financial results for their nine months ended September 30, 2006. Assets and liabilities representing our interest in RBC Dexia IS and our proportionate share of its financial results before adjusting for related party transactions are presented in the following tables:

	As at October 31, 2006
Consolidated Balance Sheets	
Assets (1)	$ 12,354
Liabilities	11,396

(1) Includes $69 million of goodwill and $208 million of intangible assets.

	For the nine months ended October 31, 2006 (1)
Consolidated Statements of Income	
Net interest income	$ 75
Non-interest income	363
Non-interest expense	315
Net income	73
Consolidated Statements of Cash Flows	
Cash flows from operating activities	$ (71)
Cash flows from investing activities	(97)
Cash flows from financing activities	165

(1) Represents our proportionate share of RBC Dexia IS financial results for their nine months ended September 30, 2006.

Along with Dexia, we provide certain operational services to RBC Dexia IS, which include administrative and technology support, human resources and others. In addition, both Dexia and we provide, on an equal basis, credit and banking facilities to RBC Dexia IS to support its operations. RBC Dexia IS provides certain services to Dexia and us, including custody and trusteeship, fund and investment administration, transfer agency and investor services. These services and facilities are provided by the respective parties in the normal course of operations on terms similar to those offered to non-related parties. The amounts of interest income earned and expenses incurred by RBC Dexia IS related to transactions with RBC are as follows:

	For the nine months ended October 31, 2006
Net interest income	$ 99
Non-interest income	16
Non-interest expense	28

Note 10 Goodwill and other intangibles

We have completed the annual test for goodwill impairment in all reporting units and have determined that goodwill is not impaired.

The following table discloses the changes in goodwill over 2006 and 2005:

Goodwill

	RBC Canadian Personal and Business	RBC U.S. and International Personal and Business	RBC Capital Markets	Total
Balance at October 31, 2004	$ 2,502	$ 792	$ 986	$ 4,280
Other adjustments (1)	(83)	39	(33)	(77)
Balance at October 31, 2005	$ 2,419	$ 831	$ 953	$ 4,203
Goodwill acquired during the year	–	86	–	86
Other adjustments (2), (3)	72	(17)	(40)	15
Balance at October 31, 2006	$ 2,491	$ 900	$ 913	$ 4,304

(1) Other adjustments in 2005 primarily include changes to RBC Dain Rauscher's goodwill due to resolutions of pre-acquisition tax positions, reclassification of certain trust businesses' intangibles to goodwill, and the impact of foreign exchange translations on non-Canadian dollar-denominated goodwill.
(2) Other adjustments in 2006 primarily include the impact of foreign exchange translations on non-Canadian dollar-denominated goodwill, changes in goodwill related to our IIS business with RBC Dexia IS (refer to Note 9), and the transfer of $6 million housing tax credit syndication business goodwill from RBC U.S. and International Personal and Business to RBC Capital Markets. Refer to Note 30.
(3) During 2006, we adjusted the foreign exchange translation of certain non-Canadian dollar-denominated goodwill of RBC Canadian Personal and Business to better align with the nature of the net assets supporting the segment. This resulted in an increase of $182 million of goodwill for RBC Canadian Personal and Business. A corresponding increase was made to Unrealized foreign currency translation gain (loss) on our Consolidated Statements of Changes in Shareholders' Equity.

Other intangibles

	2006			2005		
	Gross carrying amount	Accumulated amortization (1)	Net carrying amount	Gross carrying amount	Accumulated amortization (1)	Net carrying amount
Core deposit intangibles	$ 324	$ (163)	$ 161	$ 346	$ (149)	$ 197
Customer lists and relationships (2)	625	(156)	469	275	(105)	170
Mortgage servicing rights	44	(32)	12	68	(26)	42
	$ 993	$ (351)	$ 642	$ 689	$ (280)	$ 409

(1) Total amortization expense for 2006 was $76 million (2005 – $50 million; 2004 – $69 million).
(2) Increase primarily relates to our joint venture investment in RBC Dexia IS and acquisitions made in 2006. Refer to Note 9 and Note 11, respectively.

During 2005, we revisited the goodwill and intangible assets identified in connection with the acquisition of certain trust businesses in fiscal 1999 and 2000 and determined that approximately $57 million (€28 million) initially allocated to customer lists and relationships actually represented goodwill. The reallocation resulted in an increase in the carrying amount of goodwill and a recovery of approximately $15 million of amortization expense given that we ceased amortizing goodwill and indefinite life intangibles beyond November 1, 2001, in accordance with GAAP.

The projected amortization of Other intangibles for each of the years ending October 31, 2007 to October 31, 2011 is approximately $77 million. There were no writedowns of intangible assets due to impairment for the year ended October 31, 2006 (2005 – nil; 2004 – nil).

Note 11 Significant acquisitions and dispositions

2006

Acquisitions

In November 2005, we completed the acquisition of operations of Abacus Financial Services Group Limited (Abacus) in London, Jersey, Guernsey, Edinburgh and Cheltenham. Abacus is based in Jersey, Channel Islands, and provides wealth management and fiduciary services to private and corporate clients primarily in the British Isles and Continental Europe.

In October 2006, we completed the acquisition of American Guaranty & Trust (AG&T) which is based in Wilmington, Delaware, and offers complete personal trust and custody services through a unique strategic partnership with professional advisors.

The details of these acquisitions are as follows:

	Abacus	American Guaranty & Trust
Acquisition date	November 30, 2005	October 3, 2006
Business segment	RBC U.S. and International Personal and Business	RBC U.S. and International Personal and Business
Percentage of shares acquired	100%	100%
Purchase consideration	Cash payment of £105 (1)	Cash payment of US$12.5
Fair value of tangible assets acquired	$ 43	$ 3
Fair value of liabilities assumed	(23)	–
Fair value of identifiable net tangible assets acquired	20	3
Customer lists and relationships (2)	116	2
Goodwill	77	9
Total purchase consideration	$ 213	$ 14

(1) Includes £20 million placed in an escrow account for future payments of claims as agreed to in the purchase agreement. Amounts remaining in the escrow account will be released to the vendors over a three-year period after completion of the acquisition.
(2) Customer lists and relationships are amortized on a straight-line basis over an estimated average useful life of 15 years.

Pending acquisitions

On August 9, 2006, RBC Centura Banks, Inc. announced the signing of a definitive merger agreement pursuant to which RBC Centura Banks, Inc. will acquire Atlanta, Georgia-based Flag Financial Corporation (Flag) and its subsidiary, Flag Bank. Under the agreement, shareholders of Flag will receive US$25.50 per share for a total purchase price of approximately US$456 million. The acquisition is subject to customary closing conditions, including approval by U.S. and Canadian regulators. This transaction is expected to be completed by the end of calendar year 2006.

On October 25, 2006, RBC Capital Markets announced that it has agreed to acquire the broker-dealer business and certain other assets of the Carlin Financial Group, a New York-based boutique broker-dealer. This transaction is subject to regulatory approval and other customary closing conditions and is expected to be completed in the first quarter of 2007.

2005

Disposition

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

Discontinued operations

On September 2, 2005, we completed the sale of RBC Mortgage Company (RBC Mortgage) to New Century Mortgage Corporation and Home123 Corporation (Home123), pursuant to which Home123 acquired certain assets of RBC Mortgage including its branches, and hired substantially all of its employees.

RBC Mortgage has substantially disposed of its remaining assets and obligations that were not transferred to Home123. These are recorded separately on the Consolidated Balance Sheets as Assets of operations held for sale and Liabilities of operations held for sale. The operating results of RBC Mortgage are classified as discontinued operations for all periods presented in the Consolidated Statements of Income. RBC Mortgage's business realignment charges (refer to Note 23) have been reclassified to discontinued operations.

2004

Acquisitions

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

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

(1) Core deposit intangibles and customer lists and relationships are amortized on a straight-line basis over an estimated average useful life of 8 and 15 years, respectively.

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

Note 12 Other assets

	2006	2005
Receivable from brokers, dealers and clients	$ 3,172	$ 1,934
Accrued interest receivable	2,229	1,716
Investment in associated corporations and limited partnerships	1,614	1,423
Insurance-related assets (1)	702	679
Net future income tax asset (refer to Note 24)	1,104	1,248
Prepaid pension benefit cost (2) (refer to Note 20)	761	540
Cheques and other items in transit	489	2,117
Other	5,346	3,251
	$ 15,417	$ 12,908

(1) Insurance-related assets include policy loan balances, premiums outstanding, amounts due from other insurers in respect of reinsurance contracts and pooling arrangements, and deferred acquisition costs.

(2) Prepaid pension benefit cost represents the cumulative excess of pension fund contributions over pension benefit expense.

Note 13 Deposits

The following table details our deposit liabilities as at October 31, 2006 and 2005.

	2006				2005
	Demand (1)	Notice (2)	Term (3)	Total	Total
Personal	$ 13,805	$ 32,969	$ 67,266	$ 114,040	$ 111,618
Business and government (4)	58,444	15,158	115,538	189,140	160,593
Bank	6,380	128	33,835	40,343	34,649
	$ 78,629	$ 48,255	$ 216,639	$ 343,523	$ 306,860
Non-interest bearing					
Canada				$ 19,088	$ 17,729
United States				2,293	3,799
Other International				1,241	908
Interest-bearing					
Canada (4)				174,170	167,243
United States				50,123	41,399
Other International				96,608	75,782
				$ 343,523	$ 306,860

(1) Deposits payable on demand include all deposits for which we do not have the right to notice of withdrawal. These deposits are primarily chequing accounts.
(2) Deposits payable after notice include all deposits for which we can legally require notice of withdrawal. These deposits are primarily savings accounts.
(3) Term deposits include deposits payable on a fixed date. These deposits include term deposits, guaranteed investment certificates and similar instruments. At October 31, 2006, the balance of term deposits also includes senior deposit notes we have issued to provide long-term funding of $33.4 billion (2005 – $24.0 billion) and other notes and similar instruments in bearer form of $30.2 billion (2005 – $24.9 billion).
(4) The senior deposit note of $900 million issued to Trust II (refer to Note 17) is included in Business and government deposits. This senior deposit note bears interest at an annual rate of 5.812% and will mature on December 31, 2053. The note is redeemable at our option, in whole or in part, on and after December 31, 2008, subject to the approval of the OSFI. It may be redeemed earlier, at our option in certain specified circumstances, subject to the approval of the OSFI. Each $1,000 of the note principal is convertible at any time into 40 of our Non-cumulative redeemable First Preferred Shares Series U at the option of Trust II. Trust II will exercise this conversion right in circumstances in which holders of RBC Trust Capital Securities Series 2013 (RBC TruCS 2013) exercise their exchange right. Refer to Note 17 for more information on RBC TruCS 2013.

The contractual maturities of the term deposits are as follows:

Term deposits (1)

	2006
Within 1 year	$ 167,252
1 to 2 years	21,907
2 to 3 years	7,716
3 to 4 years	6,170
4 to 5 years	9,145
Over 5 years	4,449
Total	$ 216,639

(1) The aggregate amount of term deposits in denominations of $100,000 or more as at October 31, 2006 was $175 billion.

The following table presents the average deposit balances and average rate of interest paid during 2006 and 2005:

Average deposit balances and rates

	Average balances		Average rate	
	2006	2005	2006	2005
Canada	$ 183,085	$ 176,665	2.74%	2.11%
United States	48,272	40,497	4.18	2.59
Other International	91,942	71,035	3.99	3.06
	$ 323,299	$ 288,197	3.31%	2.41%

Note 14 Insurance

Insurance claims and policy benefit liabilities

	2006	2005
Life and health	$ 6,655	$ 6,414
Property and casualty	386	316
Reinsurance	296	387
Total	$ 7,337	$ 7,117
Future policy benefit liabilities	$ 6,605	$ 6,360
Claims liabilities	732	757
Total	$ 7,337	$ 7,117

The increase in Insurance claims and policy benefit liabilities over the prior year is comprised of a net increase in life and health and property and casualty reserves attributable to business growth, and a net decrease in our reinsurance reserves reflecting claim payments related to hurricanes Katrina, Rita and Wilma.

Furthermore, as a result of a review of various actuarial assumptions and the completion of certain actuarial experience studies, we recorded a net decrease of $15 million of life and health insurance reserves. All changes collectively resulted in a $75 million net decrease in health reserve, largely offset by a net increase in life and annuity reserves of $60 million. This was predominantly driven by the impact of changes to interest rate assumptions which shifted the liability by line of business, investment portfolio changes, decreases in long-term interest rates, the introduction of the new actuarial standard of practice for interest rates and other minor assumption changes.

The changes in the insurance claims and policy benefit liabilities are included in Insurance policyholder benefits, claims and acquisition expense in the Consolidated Statements of Income in the period in which the estimates changed.

Reinsurance

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

Reinsurance recoverables related to property and casualty insurance business, which are included in Other assets, include amounts related to paid benefits and unpaid claims. Reinsurance recoverables related to life insurance business are included in Insurance claims and policy benefit liabilities to offset the related liabilities.

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

Net premiums

	2006	2005	2004
Gross premiums	$ 3,405	$ 3,329	$ 2,956
Ceded premiums	(810)	(765)	(574)
	$ 2,595	$ 2,564	$ 2,382

Note 15 Other liabilities

	2006	2005
Short-term borrowings of subsidiaries	$ 3,929	$ 3,309
Payable to brokers, dealers and clients	3,382	3,161
Accrued interest payable	2,556	1,827
Accrued pension and other post-employment benefit expense (1) (refer to Note 20)	1,250	1,195
Insurance-related liabilities	491	485
Dividends payable	526	424
Other	10,515	8,007
	$ 22,649	$ 18,408

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

Note 16 Subordinated debentures

The debentures are unsecured obligations and are subordinated in right of payment to the claims of depositors and certain other creditors. All redemptions, cancellations and exchanges of subordinated debentures are subject to the consent and approval of the OSFI.

On August 25, 2006, we announced our intention to redeem all of our outstanding US$400 million subordinated debentures due November 8, 2011 at par value plus accrued interest. The redemption was completed on November 8, 2006.

Maturity	Earliest par value redemption date		Interest rate		Denominated in foreign currency	2006	2005
March 15, 2009			6.50%		US$125	$ 140	$ 148
February 13, 2011	February 13, 2006	(1)	5.50%			–	124
April 26, 2011	April 26, 2006	(1)	8.20%			–	99
September 12, 2011	September 12, 2006	(1)	6.50%			–	350
October 24, 2011	October 24, 2006	(1)	6.75%		US$300	–	345
November 8, 2011	November 8, 2006	(2)		(3)	US$400	449	473
June 4, 2012	June 4, 2007	(4)	6.75%	(5)		483	500
January 22, 2013	January 22, 2008	(6)	6.10%	(5)		497	500
January 27, 2014	January 27, 2009	(7)	3.96%	(5)		493	498
June 1, 2014	June 1, 2009	(8)	4.18%	(5)		997	1,000
November 14, 2014			10.00%			200	200
January 25, 2015	January 25, 2010	(9)	7.10%	(5)		495	500
June 24, 2015	June 24, 2010	(7)	3.70%	(5)		791	800
April 12, 2016	April 12, 2011	(10)	6.30%	(5)		400	400
November 4, 2018	November 4, 2013	(11)	5.45%	(5)		985	1,000
June 8, 2023			9.30%			110	110
October 1, 2083		(12)		(13)		224	246
June 6, 2085		(12)		(14)	US$213	239	274
June 18, 2103	June 18, 2009	(15)	5.95%	(16)		600	600
						$ 7,103	$ 8,167

The terms and conditions of the debentures are as follows:

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

Maturity schedule

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

At October 31, 2006	Total
1 to 5 years	$ 140
5 to 10 years	4,789
Thereafter	2,174
	$ 7,103

Note 17 Trust capital securities

We issue innovative capital instruments, RBC Trust Capital Securities (TruCS), through two SPEs: RBC Capital Trust (Trust) and RBC Capital Trust II (Trust II).

