Management's Discussion and Analysis

Management's discussion and analysis (MD&A) is provided to enable a reader to assess our results of operations and financial condition for the fiscal year ended October 31, 2007, compared to the preceding two years. This MD&A should be read in conjunction with our Consolidated Financial Statements and related notes and is dated November 29, 2007. All amounts are in Canadian dollars, unless otherwise specified, and are based on financial statements prepared in accordance with Canadian generally accepted accounting principles (GAAP). Effective October 31, 2006, RBC Mortgage Company disposed of substantially all of its remaining assets and obligations and we no longer separately classify its results in our Consolidated Financial Statements. Results reported on a total consolidated basis are comparable to results reported from continuing operations for the corresponding prior periods.

Additional information about us, including our 2007 Annual Information Form, is available free of charge on our website at rbc.com/investorrelations, on the Canadian Securities Administrators' website at sedar.com and on the EDGAR section of the United States Securities and Exchange Commission's (SEC) website at sec.gov.

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See our Glossary for definitions of terms used throughout this document

Caution regarding forward-looking statements

From time to time, we make written or oral forward-looking statements within the meaning of certain securities laws, including the "safe harbour" provisions of the *United States Private Securities Litigation Reform Act of 1995* and any applicable Canadian securities legislation. We may make forward-looking statements in this document, in other filings with Canadian regulators or the United States Securities and Exchange Commission, in reports to shareholders and in other communications. Forward-looking statements include, but are not limited to, statements relating to our medium-term and 2008 objectives, our strategic goals and priorities and the economic and business outlook for us, for each of our business segments and for the Canadian, United States and international economies. Forward-looking statements are typically identified by words such as "believe," "expect," "forecast," "anticipate," "intend," "estimate," "plan" and "project" and similar expressions of future or conditional verbs such as "will," "may," "should," "could," or "would."

By their very nature, forward-looking statements require us to make assumptions and are subject to inherent risks and uncertainties, which give rise to the possibility that our predictions, forecasts, projections, expectations or conclusions will not prove to be accurate, that our assumptions may not be correct and that our objectives, strategic goals and priorities will not be achieved. We caution readers not to place undue reliance on these statements as a number of important factors could cause our actual results to differ materially from the expectations expressed in such forward-looking statements. These factors include credit, market, operational, liquidity and funding risks, and other risks discussed in our 2007 management's discussion and analysis; general business and economic conditions in Canada, the United States and other countries in which we conduct business, including the impact from the continuing volatility in the U.S. subprime and related markets and lack of liquidity in various of the financial markets; the impact of the movement of the Canadian dollar relative to other currencies, particularly the U.S. dollar, British pound and Euro; the effects of changes in government monetary and other policies; the effects of competition in the markets in which we operate; the impact of changes in laws and regulations; judicial or regulatory judgments and legal proceedings; the accuracy and completeness of information concerning our clients and counterparties; our ability to successfully execute our strategies and to complete and integrate strategic acquisitions and joint ventures successfully; changes in accounting standards, policies and estimates, including changes in our estimates of provisions and allowances; and our ability to attract and retain key employees and executives.

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

Additional information about these and other factors can be found under the Risk management section that may affect future results section and the Additional risks that may affect future results section.

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

Overview

About Royal Bank of Canada

Royal Bank of Canada (RY on TSX and NYSE) and its subsidiaries operate under the master brand name of RBC. We are Canada's largest bank as measured by assets and market capitalization and one of North America's leading diversified financial services companies. We provide personal and commercial banking, wealth management services, insurance, corporate and investment banking and transaction processing services on a global basis. We employ more than 70,000 full- and part-time employees who serve more than 15 million personal, business, public sector and institutional clients through offices in Canada, the U.S. and 36 other countries.

Effective February 7, 2007, our previous three business segments (RBC Canadian Personal and Business, RBC U.S. and International Personal and Business, and RBC Capital Markets) were reorganized into four business segments:

Canadian Banking comprises our domestic personal and business banking operations, certain retail investment businesses and our global insurance operations.

Wealth Management comprises businesses that directly serve the growing wealth management needs of affluent and high net worth clients in Canada, the U.S. and outside North America, and businesses that provide asset management and trust products through RBC and external partners.

U.S. & International Banking comprises our banking businesses outside Canada, including our banking operations in the U.S. and Caribbean. In addition, this segment includes our 50% ownership in RBC Dexia Investor Services (RBC Dexia IS).

Capital Markets comprises our global wholesale banking business, which provides a wide range of corporate and investment banking, sales and trading, research and related products and services to corporations, public sector and institutional clients in North America, and specialized products and services in select global markets.

Our business segments are supported by our Corporate Support team, which consists of Global Technology and Operations (GTO) and Global Functions. GTO provides the operational and technological foundation required to effectively deliver products and services to our clients. It also leads innovative process and technology improvements intended to maintain the safety and soundness of our operations, while keeping our capabilities ahead of the competition. Our Global Functions team of professionals provides sound governance and advice in the areas of risk, compliance, law, finance, tax and communications. This team also manages the capital, and liquidity and funding positions of the enterprise to ensure that we meet regulatory requirements, while ensuring effective funding management and allocation of capital. In addition, the Global Functions team provides support to our people and manages relationships with external stakeholders, including investors, credit rating agencies and regulators, as well as supports strategic business decisions.

Royal Bank of Canada

Canadian Banking	Wealth Management	U.S. & International Banking	Capital Markets
• Personal Financial Services • Business Financial Services • Cards and Payment Solutions • Global Insurance	• Canadian Wealth Management • U.S. & International Wealth Management • Global Asset Management	• Banking • RBC Dexia IS	• Global Markets • Global Investment Banking and Equity Markets • Other

Corporate Support

- Global Technology and Operations
- Global Functions

Vision and strategic goals

Our business strategies and actions are guided by our vision of "Always earning the right to be our clients' first choice." We believe that this client-focused approach to our business is critical to achieving our strategic as well as our financial performance goals. Our Client First philosophy is exhibited in all of our activities, including how we deal with our clients, develop our products and services, and collaborate across businesses and functions. We maintain our focus on enhancing client satisfaction and loyalty by continually striving to understand and meet the evolving needs and expectations of our clients. We believe that pursuing our vision will generate strong, stable revenue and earnings growth that will result in top quartile total shareholder return compared to our North American peer group.

The Canadian market continues to provide us with significant avenues for growth in both the retail and wholesale sectors. Our trusted brand, together with our broad expertise and leading positions in diverse financial products and services, provides us with the foundation and resources to expand internationally. The U.S., with its geographic proximity, cultural similarities and close trade relationships with Canada, will continue to be a focus of future growth as we build on our strong market positions in selected businesses. In addition, we will continue to expand outside North America in markets where our experience and expertise provide us with the ability to compete effectively.

For 2008, our strategic goals are to remain focused on growing our domestic franchise, while continuing to expand internationally by leveraging our core capabilities and by building on our portfolio of international businesses. We expect to achieve these goals by maintaining our focus on meeting the needs of clients through ongoing innovation and by collaborating effectively across our many businesses and functions.

- In Canada, our goal is to be the undisputed leader in financial services. We are strengthening the RBC brand by delivering a superior client experience with a comprehensive suite of quality financial products and services for all our clients. In banking, we continue to leverage our extensive distribution capabilities to grow market share across products and markets, while expanding and enhancing our distribution network to meet the needs of our clients. We are also developing innovative solutions and simplifying processes for our clients to make it easier for them to do business with us. In wealth management, we continue to extend our lead in wealth and asset management markets and to attract and retain experienced advisors. In capital markets, we continue to focus on maintaining our leadership position across all businesses and remain our wholesale clients' first choice for all financial products and services.
- In the United States, our goal is to build on our strengths in banking, wealth management and capital markets. In banking, we are focused on meeting the needs of businesses, business owners and professionals. We continue to expand our U.S. Southeast footprint in key high-growth markets through targeted *de novo* branch openings and strategic acquisitions. In wealth management, we continue to expand our business through organic growth and strategic acquisitions, and provide our advisors with

customized support for investment, advisory and wealth management practices by utilizing our global resources. In capital markets, we continue to deepen the penetration of our existing client base through diverse product offerings and leveraging the strengths of recent acquisitions, and enhancing our origination capabilities to expand our client base.
- Outside North America, our goal is to be a premier provider of selected financial services where our core capabilities and key expertise provide us with competitive advantages. In banking, we intend to continue to build on our strong position in the Caribbean through strategic acquisitions and organic growth, supported by ongoing operational improvements, strengthening of client relationships and broadening of product offerings. In wealth management, our strategy remains focused on increasing scale through expansion in our chosen markets and recruiting relationship managers. We will continue to make targeted acquisitions and enhance the breadth of our products and services, as well as improve our relationship management model to capitalize on the growing demand for wealth management products and services. In custody services, our joint venture, RBC Dexia IS, utilizes its global scale and expanded product capability to grow the number of and deepen our client relationships. In capital markets, we continue to expand our global distribution and extend our capabilities in structuring and trading businesses, infrastructure finance and fixed income origination.

Guided by our Client First philosophy and strategic goals, our business segments continue to tailor their strategies to meet client needs and strengthen client relationships within their unique operating and competitive environments. We believe that the successful execution of our business strategies will enhance the quality and diversity of our earnings. These efforts should result in the continued strong market leadership of our Canadian businesses as well as improved results and solid growth in our U.S. and international businesses.

Selected financial and other highlights — Table 1

(C$ millions, except per share, number of and percentage amounts)	2007	2006	2005	2007 vs. 2006 Increase (decrease)	
Total revenue	$ 22,462	$ 20,637	$ 19,184	$ 1,825	8.8%
Non-interest expense	12,473	11,495	11,357	978	8.5%
Provision for credit losses	791	429	455	362	84.4%
Insurance policyholder benefits, claims and acquisition expense	2,173	2,509	2,625	(336)	(13.4)%
Net income before income taxes and non-controlling interest in subsidiaries	7,025	6,204	4,702	821	13.2%
Net income from continuing operations	5,492	4,757	3,437	735	15.5%
Net loss from discontinued operations	–	(29)	(50)	29	n.m.
Net income	$ 5,492	$ 4,728	$ 3,387	$ 764	16.2%
Segments – net income					
Canadian Banking	$ 2,987	$ 2,426	$ 2,007	$ 561	23.1%
Wealth Management	762	604	502	158	26.2%
U.S. & International Banking	242	261	256	(19)	(7.3)%
Capital Markets	1,292	1,355	686	(63)	(4.6)%
Corporate Support	209	111	(14)	98	n.m.
Net income	$ 5,492	$ 4,757	$ 3,437	$ 735	15.5%
Selected information					
Earnings per share (EPS) – basic	$ 4.24	$ 3.65	$ 2.61	$ .59	16.2%
Earnings per share (EPS) – diluted	$ 4.19	$ 3.59	$ 2.57	$ .60	16.7%
Return on common equity (ROE) (1)	24.6%	23.5%	18.0%	n.m.	110 bps
Return on risk capital (RORC) (2)	37.4%	36.7%	29.3%	n.m.	70 bps
Net interest margin (3)	1.30%	1.35%	1.53%	n.m.	n.m.
Capital ratios (4)					
Tier 1 capital ratio	9.4%	9.6%	9.6%	n.m.	(20)bps
Total capital ratio	11.5%	11.9%	13.1%	n.m.	(40)bps
Selected balance sheet and other information					
Total assets	$ 600,346	$ 536,780	$ 469,521	$ 63,566	11.8%
Securities	178,255	184,869	160,495	(6,614)	(3.6)%
Retail loans	169,462	151,050	140,239	18,412	12.2%
Wholesale loans	69,967	58,889	51,675	11,078	18.8%
Deposits	365,205	343,523	306,860	21,682	6.3%
Average common equity (1)	22,000	19,900	18,600	2,100	10.6%
Average risk capital (2)	14,450	12,750	11,450	1,700	13.3%
Risk-adjusted assets (4)	247,635	223,709	197,004	23,926	10.7%
Assets under management	161,500	143,100	118,800	18,400	12.9%
Assets under administration – RBC	548,200	525,800	1,778,200	22,400	4.3%
– RBC Dexia IS (5)	2,713,100	2,421,100	–	292,000	12.1%
Common share information					
Shares outstanding (000s) – average basic	1,273,185	1,279,956	1,283,433	(6,771)	(.5)%
– average diluted	1,289,314	1,299,785	1,304,680	(10,471)	(.8)%
– end of period	1,276,260	1,280,890	1,293,502	(4,630)	(.4)%
Dividends declared per share	$ 1.82	$ 1.44	$ 1.18	$ .38	26.4%
Dividend yield	3.3%	3.1%	3.2%	n.m.	20 bps
Common share price (RY on TSX) – close, end of period	$ 56.04	$ 49.80	$ 41.67	$ 6.24	12.5%
Market capitalization (TSX)	71,522	63,788	53,894	7,734	12.1%
Business information (number of)					
Employees (full-time equivalent)	65,045	60,858	60,012	4,187	6.9%
Bank branches	1,541	1,443	1,419	98	6.8%
Automated teller machines	4,419	4,232	4,277	187	4.4%
Period average US$ equivalent of C$1.00 (6)	$ .915	$ .883	$ .824	$ .03	4%
Period-end US$ equivalent of C$1.00	1.059	.890	.847	.17	19%

(1) Average common equity and Return on common equity are calculated using month-end balances for the period.
(2) Average amounts are calculated using methods intended to approximate the average of the daily balances for the period. For further discussion on Average risk capital and Return on risk capital, refer to the Key performance and non-GAAP measures section.
(3) Net interest margin (NIM) is calculated as Net interest income divided by Average assets. Average assets are calculated using methods intended to approximate the average of the daily balances for the period.
(4) Calculated using guidelines issued by the Office of the Superintendent of Financial Institutions Canada (OSFI).
(5) Assets under administration – RBC Dexia IS represents the total Assets under administration (AUA) of the joint venture as at September 30, 2007. We have revised the 2006 amount to reflect the amount reported by *RBC Dexia IS*, as we had previously disclosed only the assets under custody amount related to our joint venture.
(6) Average amounts are calculated using month-end spot rates for the period.
n.m. not meaningful

We reported record net income of $5,492 million for the year ended October 31, 2007, up $764 million, or 16%, from a year ago. Diluted earnings per share (EPS) were $4.19, up 17% compared to a year ago. ROE was 24.6%, compared to 23.5% a year ago. The Tier 1 capital ratio of 9.4% was down 20 basis points (bps) from 9.6% a year ago, while our Total capital ratio of 11.5% was down 40 bps from 11.9% a year ago.

Executing our initiatives

During the year, we continued to diversify our products and services, markets, and geographical presence to generate strong and stable earnings growth. We remained focused on strengthening our distribution capabilities and enhancing client satisfaction and loyalty, while seeking to deliver top quartile total shareholder return versus our North American peer group.

In Canada, we continued to strengthen our leadership position in most major product categories by enhancing the quality and breadth of our products and services, as well as expanding and upgrading our distribution network to better serve our clients. We continued to be the leader in the Canadian mutual fund industry in terms of net long-term sales and in most of our capital market businesses. We also strengthened our leadership positions in most product categories, including mortgages, credit cards and business loans and deposits. As part of our initiatives to meet client needs and build enduring client relationships, we have expanded our distribution capabilities by adding new bank branches, insurance offices and automated teller machines, particularly in high-growth markets, and have upgraded our branches. We launched new and innovative products, including a high-interest online savings account and socially responsible mutual funds. We have also continued to streamline sales, credit and back-office processes to make it easier for our clients to do business with us. Our trusted brand, together with our leadership position in most major product categories in Canada, continued to provide us with the foundation and resources to expand internationally.

In the U.S., we continued to build scale and capability in all our major businesses through a combination of organic growth and strategic acquisitions. To expand our banking capabilities strategically in high-growth markets in the U.S. Southeast, we completed the acquisition of Atlanta-based Flag Financial Corporation and 39 AmSouth Bank branches in Alabama. These acquisitions, which complemented our *de novo* branch openings, have significantly expanded our banking presence in the U.S. Southeast. We also announced an agreement (1) to acquire Alabama National BanCorporation, the parent of 10 subsidiary banks and other affiliated businesses in Alabama, Florida and Georgia, which will add another 103 branches and strengthen our retail distribution by growing our footprint to over 450 locations throughout high-growth southeastern U.S. markets. We also expanded our investment banking and wealth management capabilities in the U.S. We completed the acquisition of Carlin Financial Group, which provides our clients with a best-in-class North American electronic trade execution platform. We completed the acquisition of Daniels & Associates, L.P., a leading mergers and acquisitions advisory firm specializing in the communications, media and entertainment, and technology sectors. In addition, we completed the acquisition of Seasongood & Mayer, LLC, strengthening our franchise as one of the leading municipal finance platforms in the U.S. We also completed the acquisition of J.B. Hanauer & Co., expanding our retail fixed income and wealth management capabilities in New Jersey, Florida and Pennsylvania.

Internationally, we strategically expanded our distribution network, products and services in fast-growing markets and regions. During the year, we announced our intention to acquire RBTT Financial Group (RBTT) to expand our banking footprint in the Caribbean. The acquisition is expected to close by the middle of 2008 (1), and will create one of the most extensive retail banking networks in the Caribbean, with a presence in 18 countries and territories across the region. We also announced our intention to acquire a 50% interest in Fidelity Merchant Bank & Trust Limited, the Bahamas-based wholly owned subsidiary of Fidelity Bank & Trust International Limited to form a joint venture to be called Royal Fidelity Merchant Bank & Trust Limited, which is expected to close in the first quarter of 2008 (1). This pending acquisition is expected to extend our growing financial services platform in the Caribbean and will enable us to have greater access to the fast-growing merchant banking and corporate advisory sector in the region.

Basel II

As of November 1, 2007, we implemented the International Convergence of Capital Measurement and Capital Standards: A Revised Framework – Comprehensive Version (June 2006), known as Basel II. Basel II more closely aligns regulatory capital requirements with a financial institution's underlying risk profile and internal risk management practices as compared to Basel I, and is intended to ensure that our capital holdings adequately underpin those risks. For details related to the implications of Basel II on our capital management framework and risk measurement approaches, refer to the Capital management and Risk management sections.

2007 Economic and market review

In 2007, the Canadian economy grew at an estimated rate of 2.6%, which was down slightly from the 2.7% projected a year ago, with domestic demand remaining the key driver of economic growth. Robust economic growth in the early part of the year, largely reflecting strong consumer spending underpinned by strong labour market conditions, solid business investment, favourable terms of trade and solid housing market activities, weakened slightly in the latter part of the year. This was mainly attributable to slowing U.S. demand and a tightening of credit conditions as a result of the U.S. subprime mortgage market concerns. While growth of both consumer and business lending largely remained solid, credit quality weakened moderately during the year as conditions appeared to be reverting to historical averages. The Bank of Canada raised the overnight rate by 25 bps in July to 4.5%, and kept the rate unchanged in September and October taking into account the tightening of credit conditions arising from the U.S. subprime mortgage market concerns and the marked appreciation of the Canadian dollar, which had a negative impact on net exports. To address the liquidity concerns and to support the efficient functioning of the Canadian financial system, the Bank of Canada injected liquidity into the financial markets on a number of occasions over the latter part of the year.

The U.S. economy grew at an estimated rate of 2% for the year, down from the 2.6% projected in 2006. This downward revision to growth was primarily attributable to the U.S. subprime mortgage market concerns. Solid economic growth in the middle of the year, primarily supported by continued non-residential investment, strong export growth and still-solid consumer spending, slowed in the latter part of the year. The weakened economic growth was largely a result of slowing residential investment amid the ongoing housing market correction, a tightening of credit conditions and increased funding costs arising from the U.S. subprime mortgage market concerns, as well as a general repricing of risk in numerous markets. Consumer and business lending, excluding mortgages, accelerated over recent months, although there remain concerns that the intensification of the housing market correction would eventually dampen lending. Credit quality weakened, particularly in high-risk credit products and residential real estate-related loans. To alleviate the mounting liquidity

(1) These acquisitions are subject to customary closing conditions including regulatory and shareholder approvals.

concerns and to ease the U.S. financial market volatility arising from the U.S. subprime mortgage market difficulties, the U.S. Federal Reserve injected a significant amount of liquidity into financial markets beginning in August. It then lowered its federal funds rate by 50 bps and 25 bps in September and October, respectively, to 4.5%, in an effort to promote economic growth, forestall a severe economic downturn and alleviate liquidity concerns.

Growth in other global economies remained solid for the year. Although central banks in the United Kingdom, the Eurozone and Japan had indicated their intention to further increase interest rates to contain inflationary pressures in the early part of the year, they had put their tightening monetary policies on hold to avoid an economic slowdown, taking into account the financial market volatility triggered by U.S. subprime mortgage market concerns.

Compared to our favourable outlook in 2006, global capital market conditions were mixed during the year, largely attributable to the U.S. subprime mortgage market concerns. Most major equity markets reached record highs in June and July, and then declined as did the debt markets, except for government bonds, largely due to the spillover effects of the U.S. subprime mortgage market difficulties. Debt and equity origination activities, which were strong at the beginning of the year, slowed due to less favourable pricing and a tightening of liquidity. Merger and acquisitions (M&A) activity remained strong for most of the year.

2007 Performance vs. objectives — Table 2

	2007 Objectives	2007 Performance
Diluted earnings per share (EPS) growth	10%+	17%
Defined operating leverage (1)	>3%	2.6%
Return on common equity (ROE)	20%+	24.6%
Tier 1 capital ratio (2)	8%+	9.4%
Dividend payout ratio	40%–50%	43%

(1) Our defined operating leverage refers to the difference between our revenue growth rate (as adjusted) and non-interest expense growth rate (as adjusted). Revenue is based on a taxable equivalent basis and excludes consolidated Variable interest entities (VIEs), accounting adjustments related to the new financial instruments accounting standards and Global Insurance revenue. Non-interest expense excludes Global Insurance expense. This is a non-GAAP measure. For further information including a reconciliation, refer to the Key performance and non-GAAP measures section.
(2) Calculated using guidelines issued by the OSFI.

2007 Annual objectives

Our diluted EPS growth, ROE and dividend payout ratio compared favourably to our annual objectives, largely reflecting strong performance across most of our businesses. We also increased our dividend by $.38, or 26%, in 2007. Our defined operating leverage ratio was below our annual objective, reflecting higher costs in support of our growing business as well as investment in future growth initiatives including acquisitions. Our capital position remained strong, with a Tier 1 capital ratio comfortably above our target.

Medium-term objective

Our medium-term objective is to achieve top quartile (1) total shareholder return (TSR) compared to our Canadian and U.S. peers. This medium-term objective increases our focus on our priority to maximize shareholder value and requires us to consider both our current performance and our investment in higher return businesses that will provide sustainable competitive advantage and stable earnings growth.

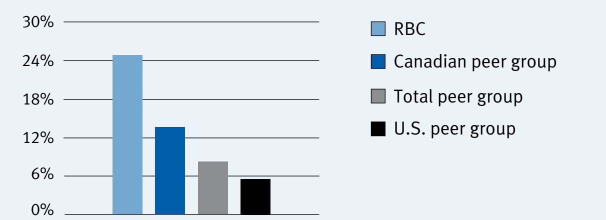
Our three-year average annual TSR (2) of 25% ranks us in the top quartile compared to our peer group and compares favourably with the three-year average annual TSR for our peer group of 8%. Our performance reflects our strong financial results, including returns on our investment in our businesses, and effective risk and capital management, which has allowed us to successfully meet most of our annual earnings and capital objectives over the last three years.

Our five-year average annual TSR (2) of 19% ranks us in the second quartile against our peer group. This compares favourably with the five-year average annual TSR for our peer group of 14%.