In prior years, we issued non-voting RBC Trust Capital Securities Series 2010 and 2011 (RBC TruCS 2010 and 2011) through our consolidated subsidiary RBC Capital Trust, a closed-end trust established under the laws of the Province of Ontario. RBC TruCS 2010 and 2011 are classified as Trust capital securities. The proceeds of the RBC TruCS 2010 and 2011 were used to fund the Trust's acquisition of trust assets. Holders of RBC TruCS 2010 and 2011 are eligible to receive semi-annual non-cumulative fixed cash distributions.

In 2005, we issued another series of non-voting trust capital securities, RBC Trust Capital Securities Series 2015 (RBC TruCS 2015), through the Trust. Unlike the RBC TruCS 2010 and 2011, the holders of these instruments do not have any conversion rights or any other redemption rights. As a result, upon consolidation of the Trust, RBC TruCS 2015 are classified as Non-controlling interest in subsidiaries (refer to Note 19). Holders of RBC TruCS 2015 are eligible to receive semi-annual non-cumulative fixed cash distributions until December 31, 2015 and a floating rate cash distribution thereafter.

Trust II, an open-end trust, has issued non-voting RBC TruCS 2013, the proceeds of which were used to purchase a senior deposit note from us. Trust II is a VIE under AcG-15 (refer to Note 6). We do not consolidate Trust II as we are not the Primary Beneficiary; therefore, the RBC TruCS 2013 issued by Trust II are not reported on our Consolidated Balance Sheets, but the senior deposit note is reported in Deposits (refer to Note 13). Holders of RBC TruCS 2013 are eligible to receive semi-annual non-cumulative fixed cash distributions.

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

The table below presents our outstanding TruCS as at October 31, 2006 and 2005:

Issuer	Issuance date	Distribution dates	Annual yield	Redemption date At the option of the issuer	Conversion date At the option of the holder	2006 Principal amount	2005 Principal amount
RBC Capital Trust (1), (2), (3), (4), (5), (6), (7)							
Included in Trust capital securities							
650,000 Trust Capital Securities – Series 2010	July 24, 2000	June 30, December 31	7.288%	December 31, 2005	December 31, 2010	$ 650	$ 650
750,000 Trust Capital Securities – Series 2011	December 6, 2000	June 30, December 31	7.183%	December 31, 2005	December 31, 2011	$ 750	$ 750
						$ 1,400	$ 1,400
Included in Non-controlling interest in subsidiaries							
1,200,000 Trust Capital Securities – Series 2015	October 28, 2005	June 30, December 31	4.87% (8)	December 31, 2010	Holder does not have conversion option	$ 1,200	$ 1,200
						$ 2,600	$ 2,600
RBC Capital Trust II (2), (3), (4), (5), (6), (7), (9)							
900,000 Trust Capital Securities – Series 2013	July 23, 2003	June 30, December 31	5.812%	December 31, 2008	Any time	$ 900	$ 900

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

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

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

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

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

(5) From time to time, we purchase some of the innovative capital instruments and hold them on a temporary basis. As at October 31, 2006, we held $17 million of RBC TruCS 2011 (2005 – $nil), $12 million of RBC TruCS 2015 (2005 – $nil) and $nil of RBC TruCS 2013 (2005 – $2 million) as treasury holdings which were deducted from regulatory capital.

(6) According to the OSFI guidelines, innovative capital instruments can comprise up to 15% of net Tier 1 capital with an additional 3% eligible for Tier 2B capital. Any amount in excess of the 18% limitation is not recognized for regulatory capital purposes. As at October 31, 2006, $3,222 million (2005 – $2,835 million) represents Tier 1 capital, $249 million (2005 – $567 million) represents Tier 2B capital and $29 million (2005 – $2 million) of our treasury holdings of innovative capital is deducted for regulatory capital purposes. As at October 31, 2006, none of our innovative capital instruments exceeds the OSFI's limit of 18% (2005 – $96 million).

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

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

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

Note 18 Preferred share liabilities and share capital

Authorized share capital

Preferred – An unlimited number of First Preferred Shares and Second Preferred Shares without nominal or par value, issuable in series; the aggregate consideration for which all the First Preferred Shares and all the Second Preferred Shares that may be issued may not exceed $20 billion and $5 billion, respectively.

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

Issued and outstanding shares (1)

	2006			2005			2004		
	Number of shares (000s)	Amount	Dividends declared per share	Number of shares (000s)	Amount	Dividends declared per share	Number of shares (000s)	Amount	Dividends declared per share
Preferred share liabilities									
First preferred									
Non-cumulative Series N	12,000	$ 300	$ 1.18	12,000	$ 300	$ 1.18	12,000	$ 300	$ 1.18
Treasury shares – purchases (2)	(84)	(2)		–	–		–	–	
Preferred share liabilities, net of treasury holdings	11,916	$ 298		12,000	$ 300		12,000	$ 300	
Preferred shares									
First preferred									
Non-cumulative Series O	6,000	$ 150	$ 1.38	6,000	$ 150	$ 1.38	6,000	$ 150	$ 1.38
US$ Non-cumulative Series P (3)	–	–	–	–	–	US 1.26	4,000	132	US 1.44
Non-cumulative Series S (4)	–	–	1.33	10,000	250	1.53	10,000	250	1.53
Non-cumulative Series W (5)	12,000	300	1.23	12,000	300	.99	–	–	–
Non-cumulative Series AA (6)	12,000	300	.71	–	–	–	–	–	–
Non-cumulative Series AB (7)	12,000	300	.41	–	–	–	–	–	–
		$ 1,050			$ 700			$ 532	
Common shares									
Balance at beginning of year	1,293,502	$ 7,170		1,289,496	$ 6,988		1,312,042	$ 7,018	
Issued under the stock option plan (8)	5,617	127		9,917	214		6,657	127	
Purchased for cancellation	(18,229)	(101)		(5,911)	(32)		(29,203)	(157)	
Balance at end of year	1,280,890	$ 7,196	$ 1.44	1,293,502	$ 7,170	$ 1.18	1,289,496	$ 6,988	$ 1.01
Treasury shares – Preferred shares									
Balance at beginning of year	(91)	$ (2)		–	$ –		–	$ –	
Sales	2,082	51		–	–		–	–	
Purchases	(2,085)	(51)		(91)	(2)		–	–	
Balance at end of year	(94)	$ (2)		(91)	$ (2)		–	$ –	
Treasury shares – Common shares									
Balance at beginning of year	(7,053)	$ (216)		(9,726)	$ (294)		–	$ –	
Sales	5,097	193		5,904	179		7,550	248	
Purchases	(3,530)	(157)		(1,326)	(47)		(7,376)	(238)	
Initial adoption of AcG-15	–	–		(1,905)	(54)		–	–	
Reclassified amounts	–	–		–	–		(9,900)	(304)	
Balance at end of year	(5,486)	$ (180)		(7,053)	$ (216)		(9,726)	$ (294)	

(1) On April 6, 2006, we paid a stock dividend of one common share on each of our issued and outstanding common shares. The effect is the same as a two-for-one share split. We have retroactively adjusted the number of common shares and dividends declared per share for the stock dividend.
(2) There was no sale of Preferred share liabilities – First preferred treasury shares during 2006, 2005 and 2004.
(3) On October 7, 2005, we redeemed Non-cumulative First Preferred Shares Series P.
(4) On October 6, 2006, we redeemed Non-cumulative First Preferred Shares Series S. The excess of the redemption price over the carrying value of $10 million was charged to Retained earnings in Preferred share dividends.
(5) On January 31, 2005, we issued 12 million Non-cumulative First Preferred Shares Series W at $25 per share.
(6) On April 4, 2006, we issued 12 million Non-cumulative First Preferred Shares Series AA at $25 per share.
(7) On July 20, 2006, we issued 12 million Non-cumulative First Preferred Shares Series AB at $25 per share.
(8) Includes the exercise of stock options from tandem stock appreciation rights (SARs) awards, resulting in a reversal of the accrued liability, net of related income taxes, of $8 million (2005 – $10 million; 2004 – $5 million) and from renounced tandem SARs, net of related income taxes, of $2 million (2005 – $7 million; 2004 – $3 million).

Terms of preferred share liabilities and preferred shares

				Conversion date	
	Dividend per share (1)	Redemption date (2)	Redemption price (2), (3)	At the option of the bank (2), (4)	At the option of the holder (5)
Preferred share liabilities					
First preferred					
Non-cumulative Series N	$ .293750	August 24, 2003	$ 25.25	August 24, 2003	August 24, 2008
Preferred shares					
First preferred					
Non-cumulative Series O	$ .343750	August 24, 2004	$ 25.50	August 24, 2004	Not convertible
Non-cumulative Series W	.306250	February 24, 2010	26.00	February 24, 2010	Not convertible
Non-cumulative Series AA	.278125	May 24, 2011	26.00	Not convertible	Not convertible
Non-cumulative Series AB	.293750	August 24, 2011	26.00	Not convertible	Not convertible

(1) Non-cumulative preferential dividends on Series N, O, W, AA and AB are payable quarterly, as and when declared by the Board of Directors, on or about the 24th day of February, May, August and November.
(2) The redemption price represents the price as at October 31, 2006 or the contractual redemption price, whichever is applicable. Subject to the consent of the OSFI and the requirements of the Act, we may, on or after the dates specified above, redeem First Preferred Shares. These may be redeemed for cash, in the case of Series N at a price per share of $26, if redeemed during the 12 months commencing August 24, 2003, and decreasing by $.25 each 12-month period thereafter to a price per share of $25 if redeemed on or after August 24, 2007; and in the case of Series O, at a price per share of $26, if redeemed during the 12 months commencing August 24, 2004, and decreasing by $.25 each 12-month period thereafter to a price per share of $25 if redeemed on or after August 24, 2008; and in the case of Series W, at a price per share of $26, if redeemed during the 12 months commencing February 24, 2010, and decreasing by $.25 each 12-month period thereafter to a price per share of $25 if redeemed on or after February 24, 2014; and in the case of Series AA, at a price per share of $26, if redeemed during the 12 months commencing May 24, 2011, and decreasing by $.25 each 12-month period thereafter to a price per share of $25 if redeemed on or after May 24, 2015; and in the case of Series AB, at a price per share of $26, if redeemed during the 12 months commencing August 24, 2011, and decreasing by $.25 each 12-month period thereafter to a price per share of $25 if redeemed on or after August 24, 2015.
(3) Subject to the consent of the OSFI and the requirements of the Act, we may purchase First Preferred Shares Series N, O, W, AA and AB for cancellation at the lowest price or prices at which, in the opinion of the Board of Directors, such shares are obtainable.
(4) Subject to the approval of the Toronto Stock Exchange, we may, on or after the dates specified above, convert First Preferred Shares Series N, O and W into our common shares. First Preferred Shares may be converted into that number of common shares determined by dividing the then-applicable redemption price by the greater of $2.50 and 95% of the weighted average trading price of common shares at such time.
(5) Subject to our right to redeem or to find substitute purchasers, the holder may, on or after the dates specified above, convert First Preferred Shares into our common shares. Series N may be converted, quarterly, into that number of common shares determined by dividing the then-applicable redemption price by the greater of $2.50 and 95% of the weighted average trading price of common shares at such time.

Restrictions on the payment of dividends

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

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

We have agreed that if RBC Capital Trust or RBC Capital Trust II fail to pay any required distribution on the trust capital securities in full, we will not declare dividends of any kind on any of our preferred or common shares. Refer to Note 17.

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

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

Regulatory capital

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

The OSFI requires Canadian banks to maintain a minimum Tier 1 and Total capital ratio of 4% and 8%, respectively. However, the OSFI has also formally established risk-based capital targets for deposit-taking institutions in Canada. These targets are a Tier 1 capital ratio of 7% and a Total capital ratio of 10%. At October 31, 2006, our Tier 1 and Total capital ratios were 9.6% and 11.9%, respectively (2005 – 9.6% and 13.1%, respectively).

At October 31, 2006, our assets-to-capital multiple was 19.7 times (2005 – 17.6 times), which remains below the maximum permitted by the OSFI.

Dividend reinvestment plan

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

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

Shares available for future issue

As at October 31, 2006, 42.2 million common shares are available for future issue relating to our dividend reinvestment plan and potential exercise of stock options outstanding.

Other

On October 19, 2006, we announced our intention to redeem all of our issued and outstanding 6 million Non-cumulative First Preferred Shares Series O at $25.50 per share including a $.50 redemption premium. The redemption was completed on November 24, 2006.

We also announced on October 23, 2006, our intention to issue 8 million Non-cumulative First Preferred Shares Series AC at $25 per share, for total proceeds of $200 million. This issuance was completed on November 1, 2006.

Normal course issuer bid

Details of common shares repurchased under normal course issuer bids (NCIB) during 2006, 2005 and 2004 are given below.

	2006							
		Pre-stock dividend			Post-stock dividend			Total
NCIB period	Number of shares eligible for repurchase (000s)	Number of shares repurchased (000s)	Average cost per share	Amount	Number of shares repurchased (000s)	Average cost per share	Amount	
June 26, 2006 – October 31, 2006	7,000	–	$ –	$ –	6,595	$ 47.12	$ 311	$ 311
June 24, 2005 – June 23, 2006	10,000	4,387	90.48	397	2,859	47.52	136	533
		4,387	$ 90.48	$ 397	9,454	$ 47.24	$ 447	$ 844

		2005 (1)			2004 (1)		
NCIB period	Number of shares eligible for repurchase (000s)	Number of shares repurchased (000s)	Average cost per share	Amount	Number of shares repurchased (000s)	Average cost per share	Amount
June 24, 2005 – June 23, 2006	10,000	1,950	$ 83.50	$ 163	–	$ –	$ –
June 24, 2004 – June 23, 2005	25,000	1,005	63.24	63	6,412	60.56	388
June 24, 2003 – June 23, 2004	25,000	–	–	–	8,189	61.54	504
		2,955	$ 76.61	$ 226	14,601	$ 61.11	$ 892

(1) The 2005 and 2004 number of shares and average cost per share are pre-stock dividend.