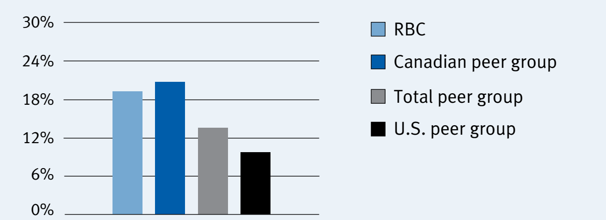
Dividends paid over the three-year period have increased at an average annual compounded rate of 22%.

(1) Versus the TSR of seven large Canadian financial institutions (Manulife Financial Corporation, The Bank of Nova Scotia, Toronto-Dominion Bank, Bank of Montreal, Sun Life Financial Inc., Canadian Imperial Bank of Commerce and National Bank of Canada) and 13 U.S. financial institutions (Bank of America Corporation, JPMorgan Chase & Co., Wells Fargo & Company, Wachovia Corporation, U.S. Bancorp, SunTrust Banks, Inc., The Bank of New York Mellon Corporation, BB&T Corporation, Fifth Third Bancorp, National City Corporation, The PNC Financial Services Group, Inc., KeyCorp and Northern Trust Corporation).
(2) The three-year average annual TSR is calculated based on share price appreciation plus reinvested dividend income for the period October 31, 2004 to October 31, 2007. The five-year average annual TSR is calculated based on the period October 31, 2002 to October 31, 2007.

Three-year average annual total shareholder return (home currency) (1)



Five-year average annual total shareholder return (home currency) (1)



(1) For Canadian financial institutions, the Canadian dollar is used. For U.S. financial institutions, the U.S. dollar is used.

Outlook and objectives for 2008

Economic outlook

Economic growth in Canada is expected to weaken as a strong Canadian dollar and sluggish U.S. growth weigh on export growth. Nonetheless, continued favourable terms of trade should support income growth, which in turn should help sustain business and consumer spending. We expect the Bank of Canada to decrease interest rates by 50 bps by early 2008, taking into account the intensifying restraint from the trade sector before shifting to a rising interest rate environment in late 2008 when financial market volatility is expected to dissipate. We forecast that the Canadian dollar will remain elevated against the U.S. dollar into early 2008, reflecting firm commodity prices, solid global economic growth and broad-based U.S. dollar weakness. Taking into account modest U.S. growth, a strong Canadian dollar and a tightening of credit conditions, we expect the Canadian economy to grow at 2.2% in 2008.

We anticipate that the U.S. financial market volatility will persist into early 2008 as investors and lenders will remain cautious and risk averse amid a slowdown in the housing market. U.S. economic growth is expected to accelerate in the latter part of 2008, primarily underpinned by rising business investment, strong export growth boosted by the relatively weak U.S. dollar, as well as continued consumer spending reflecting solid personal disposable income and healthy household balance sheets against a backdrop of lower interest rates, and the abatement of current financial market volatility and the housing market correction. We project that the U.S. Federal Reserve will decrease the federal funds rate a further 75 bps by early 2008 to insure that the downside risks from the financial market turmoil are contained, and will start to increase the rate in the latter part of 2008 when economic growth is expected to accelerate. We project that the U.S. economy will grow at 2.2% in 2008, taking into account anticipated improving economic conditions in the latter part of the year.

Growth in other global economies is expected to ease moderately in 2008, with the highest growth projected for China and other emerging Asian economies. Economic growth in Japan and the Eurozone is anticipated to weaken slightly on moderately slowing investment related to tighter credit conditions and modest U.S. growth, although it should remain solidly supported by continued business and household spending.

Business outlook

Although consumer lending growth is expected to moderate in 2008 on tighter credit conditions, growth should continue to be supported by rising domestic demand amid expanding labour markets. The introduction of new mortgage products in Canada due to the liberalization of the mortgage insurance market should also continue to underpin credit growth. We anticipate business lending to remain solid with ongoing investment spending. While credit quality is projected to weaken moderately, we expect consumer and business credit quality to remain solid in a historical context, with an anticipated increase in provision for credit losses primarily resulting from modestly higher average delinquency rates, portfolio growth and lower recoveries.

Capital market conditions are anticipated to improve from the challenging environment over the latter part of 2007 stemming from the U.S. subprime mortgage market concerns. Liquidity concerns should also abate as global financial markets stabilize and gradually return to more normalized levels of activity. We expect a rebound in underperforming businesses as strains in financial markets ease.

2008 Objectives

Our primary financial objective continues to focus on providing top quartile TSR relative to our North American peers. This medium-term objective requires our focus on both current performance as well as prudent investment in higher return businesses that will provide us with competitive advantages and stable earnings growth for the future.

2008 Objectives	Table 3
Diluted earnings per share (EPS) growth	7%–10%
Defined operating leverage (1)	>3%
Return on common equity (ROE)	20%+
Tier 1 capital ratio (2)	8%+
Dividend payout ratio	40%–50%

(1) Our defined operating leverage is a non-GAAP measure and refers to the difference between our revenue growth rate (as adjusted) and non-interest expense growth rate (as adjusted).
(2) Calculated using guidelines issued by the OSFI under Basel II, which changes the methodology for the determination of risk-adjusted assets (RAA) and regulatory capital.

For 2008, our financial objectives have been established taking into consideration our three strategic goals and our economic and business outlooks as outlined in this section. Objectives for our defined operating leverage, ROE, Tier 1 capital ratio and dividend payout ratio remain unchanged, reflecting our continued commitment to strong revenue growth and cost containment, as well as sound and effective management of capital resources. Our 2008 diluted EPS growth objective is 7% to 10 %. Our objectives factor in the effect of our pending acquisitions of ANB and RBTT, which will be funded partly through issuance of our common shares, as well as the related integration costs.

Accounting and control matters

Critical accounting policies and estimates

Application of critical accounting policies and estimates

Our significant accounting policies and estimates are described in Note 1 to our Consolidated Financial Statements. Certain of these policies, as well as estimates made by management in applying such policies, are recognized as critical because they require us to make particularly subjective or complex judgments about matters that are inherently uncertain and because of the likelihood that significantly different amounts could be reported under different conditions or using different assumptions. Our critical accounting policies and estimates relate to the allowance for credit losses, fair value of financial instruments, other-than-temporary impairment of available-for-sale and held-to-maturity securities, securitization, variable interest entities, pensions and other post-employment benefits and income taxes.

Our critical accounting policies and estimates have been reviewed and approved by our Audit Committee, in consultation with management, as part of their review and approval of our significant accounting policies and estimates.

Allowance for credit losses

The allowance for credit losses represents management's estimate of identified credit related losses in the portfolio, as well as losses that have been incurred but are not yet identifiable at the balance sheet date. The allowance is established to cover the lending portfolio including loans, acceptances, letters of credit and guarantees, and unfunded commitments. The allowance for credit losses comprises the specific allowance and the general allowance. The specific allowance is determined through management's identification and determination of losses related to impaired loans. The general allowance is determined on a quarterly basis through management's assessment of probable losses in the remaining portfolio.

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

Specific allowances

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

For wholesale portfolios including small business loans managed individually, which are continuously monitored, an account is classified as impaired based on our evaluation of the borrower's overall financial condition, its available resources and its propensity to pay amounts as they come due. A specific allowance is then established on individual accounts that are classified as impaired, using management's judgment relating to the timing of future cash flow amounts that can be reasonably expected from the borrower, financially responsible guarantors and the realization of collateral. The amounts expected to be recovered are reduced by estimated collection costs and discounted at the effective interest rate of the obligation.

For retail portfolios managed on a pooled basis, including residential mortgages and personal and small business loans, accounts are classified as impaired based on contractual delinquency status, generally 90 days past due. The estimation of specific allowance on these accounts is based on formulas that apply product-specific net write-off ratios to the related impaired amounts. The net write-off ratios are based on historical loss rates, adjusted to reflect management's judgment relating to recent credit quality trends, portfolio characteristics and composition, and economic and business conditions. Credit card balances are directly written off after payments are 180 days past due. Personal loans are generally written off at 150 days past due.

General allowance

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

For heterogeneous loans (wholesale loans including small business loans managed individually), the general allowance is based on the application of estimated probability of default, gross exposure at default and loss factors, which are determined by historical loss experience and delineated by loan type and rating. These parameters are based on historical loss rates (default migration, loss severity and exposure at default), supplemented by industry studies and are updated on a regular basis. This approach allows us to generate a range of potential losses over an economic cycle. One of the key judgmental factors that influence the loss estimate for this portfolio is the application of the internal risk rating framework, which relies on our quantitative and qualitative assessments of a borrower's financial condition in order to assign an internal credit risk rating similar to those used by external rating agencies. Any material change in the above parameters or assumptions would affect the range of probable credit losses and consequently may affect the general allowance level.

For homogeneous portfolios (retail loans) including residential mortgages, credit cards, as well as personal and small business loans that are managed on a pooled basis, the determination of the general allowance is based on the application of historical loss rates. Historical loss rates are applied to current outstanding loans to determine a range of probable losses over an economic cycle.

In determining the general allowance level, management also considers the current portfolio credit quality trends, business and economic conditions, the impact of policy and process changes, and other supporting factors. In addition, the general allowance includes a component for the model limitations and imprecision inherent in the allowance methodologies.

Any fundamental change in methodology is subject to independent vetting and review.

Total allowance for credit losses

Based on the procedures discussed above, management believes that the total allowance for credit losses of $1,572 million is adequate to absorb estimated credit losses incurred in the lending portfolio as at October 31, 2007. This amount includes $79 million classified in other liabilities, which relates to letters of credit and guarantees and unfunded commitments. The year-over-year increase of $86 million largely reflects the increase in impaired loans.

Fair value of financial instruments

With the adoption of the three new accounting standards related to financial instruments on November 1, 2006, a greater portion of our Consolidated Balance Sheet is now measured at fair value. Refer to Note 1 to our Consolidated Financial Statements for a detailed discussion. Under the new standards, all financial instruments are required to be measured at fair value on initial recognition except for certain related party transactions. Measurement in subsequent periods depends on whether the financial instruments have been classified or designated as held-for-trading, available-for-sale, held-to-maturity, loans and receivables or other financial liabilities.

Financial assets and financial liabilities held-for-trading, including derivative instruments, are measured at fair value with changes in the fair values recognized in net income, except for derivatives designated in effective cash flow hedges or hedges of foreign currency exposure of a net investment in a self-sustaining foreign operation; the changes in the fair values of those derivatives are recognized in Other comprehensive income (OCI). Available-for-sale financial assets are also measured at fair value with unrealized gains and losses, including changes in foreign exchange rates, being recognized in OCI except for investments in equity instruments classified as available-for-sale that do not have a quoted market price in an active market, which are measured at cost. Financial assets held-to-maturity, loans and receivables, and other financial liabilities are measured at amortized cost using the effective interest method.

At October 31, 2007, approximately $276 billion, or 46%, of our financial assets and $205 billion, or 36%, of our financial liabilities were carried at fair value ($184 billion, or 34%, of financial assets and

$80 billion, or 16%, of financial liabilities at October 31, 2006). Note 2 to our Consolidated Financial Statements provides disclosure of the fair value of our financial instruments as at October 31, 2007.

Fair value is defined as the amount at which a financial instrument could be bought or sold in a current transaction, other than in a forced or liquidation sale, between knowledgeable and willing parties in an arm's-length transaction under no compulsion to act. The best evidence of fair value is quoted bid or ask price, as appropriate, in an active market. Where bid and ask prices are unavailable, we use the closing price of the most recent transaction of that instrument subject to the liquidity adjustments referred to below. Where quoted prices are not available for a particular financial instrument, we use the quoted price of a financial instrument with similar characteristics and risk profiles or internal or external valuation models using observable market-based inputs to estimate the fair value.

The determination of fair value for actively traded financial instruments that have quoted market prices or readily observable model input parameters requires minimal subjectivity. Management's judgment is required, however, when the observable market prices and parameters do not exist. In addition, management exercises judgment when establishing market valuation adjustments for liquidity when we believe that the amount realized on sale may be less than the estimated fair value due to insufficient liquidity over a short period of time. This includes adjustments 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. In addition, liquidity adjustments are calculated to reflect the cost of unwinding a larger than normal market risk position.

The majority of our financial instruments classified as held-for-trading other than derivatives and financial assets classified as available-for-sale comprise or relate to actively traded debt and equity securities, which are carried at fair value based on available quoted prices. As few derivatives and financial instruments designated as held-for-trading are actively quoted, we rely primarily on internally developed pricing models and established industry standard pricing models, such as Black-Schöles, to determine fair value. In determining the assumptions to be used in our pricing models, we look primarily to external readily observable market inputs including factors such as interest rate yield curves, currency rates and price and rate volatilities as applicable. However, certain derivative financial instruments are valued using significant unobservable market inputs such as default correlations, among others. These inputs are subject to significantly more quantitative analysis and management judgment. Where input parameters are not based on market observable data, we defer the initial trading profit until the amounts deferred become realized through the receipt and/or payment of cash or once the input parameters are observable in the market. We also record fair value adjustments to account for measurement uncertainty due to model risk and parameter uncertainty when valuing complex or less actively traded financial instruments. For further information on our derivative instruments, refer to Note 7 to our Consolidated Financial Statements.

The following table summarizes our significant financial assets and liabilities carried at fair value, by valuation methodology at October 31, 2007 and October 31, 2006. We have applied the general concepts contained in the accounting standards related to financial instruments under Canadian GAAP to determine the classification of assets and liabilities carried at fair value among the valuation methodology groupings below.

Instruments grouped within "quoted prices" include those where prices are obtained from an exchange, dealer, broker, industry group, pricing service or regulatory agency, or net asset values provided by fund managers of mutual funds and hedge funds. Instruments priced based on models are grouped based on whether the models include significant observable or unobservable parameters. Where fair value is not evidenced by observable market parameters, and day one unrealized gains and losses are not permitted under Canadian GAAP, the instrument is grouped as being based on "pricing models with significant unobservable market parameters."

In September 2006, the U.S. Financial Accounting Standards Board (FASB) issued FAS 157, *Fair Value Measurements*, which includes measurement guidance and requires that all financial instruments measured at fair value be categorized in fair value hierarchy levels. We have not adopted these measurement and disclosure requirements for U.S. GAAP reconciliation disclosure purposes, and the information contained in the table below is not intended to correspond to those levels.

Assets and liabilities carried at fair value by valuation methodology — Table 4

	2007					2006 (1)				
		Based on					Based on			
(C$ millions, except percentage amounts)	Fair value	Quoted prices	Pricing models with significant observable market parameters	Pricing models with significant unobservable market parameters	Total	Fair value	Quoted prices	Pricing models with significant observable market parameters	Pricing models with significant unobservable market parameters	Total
Financial assets										
Required to be classified as held-for-trading other than derivatives (2)	$ 129,408	82%	18%	–	100%	$ 147,237	87%	13%	$ –	100%
Derivatives (3)	65,568	–	100%	–	100%	37,008	–	100%	–	100%
Designated as held-for-trading (2)	52,580	36%	64%	–	100%	n.a.	n.a.	n.a.	n.a.	n.a.
Classified as available-for-sale	28,811	70%	28%	2%	100%	n.a.	n.a.	n.a.	n.a.	n.a.
	$ 276,367					$ 184,245				
Financial liabilities										
Required to be classified as held-for-trading other than derivatives (2)	$ 46,328	89%	11%	–	100%	$ 38,252	97%	3%	$ –	100%
Derivatives (4)	71,422	–	99%	1%	100%	41,728	–	100%	–	100%
Designated as held-for-trading (2)	87,433	–	100%	–	100%	n.a.	n.a.	n.a.	n.a.	n.a.
	$ 205,183					$ 79,980				

(1) Prior to the adoption of the new accounting standards related to financial instruments on November 1, 2006, there were no financial assets or financial liabilities designated as held-for-trading and there were no financial assets classified as available-for-sale. Consequently, prior period comparatives are not applicable (n.a.).
(2) The categories of financial instruments are explained in Note 1 to our Consolidated Financial Statements.
(3) The fair value excludes margin requirements of $1,017 million (2006 – $721 million).
(4) The fair value excludes market and credit valuation adjustments of $588 million (2006 – $366 million).

2007 vs. 2006

With the adoption of the new financial instruments accounting standards, there are new categories of financial instruments carried at fair value such as financial assets and financial liabilities designated as held-for-trading and financial assets classified as available-for-sale which were carried at amortized cost prior to November 1, 2006. Further, all derivatives are now carried at fair value whereas prior to that date, only derivatives other than designated hedging instruments were carried at fair value. Accordingly, the comparative amounts for 2006 in the above table do not include these financial instruments.

The decrease of $18 billion in financial assets classified as held-for-trading and the increase of $8 billion in financial liabilities classified as held-for-trading in 2007 are primarily due to our equity and bond securities held related to our proprietary equity arbitrage and fixed income trading businesses, where we offset the risks from our securities holdings by short selling other securities that are of similar risks to those in our portfolios. The increase of $29 billion in derivative assets and of $30 billion in derivative liabilities in 2007, primarily in foreign exchange and interest rate contracts, are largely due to increased volatility, strong shifts in exchange rates and interest rates, and higher client and trading activity, partially offset by the weakening of the U.S. dollar relative to the Canadian dollar. These activities are consistent with our strategy for these businesses and the increases in 2007 are within the approved risk limits.

The determination of fair value where quoted prices are not available, and the identification of appropriate valuation adjustments require management judgment and are based on quantitative research and analysis. Our risk management group is responsible for establishing our valuation methodologies and policies, which address the use and calculation of valuation adjustments. These methodologies are reviewed on an ongoing basis to ensure that they remain appropriate. Risk management's oversight in the valuation process also includes ensuring all significant financial valuation models are strictly controlled and regularly recalibrated and vetted to provide an independent perspective. During the year, there was no significant change to our methodologies for determining fair value, including those for establishing any valuation adjustments. Refer to the Risk management section for further detail on the sensitivity of financial instruments used in trading and non-trading activities.

Other-than-temporary impairment of available-for-sale and held-to-maturity securities

Available-for-sale and held-to-maturity securities are assessed for impairment at each reporting date. When the fair value of any security has declined below its amortized cost, management is required to assess whether the decline is other-than-temporary. In making this assessment, we consider such factors as the type of investment, the length of time and extent to which the fair value has been below the amortized cost, the financial and credit aspects of the issuer, and our intent and ability to hold the investment long enough to allow for any anticipated recovery. The decision to record a writedown, its amount and the period in which it is recorded could change if management's assessment of one or more of those factors is different. If the decline in value is considered to be other-than-temporary, the cumulative changes in the fair values of available-for-sale securities previously recognized in Accumulated other comprehensive income (AOCI) are reclassified to net income during that period. For further details, refer to Notes 1 and 3 to our Consolidated Financial Statements.

Securitization

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

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

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

Variable interest entities

Canadian Institute of Chartered Accountants (CICA) Accounting Guideline 15, *Consolidation of Variable Interest Entities* (AcG-15), provides guidance on applying the principles of consolidation to certain entities defined as variable interest entities (VIEs). Where an entity is considered a VIE, the Primary Beneficiary is required to consolidate the assets, liabilities and results of operations of the VIE. The Primary Beneficiary is the entity that is exposed, through variable interests, to a majority of the VIE's expected losses (as defined in AcG-15) or is entitled to a majority of the VIE's expected residual returns (as defined in AcG-15), or both.

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

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

Pensions and other post-employment benefits

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

Due to the long-term nature of these plans, the calculation of benefit expenses and obligations depends on various assumptions such as discount rates, expected rates of return on assets, health care cost trend rates, projected salary increases, retirement age, mortality and termination rates. The discount rate assumption is determined using a yield curve of AA corporate debt securities. All other assumptions are determined by management and are reviewed annually by the actuaries. Actual experience that differs from the actuarial assumptions will affect the amounts of benefit obligation and expense. The weighted average assumptions used and the sensitivity of key assumptions are presented in Note 20 to our Consolidated Financial Statements.

Income taxes

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

Future changes in accounting policies

Future changes in accounting policies and disclosure

Canadian GAAP

Capital Disclosures and Financial Instruments – Disclosures and Presentation

On December 1, 2006, CICA issued three new accounting standards: Handbook Section 1535, *Capital Disclosures* (Section 1535), Handbook Section 3862, *Financial Instruments – Disclosures* (Section 3862), and Handbook Section 3863, *Financial Instruments – Presentation* (Section 3863). These new standards became effective for us on November 1, 2007.

Section 1535 requires the disclosure of (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance.

Sections 3862 and 3863 replace Handbook Section 3861, *Financial Instruments – Disclosure and Presentation*, revising and enhancing its disclosure requirements, and carrying its presentation requirements forward unchanged. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

U.S. GAAP

Guidance on accounting for income taxes

FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes – an Interpretation of FASB Statement No. 109* (FIN 48), on July 13, 2006, and its related Staff Position FIN 48-1, *Definition of Settlement in FASB Interpretation No. 48* (FSP FIN 48-1), on May 2, 2007. FIN 48 and FSP FIN 48-1 provide additional guidance on how to recognize, measure and disclose income tax benefits. FIN 48 became effective for us on November 1, 2007, and we do not expect it will have a material impact on our consolidated financial position and results of operations.

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 U.S. 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 this standard on our consolidated financial position and results of operations.

Fair value option for financial assets and liabilities

On February 15, 2007, FASB issued Statement No. 159, *The Fair Value Option for Financial Assets and Liabilities* (FAS 159). FAS 159 provides an entity the option to report selected financial assets and liabilities at fair value and establishes new disclosure requirements for assets and liabilities to which the fair value option is applied. FAS 159 will be effective for us on November 1, 2008. We are currently assessing the impact of adopting this standard on our consolidated financial position and results of operations.

Controls and procedures

Disclosure controls and procedures

Our disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by us is recorded, processed, summarized and reported within the time periods specified under Canadian and U.S. securities laws and include controls and procedures that are designed to ensure that information is accumulated and communicated to management, including the President and Chief Executive Officer, and Chief Financial Officer, to allow timely decisions regarding required disclosure.

Management evaluated, under the supervision of and with the participation of the President and CEO, and Chief Financial Officer, the effectiveness of our disclosure controls and procedures as defined under *Multilateral Instrument 52-109* and the *U.S. Securities Exchange Act of 1934* as of October 31, 2007. Based on that evaluation, the President and Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of October 31, 2007.

Internal control over financial reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. Management assessed the effectiveness of our internal control over financial reporting as of October 31, 2007, and based on that assessment, concluded that our internal control over financial reporting was effective. See page 112 for Management's report on internal control over financial reporting and the Report of Independent Registered Chartered Accountants. No changes were made in our internal control over financial reporting during the year ended October 31, 2007, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

2007 vs. 2006

We reported record net income of $5,492 million for the year ended October 31, 2007, up $764 million, or 16%, from a year ago. Diluted EPS were $4.19, up 17% compared to a year ago. ROE was 24.6%, compared to 23.5% a year ago. Our strong results were largely attributable to profitable volume and balance growth in our banking and wealth management businesses, strong Global Insurance results, and increased equity and foreign exchange trading results and strong equity origination activity in our capital markets businesses. These results reflected the ongoing successful execution of our growth initiatives as well as generally favourable economic and market conditions for most of the year. For additional discussion on the performance of our business segments, refer to the Business segment results section starting on page 57. A gain related to the Visa Inc. restructuring and the exchange of our membership interest in Visa Canada Association for shares of Visa Inc. also contributed to the increase. These factors were partially offset by the writedowns on the valuation of U.S. subprime residential mortgage-backed securities (RMBS) and collateralized debt obligations of asset-backed securities (CDOs of ABS) reflecting the deterioration in credit markets since July 2007, higher provisions for credit losses reflecting portfolio growth and higher impaired loans in our U.S. residential builder finance business, and higher credit card customer loyalty reward program costs. Also partly offsetting the favourable factors were higher costs in support of our business growth and the negative impact of a stronger Canadian dollar on the translated value of our U.S. dollar-denominated earnings. The Tier 1 capital ratio of 9.4% was down 20 bps from 9.6% a year ago, while the Total capital ratio of 11.5% was down 40 bps from 11.9% a year ago.