Note 19 Non-controlling interest in subsidiaries

	2006	2005
RBC Trust Capital Securities Series 2015	$ 1,207	$ 1,200
Consolidated VIEs	506	703
Others	62	41
	$ 1,775	$ 1,944

We consolidate VIEs in which we are the Primary Beneficiary. These VIEs include structured finance VIEs, investment funds, credit investment product VIEs and compensation vehicles as described in Note 6.

We issued RBC TruCS 2015 in 2005 which are reported as Non-controlling interest in subsidiaries upon consolidation. Refer to Note 17. As at October 31, 2006, $19 million (2005 – nil) of accrued interest net of $12 million (2005 – nil) of treasury holdings was included in RBC Trust Capital Securities Series 2015.

Note 20 Pensions and other post-employment benefits

We offer a number of defined benefit and defined contribution plans, which provide pension and post-employment benefits to eligible employees. Our defined benefit pension plans provide benefits based on years of service, contributions and average earnings at retirement. Our other post-employment benefit plans include health, dental, disability and life insurance coverage.

During the year, we announced changes to our post-retirement benefit program in Canada which will be effective for eligible employees who retire on or after January 1, 2010. The new post-retirement program provides for the allotment of a fixed annual credit to eligible retirees which will be calculated based on the number of years of eligible service provided. The credit can be used toward the purchase of health and dental coverage after retirement. As a result of these changes, our benefit obligations have been reduced by $505 million.

We fund our registered defined benefit pension plans in accordance with actuarially determined amounts required to satisfy employee benefit entitlements under current pension regulations. For our principal pension plans, the most recent actuarial valuation performed for funding purposes was completed on January 1, 2006. The next actuarial valuation for funding purposes will be completed on January 1, 2007.

For 2006, our total contributions to pension and other post-employment benefit plans were $594 million and $58 million (2005 – $248 million and $56 million), respectively. For 2007, total contributions to defined benefit pension plans and other post-employment benefit plans are expected to be approximately $160 million and $60 million, respectively.

For financial reporting purposes, we measure our benefit obligations and pension plan assets as at September 30 each year.

The following tables present financial information related to our pension and other post-employment plans:

Plan assets, benefit obligation and funded status

	Pension plans (1)		Other post-employment plans (2)	
	2006	2005	2006	2005
Change in fair value of plan assets				
Opening fair value of plan assets	$ 5,719	$ 5,067	$ 29	$ 31
Actual return on plan assets	445	751	3	4
Company contributions	518	179	59	55
Plan participant contributions	24	24	6	3
Benefits paid	(323)	(295)	(56)	(64)
Business acquisitions	21	–	–	–
Other	2	18	–	–
Change in foreign currency exchange rate	1	(25)	–	–
Closing fair value of plan assets	$ 6,407	$ 5,719	$ 41	$ 29
Change in benefit obligation				
Opening benefit obligation	$ 6,524	$ 5,503	$ 1,891	$ 1,620
Service cost	173	138	26	49
Interest cost	345	344	77	101
Plan participant contributions	24	24	6	3
Actuarial loss	38	798	38	180
Benefits paid	(323)	(295)	(56)	(64)
Plan amendments and curtailments	24	1	(515)	(1)
Business acquisitions	31	–	5	–
Other	5	49	–	6
Change in foreign currency exchange rate	(3)	(38)	(4)	(3)
Closing benefit obligation	$ 6,838	$ 6,524	$ 1,468	$ 1,891
Funded status				
Excess of benefit obligation over plan assets	$ (431)	$ (805)	$ (1,427)	$ (1,862)
Unrecognized net actuarial loss	963	1,127	598	604
Unrecognized transitional (asset) obligation	(12)	(14)	(330)	140
Unrecognized prior service cost	131	136	1	11
Contributions between September 30 and October 31	14	3	4	5
Prepaid asset (accrued liability) as at October 31	$ 665	$ 447	$ (1,154)	$ (1,102)
Amounts recognized in the Consolidated Balance Sheets consist of:				
Other assets	$ 761	$ 540	$ –	$ –
Other liabilities	(96)	(93)	(1,154)	(1,102)
Net amount recognized as at October 31	$ 665	$ 447	$ (1,154)	$ (1,102)
Weighted average assumptions to calculate benefit obligation				
Discount rate	5.25%	5.25%	5.26%	5.41%
Rate of increase in future compensation	4.40%	4.40%	4.40%	4.40%

(1) For pension plans with funding deficits, the benefit obligations and fair values of plan assets totalled $6,156 million (2005 – $5,872 million) and $5,665 million (2005 – $5,026 million), respectively.
(2) For our other post-employment plans, the assumed health care cost trend rates for the next year used to measure the expected cost of benefits covered by the post-employment health and life plans were 7.8% for medical decreasing to an ultimate rate of 4.9% in 2015 and 4.5% for dental.

Benefit payment projection

The following table presents our estimates of the benefit payments for defined benefit pension and other post-employment plans.

Benefits payment projection

	Pension plans	Other post-employment plans
2007	$ 327	$ 63
2008	324	66
2009	351	74
2010	363	79
2011	369	83
2012–2016	2,017	475

Composition of defined benefit pension plan assets

The defined benefit pension plan assets are primarily composed of equity and fixed income securities. The equity securities include 1.9 million (2005 – 1.7 million, adjusted for stock dividend) of our common shares having a fair value of $94 million (2005 – $70 million). Dividends amounting to $2.5 million (2005 – $1.6 million) were received on our common shares held in the plan assets during the year.

The following table presents the allocation of the plan assets by securities category:

Asset category

	Actual	
	2006	2005
Equity securities	60%	60%
Debt securities	40%	40%
Total	100%	100%

Investment policy and strategies

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

(i) Investment characteristics including expected returns, volatilities and correlations between plan assets and plan liabilities;
(ii) The plan's tolerance for risk, which dictates the trade-off between increased short-term volatility and enhanced long-term expected returns;
(iii) Diversification of plan assets to minimize the risk of losses;
(iv) The liquidity of the portfolio relative to the anticipated cash flow requirements of the plan; and
(v) Actuarial factors such as membership demographics and future salary growth rates.

Pension and other post-employment benefit expense

The following tables present the composition of our pension benefit and other post-employment benefit expense:

Pension benefit expense

	2006	2005	2004
Service cost	$ 173	$ 138	$ 136
Interest cost	345	344	330
Expected return on plan assets	(364)	(328)	(315)
Amortization of transitional asset	(2)	(2)	(2)
Amortization of prior service cost	32	32	32
Amortization of actuarial loss	138	90	84
Other	3	3	–
Defined benefit pension expense	325	277	265
Defined contribution pension expense	65	63	64
Pension benefit expense	$ 390	$ 340	$ 329
Weighted average assumptions to calculate pension benefit expense			
Discount rate	5.25%	6.25%	6.25%
Assumed long-term rate of return on plan assets	7.00%	7.00%	7.00%
Rate of increase in future compensation	4.40%	4.40%	4.40%

Other post-employment benefit expense

	2006	2005	2004
Service cost	$ 26	$ 49	$ 72
Interest cost	77	101	99
Expected return on plan assets	(2)	(2)	(1)
Amortization of transitional obligation	3	17	17
Amortization of actuarial loss	31	30	26
Amortization of prior service cost	(20)	1	1
Curtailment gain	(8)	(1)	–
Other post-employment benefit expense	$ 107	$ 195	$ 214
Weighted average assumptions to calculate other post-employment benefit expense			
Discount rate	5.41%	6.35%	6.34%
Rate of increase in future compensation	4.40%	4.40%	4.40%

Significant assumptions

Our methodologies to determine significant assumptions used in calculating the defined benefit pension and other post-employment expense are as follows:

Overall expected long-term rate of return on assets

The assumed expected rate of return on assets is determined by considering long-term expected returns on government bonds and a reasonable assumption for an equity risk premium. The expected long-term return for each asset class is then weighted based on the target asset allocation to develop the expected long-term rate of return on assets assumption for the portfolio. This resulted in the selection of an assumed expected rate of return of 7% for 2007 (7% for 2003 to 2006).

Discount rate

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

Sensitivity analysis

The following table presents the sensitivity analysis of certain key assumptions on defined benefit pension and post-employment obligation and expense:

2006 Sensitivity of key assumptions

Pension	Change in obligation	Change in expense
Impact of .25% change in discount rate assumption	$ 233	$ 29
Impact of .25% change in rate of increase in future compensation assumption	26	6
Impact of .25% change in the long-term rate of return on plan assets assumption	–	13
Other post-employment	Change in obligation	Change in expense
Impact of .25% change in discount rate assumption	$ 52	$ 8
Impact of .25% change in rate of increase in future compensation assumption	–	–
Impact of 1.00% increase in health care cost trend rates	143	19
Impact of 1.00% decrease in health care cost trend rates	(119)	(15)

Reconciliation of defined benefit expense recognized with defined benefit expense incurred

The cost of pension and other post-employment benefits earned by employees is actuarially determined using the projected benefit method pro-rated on services. The cost is computed using the discount rate determined in accordance with the methodology described in significant assumptions, and is based on management's best estimate of expected plan investment performance, salary escalation, retirement ages of employees and costs of health, dental, disability and life insurance.

Actuarial gains or losses arise over time due to differences in actual experience compared to actuarial assumptions. Prior service costs arise as a result of plan amendments. Adoption of the CICA Handbook Section 3461, *Employee Future Benefits*, resulted in recognition of a transitional asset and obligation at the date of adoption.

The actuarial gains or losses, prior service costs and transitional asset or obligation are amortized over the expected average remaining service lifetime of active members expected to receive benefits under the plan. The following tables show the impact on our annual benefit expense if we had recognized all costs and expenses as they arose.

Defined benefit pension expense incurred

	2006	2005	2004
Defined benefit pension expense recognized	$ 325	$ 277	$ 265
Difference between expected and actual return on plan assets	(81)	(423)	(160)
Difference between actuarial losses (gains) amortized and actuarial losses (gains) arising	(100)	708	(50)
Difference between prior service costs amortized and prior service costs arising	(2)	(31)	(12)
Amortization of transitional asset	2	2	2
Defined benefit pension expense incurred	$ 144	$ 533	$ 45

Other post-employment benefit expense incurred

	2006	2005	2004
Other post-employment benefit expense recognized	$ 107	$ 195	$ 214
Difference between expected and actual return on plan assets	(1)	(2)	(2)
Difference between actuarial losses (gains) amortized and actuarial losses (gains) arising	7	150	(91)
Difference between prior service costs amortized and prior service costs arising	(485)	(1)	(1)
Amortization of transitional obligation	(3)	(17)	(17)
Other post-employment benefit expense incurred	$ (375)	$ 325	$ 103

Note 21 Stock-based compensation

We offer stock-based compensation plans to certain key employees and to our non-employee directors. We use derivatives and compensation trusts to manage our economic exposure to volatility in the price of our common shares under many of these plans. The expense amounts reported below for our stock-based compensation plans exclude the impact of these derivative instruments. The stock-based compensation amounts recorded in Non-interest expense – Human resources in our Consolidated Statements of Income are net of the impact of these derivatives.

Stock option plans

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

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

Between November 29, 1999, and June 5, 2001, grants of options under the employee stock option plan were accompanied by tandem SARs. With tandem SARs, participants could choose to exercise a SAR instead of the corresponding option. In such cases, the participants received a cash payment equal to the difference between the closing price of common shares on the day immediately preceding the day of exercise and the exercise price of the option. During the last quarter of 2002 and first quarter of 2003, certain executive participants voluntarily renounced their SARs while retaining the corresponding options. SARs obligations are now fully vested and give rise to compensation expense as a result of changes in the market price of our common shares. The compensation expense for these grants, which are accompanied by tandem SARs, was $27 million for the year ended October 31, 2006 (2005 – $42 million; 2004 – $3 million).

A summary of our stock option activity and related information

	2006		2005 (1)		2004 (1)	
	Number of options (000s)	Weighted average exercise price	Number of options (000s)	Weighted average exercise price	Number of options (000s)	Weighted average exercise price
Outstanding at beginning of year	36,481	$ 23.15	44,744	$ 22.02	49,606	$ 21.03
Granted	1,756	44.13	2,054	31.70	2,378	31.32
Exercised – Common shares (2), (3)	(5,617)	20.40	(9,917)	19.85	(6,657)	17.97
– SARs	(143)	21.60	(320)	21.01	(352)	20.68
Cancelled	(234)	24.36	(80)	30.44	(231)	23.93
Outstanding at end of year	32,243	$ 24.66	36,481	$ 23.15	44,744	$ 22.02
Exercisable at end of year	26,918	$ 22.57	28,863	$ 21.56	32,801	$ 20.21
Available for grant	23,121		24,500		26,430	

(1) The number of options and weighted average exercise price for 2005 and 2004 have been adjusted for the stock dividend paid on April 6, 2006. Refer to Note 18.
(2) Cash received for options exercised during the year was $115 million (2005 – $197 million; 2004 – $119 million).
(3) New common shares were issued for all options exercised in 2006, 2005 and 2004. Refer to Note 18.

Options outstanding and options exercisable as at October 31, 2006 by range of exercise price

	Options outstanding (1)			Options exercisable (1)	
	Number outstanding (000s)	Weighted average exercise price	Weighted average remaining contractual life	Number exercisable (000s)	Weighted average exercise price
$10.00 – $15.00 (2)	1,055	$ 11.60	2.3	1,055	$ 11.60
$15.45 – $19.82	9,724	18.27	2.2	9,724	18.27
$21.79 – $25.00	12,176	24.56	4.3	12,176	24.56
$26.09 – $29.68	3,365	29.01	5.6	2,451	29.00
$31.31 – $44.13	5,923	35.24	7.9	1,512	31.44
Total	32,243	$ 24.66	4.4	26,918	$ 22.57

(1) The number of options outstanding and options exercisable have been adjusted for the stock dividend paid on April 6, 2006. Refer to Note 18.
(2) The weighted average exercise prices have been revised to reflect the conversion of non-Canadian dollar-denominated options at the exchange rate as at the balance sheet date.

Fair value method

CICA 3870 recommends recognition of an expense for option awards using the fair value method of accounting. Under this method, the fair value of an award at the grant date is amortized over the applicable vesting period and recognized as compensation expense. We adopted the fair value method of accounting prospectively for new awards granted after November 1, 2002. The fair value compensation expense recorded for the year ended October 31, 2006, in respect of these plans was $13 million (2005 – $14 million; 2004 – $9 million). The compensation expenses related to non-vested awards were $13 million at October 31, 2006 (2005 – $16 million; 2004 – $18 million), to be recognized over the weighted average period of 2.0 years (2005 – 1.7 years; 2004 – 2.4 years).