U.S. subprime

In October 2007, the credit markets deteriorated dramatically after rating agencies downgraded a broad group of U.S. subprime RMBS and CDOs of ABS. Following these events, we recognized a charge of $357 million before-tax in Capital Markets, consisting of writedowns on the fair value of our direct holdings of U.S. subprime RMBS and CDOs of ABS and related credit default swaps.

Our Capital Markets holdings of RMBS and CDOs of ABS arose primarily in relation to our role in structuring CDOs of ABS and are classified as held-for-trading, with unrealized changes in fair value reflected in Non-interest income. Our other holdings are RMBS and are classified as available-for-sale and unrealized changes in fair value are generally reflected in Other comprehensive income. These changes are reflected in Non-interest income only if management determines that it is appropriate that the value be written down (referred to as "other-than-temporary impairment").

As at October 31, 2007, Capital Markets had $216 million of net exposure to U.S. subprime CDOs of ABS, after taking into consideration protection provided by credit default swaps. We have credit default swaps providing protection of $240 million, recorded at fair market value of $104 million, with counterparties rated less than AAA by Standard & Poor's (S&P) and less than Aaa by Moody's Investors Service (Moody's). Other credit default swaps provide an additional $1,053 million of protection against our gross exposure and are either collateralized or with counterparties rated AAA by S&P and Aaa by Moody's.

As at October 31, 2007, we had $388 million of exposure to U.S. subprime RMBS recorded as available-for-sale, which we intend to hold until maturity. As at October 31, 2007, Capital Markets had no net exposure to U.S. subprime RMBS after taking into account credit default swaps that provide $1,113 million of protection and are either collateralized or with counterparties rated AAA by S&P and Aaa by Moody's.

Canadian non-bank-sponsored asset-backed commercial paper

As at October 31, 2007, we had $4 million of direct holdings of Canadian non-bank-sponsored asset-backed commercial paper conduits where liquidity is contingent on a general market disruption. We are not a significant participant in this market as a distributor or a liquidity provider.

Structured investment vehicles

We had $1 million of direct holdings, $140 million of committed liquidity facilities and $88 million of normal course interest rate derivatives with structured investment vehicles (SIVs) as at October 31, 2007. Our liquidity facilities remained undrawn at October 31, 2007 and we do not consider any of our positions to be impaired. We do not manage any SIVs.

Impact of U.S. vs. Canadian dollar

The translated value of our consolidated results is impacted by fluctuations in the respective exchange rates relative to the Canadian dollar. The following table depicts the effect of translating current year Canadian dollar/U.S. dollar consolidated results at the current exchange rate in comparison to the historical period's exchange rate. We believe this provides the reader with the ability to assess the underlying results on a more comparable basis, particularly given the magnitude of the recent changes in the exchange rate and the resulting impact on our results.

Certain of our business segment results are also impacted by fluctuations in the U.S. dollar, Euro and British pound exchange rates. For further details, refer to the Impact of foreign exchange rates on our business segments section.

Impact of U.S. dollar vs. Canadian dollar		Table 5
(C$ millions, except per share amounts)	2007 vs. 2006	2006 vs. 2005
Canadian/U.S. dollar exchange rate (average)		
2007	$ 1.093	$
2006	1.132	1.132
2005		1.214
Percentage change in average US$ equivalent of C$1.00 (1)	4%	7%
Reduced total revenue	$ 230	$ 425
Reduced non-interest expense	139	215
Reduced net income	47	123
Reduced basic EPS	$ .04	$ .10
Reduced diluted EPS	$ .04	$ .09

(1) Average amounts are calculated using month-end spot rates for the period.

In 2007, the Canadian dollar appreciated 4% on average compared to a year ago resulting in a $47 million decrease in the translated value of our U.S. dollar-denominated net income and a decrease of $.04 in our current year's diluted EPS.

Impact of the new financial instruments accounting standards

On November 1, 2006, we adopted three new accounting standards related to financial instruments that were issued by the CICA. The standards require a greater portion of our Consolidated Balance Sheet to be measured at fair value with changes in the fair values reported in income in the period they occur, except for available-for-sale securities, derivatives designated as cash flow hedges, and hedges of net investments in foreign operations, the changes in fair value of which are recognized in OCI. The standards also provide new guidance on the accounting for derivatives in hedging relationships.

The following table provides the main impacts on our Consolidated Statements of Income arising from the application of the new financial instruments accounting standards. For further details about the financial instruments accounting standards, refer to Notes 1 and 2 to our Consolidated Financial Statements.

Impact of the new financial instruments accounting standards		Table 6
(C$ millions)	2007	Significantly impacted segments
Net interest income	$ 22	Canadian Banking
Non-interest income		
Insurance premiums, investment and fee income	(160)	Canadian Banking
Trading revenue	18	Capital Markets
Other	35	Wealth Management
Other	8	Corporate Support
Total revenue	$ (77)	
Insurance policyholder benefits, claims and acquisition expense	(154)	Canadian Banking
Net income	55	

Canadian Banking

For the year ended October 31, 2007, we recognized a $22 million increase in net interest income related to the application of the effective interest method on our residential mortgage portfolio. In addition, we recorded a loss of $160 million in Insurance premiums, investment and fee income related to the changes in the fair values of the securities backing our life and health insurance businesses. These losses were largely offset by a corresponding $154 million decrease in the measurement of certain liabilities related to life and health insurance policies, recorded in Insurance policyholder benefits, claims and acquisition expense.

Capital Markets

For the year ended October 31, 2007, we recognized a gain of $18 million in Trading revenue as a result of the net increase in fair values in various trading portfolios previously measured at amortized cost. This gain includes a $59 million gain on our deposit liabilities designated as held-for-trading resulting from the widening of our own credit spread during the year.

Wealth Management

For the year ended October 31, 2007, we recorded a $35 million foreign currency translation gain in Non-interest income – Other related to deposits used to fund certain Available-for-sale securities denominated in foreign currencies in order to minimize exposure to changes in foreign exchange rates. The corresponding foreign currency translation loss on the related Available-for-sale securities was recorded in AOCI.

Corporate Support

For the year ended October 31, 2007, we recognized a gain of $8 million. This consisted of a $32 million gain in Non-interest income – Other related to certain long-term funding notes and subordinated debentures that were issued and designated as held-for-trading liabilities, including a $29 million gain related to the widening of our own credit spread during the year. These amounts were largely offset by $24 million of mark-to-market losses mainly related to the recognition of the ineffectiveness of hedged items and the related derivatives in hedge accounting relationships.

Summary of 2006 and 2005

In 2006, we achieved net income of $4,728 million, up $1,341 million, or 40%, from 2005. Our strong earnings reflected solid business growth across all business segments and our successful execution of growth initiatives, despite the negative impact of the strong Canadian dollar on the translated value of our foreign currency-denominated results. Our 2005 results reflected the Enron litigation-related provision. Our strong results in 2006 were also underpinned by generally favourable economic and credit conditions in both domestic and international markets.

In 2006, the Canadian economy grew by 2.8%, primarily bolstered by robust domestic demand. These factors were partially offset by a weakening in exports and manufacturing activities against a backdrop of a strong Canadian dollar, high but falling energy prices, slowing U.S. demand and competition from emerging markets. The U.S. economy recorded a growth rate of 2.9%, reflecting solid consumer and business spending supported by strong balance sheets as well as strength in the labour market, though partly restrained by the lagged effects of increases in interest rates and high but falling energy prices.

During 2006, strong consumer lending was supported by favourable labour market conditions and a relatively low interest rate environment. Business lending remained solid, albeit in part offset by surpluses of internally generated funds available for capital and inventory investment. The favourable credit environment, together with healthy household and corporate balance sheets, continued to support strong consumer and business credit quality. Capital market conditions were generally favourable, characterized by buoyant M&A activity in Canada and strong performance of natural resource-based equities. Debt origination activity in the U.S. and Europe weakened in 2006 in part due to rising interest rates and the negative impact of the strengthening of the Canadian dollar.

During 2006, a number of specified items were identified, which had minimal impacts on our overall results as their effects largely offset each other. We realized a favourable resolution of an income tax audit related to prior years, resulting in a $70 million reduction in income tax expense. We received $51 million related to the termination of an agreement. We reversed $50 million of general allowance related to our corporate loan portfolio. We also recorded a net gain of $40 million on the exchange of New York Stock Exchange (NYSE) seats for shares in the NYSE Group (NYX). We incurred a net charge of $16 million ($19 million after-tax, which included a write-off of deferred taxes) related to the transfer of our Institutional & Investor Services business to the joint venture RBC Dexia IS. We recorded a $61 million (before-tax and after-tax) charge in our insurance business for additional estimated net claims for damages predominantly related to hurricane Wilma, which occurred in late 2005. In addition, we made a $72 million adjustment to increase our credit card customer loyalty reward program costs.

In 2005, net income was $3,387 million, up $584 million, or 21%, from 2004. Our strong earnings were supported by our successful execution of client-focused initiatives and favourable economic conditions, despite the negative impact of an Enron Corp. litigation-related provision and charges for net claims related to hurricanes Katrina, Rita and Wilma.

In 2005, the Canadian economy grew by 3.1% (1), reflecting strong consumer and business spending underpinned by low interest rates, robust employment growth and rising house prices, albeit partially offset by the adverse effects of a strong Canadian dollar and higher energy prices. The U.S. economy recorded a growth rate of 3.1% (1), fuelled by strong consumer spending amid solid job growth and surging house prices, despite increases in interest rates and energy prices and the dampening impacts of hurricanes Katrina, Rita and Wilma. Business investment in the U.S. was buoyed by both capital and inventory investment. Strong consumer credit quality was supported by resilient debt-servicing capacity and high household liquidity, while business credit quality continued to reflect a favourable credit and business environment with a general reduction in defaults and bankruptcies.

During 2005, we took action to mitigate the uncertainties regarding Enron-related matters, including the settlement of our part of the MegaClaims bankruptcy lawsuit brought by Enron against RBC and a number of financial institutions for $31 million (US$25 million). In addition, we settled an additional $29 million (US$24 million) for recognition of claims against the Enron bankruptcy. We also established a provision of $591 million (US$500 million) or $326 million after-tax (US$276 million after-tax) for Enron litigation-related matters. We recorded a charge of $203 million (US$173 million) before- and after-tax for estimated net claims for damages related to hurricanes Katrina, Rita and Wilma. We completed the sale of Liberty Insurance Services Corporation (LIS) to IBM Corporation (IBM), and entered into a long-term agreement with IBM to perform key business processes for RBC Insurance U.S. operations. We also completed the sale of certain assets of RBC Mortgage Company (RBC Mortgage) to Home123 Corporation.

(1) Reflects revised data from Statistics Canada and the Bureau of Economic Analysis.

Total revenue — Table 7

(C$ millions)	2007	2006	2005
Interest income	$ 26,377	$ 22,204	$ 16,981
Interest expense	18,845	15,408	10,188
Net interest income	$ 7,532	$ 6,796	$ 6,793
Investments (1)	$ 4,405	$ 3,786	$ 3,357
Insurance (2)	3,152	3,348	3,270
Trading	2,261	2,574	1,594
Banking (3)	2,620	2,391	2,326
Underwriting and other advisory	1,217	1,024	1,026
Other (4)	1,275	718	818
Non-interest income	$ 14,930	$ 13,841	$ 12,391
Total revenue	$ 22,462	$ 20,637	$ 19,184
Additional information			
Total trading revenue (5)			
Net interest income – related to trading activities	$ (390)	$ (539)	$ 21
Non-interest income – trading revenue	2,261	2,574	1,594
Total	$ 1,871	$ 2,035	$ 1,615
Total trading revenue by product (5)			
Interest rate and credit	$ 693	$ 1,174	$ 1,025
Equities	823	561	355
Foreign exchange and commodities	355	300	235
Total	$ 1,871	$ 2,035	$ 1,615

(1) Includes brokerage, investment management and mutual funds.
(2) Includes premiums, investment and fee income.
(3) Includes service charges, foreign exchange other than trading, card services and credit fees.
(4) Includes other non-interest income, gain/loss on securities sales and securitization.
(5) Total trading revenue comprises trading-related revenue recorded in Net interest income and Non-interest income. Total trading revenue includes cash and related derivatives.