CICA 3870 permits the use of other recognition methods, including the intrinsic value method, provided pro forma disclosures of net income and earnings per share calculated in accordance with the fair value method are presented. For awards granted before November 1, 2002, pro forma net income and earnings per share are presented in the following table:

	As reported			Pro forma (1), (2)	
	2006	2005	2004	2005	2004
Net income from continuing operations	$ 4,757	$ 3,437	$ 3,023	$ 3,424	$ 2,991
Net income (loss) from discontinued operations (3)	(29)	(50)	(220)	(50)	(220)
Net income	$ 4,728	$ 3,387	$ 2,803	$ 3,374	$ 2,771
Basic earnings (loss) per share (4)					
From continuing operations	$ 3.67	$ 2.65	$ 2.31	$ 2.64	$ 2.29
From discontinued operations	(.02)	(.04)	(.17)	(.04)	(.17)
Total	$ 3.65	$ 2.61	$ 2.14	$ 2.60	$ 2.12
Diluted earnings (loss) per share (4)					
From continuing operations	$ 3.61	$ 2.61	$ 2.28	$ 2.60	$ 2.26
From discontinued operations	(.02)	(.04)	(.17)	(.04)	(.17)
Total	$ 3.59	$ 2.57	$ 2.11	$ 2.56	$ 2.09

(1) Compensation expense under the fair value method is recognized over the vesting period of the related stock options. Accordingly, the pro forma results of applying this method may not be indicative of future amounts.
(2) During the first quarter of 2006, all awards granted prior to adopting the fair value method of accounting were fully vested and their fair values at the grant dates had been fully amortized; therefore, there are no pro forma results to disclose for the year ended October 31, 2006.
(3) Refer to Note 11.
(4) The basic and diluted earnings per share have been adjusted retroactively for the stock dividend paid on April 6, 2006. Refer to Note 18.

The fair value of options granted during 2006 was estimated at $6.80 (2005 – $4.66; 2004 – $5.47) using an option pricing model on the date of grant. The following assumptions were used:

For the year ended October 31	2006	2005	2004
Weighted average assumptions			
Risk-free interest rate	3.98%	3.75%	4.22%
Expected dividend yield	3.16%	3.25%	2.90%
Expected share price volatility	17%	17%	18%
Expected life of option	6 years	6 years	6 years

Employee savings and share ownership plans

We offer many employees an opportunity to own our shares through savings and share ownership plans. Under these plans, the employees can generally contribute between 1% and 10% of their annual salary or benefit base for commissioned employees. For each contribution between 1% and 6%, we will match 50% of the employee contributions in common shares. For the RBC Dominion Securities Savings Plan, our maximum annual contribution is $4,500 per employee. For the RBC UK Share Incentive Plan, our maximum annual contribution is £1,500 per employee. In 2006, we contributed $60 million (2005 – $56 million; 2004 – $54 million), under the terms of these plans, towards the purchase of common shares. As at October 31, 2006, an aggregate of 34.7 million common shares were held under these plans.

Deferred share and other plans

We offer deferred share unit plans to executives, non-employee directors and previously to certain key employees. Under these plans, the executives or directors may choose to receive all or a percentage of their annual incentive bonus or directors' fee in the form of deferred share units (DSUs). The executives or directors must elect to participate in the plan prior to the beginning of the fiscal year. DSUs earn dividend equivalents in the form of additional DSUs at the same rate as dividends on common shares. The participant is not allowed to convert the DSUs until retirement, permanent disability or termination of employment/directorship. The cash value of the DSUs is equivalent to the market value of common shares when conversion takes place. The value of the DSUs liability as at October 31, 2006, was $221 million (2005 – $172 million; 2004 – $120 million). The share price fluctuations and dividend equivalents compensation expense recorded for the year ended October 31, 2006, in respect of these plans was $44 million (2005 – $42 million; 2004 – $3 million).

We have a deferred bonus plan for certain key employees within RBC Capital Markets. Under this plan, a percentage of each employee's annual incentive bonus is deferred and accumulates dividend equivalents at the same rate as dividends on common shares. The employee will receive the deferred bonus in equal amounts paid within 90 days of the three following year-end dates. The value of the deferred bonus paid will be equivalent to the original deferred bonus adjusted for dividends and changes in the market value of common shares at the time the bonus is paid. The value of the deferred bonus liability as at October 31, 2006, was $401 million (2005 – $320 million; 2004 – $241 million). The share price fluctuations and dividend equivalents compensation expense for the year ended October 31, 2006, in respect of this plan was $51 million (2005 – $57 million; 2004 – $4 million).

We offer performance deferred award plans to certain key employees, all of which vest at the end of three years. Awards under the plans are deferred in the form of common shares which are held in trust until they fully vest, or in the form of DSUs. A portion of the award under some plans can be increased or decreased up to 50%, depending on our total shareholder return compared to a defined peer group of North American financial institutions. The value of the award paid will be equivalent to the original award adjusted for dividends and changes in the market value of common shares at the time the award vests. The number of common shares held in trust as at October 31, 2006, was 5.3 million (2005 – 7.3 million; 2004 – 8.1 million). The value of the DSUs liability as at October 31, 2006, was $153 million (2005 – $38 million; 2004 – $1 million). The compensation expense recorded for the year ended October 31, 2006, in respect of these plans was $148 million (2005 – $109 million; 2004 – $80 million).

We maintain a non-qualified deferred compensation plan for key employees in the United States under an arrangement called the RBC U.S. Wealth Accumulation Plan. This plan allows eligible employees to make deferrals of a portion of their annual income and allocate the deferrals among various fund choices, which include a share unit fund that tracks the value of our common shares. Certain deferrals may also be eligible for matching contributions, all of which are allocated to the RBC share unit fund. Our liability for the RBC share units held under the plan as at October 31, 2006, was $289 million (2005 – $236 million; 2004 – $155 million). The compensation expense recorded for the year ended October 31, 2006, was $110 million (2005 – $90 million; 2004 – $56 million). On the acquisition of Dain Rauscher, certain key employees of Dain Rauscher were offered retention unit awards totalling $318 million to be paid out evenly over expected service periods of between three and four years. During fiscal 2005, these retention unit awards were fully paid out to participants based on the market value of common shares on the vesting date. The liability under this plan as at October 31, 2006, was nil (2005 – nil; 2004 – $36 million). The compensation expense recorded for the year ended October 31, 2006, in respect of this plan was nil (2005 – $1 million; 2004 – $16 million).

Our stock-based compensation plan included a mid-term compensation plan for certain senior executive officers. The last award under this plan was granted in 2001, which was paid out in 2004.

For other stock-based plans, compensation expense of $10 million was recognized for the year ended October 31, 2006 (2005 – $8 million; 2004 – $5 million). The liability for the share units held under these plans as at October 31, 2006, was $4 million (2005 – $19 million; 2004 – $16 million). The number of common shares held under these plans was .3 million (2005 – .3 million; 2004 – .4 million).

Note 22 Trading revenue

Trading revenue includes both trading-related net interest income and Trading revenue reported in Non-interest income. Net interest income arises from interest and dividends related to trading assets and liabilities and amortization of premiums and discounts on its acquisition or its issuance. Non-interest income includes realized and unrealized gains and losses from the purchase and sale of securities, and realized and unrealized gains and losses on trading derivative financial instruments.

Trading revenue

	2006	2005	2004
Net interest income	$ (539)	$ 21	$ 286
Non-interest income	2,574	1,594	1,563
Total	$ 2,035	$ 1,615	$ 1,849

Note 23 Business realignment charges

During the year, we continued to implement the additional cost-reduction activities identified during 2005 (the additional initiatives). The objectives of these additional initiatives are consistent with those approved by the Board of Directors on September 9, 2004, in connection with our business realignment. The objectives of the business realignment were to reduce costs, accelerate revenue growth, and improve the efficiency of our operations in order to better serve our clients.

The following table sets out the changes in our business realignment charges since November 1, 2004. Although the majority of the initiatives were substantially completed during fiscal 2006, the associated income-protection payments to severed employees and certain lease obligations will extend beyond that time. The $43 million business realignment charges pertaining to continuing operations to be paid in future periods are recorded in Other liabilities on the Consolidated Balance Sheets while the $14 million pertaining to RBC Mortgage, which is accounted for as discontinued operations (refer to Note 11), is recorded in Liabilities of operations held for sale. The charges recorded by each segment during the year are disclosed in Note 30.

Business realignment charges

	Employee-related charges	Premises-related charges	Other	Total
Balance as at October 31, 2004 for continuing operations	$ 164	$ –	$ 13	$ 177
Initial initiatives				
Reversal for positions not eliminated	(55)	–	–	(55)
Accrual for new positions identified	52	–	–	52
Additional initiatives	43	–	–	43
Other adjustments including foreign exchange	(4)	–	(1)	(5)
Cash payments	(82)	–	(12)	(94)
Balance as at October 31, 2005 for continuing operations	$ 118	$ –	$ –	$ 118
Initial initiatives				
Reversal for positions not eliminated	(1)	–	–	(1)
Accrual for new positions identified	3	–	–	3
Adjustments for positions eliminated	6	–	–	6
Additional initiatives				
Reversal for positions not eliminated	(11)	–	–	(11)
Adjustments for closure of operations centres	–	3	–	3
Other adjustments including foreign exchange	(1)	–	–	(1)
Cash payments	(73)	(1)	–	(74)
Balance as at October 31, 2006 for continuing operations	$ 41	$ 2	$ –	$ 43
Balance as at October 31, 2004 for discontinued operations	$ 2	$ 13	$ –	$ 15
Adjustments for closure of branches and headquarters	1	12	–	13
Cash payments	(2)	(13)	–	(15)
Balance as at October 31, 2005 for discontinued operations	$ 1	$ 12	$ –	$ 13
Adjustments for closure of branches and headquarters	–	6	–	6
Cash payments	(1)	(4)	–	(5)
Balance as at October 31, 2006 for discontinued operations	$ –	$ 14	$ –	$ 14
Total balance as at October 31, 2006	**$ 41**	**$ 16**	**$ –**	**$ 57**

Our business realignment charges include the income-protection payments for severed employees. For continuing operations, the number of employee positions identified for termination decreased to 1,866 from 2,063 at October 31, 2005. The decrease in the accrual corresponds to the net decrease of 197 positions which is comprised of the following: for the original and additional initiatives, 19 and 215 positions were reinstated, respectively, and 37 new positions were identified for elimination. As at October 31, 2006, 1,980 employees had been terminated, 164 of whom related to RBC Mortgage.

In 2006, we closed 3 operation centres related to the additional initiatives. In 2005, we closed the Chicago headquarters of RBC Mortgage and 40 of its branches. Although we have vacated these premises, we remain the lessee; accordingly, we have accrued the fair value of the remaining future lease obligations. We expensed the lease cancellation payments for those locations for which we have legally extinguished our lease obligation. The carrying value of redundant assets in the closed premises has been included in premises-related costs.

We also incurred approximately $4 million in 2005 in connection with employee outplacement services. The other charges represent fees charged by a professional services firm for strategic and organizational advice provided to us with respect to the business realignment initiatives.

Note 24 Income taxes

	2006	2005	2004
Income taxes in Consolidated Statements of Income			
Continuing operations			
Current			
Canada – Federal	$ 506	$ 739	$ 659
– Provincial	331	431	338
International	435	478	217
	1,272	1,648	1,214
Future			
Canada – Federal	104	(206)	12
– Provincial	31	(96)	12
International	(4)	(68)	49
	131	(370)	73
Subtotal	1,403	1,278	1,287
Discontinued operations			
Current			
International	(20)	(35)	(59)
Future			
International	2	3	4
Subtotal	1,385	1,246	1,232
Income taxes (recoveries) in Consolidated Statements of Changes in Shareholders' Equity			
Continuing operations			
Unrealized foreign currency translation gain, net of hedging activities	130	204	328
Issuance costs	(4)	2	–
Stock appreciation rights	4	5	3
Wealth accumulation plan gains	–	7	–
Other	6	2	(1)
Subtotal	136	220	330
Total income taxes	$ 1,521	$ 1,466	$ 1,562

Sources of future income taxes

	2006	2005
Future income tax asset		
Allowance for credit losses	$ 439	$ 464
Deferred compensation	616	545
Pension related	101	168
Business realignment charges	27	38
Tax loss carryforwards	68	25
Deferred income	151	160
Enron litigation provision	253	265
Other	335	331
	1,990	1,996
Valuation allowance	(10)	(11)
	1,980	1,985
Future income tax liability		
Premises and equipment	(214)	(183)
Deferred expense	(225)	(245)
Other	(437)	(309)
	(876)	(737)
Net future income tax asset	$ 1,104	$ 1,248

Included in the tax loss carryforwards amount is $31 million of future income tax assets related to losses in our Canadian and U.S. operations (2005 – $3 million) which expire in 10 to 20 years from origination. Also included in the tax loss carryforwards amount is a $27 million tax asset related to capital losses (2005 – $11 million), which has no expiry date.

We believe that, based on all available evidence, it is more likely than not that all of the future income tax assets, net of the valuation allowance, will be realized through a combination of future reversals of temporary differences and taxable income.

Reconciliation to statutory tax rate

	2006			2005			2004	
Income taxes at Canadian statutory tax rate	$	2,152	34.7%	$	1,632	34.7%	$	1,513	35.0%
Increase (decrease) in income taxes resulting from									
Lower average tax rate applicable to subsidiaries		(599)	(9.6)		(251)	(5.3)		(164)	(3.8)
Tax-exempt income from securities		(184)	(3.0)		(85)	(1.8)		(54)	(1.3)
Tax rate change		13	.2		–	–		(10)	(.2)
Other		21	.3		(18)	(.4)		2	.1
Income taxes reported in Consolidated Statements of Income before discontinued operations and effective tax rate	$	1,403	22.6%	$	1,278	27.2%	$	1,287	29.8%

International earnings of certain subsidiaries would be taxed only upon their repatriation to Canada. We have not recognized a future income tax liability for these undistributed earnings as we do not currently expect them to be repatriated. Taxes that would be payable if all foreign subsidiaries' accumulated unremitted earnings were repatriated are estimated at $822 million as at October 31, 2006 (2005 – $745 million; 2004 – $714 million).

Note 25 Earnings per share (1)

	2006	2005	2004
Basic earnings per share			
Net income from continuing operations	$ 4,757	$ 3,437	$ 3,023
Net income (loss) from discontinued operations (2)	(29)	(50)	(220)
Net income	4,728	3,387	2,803
Preferred share dividends	(60)	(42)	(31)
Net gain on redemption of preferred shares	–	4	–
Net income available to common shareholders	$ 4,668	$ 3,349	$ 2,772
Average number of common shares (in thousands)	1,279,956	1,283,433	1,293,465
Basic earnings (loss) per share			
Continuing operations	$ 3.67	$ 2.65	$ 2.31
Discontinued operations	(.02)	(.04)	(.17)
Total	$ 3.65	$ 2.61	$ 2.14
Diluted earnings per share			
Net income available to common shareholders	$ 4,668	$ 3,349	$ 2,772
Average number of common shares (in thousands)	1,279,956	1,283,433	1,293,465
Stock options (3)	14,573	13,686	12,151
Issuable under other stock-based compensation plans	5,256	7,561	5,400
Average number of diluted common shares (in thousands)	1,299,785	1,304,680	1,311,016
Diluted earnings (loss) per share			
Continuing operations	$ 3.61	$ 2.61	$ 2.28
Discontinued operations	(.02)	(.04)	(.17)
Total	$ 3.59	$ 2.57	$ 2.11

(1) The average number of common shares, average number of diluted common shares, and basic and diluted earnings per share have been adjusted retroactively for the stock dividend paid on April 6, 2006. Refer to Note 18.
(2) Refer to Note 11.
(3) The dilutive effect of stock options was calculated using the treasury stock method. During 2006 and 2005, no option was outstanding with an exercise price exceeding the average market price of our common shares. For 2004, we excluded from the calculation of diluted earnings per share 2,174,376 average options outstanding with an exercise price of $31.32 as the exercise price of these options was greater than the average market price of our common shares.