2007 vs. 2006

Total revenue increased $1,825 million, or 9%, from a year ago. Excluding the impact of the new financial instruments accounting standards, revenue was up $1,902 million, or 9%. The increase was largely due to continued strong balance and volume growth in our banking and wealth management businesses and a gain related to the Visa Inc. restructuring. Higher revenue from several capital markets businesses also contributed to this increase. The strong growth largely reflected the successful execution of our strategy including acquisitions, as well as generally favourable market conditions for most of the year. These factors were partially offset by writedowns on the valuation of U.S. subprime RMBS and CDOs of ABS, the negative impact of a stronger Canadian dollar on the translated value of our U.S. dollar-denominated revenue and higher credit card customer loyalty reward program costs. For a reconciliation of revenue excluding the impact of the new financial instruments accounting standards, refer to the Key performance and non-GAAP measures section.

Net interest income increased $736 million, or 11%, largely driven by strong loan and deposit growth. Net interest margin of 1.30% was down 5 bps compared to the prior year.

Investments-related revenue increased $619 million, or 16%, primarily due to continued growth in fee-based client assets reflecting strong net sales, capital appreciation and the recruitment and retention of experienced advisors. Growth in custodian and securities lending businesses reflecting strong market activities, and higher transactional volumes in our brokerage businesses also contributed to the increase.

Insurance-related revenue decreased $196 million, or 6%. Excluding the impact of the new financial instruments accounting standards, revenue decreased $36 million, or 1%, from the prior year, largely reflecting lower U.S. annuity sales mainly due to relatively lower long-term interest rates and lower revenue from our property catastrophe reinsurance business, which we exited completely this year. These factors were partially offset by growth in our European life reinsurance and Canadian businesses. For a reconciliation of *Insurance*-related revenue excluding the impact of the new financial instruments accounting standards, refer to the Key performance and non-GAAP measures section.

Banking revenue was up $229 million, or 10%, mainly due to higher transaction volumes and client balances and increased loan syndication activity. These factors were partially offset by higher credit card customer loyalty reward program costs that were recorded against revenue.

Trading revenue decreased by $313 million, or 12%. Total trading revenue was $1,871 million, down $164 million, or 8%, from a year ago largely due to writedowns totalling $357 million on the valuation of U.S. subprime RMBS and CDOs of ABS in our Structured Credit business.

Underwriting and other advisory revenue increased $193 million, or 19%, on strong equity origination activity across all geographies and improved M&A results, mainly in the U.S. These factors were partially offset by lower U.S. debt origination activity in part due to the tightening of credit markets in the latter part of 2007 as a result of the U.S. subprime mortgage market concerns.

Other revenue increased $557 million, or 78%, largely due to a $326 million gain related to the Visa Inc. restructuring and gains on the fair valuing of credit derivatives used to economically hedge our corporate loan portfolio. A favourable adjustment of $40 million related to the reallocation of certain foreign investment capital from our international insurance operations, which had supported our property catastrophe reinsurance business, as we exited this business completely this year, a $35 million foreign exchange translation gain on certain deposits resulting from the implementation of the new financial instruments accounting standards, and higher private equity gains and distributions also contributed to the increase.

2006 vs. 2005

Total revenue increased $1,453 million, or 8%, from 2005, largely due to record trading results on improved market conditions and solid business growth in our wealth management and banking businesses reflecting successful execution of our growth initiatives and favourable market conditions. Strong M&A activity and the net gain on the exchange of our NYSE seats for NYX shares also contributed to the increase. These factors were partially offset by a reduction of $425 million due to the negative impact of the stronger Canadian dollar on the translated value of our U.S. dollar-denominated revenue, lower debt and equity origination activity and certain favourable items recorded in 2005.

Net interest income increased $3 million. Strong loan and deposit growth and increased spreads on deposits and personal investment products were mostly offset by funding costs related to certain equity trading strategies and the impact of higher securitization balances.

Investments-related revenue increased $429 million, or 13%, primarily due to growth in fee-based client assets reflecting strong net sales and capital appreciation and the inclusion of Abacus Financial Services Group Limited. Higher transactional volumes in our full service and self-directed brokerage businesses also contributed to the increases.

Insurance-related revenue increased $78 million, or 2%, primarily reflecting growth in our Canadian life business and European life reinsurance business. This was partially offset by lower revenue in our U.S. life business largely due to lower annuity sales, the negative impact of a stronger Canadian dollar on the translated value of our U.S. dollar-denominated revenue and lower revenue from property catastrophe reinsurance reflecting our strategic reduction in exposure, as we ceased underwriting new business.

Banking revenue was up $65 million, or 3%, mainly due to higher service fees, higher credit fees related to our investment banking activity and increased foreign exchange revenue due to higher transaction volume. These factors were partially offset by higher customer loyalty reward program costs that were recorded against revenue.

Trading revenue increased by $980 million, or 61%. Total trading revenue was $2,035 million, up $420 million, or 26%, from a year ago largely due to record trading results on improved market conditions and growth in certain equity trading strategies. This was partly offset by higher funding costs in support of growth in certain equity trading strategies.

Underwriting and other advisory revenue decreased $2 million on lower equity origination in Canada mainly reflecting slower activity outside the resource sector and lower debt origination largely in the U.S. due to the rising interest rate environment. These factors were largely offset by stronger M&A activity.

Other revenue decreased $100 million, or 12%, largely due to a number of favourable items recorded in 2005 including the gain on the sale of an Enron-related claim, a cumulative accounting adjustment related to our ownership interest in an investment and the gain on the sale of LIS. These factors were partially offset by the receipt of a fee related to the termination of an agreement and the net gain on the exchange of our NYSE seats for NYX shares, which were both recorded in 2006.

Net interest income and margin — Table 8

(C$ millions, except percentage amounts)	2007	2006	2005
Net interest income	$ 7,532	$ 6,796	$ 6,793
Average assets (1)	581,000	502,100	445,300
Net interest margin (2)	1.30%	1.35%	1.53%

(1) Average amounts are calculated using methods intended to approximate the average of the daily balances for the period.
(2) Net interest income as a percentage of average assets.

Change in net interest income (1) — Table 9

(C$ millions)	2007 vs. 2006 Increase (decrease) due to changes in Average volume (2)	2007 vs. 2006 Increase (decrease) due to changes in Average rate (2)	Net change	2006 vs. 2005 Increase (decrease) due to changes in Average volume (2)	2006 vs. 2005 Increase (decrease) due to changes in Average rate (2)	Net change
Assets						
Deposits with other banks						
Canada	$ 11	$ (9)	$ 2	$ 10	$ –	$ 10
United States	71	(50)	21	11	89	100
Other International	31	4	35	35	104	139
Securities						
Trading	1,142	423	1,565	863	482	1,345
Available-for-sale (3)	(230)	141	(89)	–	–	–
Investments (3)	–	–	–	22	216	238
Asset purchased under reverse repurchase agreements and securities borrowed	783	(160)	623	404	1,069	1,473
Loans						
Canada						
Retail	1,025	194	1,219	697	423	1,120
Wholesale	–	(217)	(217)	146	(144)	2
United States	348	(218)	130	108	376	484
Other International	778	106	884	172	140	312
Total interest income	$ 3,959	$ 214	$ 4,173	$ 2,468	$ 2,755	$ 5,223
Liabilities						
Deposits						
Canada	$ (1)	$ 646	$ 645	$ 122	$ 1,178	$ 1,300
United States	264	281	545	238	733	971
Other International	1,344	528	1,872	754	737	1,491
Obligations related to securities sold short	386	(460)	(74)	197	493	690
Obligations related to assets sold under repurchase agreements and securities loaned	542	(60)	482	341	421	762
Subordinated debentures	(66)	(15)	(81)	(18)	(5)	(23)
Other interest-bearing liabilities	89	(41)	48	(115)	144	29
Total interest expense	$ 2,558	$ 879	$ 3,437	$ 1,519	$ 3,701	$ 5,220
Net interest income	$ 1,401	$ (665)	$ 736	$ 949	$ (946)	$ 3

(1) Geographic classification for selected assets and liabilities is based on the domicile of the booking point of the subject assets and liabilities.
(2) Volume/rate variance is allocated on the percentage relationship of changes in balances and changes in rates to the total net change in net interest income.
(3) Available-for-sale securities are carried at fair value. Prior to November 1, 2006, Available-for-sale securities were classified as investment securities and were carried at amortized cost.

2007 vs. 2006

Net interest margin decreased 5 bps reflecting the impact of changes in product mix, an increase in lower-yielding and non-interest-earning assets, competitive pressures on our U.S. deposit business, and the reversal of accrued interest on higher impaired loans in the U.S.

Net interest income increased $736 million, or 11%, largely driven by strong loan and deposit growth in our banking businesses.

As noted in Table 9, we experienced higher growth in lower-yielding and non-interest-earning assets, including trading securities and assets purchased under reverse repurchase agreements and securities borrowed largely in support of our trading and other business activities, which generate non-interest income. For further details, refer to Table 58 in the Additional financial information section.

2006 vs. 2005

Net interest margin decreased 18 bps compared to 2005, reflecting lower net interest income due to higher funding costs in support of growth in certain equity trading strategies. An increase in lower-yielding and non-interest-earning assets, which generate non-interest income, largely in support of our trading and other business activities also contributed to the decrease. This decrease was partially offset by stronger loan and deposit growth and increased spreads on deposits and personal investment products.

Non-interest expense — Table 10

(C$ millions)	2007	2006	2005
Salaries	$ 3,541	$ 3,192	$ 3,101
Variable compensation	2,975	2,827	2,309
Stock-based compensation	194	169	169
Benefits and retention compensation	1,150	1,080	1,103
Human resources	$ 7,860	$ 7,268	$ 6,682
Equipment	1,009	957	960
Occupancy	839	792	749
Communications	723	687	632
Professional and other external services	838	844	796
Other expenses	1,204	947	1,538
Non-interest expense	$ 12,473	$ 11,495	$ 11,357

2007 vs. 2006

Non-interest expense increased $978 million, or 9%, compared to the prior year, primarily reflecting higher costs due to increased business levels, which included additional sales and service personnel and higher variable compensation on higher commission-based revenue in Wealth Management. Increased sundry losses and higher processing and system development costs also contributed to the increase. Additional costs in support of our growth initiatives, including our recent acquisitions, and *de novo* branch expansion and branch upgrade programs also contributed to the increase. These factors were partially offset by the favourable impact of a stronger Canadian dollar on the translated value of the U.S. dollar-denominated expenses and lower variable compensation in Capital Markets commensurate with weaker results.

2006 vs. 2005

Non-interest expense increased $138 million, or 1%, compared to 2005, largely reflecting higher variable compensation primarily in our Capital Markets and Wealth Management segments due to strong business performance. Higher costs in support of our growth initiatives, including a higher level of sales personnel and infrastructure in our distribution network, increased costs related to systems application development, higher marketing and advertising costs and a larger number of branches also contributed to the increase. These factors were partially offset by the reduction in the translated value of U.S. dollar-denominated expenses due to the stronger Canadian dollar. The Enron litigation-related provision and the settlement of the Enron MegaClaims bankruptcy lawsuit were recorded in 2005.

Provision for credit losses — Table 11

(C$ millions)	2007	2006	2005
Residential mortgages	$ 13	$ 6	$ 2
Personal	364	306	259
Credit cards	223	163	194
Small business (1)	34	29	27
Retail	$ 634	$ 504	$ 482
Business (2)	148	(22)	(93)
Sovereign (3)	–	–	–
Bank	–	–	–
Wholesale	$ 148	$ (22)	$ (93)
Specific provision	$ 782	$ 482	$ 389
General provision	9	(53)	66
Provision for credit losses	$ 791	$ 429	$ 455
Specific PCL as a % of average net loans and acceptances	.33%	.23%	.21%

(1) Includes small business exposure managed on a pooled basis.
(2) Includes small business exposure managed on an individual client basis.
(3) Sovereign refers to all central governments and agencies, central banks, as well as other qualifying public sector entities and multilateral development banks.