Note 26 Concentrations of credit risk

Concentrations of credit risk exist if a number of clients are engaged in similar activities, or are located in the same geographic region or have comparable economic characteristics such that their ability to meet contractual obligations would be similarly affected by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of our performance to developments affecting a particular industry or geographic location. The amounts of credit exposure associated with our on- and off-balance sheet financial instruments are summarized in the following table:

	2006									2005								
	Canada	%	United States	%	Europe	%	Other Inter-national	%	Total	Canada	%	United States	%	Europe	%	Other Inter-national	%	Total
On-balance sheet assets (1)	$204,488	73%	$ 41,467	15%	$ 27,358	10%	$ 5,112	2%	$278,425	$186,663	77%	$ 32,366	13%	$ 18,813	8%	$ 4,119	2%	$241,961
Off-balance sheet credit instruments (2)																		
Committed and uncommitted (3)	$ 78,851	55%	$ 51,224	35%	$ 12,997	9%	$ 1,802	1%	$144,874	$ 68,391	53%	$ 46,221	35%	$ 13,014	10%	$ 2,542	2%	$130,168
Other	28,563	47	11,563	19	19,776	33	738	1	60,640	33,608	49	11,835	18	22,609	33	176	–	68,228
Derivatives before master netting agreement (4), (5)	9,855	27	9,171	25	15,891	42	2,148	6	37,065	10,276	27	9,682	25	16,638	42	2,146	6	38,742
	$117,269	48%	$ 71,958	30%	$ 48,664	20%	$ 4,688	2%	$242,579	$112,275	47%	$ 67,738	29%	$ 52,261	22%	$ 4,864	2%	$237,138

(1) Includes assets purchased under reverse repurchase agreements and securities borrowed, loans and customers' liability under acceptances. The largest concentrations in Canada are Ontario at 52% (2005 – 41%), Quebec at 15% (2005 – 10%), the Prairies at 14% (2005 – 12%), and British Columbia at 14% (2005 – 11%). No industry accounts for more than 10% of total on-balance sheet credit instruments.
(2) Represents financial instruments with contractual amounts representing credit risk.
(3) Of the commitments to extend credit, the largest industry concentrations relate to financial services of 38% (2005 – 37%), government of 5% (2005 – 6%), commercial real estate of 6% (2005 – 5%), transportation of 3% (2005 – 5%), wholesale of 5% (2005 – 5%), manufacturing of 4% (2005 – 4%), and mining and energy of 13% (2005 – 13%).
(4) The largest concentration by counterparty type of this credit exposure is with banks at 59% (2005 – 60%).
(5) Excludes credit derivatives classified as "other than trading" with a replacement cost of $20 million (2005 – $20 million) which are given guarantee treatment.

Note 27 Guarantees, commitments and contingencies

Guarantees

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

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

	2006		2005	
	Maximum potential amount of future payments	Carrying amount	Maximum potential amount of future payments	Carrying amount
Credit derivatives and written put options (1), (2)	$ 54,723	$ 352	$ 28,662	$ 465
Backstop liquidity facilities	34,342	–	29,611	–
Stable value products (2)	16,098	–	12,567	–
Financial standby letters of credit and performance guarantees (3)	15,902	17	14,417	16
Credit enhancements	4,155	–	3,179	–
Mortgage loans sold with recourse (4)	204	–	388	–
Securities lending indemnifications (5)	–	–	32,550	–

(1) The carrying amount is included in Other – Derivative-related amounts on our Consolidated Balance Sheets.
(2) The notional amount of these contracts appropriates the maximum potential amount of future payments.
(3) The carrying amount is included in Other – Other liabilities on our Consolidated Balance Sheets.
(4) As at October 31, 2006, the amount related to discontinued operations was nil (October 31, 2005 – $174 million). Refer to Note 11. The October 31, 2005 amount was revised to include the $174 million.
(5) Substantially all of our securities lending activities are now transacted through our new joint venture, RBC Dexia IS. As at October 31, 2006, RBC Dexia IS securities lending indemnifications totalled $45,614 million (2005 – nil); we are exposed to 50% of this amount.

Credit derivatives and written put options

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

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

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

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

Backstop liquidity facilities

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

Stable value products

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

Financial standby letters of credit and performance guarantees

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

Credit enhancements

We provide partial credit enhancement to multi-seller programs administered by us to protect commercial paper investors in the event that the collection of the underlying assets, the transaction-specific credit enhancement or the liquidity proves to be insufficient to pay for maturing commercial paper. Each of the asset pools is structured to achieve a high investment-grade credit profile through credit enhancement related to each transaction. The term of these credit facilities is between one and four years.

Mortgage loans sold with recourse

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

Securities lending indemnifications

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

Indemnifications

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

Off-balance sheet credit instruments

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

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

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

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

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

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

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

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

Off-balance sheet credit instruments

	2006	2005
Commitments to extend credit (1)		
Original term to maturity of 1 year or less	$ 57,154	$ 50,843
Original term to maturity of more than 1 year	42,222	34,410
Securities lending	38,185	48,750
Uncommitted amounts	45,498	44,915
Guarantees and standby letters of credit	21,734	18,786
Documentary and commercial letters of credit	713	685
Note issuance and revolving underwriting facilities	8	7
	$ 205,514	$ 198,396

(1) Includes liquidity facilities.

Pledged assets

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

Pledged assets

	2006	2005
Cash and due from banks	$ 100	$ 64
Interest-bearing deposits with banks	1,936	1,488
Loans	187	624
Securities	56,580	31,915
Assets purchased under reverse repurchase agreements	36,788	36,878
Other assets	941	626
	$ 96,532	$ 71,595

	2006	2005
Assets pledged to:		
Foreign governments and central banks	$ 1,794	$ 1,370
Clearing systems, payment systems and depositories	2,309	1,510
Assets pledged in relation to:		
Securities borrowing and lending	38,118	27,532
Obligations related to securities sold under repurchase agreements	44,651	32,266
Derivative transactions	6,547	5,506
Other	3,113	3,411
	$ 96,532	$ 71,595

Collateral

As at October 31, 2006, the approximate market value of collateral accepted that may be sold or repledged by us was $109.1 billion (2005 – $82.2 billion). This collateral was received in connection with reverse repurchase agreements, securities borrowings and loans, and derivative transactions. Of this amount, $48.0 billion (2005 – $47.8 billion) has been sold or repledged, generally as collateral under repurchase agreements or to cover short sales.

Lease commitments

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

Lease commitments (1)

2007	$ 419
2008	378
2009	326
2010	268
2011	227
Thereafter	868
	$ 2,486

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

Litigation

Enron Corp. (Enron) litigation

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

We review the status of these matters on an ongoing basis and will exercise our judgment in resolving them in such manner as we believe to be in our best interests. As with any litigation, there are significant uncertainties surrounding the timing and outcome. Uncertainty is exacerbated as a result of the large number of cases, the multiple defendants in many of them, the novel issues presented, and the current difficult litigation environment. Although it is not possible to predict the ultimate outcome of these lawsuits, the timing of their resolution or our exposure, during the fourth quarter of 2005, we established a litigation provision of $591 million (US$500 million) or $326 million after tax (US$276 million). We believe the ultimate resolution of these lawsuits and other proceedings, while not likely to have a material adverse effect on our consolidated financial position, may be material to our operating results for the particular period in which the resolution occurs, notwithstanding the provision established in 2005. We will continue to vigorously defend ourselves in these cases.

On July 27, 2005, Royal Bank of Canada reached an agreement to settle its part of the MegaClaims lawsuit brought by Enron in the United States Bankruptcy Court for the Southern District of New York against Royal Bank of Canada and a number of other financial institutions. Under the agreement, Royal Bank of Canada agreed to pay Enron, and expensed in the third quarter of 2005, $31 million (US$25 million) in cash to settle the claims that have been asserted by Enron against the bank and certain related entities. Enron allowed $140 million (US$114 million) in claims filed against the Enron bankruptcy estate by the bank, including a $61 million (US$50 million) claim previously transferred by the bank, that were the subject of a separate proceeding in the bankruptcy court, in exchange for a cash payment to Enron of $29 million (US$24 million) which was expensed in the fourth quarter of 2005. The agreement was approved by U.S. federal bankruptcy court on November 29, 2005, and resolved all claims between the bank and Enron related to Enron's bankruptcy case. Payment was made by us in fiscal 2006 in accordance with the agreement and all actions by the Enron estate against Royal Bank of Canada were dismissed.

Other

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

Note 28 Contractual repricing and maturity schedule

The table below details our exposure to interest rate risk as defined and prescribed by the CICA Handbook Section 3860, *Financial Instruments – Disclosure and Presentation*. On- and off-balance sheet financial instruments are reported based on the earlier of their contractual repricing date or maturity date. Effective interest rates have been disclosed where applicable. The effective rates shown represent historical rates for fixed-rate instruments carried at amortized cost and current market rates for floating-rate instruments or instruments carried at fair value. The table below does not incorporate management's expectation of future events where expected repricing or maturity dates differ significantly from the contractual dates. We incorporate these assumptions in the management of interest rate risk exposure. These assumptions include expected repricing of trading instruments and certain loans and deposits. Taking into account these assumptions on the consolidated contractual repricing and maturity schedule at October 31, 2006, would result in a change in the under one-year gap from $(79.8) billion to $(40.2) billion (2005 – $(79.5) billion to $(39.7) billion).

Carrying amount by earlier of contractual repricing or maturity date

	Immediately rate-sensitive	Under 3 months	3 to 6 months	Over 6 to 12 months	Over 1 to 5 years	Over 5 years	Non-rate-sensitive	Total
Assets								
Cash and deposits with banks	$ –	$ 11,104	$ –	$ –	$ 2,036	$ –	$ 1,763	$ 14,903
Effective interest rate	–	4.33%	–	–	4.22%	–	–	
Securities								
Trading account	–	30,399	5,706	5,238	24,093	23,436	58,365	147,237
Effective interest rate	–	4.69%	4.69%	4.62%	4.62%	4.85%	–	
Investment account and loan substitute	–	10,163	1,346	1,781	14,378	6,809	3,155	37,632
Effective interest rate	–	4.90%	4.93%	4.94%	4.58%	4.80%	–	
Assets purchased under reverse repurchase agreements	–	58,454	924	–	–	–	–	59,378
Effective interest rate	–	5.14%	4.33%	–	–	–	–	
Loans (net of allowance for loan losses)	92,469	21,230	8,288	11,953	68,574	5,873	143	208,530
Effective interest rate	–	5.93%	5.56%	5.49%	5.28%	5.96%	–	
Other assets	–	–	–	–	–	–	69,100	69,100
	$ 92,469	$131,350	$ 16,264	$ 18,972	$109,081	$ 36,118	$132,526	$ 536,780
Liabilities								
Deposits	$137,738	$103,805	$ 18,085	$ 31,312	$ 43,391	$ 5,454	$ 3,738	$ 343,523
Effective interest rate	–	4.44%	4.31%	3.92%	3.79%	4.86%	–	
Obligations related to assets sold under repurchase agreements	–	39,191	886	491	–	–	535	41,103
Effective interest rate	–	4.74%	4.33%	4.28%	–	–	–	
Obligations related to securities sold short	–	757	195	310	10,769	10,442	15,779	38,252
Effective interest rate	–	4.44%	4.49%	4.54%	4.53%	4.59%	–	
Other liabilities	–	–	–	–	650	750	81,501	82,901
Effective interest rate	–	–	–	–	7.29%	7.18%	–	
Subordinated debentures	–	912	–	483	4,413	1,295	–	7,103
Effective interest rate	–	5.51%	–	6.75%	5.12%	6.48%	–	
Non-controlling interest in subsidiaries	–	–	–	–	1,200	–	575	1,775
Effective interest rate	–	–	–	–	4.87%	–	–	
Shareholders' equity	–	150	–	–	–	900	21,073	22,123
Effective interest rate	–	5.50%	–	–	–	4.68%	–	
	$137,738	$144,815	$ 19,166	$ 32,596	$ 60,423	$ 18,841	$123,201	$ 536,780
On-balance sheet gap	$ (45,269)	$ (13,465)	$ (2,902)	$(13,624)	$ 48,658	$ 17,277	$ 9,325	$ –
Off-balance sheet financial instruments (1)								
Derivatives used for asset/liability management purposes								
Pay side instruments	$ –	$ (42,054)	$ (961)	$ (2,328)	$ (27,368)	$ (7,204)	$ –	$ (79,915)
Effective interest rate	–	4.34%	4.35%	4.22%	4.41%	4.77%	–	
Receive side instruments	–	40,333	4,980	4,932	19,145	10,525	–	79,915
Effective interest rate	–	4.34%	4.32%	4.68%	4.61%	4.99%	–	
Derivatives used for trading purposes	–	(517)	(15,811)	6,884	26,784	12,947	(30,287)	–
Effective interest rate	–	4.33%	4.33%	4.31%	4.22%	4.41%	–	
Total off-balance sheet financial instruments	$ –	$ (2,238)	$(11,792)	$ 9,488	$ 18,561	$ 16,268	$ (30,287)	$ –
Total gap	$ (45,269)	$ (15,703)	$(14,694)	$ (4,136)	$ 67,219	$ 33,545	$ (20,962)	$ –
Canadian dollar	(26,367)	(24,559)	5,204	(1,764)	52,937	11,628	(17,083)	(4)
Foreign currency	(18,902)	8,856	(19,898)	(2,372)	14,282	21,917	(3,879)	4
Total gap	$ (45,269)	$ (15,703)	$(14,694)	$ (4,136)	$ 67,219	$ 33,545	$ (20,962)	$ –
Canadian dollar – 2005	$ (14,858)	$ (34,024)	$ 2,619	$ (6,791)	$ 48,941	$ 11,125	$ (7,010)	$ 2
Foreign currency – 2005	(14,527)	1,870	(19,392)	5,600	18,045	13,771	(5,369)	(2)
Total gap – 2005	$ (29,385)	$ (32,154)	$(16,773)	$ (1,191)	$ 66,986	$ 24,896	$ (12,379)	$ –

(1) Represents net notional amounts.

Note 29 Related party transactions

In the ordinary course of business, we provide normal banking services, operational services and enter into other transactions with associated and other related corporations, including our joint venture entities, on terms similar to those offered to non-related parties. Refer to Note 9.

We grant loans to directors, officers and other employees at rates normally accorded to preferred clients. In addition, we offer deferred share and other plans to non-employee directors, executives and certain other key employees. Refer to Note 21.

Note 30 Results by business and geographic segment

2006	RBC Canadian Personal and Business	RBC U.S. and International Personal and Business	RBC Capital Markets	Corporate Support	Total	Canada	United States	Other International
Net interest income	$ 5,941	$ 1,109	$ 201	$ (489)	$ 6,762	$ 6,011	$ 108	$ 643
Non-interest income	7,440	1,763	4,492	180	13,875	7,552	4,397	1,926
Total revenue	13,381	2,872	4,693	(309)	20,637	13,563	4,505	2,569
Provision for (recovery of) credit losses	604	26	(115)	(86)	429	456	(28)	1
Insurance policyholder benefits, claims and acquisition expense	2,509	–	–	–	2,509	1,379	683	447
Non-interest expense	6,140	2,260	3,058	37	11,495	7,056	3,038	1,401
Business realignment charges	–	1	(1)	–	–	–	–	–
Net income (loss) before income taxes	4,128	585	1,751	(260)	6,204	4,672	812	720
Income taxes	1,334	135	364	(430)	1,403	1,458	14	(69)
Non-controlling interest	–	6	(20)	58	44	37	(1)	8
Net income (loss) from continuing operations	$ 2,794	$ 444	$ 1,407	$ 112	$ 4,757	$ 3,177	$ 799	$ 781
Net loss from discontinued operations	–	(29)	–	–	(29)	–	(29)	–
Net income (loss)	$ 2,794	$ 415	$ 1,407	$ 112	$ 4,728	$ 3,177	$ 770	$ 781
Average assets from continuing operations (1)	$200,700	$ 39,000	$267,800	$ (5,400)	$502,100	$287,200	$113,300	$101,600
Average assets from discontinued operations (1)	–	200	–	–	200	–	200	–
Total average assets (1)	$200,700	$ 39,200	$267,800	$ (5,400)	$502,300	$287,200	$113,500	$101,600

2005	RBC Canadian Personal and Business	RBC U.S. and International Personal and Business	RBC Capital Markets	Corporate Support	Total	Canada	United States	Other International
Net interest income	$ 5,348	$ 1,108	$ 607	$ (293)	$ 6,770	$ 5,605	$ 608	$ 557
Non-interest income	7,151	1,620	3,455	188	12,414	6,901	3,955	1,558
Total revenue	12,499	2,728	4,062	(105)	19,184	12,506	4,563	2,115
Provision for (recovery of) credit losses	542	51	(91)	(47)	455	433	23	(1)
Insurance policyholder benefits, claims and acquisition expense	2,625	–	–	–	2,625	1,270	809	546
Non-interest expense	5,872	2,150	3,274	61	11,357	6,685	3,595	1,077
Business realignment charges	7	(2)	1	39	45	45	–	–
Net income (loss) before income taxes	3,453	529	878	(158)	4,702	4,073	136	493
Income taxes	1,149	135	137	(143)	1,278	1,329	(76)	25
Non-controlling interest	–	7	(19)	(1)	(13)	(30)	12	5
Net income (loss) from continuing operations	$ 2,304	$ 387	$ 760	$ (14)	$ 3,437	$ 2,774	$ 200	$ 463
Net loss from discontinued operations	–	(50)	–	–	(50)	–	(50)	–
Net income (loss)	$ 2,304	$ 337	$ 760	$ (14)	$ 3,387	$ 2,774	$ 150	$ 463
Average assets from continuing operations (1)	$182,400	$ 37,700	$ 229,300	$ (4,100)	$ 445,300	$ 263,200	$ 92,400	$ 89,700
Average assets from discontinued operations (1)	–	1,800	–	–	1,800	–	1,800	–
Total average assets (1)	$182,400	$ 39,500	$229,300	$ (4,100)	$447,100	$263,200	$ 94,200	$ 89,700

2004	RBC Canadian Personal and Business	RBC U.S. and International Personal and Business	RBC Capital Markets	Corporate Support	Total	Canada	United States	Other International
Net interest income	$ 4,876	$ 989	$ 847	$ (314)	$ 6,398	$ 5,011	$ 934	$ 453
Non-interest income	6,337	1,713	3,086	268	11,404	6,121	3,743	1,540
Total revenue	11,213	2,702	3,933	(46)	17,802	11,132	4,677	1,993
Provision for (recovery of) credit losses	410	80	(108)	(36)	346	343	61	(58)
Insurance policyholder benefits, claims and acquisition expense	2,124	–	–	–	2,124	909	872	343
Non-interest expense	5,630	2,330	2,845	28	10,833	6,395	3,457	981
Business realignment charges	63	23	27	64	177	142	29	6
Net income (loss) before income taxes	2,986	269	1,169	(102)	4,322	3,343	258	721
Income taxes	943	52	334	(42)	1,287	1,166	45	76
Non-controlling interest	–	3	8	1	12	6	1	5
Net income (loss) from continuing operations	$ 2,043	$ 214	$ 827	$ (61)	$ 3,023	$ 2,171	$ 212	$ 640
Net loss from discontinued operations	–	(220)	–	–	(220)	–	(220)	–
Net income (loss)	$ 2,043	$ (6)	$ 827	$ (61)	$ 2,803	$ 2,171	$ (8)	$ 640
Average assets from continuing operations (1)	$164,100	$ 37,100	$219,300	$ (2,300)	$ 418,200	$ 238,000	$ 89,500	$ 90,700
Average assets from discontinued operations (1)	–	3,200	–	–	3,200	–	3,200	–
Total average assets (1)	$164,100	$ 40,300	$219,300	$ (2,300)	$421,400	$238,000	$ 92,700	$ 90,700

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

Revenue by business lines

	2006	2005	2004
Banking (1)	$ 8,411	$ 7,971	$ 7,367
Wealth management	4,494	3,945	3,673
Global insurance	3,348	3,311	2,875
Global markets	2,579	2,256	2,268
Global investment banking and equity markets	1,250	979	941
RBC Dexia IS (2)	558	500	455
Other (3)	(3)	222	223
Total	$ 20,637	$ 19,184	$ 17,802

(1) Includes cards and payment solutions.
(2) The amount for 2006 includes two months of revenue from Institutional & Investor Services and our 50% proportionate share of nine months of revenue from RBC Dexia IS for the year ended October 31, 2006. Comparative amounts for 2005 and 2004 only represent revenue from IIS.
(3) Consists of National Clients, Research and Global Credit, and includes the teb adjustment which is discussed below.

Composition of business segments

For management reporting purposes, our operations and activities are organized into three business segments: RBC Canadian Personal and Business, RBC U.S. and International Personal and Business, and RBC Capital Markets. RBC Canadian Personal and Business consists of banking and wealth management businesses in Canada and our global insurance business, and its results reflect how it is managed, inclusive of securitized assets and related amounts for income and provision for credit losses. RBC U.S. and International Personal and Business consists of our banking and retail brokerage businesses in the U.S., banking in the Caribbean and international private banking. RBC Capital Markets provides a wide range of corporate and investment banking, sales and trading, research and related products and other services. All other enterprise level activities that are not allocated to these three business segments, such as securitization and other items and net charges associated with unattributed capital, are reported under Corporate Support. Consolidation adjustments, including the elimination of the taxable equivalent basis gross-up amounts reported in Net interest income and provision for income taxes, are also included in Corporate Support.

Our management reporting framework is intended to measure the performance of each business segment as if it was a stand-alone business and reflect the way that business segment is managed. This approach ensures our business segments' results reflect all relevant revenue and expenses associated with the conduct of their business and depicts how management views those results. These items do not impact our consolidated results.

The expenses in each business segment may include costs or services directly incurred or provided on their behalf at the enterprise level. For other costs not directly attributable to one of our business segments, we use a management reporting framework that uses assumptions, estimates and methodologies for allocating overhead costs and indirect expenses to our business segments and that assists in the attribution of capital and the transfer pricing of funds to our business segments in a manner that fairly and consistently measures and aligns the economic costs with the underlying benefits and risks of that specific business segment. Activities and business conducted between our business segments are generally at market rates. All other enterprise level activities that are not allocated to our three business segments are reported under Corporate Support.

Our assumptions and methodologies used in our management reporting framework are periodically reviewed by management to ensure they remain valid. The capital attribution methodologies involve a number of assumptions and estimates that are revised periodically.

Changes during 2006

During 2006, we implemented the following changes in our business segments:

We started to report Net interest income, Total revenue and Net income before income taxes of our RBC Capital Markets segment on a taxable equivalent basis (teb). Net interest income from tax-advantaged sources, primarily related to Canadian taxable dividends, is grossed up to its effective tax equivalent value with a corresponding offset recorded in the provision for income taxes. Management believes these adjustments are necessary to reflect how RBC Capital Markets is managed since it enhances the comparability of revenue across our taxable and tax-advantaged sources. The use of teb adjustments and measures may not be comparable to similar GAAP measures or similarly adjusted amounts at other financial institutions. The teb adjustment of $213 million in RBC Capital Markets (2005 – $109 million; 2004 – $55 million) is eliminated in Corporate Support.

We have also implemented certain revisions to our overhead and transfer pricing methodologies, and transferred our housing tax credit syndication business from RBC U.S. and International Personal and Business to RBC Capital Markets. In addition, we reclassified changes in fair value of certain derivative instruments designated as economic hedges of our stock-based compensation plans from Non-interest income to Non-interest expense (refer to Note 1). We also reclassified certain amounts out of Non-interest income into Net interest income in our RBC Canadian Personal and Business segment to correspond with our management reporting, and the reclassification is eliminated in Corporate Support. The comparative results have been updated to reflect these changes.

We have included in the Total average assets of RBC Canadian Personal and Business the residential mortgages that have been securitized; the consolidation adjustment is included in Corporate Support. The comparative amounts of Total average assets have been revised to reflect this change.

Geographic segments

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

Note 31 Reconciliation of Canadian and United States generally accepted accounting principles

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

Condensed Consolidated Balance Sheets

	2006			2005		
	Canadian GAAP	Differences	U.S. GAAP	Canadian GAAP	Differences	U.S. GAAP
Assets						
Cash and due from banks	$ 4,401	$ (101)	$ 4,300	$ 5,001	$ –	$ 5,001
Interest-bearing deposits with banks	10,502	(4,223)	6,279	5,237	(32)	5,205
Securities						
Trading account	147,237	(282)	146,955	125,760	(977)	124,783
Investment account	36,976	(36,976)	–	34,060	(34,060)	–
Loan substitute	656	(656)	–	675	(675)	–
Available for sale	–	37,535	37,535	–	34,729	34,729
	184,869	(379)	184,490	160,495	(983)	159,512
Assets purchased under reverse repurchase agreements and securities borrowed	59,378	(2,148)	57,230	42,973	–	42,973
Loans (net of allowance for loan losses)	208,530	(111)	208,419	190,416	939	191,355
Other						
Customers' liability under acceptances	9,108	–	9,108	7,074	–	7,074
Derivative-related amounts	37,729	717	38,446	38,834	1,157	39,991
Premises and equipment, net	1,818	(86)	1,732	1,708	(33)	1,675
Goodwill	4,304	(61)	4,243	4,203	45	4,248
Other intangibles	642	(211)	431	409	–	409
Reinsurance recoverables	–	1,182	1,182	–	1,190	1,190
Separate account assets	–	111	111	–	105	105
Assets of operations held for sale	82	–	82	263	–	263
Other assets	15,417	24,893	40,310	12,908	26,917	39,825
	69,100	26,545	95,645	65,399	29,381	94,780
	$ 536,780	$ 19,583	$ 556,363	$ 469,521	$ 29,305	$ 498,826
Liabilities and shareholders' equity						
Deposits	$ 343,523	$ (9,466)	$ 334,057	$ 306,860	$ 28	$ 306,888
Other						
Acceptances	9,108	–	9,108	7,074	–	7,074
Obligations related to securities sold short	38,252	(1,188)	37,064	32,391	1,647	34,038
Obligations related to assets sold under repurchase agreements and securities loaned	41,103	(1,141)	39,962	23,381	–	23,381
Derivative-related amounts	42,094	312	42,406	42,592	579	43,171
Insurance claims and policy benefit liabilities	7,337	2,686	10,023	7,117	2,643	9,760
Separate account liabilities	–	111	111	–	105	105
Liabilities of operations held for sale	32	–	32	40	–	40
Other liabilities	22,649	27,877	50,526	18,408	23,916	42,324
	160,575	28,657	189,232	131,003	28,890	159,893
Subordinated debentures	7,103	300	7,403	8,167	407	8,574
Trust capital securities	1,383	(1,383)	–	1,400	(1,400)	–
Preferred share liabilities	298	(298)	–	300	(300)	–
Non-controlling interest in subsidiaries	1,775	1,083	2,858	1,944	1,434	3,378
Shareholders' equity (1)	22,123	690	22,813	19,847	246	20,093
	$ 536,780	$ 19,583	$ 556,363	$ 469,521	$ 29,305	$ 498,826

(1) Included in our consolidated earnings as at October 31, 2006 was $293 million undistributed earnings of our joint ventures and investments accounted for using the equity method under U.S. GAAP.

Condensed Consolidated Statements of Income

	2006	2005	2004
Net income from continuing operations, Canadian GAAP	$ 4,757	$ 3,437	$ 3,023
Differences:			
Net interest income			
Derivative instruments and hedging activities	(22)	36	10
Variable interest entities	–	–	(19)
Joint ventures	(75)	–	–
Liabilities and equity	115	115	166
Non-interest income			
Insurance accounting	(544)	(606)	(603)
Derivative instruments and hedging activities	(31)	11	(1)
Reclassification of securities	14	27	7
Variable interest entities	(10)	–	–
Limited partnerships	(3)	(9)	(11)
Joint ventures	(458)	(171)	(146)
Other	(33)	(4)	–
Provision for (recovery of) credit losses			
Reclassification of securities	–	–	(1)
Joint ventures	2	18	–
Insurance policyholder benefits, claims and acquisition expense			
Insurance accounting	471	584	582
Non-interest expense			
Stock appreciation rights	16	25	(3)
Insurance accounting	75	72	47
Joint ventures	440	118	114
Variable interest entities	2	–	(35)
Other	29	–	(1)
Income taxes and net differences in income taxes due to the above items	95	(13)	35
Non-controlling interest in net income of subsidiaries			
Variable interest entities	8	–	52
Joint ventures	3	–	–
Liabilities and equity	(101)	(101)	(152)
Net income from continuing operations, U.S. GAAP	$ 4,750	$ 3,539	$ 3,064
Net loss from discontinued operations, Canadian GAAP	$ (29)	$ (50)	$ (220)
Difference – Other	–	5	(5)
Net loss from discontinued operations, U.S. GAAP	$ (29)	$ (45)	$ (225)
Net income, U.S. GAAP	$ 4,721	$ 3,494	$ 2,839
Basic earnings per share (1), (2)			
Canadian GAAP	$ 3.65	$ 2.61	$ 2.14
U.S. GAAP	$ 3.62	$ 2.67	$ 2.16
Basic earnings per share from continuing operations			
Canadian GAAP	$ 3.67	$ 2.65	$ 2.31
U.S. GAAP	$ 3.64	$ 2.71	$ 2.33
Basic earnings (loss) per share from discontinued operations			
Canadian GAAP	$ (.02)	$ (.04)	$ (.17)
U.S. GAAP	$ (.02)	$ (.04)	$ (.17)
Diluted earnings per share (1), (2)			
Canadian GAAP	$ 3.59	$ 2.57	$ 2.11
U.S. GAAP	$ 3.57	$ 2.63	$ 2.13
Diluted earnings per share from continuing operations			
Canadian GAAP	$ 3.61	$ 2.61	$ 2.28
U.S. GAAP	$ 3.59	$ 2.67	$ 2.30
Diluted earnings (loss) per share from discontinued operations			
Canadian GAAP	$ (.02)	$ (.04)	$ (.17)
U.S. GAAP	$ (.02)	$ (.04)	$ (.17)

(1) Two-class method of calculating earnings per share: The impact of calculating earnings per share using the two-class method reduced U.S. GAAP basic and diluted earnings per share for the years ended October 31, 2006, 2005 and 2004 by less than one cent. Please refer to material differences between Canadian and U.S. GAAP for details of this two-class method.