2007 vs. 2006

Total provision for credit losses (PCL) increased $362 million, or 84%, compared to the prior year, which had been at a cyclically low level, and has trended up towards the historical average. The increase reflected higher provisions for both of our wholesale and retail loan portfolios, primarily reflecting portfolio growth and higher impaired loans in our U.S. residential builder finance business triggered by the downturn in the U.S. housing market. Specific PCL as a percentage of average net loans and acceptances increased from a year ago, largely reflecting higher impaired loans in our U.S. residential builder finance business.

Specific PCL for retail loans was up $130 million, or 26%, from a year ago. The increase was primarily attributable to higher provisions in our credit cards and personal unsecured credit line portfolios, largely reflecting higher loss rates and portfolio growth.

Specific PCL for wholesale loans increased $170 million over the prior year. The increase was largely attributable to our business portfolio mainly due to higher impaired loans in our U.S. residential builder finance business and higher write-offs in Canada. Lower recoveries in our corporate loan portfolio this year also contributed to the increase in provisions.

The general provision increased $62 million from a year ago, primarily reflecting a $50 million reversal of the general allowance related to our corporate loan portfolio in the prior year. Higher provisions in our U.S. residential builder finance business loan portfolio, largely reflecting a weakening in credit quality as a result of the downturn in the U.S. housing market, also contributed to the increase.

2006 vs. 2005

Provision for credit losses decreased $26 million, or 6%, from 2005. The decrease largely reflected a $50 million reversal of the general allowance in 2006 related to our corporate loan portfolio in Capital Markets in light of the continued favourable credit conditions and the strengthening of the credit quality of our corporate portfolio, the favourable impact of the higher level of securitized credit cards, and the continued strong credit quality of our U.S. loan portfolio. In 2005, we also recorded a provision related to our 50% proportionate share of a provision booked at Moneris Solutions, Inc. (Moneris). These factors were partially offset by higher provisions for our Canadian personal loan and small business portfolios, as well as lower recoveries in our corporate and agriculture loan portfolios.

Insurance policyholder benefits, claims and acquisition expense — Table 12

(C$ millions)	2007	2006	2005
Insurance policyholder benefits and claims	$ 1,588	$ 1,939	$ 2,103
Insurance policyholder acquisition expense	585	570	522
Insurance policyholder benefits, claims and acquisition expense	$ 2,173	$ 2,509	$ 2,625

2007 vs. 2006

Insurance policyholder benefits, claims and acquisition expense (PBCAE) decreased $336 million, or 13%, from the prior year. Excluding the impact of the new financial instruments accounting standards and the prior year hurricane-related charges, PBCAE decreased $121 million, or 5%, over last year. The decrease was largely attributable to the impact of lower U.S. annuity sales and a higher level of favourable net actuarial liability adjustments this year, which included cumulative adjustments of $92 million related to prior periods. These factors were partially offset by increased costs commensurate with growth in our European life reinsurance and Canadian businesses. For a reconciliation of PBCAE excluding the impact of the new financial instruments accounting standards, refer to the Key performance and non-GAAP measures section.

2006 vs. 2005

PBCAE decreased $116 million, or 4%, compared to 2005. The decrease primarily reflected a $142 million (before- and after-tax) reduction in hurricane-related charges for net claims, as we recorded $203 million in 2005 related to hurricanes Katrina, Rita and Wilma and $61 million for additional claims in 2006 predominantly related to hurricane Wilma. The favourable impact on the translated value of U.S. dollar-denominated actuarial liabilities as a result of the stronger Canadian dollar and lower U.S. annuity sales also contributed to the decrease. These factors were partially offset by higher benefits and claims costs associated with business growth and a reduced level of net favourable actuarial liability adjustments in 2006.

Taxes — Table 13

(C$ millions, except percentage amounts)	2007	2006	2005
Income taxes	$ 1,392	$ 1,403	$ 1,278
Other taxes			
Goods and services and sales taxes	$ 208	$ 218	$ 218
Payroll taxes	227	217	220
Capital taxes	117	107	164
Property taxes (1)	97	92	93
Insurance premium taxes	41	39	39
Business taxes	8	7	9
	698	680	743
Total income and other taxes	$ 2,090	$ 2,083	$ 2,021
Net income before income taxes	$ 7,025	$ 6,204	$ 4,702
Effective income tax rate (2)	19.8%	22.6%	27.2%
Effective total tax rate (3)	27.1%	30.3%	37.1%

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

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

2007 vs. 2006

Income tax expense decreased $11 million, or 1%, from a year ago, despite higher earnings before income taxes. The effective tax rate of 19.8% compared favourably to 22.6% a year ago. The lower effective tax rate was largely due to writedowns on the valuation of U.S. subprime RMBS and CDOs of ABS reported by our subsidiaries operating in jurisdictions with higher income tax rates, the gain related to the Visa Inc. restructuring, which is taxed at the capital gains tax rate, and a higher level of income from tax-advantaged sources (Canadian taxable corporate dividends).

Other taxes increased by $18 million from a year ago, largely due to increased payroll taxes reflecting higher staffing levels and higher capital taxes due to an increased Canadian capital tax base on which capital taxes are levied. Increased property taxes reflecting a higher number of branches also contributed to the increase. These factors were partially offset by lower goods and services and sales taxes due to a decrease in the goods and services tax (GST) rate.

In addition to the income and other taxes reported in our Consolidated Statements of Income, we recorded income taxes of $946 million in 2007 (2006 – $136 million) in Shareholders' equity, an increase of $810 million, primarily reflecting an increase in unrealized foreign currency translation gains as shown in Note 24 to our Consolidated Financial Statements.

2006 vs. 2005

Income taxes were up in 2006 compared to 2005, largely reflecting higher earnings and the impact of the Enron litigation-related provision recorded in 2005. The effective income tax rate for 2006 decreased 4.6% primarily due to higher earnings reported by our subsidiaries operating in jurisdictions with lower income tax rates, a higher level of income from tax-advantaged sources (Canadian taxable corporate dividends), and the favourable resolution of income tax audits in 2006 related to prior years.

Other taxes decreased $63 million, largely due to lower capital taxes primarily related to recoveries of capital taxes paid in prior periods and a lower Canadian capital base on which capital taxes are levied.

Results by geographic segment (1) — Table 14

(C$ millions)	2007 Canada	2007 United States	2007 Other International	2007 Total	2006 Canada	2006 United States	2006 Other International	2006 Total	2005 Canada	2005 United States	2005 Other International	2005 Total
Net interest income	$ 6,435	$ 412	$ 685	$ 7,532	$ 6,045	$ 108	$ 643	$ 6,796	$ 5,628	$ 608	$ 557	$ 6,793
Non-interest income	8,605	4,322	2,003	14,930	7,518	4,397	1,926	13,841	6,878	3,955	1,558	12,391
Total revenue	15,040	4,734	2,688	22,462	13,563	4,505	2,569	20,637	12,506	4,563	2,115	19,184
Provision for (recovery of) credit losses	696	90	5	791	456	(28)	1	429	433	23	(1)	455
Insurance policyholder benefits, claims and acquisition expense	1,230	474	469	2,173	1,379	683	447	2,509	1,270	809	546	2,625
Non-interest expense	7,409	3,405	1,659	12,473	7,056	3,038	1,401	11,495	6,685	3,595	1,077	11,357
Business realignment charges	–	–	–	–	–	–	–	–	45	–	–	45
Income taxes and non-controlling interest	1,788	(13)	(242)	1,533	1,495	13	(61)	1,447	1,299	(64)	30	1,265
Net income from continuing operations	$ 3,917	$ 778	$ 797	$ 5,492	$ 3,177	$ 799	$ 781	$ 4,757	$ 2,774	$ 200	$ 463	$ 3,437
Net income (loss) from discontinued operations	$ –	$ –	$ –	$ –	$ –	$ (29)	$ –	$ (29)	$ –	$ (50)	$ –	$ (50)
Net income	$ 3,917	$ 778	$ 797	$ 5,492	$ 3,177	$ 770	$ 781	$ 4,728	$ 2,774	$ 150	$ 463	$ 3,387

(1) 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 of the Canadian dollar.

2007 vs. 2006

Net income in Canada was $3,917 million, up $740 million, or 23%, compared to the prior year. This increase largely reflected strong volume and balance growth in our domestic banking and wealth management businesses and a gain related to the Visa Inc. restructuring. Higher trading results, improved equity origination activity and higher loan syndication activity also contributed to the increase. These factors were partially offset by higher costs reflecting increased business levels and in support of growth initiatives, higher provisions for credit losses and higher credit card customer loyalty reward program costs this year.

U.S. net income of $778 million was up $8 million, or 1%, from the prior year. Solid revenue growth reflecting the inclusion of our recent acquisitions and improved equity origination and M&A activity was mostly offset by the negative impact of the stronger Canadian dollar on the translated value of our U.S. dollar-denominated earnings, higher costs in support of business growth and higher provision for credit losses, which primarily reflected higher impaired loans in our U.S. residential builder finance business.

Other international net income of $797 million was up $16 million, or 2%, from 2006, partly due to stronger insurance results reflecting the absence of hurricane-related charges this year and a favourable adjustment related to the reallocation of certain foreign investment capital this year. Growth at *RBC Dexia IS* also contributed to the increase. These factors were largely offset by lower trading results in certain fixed income businesses as a result of writedowns on the valuation of U.S. subprime RMBS and CDOs of ABS.

2006 vs. 2005

Net income in Canada was $3,177 million, up $403 million, or 15%, compared to 2005. This increase largely reflected strong revenue growth in our wealth management and banking businesses due to our successful execution of growth initiatives, the continuing favourable economic conditions and stronger M&A activity. These factors were partly offset by higher variable compensation on stronger business performance and increased costs in support of business growth.

U.S. net income of $770 million was up $620 million, or 413%, from 2005 and comprises net income from continuing operations of $799 million and a net loss from discontinued operations of $29 million. U.S. net income from continuing operations was up $599 million, or 300%, compared to 2005 largely reflecting the Enron litigation-related provision and strong trading results in 2006. These factors were partially offset by lower debt originations, lower U.S. annuity sales, the negative impact of the stronger Canadian dollar on the translated value of U.S. dollar-denominated income and the gain recorded in the prior year on the sale of LIS in 2005.

Net loss from discontinued operations of $29 million in 2006 compared to a net loss of $50 million in 2005. The 2006 net loss reflected charges related to the wind down of operations of RBC Mortgage Company. The 2005 net loss largely reflected charges related to the sale and wind down of operations, including the costs of closing RBC Mortgage Company's Chicago office and certain branches, employee incentive payments and the writedown of certain assets.

Other international net income was up $318 million, or 69%, from 2005, mainly reflecting the lower net estimated hurricane-related charges and income tax amounts, which were largely related to enterprise-funding activities and solid business growth in our European life reinsurance business. These factors were partially offset by lower revenue from property catastrophe reinsurance reflecting our strategic reduction in exposure.

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.

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. For further information, refer to Notes 9 and 29 to our Consolidated Financial Statements.

Quarterly financial information

Results and trend analysis

Our quarterly earnings, revenue and expenses are impacted by a number of trends and recurring factors which include seasonality, general economic conditions and competition. The following table summarizes our results for the last eight quarters.