(2) The basic and diluted earnings per share have been adjusted retroactively for the stock dividend paid on April 6, 2006. Refer to Note 18.

Condensed Consolidated Statements of Cash Flows (1)

	2006	2005	2004
Cash flows from (used in) operating activities, Canadian GAAP	$ (14,996)	$ (29,527)	$ 1,931
U.S. GAAP adjustment for net income	(8)	102	41
Adjustments to determine net cash from (used in) operating activities			
Provision for (recovery of) credit losses	(2)	(18)	1
Depreciation	(20)	(4)	(12)
Future income taxes	271	(135)	256
Amortization of other intangibles	(20)	–	–
Loss on investment in associated corporations and limited partnerships	–	–	15
Net gain on sale of investment account securities	–	3	(59)
Changes in operating assets and liabilities			
Insurance claims and policy benefit liabilities	43	(438)	(1,385)
Net change in accrued interest receivable and payable	(120)	(1)	(83)
Derivative-related assets	440	41	(186)
Derivative-related liabilities	(267)	(90)	12
Trading account securities	(695)	(710)	314
Reinsurance recoverable	(8)	(511)	1,620
Net change in brokers and dealers receivable and payable	3,872	(2,504)	(118)
Other	2,446	2,099	(43)
Net cash from (used in) operating activities, U.S. GAAP	(9,064)	(31,693)	2,304
Cash flows from (used in) investing activities, Canadian GAAP	(43,235)	(7,727)	(15,765)
Change in interest-bearing deposits with banks	4,191	48	551
Change in loans, net of loan securitizations	1,050	28	1,027
Proceeds from sale of investment account securities	(14,709)	(25,628)	(18,427)
Proceeds from maturity of investment account securities	(28,203)	(18,405)	(38,088)
Purchases of investment account securities	38,474	36,373	50,911
Proceeds from sale of available-for-sale securities	14,727	25,651	18,453
Proceeds from maturity of available-for-sale securities	28,204	18,405	38,093
Purchases of available-for-sale securities	(38,383)	(36,130)	(51,328)
Change in loan substitute securities	(19)	(26)	376
Net acquisitions of premises and equipment	73	12	22
Change in assets purchased under reverse repurchase agreements and securities borrowed	2,148	–	–
Net cash from (used in) investing activities, U.S. GAAP	(35,682)	(7,399)	(14,175)
Cash flows from (used in) financing activities, Canadian GAAP	57,711	38,666	14,675
Change in deposits	(36,663)	(35,001)	(11,814)
Change in deposits – Canada	(299)	15,522	14,927
Change in deposits – International	27,468	19,791	(3,870)
Issue of RBC Trust Capital Securities (RBC TruCS)	–	(1,200)	–
Issue of preferred shares	(7)	–	–
Issuance costs	7	3	–
Issue of common shares	1	(1)	–
Purchases of treasury shares	(2)	7	(12)
Change in obligations related to assets sold under repurchase agreements and securities loaned	(1,141)	–	–
Dividends paid	(13)	(14)	(14)
Dividends/distributions paid by subsidiaries to non-controlling interests	(102)	(102)	(102)
Change in obligations related to securities sold short	(2,835)	2,837	(1,078)
Change in short-term borrowings of subsidiaries	–	(4)	–
Net cash from (used in) financing activities, U.S. GAAP	44,125	40,504	12,712
Effect of exchange rate changes on cash and due from banks	(80)	(122)	(17)
Net change in cash and due from banks	(701)	1,290	824
Cash and due from banks at beginning of year	5,001	3,711	2,887
Cash and due from banks at end of year, U.S. GAAP	$ 4,300	$ 5,001	$ 3,711

(1) Canadian and U.S. GAAP cash flow reconciling items relating to discontinued operations were not material.

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

	2006	2005	2004
Unrealized gains and losses on available-for-sale securities	$ 191	$ 83	$ 178
Unrealized foreign currency translation gains and losses, net of hedging activities	(2,000)	(1,768)	(1,551)
Gains and losses on derivatives designated as cash flow hedges	(52)	(165)	(192)
Additional pension obligation	(62)	(313)	(67)
Accumulated other comprehensive income (loss), net of income taxes	$ (1,923)	$ (2,163)	$ (1,632)

(1) Accumulated other comprehensive income is a separate component of Shareholders' equity under U.S. GAAP.

Consolidated Statements of Comprehensive Income

	2006	2005	2004
Net income, U.S. GAAP	$ 4,721	$ 3,494	$ 2,839
Other comprehensive income, net of taxes			
Changes in unrealized gains and losses on available-for-sale securities	108	(95)	65
Changes in unrealized foreign currency translation gains and losses	(502)	(618)	(1,336)
Impact of hedging unrealized foreign currency translation gains and losses	270	401	678
Changes in gains and losses on derivatives designated as cash flow hedges	(35)	(97)	(147)
Reclassification to earnings of gains and losses on cash flow hedges	148	124	59
Additional pension obligation	251	(246)	423
Total comprehensive income	$ 4,961	$ 2,963	$ 2,581
Income taxes (recovery) deducted from the above items:			
Changes in unrealized gains and losses on available-for-sale securities	$ 57	$ (55)	$ 42
Impact of hedging unrealized foreign currency translation gains and losses	130	204	328
Changes in gains and losses on derivatives designated as cash flow hedges	(15)	(51)	(79)
Reclassification to earnings of gains and losses on cash flow hedges	75	66	58
Additional pension obligation	134	(132)	245
Total income taxes (recovery)	$ 381	$ 32	$ 594

Material balance sheet reconciling items

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

As at October 31, 2006	Derivative instruments and hedging activities	Variable interest entities	Joint ventures	Insurance accounting	Reclassification of securities	Limited partnerships	Stock appreciation rights	Liabilities and equity	Additional pension obligation	Trade date accounting	Non-cash collateral	Right of offset	Guarantees, loan commitments and other minor items	Total
Assets														
Cash and due from banks	$ –	–	(101)	–	–	–	–	–	–	–	–	–	–	$ (101)
Interest-bearing deposits with banks	$ (33)	–	(4,190)	–	–	–	–	–	–	–	–	–	–	$ (4,223)
Securities	$ –	(342)	(288)	–	369	(179)	–	–	–	60	–	–	1	$ (379)
Assets purchased under reverse repurchase agreements and securities borrowed	$ –	–	(2,148)	–	–	–	–	–	–	–	–	–	–	$ (2,148)
Loans	$ 41	–	(1,004)	–	–	–	–	–	–	–	–	852	–	$ (111)
Other assets	$ 321	(2)	(3,723)	2,890	(128)	164	(22)	–	(25)	10,401	16,558	–	111	$ 26,545
Liabilities and shareholders' equity														
Deposits	$ 52	–	(9,518)	–	–	–	–	–	–	–	–	–	–	$ (9,466)
Other liabilities	$ (77)	(39)	(1,907)	2,777	–	–	(58)	(34)	37	10,461	16,558	852	87	$ 28,657
Subordinated debentures	$ 300	–	–	–	–	–	–	–	–	–	–	–	–	$ 300
Trust capital securities	$ –	–	–	–	–	–	–	(1,383)	–	–	–	–	–	$ (1,383)
Preferred share liabilities	$ –	–	–	–	–	–	–	(298)	–	–	–	–	–	$ (298)
Non-controlling interest in subsidiaries	$ –	(305)	(29)	–	–	–	–	1,417	–	–	–	–	–	$ 1,083
Shareholders' equity	$ 54	–	–	113	241	(15)	36	298	(62)	–	–	–	25	$ 690

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

Material differences between Canadian and U.S. GAAP

No.	Item	U.S. GAAP	Canadian GAAP
1	Variable interest entities	We began in 2004 to consolidate VIEs where we are the entity's Primary Beneficiary under Financial Accounting Standards Board (FASB) Interpretation No. 46, *Consolidation of Variable Interest Entities* (FIN 46R). VIEs are entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. The Primary Beneficiary is the party that has exposure to a majority of the expected losses and/or expected residual returns of the VIE. In the fourth quarter of 2006, we adopted FASB Staff Position FIN 46(R)-6, *Determining the Variability to be Consolidated in Applying FASB Interpretation No. 46(R)* (FSP FIN 46(R)-6). This guidance provides additional clarification on how to analyze VIEs and their consolidation requirement. Upon adoption of this guidance, we deconsolidated certain investment funds.	Prior to 2005, we consolidated an entity when we effectively controlled the entity, usually through the ownership of more than 50% of the voting shares. In 2005, we adopted AcG-15, *Variable Interest Entities* and the treatment of VIEs is consistent in all material aspects with U.S. GAAP. The new guidance EIC-163, which is substantially the same as FSP FIN 46(R)-6, will be adopted by us in the second quarter of 2007. Refer to Note 1.
2	Liabilities and equity	Shares issued with conversion or conditional redemption features are classified as equity.	Financial instruments that can be settled by a variable number of our common shares upon their conversion by the holder are classified as liabilities under Canadian GAAP. As a result, certain of our preferred shares and TruCS are classified as liabilities. Dividends and yield distributions on these instruments are included in Interest expense in our Consolidated Statements of Income.
3	Derivative instruments and hedging activities	All derivatives are recorded on the Consolidated Balance Sheets at fair value, including certain derivatives embedded within hybrid instruments. For derivatives that do not qualify for hedge accounting, changes in their fair value are recorded in Non-interest income. For derivatives that are designated and qualify as cash flow hedges, changes in fair value related to the effective portion of the hedge are recorded in Accumulated other comprehensive income within Shareholders' equity, and will be subsequently recognized in Net interest income in the same period when the cash flow of the hedged item affects earnings. The ineffective portion of the hedge is reported in Non-interest income. For derivatives that are designated and qualify as fair value hedges, the carrying amount of the hedged item is adjusted by gains or losses attributable to the hedged risk and recorded in Non-interest income. This change in fair value of the hedged item is generally offset by changes in the fair value of the derivative.	Derivatives embedded within hybrid instruments are generally not separately accounted for except for those related to equity-linked deposit contracts. For derivatives that do not qualify for hedge accounting, changes in their fair value are recorded in Non-interest income. Non-trading derivatives where hedge accounting has not been applied upon adoption of Accounting Guideline 13, *Hedging Relationships*, are recorded at fair value with transition gains or losses being recognized in income as the original hedged item affects Net interest income. Where derivatives have been designated and qualified as effective hedges, they are accounted for on an accrual basis with gains or losses deferred and recognized over the life of the hedged assets or liabilities as adjustments to Net interest income. The ineffective portion of the hedge is not required to be recognized. Upon the adoption of Section 3855 and Section 3865 on November 1, 2006, Canadian GAAP will be substantially harmonized with U.S. GAAP.
4	Joint ventures	Investments in joint ventures other than VIEs are accounted for using the equity method.	Investments in joint ventures other than VIEs are proportionately consolidated.
5	Insurance accounting	*Fixed income investments:* Fixed income investments are included in Available-for-sale securities and are carried at estimated fair value. Unrealized gains and losses, net of income taxes, are reported in Accumulated other comprehensive income within Shareholders' equity. Realized gains and losses are included in Non-interest income when realized.	*Fixed income investments:* Fixed income investments are classified as Investment account securities and carried at amortized cost. Realized gains and losses on disposal of fixed income investments that support life insurance liabilities are deferred and amortized to Non-interest income over the remaining term to maturity of the investments sold to a maximum period of 20 years.

Material differences between Canadian and U.S. GAAP (continued)

No.	Item	U.S. GAAP	Canadian GAAP
5	Insurance accounting (continued)	*Equity investments:* Equity securities are classified as Available-for-sale securities and are carried at estimated fair value. Unrealized gains and losses, net of income taxes, are included in Accumulated other comprehensive income. Realized gains and losses are included in Non-interest income when realized.	*Equity investments:* Equity securities included in the Investment account securities are initially recorded at cost. The carrying value of equity securities that support life insurance liabilities is adjusted quarterly by 5% of the difference between market value and the previously adjusted carrying cost. Realized gains and losses are deferred and recognized as Non-interest income at the quarterly rate of 5% of unamortized deferred gains and losses.
		Insurance claims and policy benefit liabilities: Liabilities for insurance contracts, except universal life and investment-type contracts, are determined using the net level premium method, which includes assumptions for mortality, morbidity, policy lapses, surrenders, investment yields, policy dividends and direct operating expenses. These assumptions are not revised unless it is determined that existing deferred acquisition costs cannot be recovered. For universal life and investment-type contracts, liabilities represent policyholder account balances and include a net level premium reserve for some contracts. The account balances represent an accumulation of gross deposits received plus credited interest less withdrawals, expenses and mortality charges. Underlying reserve assumptions of these contracts are subject to review at least annually.	*Insurance claims and policy benefit liabilities:* Liabilities for life insurance contracts are determined using the Canadian Asset Liability Method, which incorporates assumptions for mortality, morbidity, policy lapses, surrenders, investment yields, policy dividends and maintenance expenses. To recognize the uncertainty in the assumptions underlying the calculation of the liabilities, a margin (provision for adverse deviations) is added to each assumption. These assumptions are reviewed at least annually and updated in response to actual experience and market conditions.
		Insurance revenue: Amounts received for universal life and other investment-type contracts are not included as revenue, but are reported as deposits to policyholders' account balances in Insurance claims and policy benefit liabilities. Revenue from these contracts is limited to amounts assessed against policyholders' account balances for mortality, policy administration and surrender charges, and is included in Non-interest income when earned. Payments upon maturity or surrender are reflected as reductions in the Insurance claims and policy benefit liabilities.	*Insurance revenue:* Premiums for universal life and other investment-type contracts are recorded as Non-interest income, and a liability for future policy benefits is established as a charge to Insurance policyholder benefits, claims and acquisition expense.
		Policy acquisition costs: Acquisition costs are deferred in Other assets. The amortization method of the acquisition costs is dependent on the product to which the costs are related. For long-duration contracts, they are amortized in proportion to premium revenue. For universal life and investment-type contracts, amortization is based on a constant percentage of estimated gross profits.	*Policy acquisition costs:* The costs of acquiring new life insurance and annuity business are implicitly recognized as a reduction in Insurance claims and policy benefit liabilities.
		Value of business acquired: The value of business acquired (VOBA) is determined at the acquisition date and recorded as an asset. The VOBA asset is amortized and charged to income using the same methodologies used for policy acquisition cost amortization but reflecting premiums or profit margins after the date of acquisition only.	*Value of business acquired:* The value of life insurance in-force policies acquired in a business combination is implicitly recognized as a reduction in Insurance claims and policy benefit liabilities.
		Reinsurance: Reinsurance recoverables are recorded as an asset on the Consolidated Balance Sheets.	*Reinsurance*: Reinsurance recoverables of life insurance business related to the risks ceded to other insurance or reinsurance companies are recorded as an offset to Insurance claims and policy benefit liabilities.
		Separate accounts: Separate accounts are recognized on the Consolidated Balance Sheets.	*Separate accounts:* Assets and liabilities of separate accounts (known as segregated funds in Canada) are not recognized on the Consolidated Balance Sheets.

No.	Item	U.S. GAAP	Canadian GAAP
6	Reclassification of securities	Securities are classified as Trading account or Available-for-sale, and are carried on the Consolidated Balance Sheets at their estimated fair value. The net unrealized gain (loss) on Available-for-sale securities, net of related income taxes, is reported in Accumulated other comprehensive income within Shareholders' equity except where the Available-for-sale securities qualify as hedged items in fair value hedges. These hedged unrealized gains (losses) are recorded in Non-interest income, where they are generally offset by the changes in fair value of the hedging derivatives. Writedowns to reflect other-than-temporary impairment in the value of Available-for-sale securities are included in Non-interest income.	Securities are classified as Trading account (carried at estimated fair value), Investment account (carried at amortized cost) or Loan substitute. Writedowns to reflect other-than-temporary impairment in the value of Investment account securities are included in Non-interest income. Loan substitute securities are accorded the accounting treatment applicable to loans and, if required, are reduced by an allowance. Upon adoption of Section 3855 on November 1, 2006, Canadian GAAP will be substantially harmonized with U.S. GAAP.
7	Limited partnerships	The equity method is used to account for investments in limited partnerships that are non-VIEs or unconsolidated VIEs, if we own at least 3% of the total ownership interest.	We use the equity method to account for investments in limited partnerships that are non-VIEs or unconsolidated VIEs, if we have the ability to exercise significant influence, which is generally indicated by an ownership interest of 20% or more.
8	Stock appreciation rights (SARs)	Between November 29, 1999, and June 5, 2001, grants of options under the employee stock option plan were accompanied with tandem SARs, whereby participants could choose to exercise a SAR instead of the corresponding option. In such cases, the participants would receive a cash payment equal to the difference between the closing price of our common shares on the day immediately preceding the day of exercise and the exercise price of the option. For such a plan, compensation expense would be measured using estimates based on past experience of participants exercising SARs rather than the corresponding options. On November 1, 2005, we adopted FASB Statement No. 123 (revised 2004), *Share-Based Payment* (FAS 123(R)) and its related FASB Staff Positions (FSPs) prospectively for new awards and the unvested portion of existing awards. FAS 123(R) requires that the compensation expense should be measured assuming that all participants will exercise SARs. Under the transition guidelines of the new standard, the requirements of the new accounting standard are applicable to awards granted after the adoption of the new standard. Since these SARs were awarded prior to adoption of the new accounting standard, these will continue to be accounted for under the previous accounting standard.	For such a plan, a liability is recorded for the potential cash payments to participants and compensation expense is measured assuming that all participants will exercise SARs.
9	Additional pension obligation	For defined benefit pension plans, an unfunded accumulated benefit obligation should be recorded as an additional minimum pension liability, an intangible asset should be recorded up to the amount of unrecognized prior service cost, and the excess of unfunded accumulated benefit obligation over unrecognized prior service cost should be recorded as a reduction in Other comprehensive income.	There is no requirement to recognize additional pension obligation.
10	Trade date accounting	For securities transactions, trade date basis of accounting is used for both the Consolidated Balance Sheets and the Consolidated Statements of Income.	For securities transactions, settlement date basis of accounting is used for the Consolidated Balance Sheets whereas trade date basis of accounting is used for the Consolidated Statements of Income.
11	Non-cash collateral	Non-cash collateral received in securities lending transactions is recorded on the Consolidated Balance Sheets as an asset and a corresponding obligation to return it is recorded as a liability, if we have the ability to sell or repledge it.	Non-cash collateral received in securities lending transactions is not recognized on the Consolidated Balance Sheets.

Material differences between Canadian and U.S. GAAP (continued)

No.	Item	U.S. GAAP	Canadian GAAP
12	Right of offset	When financial assets and liabilities are subject to a legally enforceable right of offset and we intend to settle these assets and liabilities with the same party either on a net basis or simultaneously, the financial assets and liabilities may be presented on a net basis.	Net presentation of financial assets and liabilities is required when the same criteria under U.S. GAAP are met. In addition, the netting criteria may be applied to a tri-party transaction.
13	Guarantees	For guarantees issued or modified after December 31, 2002, a liability is recognized at the inception of a guarantee for the fair value of the obligation undertaken in issuing the guarantee.	Canadian GAAP only provides for disclosure requirements. Upon the adoption of Section 3855 on November 1, 2006, Canadian GAAP will be substantially harmonized with U.S. GAAP.
14	Loan commitments	For loan commitments entered into after March 31, 2004 and issued for loans that will be held for sale when funded, revenue associated with servicing assets embedded in these commitments should be recognized only when the servicing asset has been contractually separated from the underlying loans.	Canadian GAAP does not have such a requirement.
15	Two-class method of calculating earnings per share	When calculating earnings per share, we are required to give effect to securities or other instruments or contracts that entitle their holders to participate in undistributed earnings when such entitlement is nondiscretionary and objectively determinable.	Canadian GAAP does not have such a requirement.
16	Income taxes	In addition to the tax impact of the differences outlined above, the effects of changes in tax rates on deferred income taxes are recorded when the tax rate change has been passed into law.	These effects are recorded when the tax rate change has been substantively enacted.

Significant acquisitions

There was no Canadian and U.S. GAAP difference resulting from our acquisitions completed in 2006, and we did not have a significant acquisition in 2005.

The following table presents the differences in the allocation of purchase considerations due to Canadian and U.S. GAAP differences as explained in Item 5 Insurance accounting above for significant acquisitions that occurred in 2004:

2004	Provident			William R. Hough			UnumProvident (1)		
	Canadian GAAP	Difference	U.S. GAAP	Canadian GAAP	Difference	U.S. GAAP	Canadian GAAP	Difference	U.S. GAAP
VOBA	$ –	$ –	$ –	$ –	$ –	$ –	$ –	$ 661	$ 661
Fair value of liabilities assumed	(1,180)	–	(1,180)	(21)	–	(21)	(1,617)	(661)	(2,228)

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

Pensions and other post-employment benefits

The following table provides information on our defined benefit plans in addition to those disclosed in Note 20.

Plan assets, benefit obligations and funded status

	Pension plans		Other post-employment plans	
	2006	2005	2006	2005
Amounts recognized on the Consolidated Balance Sheets consist of:				
Prepaid pension benefit cost	$ 682	$ 137	$ –	$ –
Accrued pension benefit expense	(133)	(300)	(1,154)	(1,102)
Intangible asset	21	130	–	–
Accumulated other comprehensive income (before taxes)	95	480	–	–
Net amount recognized as at October 31	$ 665	$ 447	$ (1,154)	$ (1,102)
Accumulated benefit obligation (1)	$ 6,277	$ 5,944	n.a.	n.a.

(1) For all plans where the accumulated benefit obligations exceeded the fair values of the plan assets, the accumulated benefit obligation and the fair value of the assets were $923 million (2005 – $5,265 million) and $789 million (2005 – $4,987 million), respectively.

Hedging activities

Fair value hedge

For the year ended October 31, 2006, the ineffective portion recognized in Non-interest income amounted to a net unrealized gain of $11 million (2005 – $4 million). All components of each derivative's change in fair value have been included in the assessment of fair value hedge effectiveness. We did not hedge any firm commitments for the year ended October 31, 2006.

Cash flow hedge

For the year ended October 31, 2006, a net unrealized gain of $1 million (2005 – $97 million loss) was recorded in Other comprehensive income for the effective portion of changes in fair value of derivatives designated as cash flow hedges. The amounts recognized in Other comprehensive income are reclassified to Net interest income in the periods in which Net interest income is affected by the variability in cash flows of the hedged item. A net loss of $108 million (2005 – $124 million) was reclassified to Net income during the year. A net loss of $26 million (2005 – $111 million) deferred in Accumulated other comprehensive income as at October 31, 2006, is expected to be reclassified to Net income during the next 12 months.

For the year ended October 31, 2006, a net unrealized loss of $23 million (2005 – $3 million) was recognized in Non-interest income for the ineffective portion of cash flow hedges. All components of each derivative's change in fair value have been included in the assessment of cash flow hedge effectiveness. We did not hedge any forecasted transactions for the year ended October 31, 2006.

Hedges of net investments in foreign operations

For the year ended October 31, 2006, we experienced foreign currency losses of $502 million (2005 – $618 million) related to our net investments in foreign operations, which were offset by gains of $270 million (2005 – $401 million) related to derivative and non-derivative instruments designated as hedges for such foreign currency exposures. The net foreign currency gains (losses) are recorded as a component of Other comprehensive income.

Average assets, U.S. GAAP

	2006		2005		2004	
	Average assets	% of total average assets	Average assets	% of total average assets	Average assets	% of total average assets
Domestic	$ 297,740	57%	$ 277,442	58%	$ 253,100	57%
United States	119,614	23%	97,002	20%	94,231	21%
Other International	104,533	20%	101,961	22%	96,267	22%
	$ 521,887	100%	$ 476,405	100%	$ 443,598	100%

Future accounting changes

Accounting for certain hybrid financial instruments

On February 16, 2006, FASB issued FASB Statement No. 155, *Accounting for Certain Hybrid Instruments – an amendment of FASB Statement No. 133 and 140* (FAS 155), which allows an entity to elect to measure certain hybrid financial instruments at fair value in their entirety, with changes in fair value recognized in earnings. The fair value election will eliminate the need to separately recognize certain derivatives embedded in hybrid financial instruments under FASB Statement No. 133, *Accounting for Derivative Instruments & Hedging Activities*. FAS 155 will be effective for us on November 1, 2006.

Accounting for servicing financial assets

On March 17, 2006, FASB issued FASB Statement No. 156, *Accounting for Servicing of Financial Assets – an amendment of FASB Statement No. 140* (FAS 156). Under FAS 156, an entity is required to initially measure its servicing rights at fair value and can choose to subsequently amortize the initial fair value over the term of the servicing rights, or remeasure them at fair value through income. The ability to remeasure servicing rights at fair value through income will eliminate the accounting mismatch between the servicing rights and the related derivatives that would otherwise result in the absence of hedge accounting. FAS 156 will be effective for us on November 1, 2006.

The implementation of these two standards is not expected to have a material impact on our consolidated financial position and results of operations.

Guidance on accounting for income taxes

On July 13, 2006, FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109* (FIN 48), which provides additional guidance on how to recognize, measure, and disclose income tax benefits. FIN 48 will be effective for us on November 1, 2007.

Note 31 Reconciliation of Canadian and United States generally accepted accounting principles (continued)

Accounting for defined benefit pension and other post-retirement plans
On September 29, 2006, FASB issued Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Post-retirement Plans – an amendment of FASB Statements No. 87, 88, 106 and 132(R)* (FAS 158). FAS 158 requires an entity to (i) recognize the overfunded or underfunded status of a benefit plan as an asset or liability in the balance sheet; (ii) recognize the existing unrecognized net gains and losses, unrecognized prior-service costs and credits, and unrecognized net transition assets or obligations in Other comprehensive income; and (iii) measure defined benefit plan assets and obligations as of the year-end balance sheet date. This statement is effective prospectively for us at the end of fiscal year 2007 in respect of recognition requirements mentioned in (i) and (ii) above, and for the end of the fiscal year 2009 in respect of measurement date changes mentioned in (iii) above.

Accounting for deferred acquisition costs for insurance operations
In September 2005, the Accounting Standards Executive Committee of the American Institute of Certified Public Accountants issued Statement of Position 05-1, *Accounting by Insurance Enterprises for Deferred Acquisition Costs in Connection with Modifications or Exchanges of Insurance Contracts* (SOP 05-1). SOP 05-1 provides guidance on accounting for deferred acquisition costs on internal replacements of insurance and investment contracts other than those specifically described in FASB Statement No. 97, *Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses from the Sale of Investments*. SOP 05-1 defines an internal replacement as a modification in product benefits, features, rights or coverages that occurs by the exchange of a contract for a new contract, by amendment or endorsement, rider to a contract, or by the election of a feature or coverage within a contract. A replacement contract that is substantially changed from the replaced contract is accounted for as an extinguishment of the replaced contract, resulting in the release of deferred costs including unamortized deferred acquisition costs. This SOP 05-1 will be effective for us on November 1, 2007.

Guidance for quantifying financial statement misstatements
On September 13, 2006, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements* (SAB 108). SEC staff issued SAB 108 to address what they identified as diversity in practice whereby entities were using either an income statement approach or a balance sheet approach, but not both, when evaluating whether an error is material to an entity's financial statements. SAB 108 requires that in quantifying and analyzing misstatements, both the income statement approach and the balance sheet approach should be used to evaluate the materiality of financial statement misstatements. SAB 108 will be effective for us on November 1, 2007.

Framework on fair value measurement
On September 15, 2006, FASB issued FASB Statement No. 157, *Fair Value Measurements* (FAS 157), which establishes a framework for measuring fair value in GAAP, and is applicable to other accounting pronouncements where fair value is considered to be the relevant measurement attribute. FAS 157 also expands disclosures about fair value measurements and will be effective for us on November 1, 2008.

We are currently assessing the impact of adopting the above standards on our consolidated financial position and results of operations.

Note 32 Subsequent events

On November 1, 2006, RBC Centura Bank announced that it had signed an agreement with AmSouth Bancorporation (AmSouth Bank) pursuant to which RBC Centura Bank will acquire 39 branches in Alabama owned by AmSouth Bank. On November 21, 2006, RBC Capital Markets announced that it had signed an agreement to acquire Daniels & Associates, L.P. (Daniels), a mergers and acquisitions advisor to the cable, telecom and broadcast industries. Both acquisitions are subject to regulatory approvals and other customary conditions. The acquisitions of branches from AmSouth Bank and Daniels are expected to close in the second and first quarter of 2007, respectively.