Quarterly results — Table 15

(C$ millions, except per share amounts)	2007 Q4	2007 Q3	2007 Q2	2007 Q1	2006 Q4	2006 Q3	2006 Q2	2006 Q1
Net interest income	$ 1,828	$ 1,965	$ 1,889	$ 1,850	$ 1,731	$ 1,766	$ 1,617	$ 1,682
Non-interest income	3,787	3,515	3,780	3,848	3,618	3,440	3,505	3,278
Total revenue	$ 5,615	$ 5,480	$ 5,669	$ 5,698	$ 5,349	$ 5,206	$ 5,122	$ 4,960
Non-interest expense	3,093	3,165	3,148	3,067	2,955	2,861	2,928	2,751
Provision for credit losses	263	178	188	162	159	99	124	47
Insurance policyholder benefits, claims and acquisition expense	637	343	677	516	611	627	619	652
Net income before income taxes and non-controlling interest in subsidiaries	$ 1,622	$ 1,794	$ 1,656	$ 1,953	$ 1,624	$ 1,619	$ 1,451	$ 1,510
Income taxes	255	349	353	435	342	381	348	332
Non-controlling interest in net income of subsidiaries	43	50	24	24	19	44	(25)	6
Net income from continuing operations	$ 1,324	$ 1,395	$ 1,279	$ 1,494	$ 1,263	$ 1,194	$ 1,128	$ 1,172
Net income (loss) from discontinued operations	–	–	–	–	(1)	(17)	(10)	(1)
Net income	$ 1,324	$ 1,395	$ 1,279	$ 1,494	$ 1,262	$ 1,177	$ 1,118	$ 1,171
Earnings per share – basic	$ 1.02	$ 1.07	$ .99	$ 1.16	$ .97	$ .91	$ .86	$ .90
– diluted	$ 1.01	$ 1.06	$ .98	$ 1.14	$ .96	$ .90	$ .85	$ .89
Segment net income (loss)								
Canadian Banking	$ 899	$ 699	$ 618	$ 771	$ 675	$ 660	$ 511	$ 580
Wealth Management	180	177	194	211	164	136	159	145
U.S. & International Banking	21	87	67	67	79	82	62	38
Capital Markets	186	360	350	396	300	303	414	338
Corporate Support	38	72	50	49	45	13	(18)	71
Net income	$ 1,324	$ 1,395	$ 1,279	$ 1,494	$ 1,263	$ 1,194	$ 1,128	$ 1,172
Period average USD equivalent of C$1.00 (1)	$ 1.001	$ .937	$ .874	$ .861	$ .897	$ .896	$ .877	$ .865
Period-end USD equivalent of C$1.00	1.059	.937	.901	.850	.890	.884	.894	.878

(1) Average amounts are calculated using methods intended to approximate the average of the daily balances for the period.

Seasonality

Seasonal factors impact our results in most quarters. The second quarter has fewer days than the other three quarters, resulting in a decrease primarily in net interest income and certain expense items. The third and fourth quarters include the summer months during which market activity frequently slows, negatively impacting the results of our capital markets, brokerage and investment management businesses.

Impact of economic and market conditions

In general, economic conditions remained favourable over most of the last eight quarters and positively impacted our businesses. Economic conditions were negatively impacted in the latter part of 2007, mainly attributable to the U.S. subprime mortgage market concerns. For a further discussion, refer to the Overview of 2007 section.

The strengthening of the Canadian dollar over the period resulted in lower translated value of our U.S. dollar-denominated earnings, primarily in our wholesale banking business and U.S. retail operations.

Overview and consolidated results

Over the last eight quarters, our results were affected by a number of favourable and unfavourable items or events. Our fourth quarter 2007 results were impacted by the writedowns on the valuation of U.S. subprime RMBS and CDOs of ABS, the gain related to the Visa Inc. restructuring, and higher credit card customer loyalty reward program costs. In the first quarter of 2007 we recorded a favourable adjustment related to the reallocation of foreign investment capital and our insurance business results were negatively impacted by hurricane-related charges of $61 million (before- and after-tax). During the same quarter, we also recorded a $50 million reversal of the general allowance in light of the strong credit quality of our corporate loan portfolio, which partially reflected the favourable credit conditions. Our results over the last eight quarters were also impacted by the acquisition of certain businesses. For further discussion, refer to the Overview of 2007 section.

Our consolidated net income consistently exceeded $1 billion over the last eight quarters. These strong results largely reflected a general increase in revenue across all our business segments. This positive trend was partially offset by the lower translated value of foreign currency-denominated earnings as a result of the strengthening of the Canadian dollar against the U.S. dollar during most of the period, with the effects being more pronounced in the most recent quarter.

Non-interest expense generally increased over the last eight quarters, largely reflecting increased variable compensation on strong business performance and higher costs due to increased business activity volume, acquisitions and higher spending in support of our growth initiatives.

Provision for credit losses was at a cyclically low level during most of the period, primarily reflecting a generally benign credit environment and favourable corporate recoveries. However, it increased over the past year due to portfolio growth, as well as increasing loss rates and higher impairments, both of which have trended up towards historical averages. In the fourth quarter of 2007, the provision for credit losses increased in our U.S. & International Banking segment due to higher impaired loans, primarily driven by the downturn in the U.S. housing market. The decrease in provisions in the first quarter of 2006 was primarily due to a $50 million reversal of the general allowance in light of the strong credit quality of our corporate loan portfolio at that time.

PBCAE fluctuated considerably over the period. Although underlying business growth has generally increased PBCAE, there can be significant quarterly volatility resulting from claims experience, actuarial liability adjustments and capital market impacts on equities backing universal life policyholder funds. The impact of the new financial instruments accounting standards implemented in the first quarter of 2007 introduced additional volatility to this line. Other than claims experience and actuarial liability adjustments, these items are predominantly offset in Insurance-related revenue. As well, the first quarter of 2006 was impacted by hurricane-related charges.

Our effective income tax rate has generally trended downward from 22.0% to 15.7% over the period, despite higher earnings before income taxes. This largely reflected higher income from tax-advantaged sources (Canadian taxable corporate dividends), favourable income tax settlements in the first quarter of 2006 and the second and third quarters of 2007. The fourth quarter of 2007 reflected writedowns on the valuation of U.S. subprime RMBS and CDOs of ABS reported by our subsidiaries operations in jurisdictions with higher income tax rates and a lower tax rate on the gain related to the Visa Inc. restructuring.

Non-controlling interest in net income of subsidiaries fluctuated over the period, which depends on the net income attributed to third-party investors in entities in which we do not have 100% ownership, but are required to consolidate.

Business segment results

Canadian Banking net income generally increased over the last eight quarters reflecting strong volume growth across most business lines. Margins have decreased slightly over the latter part of 2007, primarily due to strong market competition. Our results in the fourth quarter of 2007 were favourably impacted by the gain related to the Visa Inc. restructuring, which was partly offset by higher credit card customer loyalty reward program costs. Also, the first quarter of 2007 was positively impacted by a favourable adjustment related to the reallocation of foreign investment capital while the first quarter of 2006 was adversely impacted by hurricane-related charges.

Wealth Management net income has generally trended higher over the last eight quarters, driven largely by strong growth in fee-based client assets across all business lines reflecting new sales, capital appreciation and the recruitment and retention of experienced advisors. This has been partially offset by higher variable compensation commensurate with commission-based revenue and higher costs in support of business growth, including recent acquisitions.

U.S. & International Banking results were generally stable during the period except for the fourth quarter of 2007. The decrease in earnings in the fourth quarter of 2007 was primarily attributable to the higher provisions in our U.S. residential builder finance loan portfolio reflecting higher impaired loans. In addition, net income was impacted by higher costs in support of business growth, including recent acquisitions and *de novo* branch openings.

Capital Markets recorded a general improvement in earnings over the period, with the exception of the fourth quarter of 2007, which was impacted by the writedowns on the valuation of U.S. subprime RMBS and CDOs of ABS over concerns related to the U.S. subprime mortgage market. Throughout 2006 and most of 2007, our diverse business and product offerings, together with business expansions and growing global distribution capabilities, contributed to this positive trend. However, these factors were partially offset by the lower translated value of U.S. dollar- and British pound-denominated earnings resulting from the stronger Canadian dollar.

Fourth quarter 2007 performance

Fourth quarter net income of $1,324 million was up $62 million, or 5%, from a year ago despite the $48 million unfavourable impact of the stronger Canadian dollar on the translated value of U.S. dollar-denominated earnings. Diluted EPS were $1.01, up 5%. ROE was 23.0% compared to 23.9% a year ago. The increase was primarily due to a gain on the Visa Inc. restructuring, higher equity derivatives and foreign exchange trading results and solid volume and balance growth in our banking and wealth management businesses. These factors were partly offset by writedowns on the valuation of U.S. subprime RMBS and CDOs of ABS, and an adjustment to increase our credit card customer loyalty reward program costs.

Total revenue increased $266 million, or 5%, from a year ago, largely reflecting a gain on the Visa Inc. restructuring, higher equity derivatives and foreign exchange trading revenue and continued solid volume and balance growth in our banking and wealth management businesses. The favourable impact of the new financial instruments accounting standards, the inclusion of recent acquisitions and improved M&A activity also contributed to the increase. These factors were partly offset by lower trading revenue in our fixed income businesses reflecting the writedowns on the valuation of U.S. subprime RMBS and CDOs of ABS and an adjustment to increase our credit card customer loyalty reward program costs.

Non-interest expense increased $138 million, or 5%, from a year ago, largely reflecting higher costs in support of our business initiatives, including higher staffing levels, our recent acquisitions and *de novo* branch openings. These factors were partially offset by lower variable compensation in Capital Markets due to weaker results.

Provision for credit losses increased $104 million from a year ago, largely reflecting higher impaired loans in our U.S. residential builder finance business portfolio, primarily driven by the downturn in the U.S. housing market. Higher provisions commensurate with growth in our credit card portfolio and higher impairment in our business portfolio also contributed to the increase.

PBCAE increased $26 million, or 4%, over the prior year, primarily due to the impact of the new financial instruments accounting standards, increased costs associated with growth in our European life reinsurance business as well as less favourable claims experience in the current period. These factors were partly offset by reduced expenses associated with lower U.S. annuity sales, a higher level of favourable net actuarial liability adjustments, and the favourable impact of a stronger Canadian dollar on the translated value of U.S. dollar-denominated expenses.

Business segment results

Results by business segment — Table 16

(C$ millions)	2007 Canadian Banking	2007 Wealth Management	2007 U.S. & International Banking	2007 Capital Markets (1)	2007 Corporate Support (1)	2007 Total	2006 Total	2005 Total
Net interest income	$ 6,353	$ 427	$ 1,031	$ 453	$ (732)	$ 7,532	$ 6,796	$ 6,793
Non-interest income	6,168	3,565	884	3,936	377	14,930	13,841	12,391
Total revenue	$ 12,521	$ 3,992	$ 1,915	$ 4,389	$ (355)	$ 22,462	$ 20,637	$ 19,184
Non-interest expense	5,285	2,902	1,481	2,769	36	12,473	11,495	11,357
Provision for (recovery of) credit losses	788	1	109	(22)	(85)	791	429	455
Insurance policyholder benefits, claims and acquisition expense	2,173	–	–	–	–	2,173	2,509	2,625
Business realignment charges	–	–	–	–	–	–	–	45
Net income before income taxes and non-controlling interest in net income of subsidiaries	$ 4,275	$ 1,089	$ 325	$ 1,642	$ (306)	$ 7,025	$ 6,204	$ 4,702
Net income	$ 2,987	$ 762	$ 242	$ 1,292	$ 209	$ 5,492	$ 4,757	$ 3,437
Return on equity (ROE) (2)	34.3%	32.4%	6.9%	26.6%	6.7%	24.6%	23.5%	18.0%
Return on risk capital (RORC) (2)	45.5%	65.1%	11.7%	32.5%	n.m.	37.4%	36.7%	29.3%
Average assets (3)	$ 220,000	$ 16,600	$ 39,700	$ 311,200	$ (6,500)	$ 581,000	$ 502,300	$ 447,100

(1) Net interest income, total revenue and net income before income taxes are presented in Capital Markets on a taxable equivalent basis. The taxable equivalent basis adjustment is eliminated in the Corporate Support segment. For a further discussion, refer to the How we measure and report our business segments section.
(2) Average risk capital and the Return on risk capital are key performance measures. For further details, refer to Key performance and non-GAAP measures section.
(3) Average amounts are calculated using methods intended to approximate the average of the daily balances for the period.
n.m. not meaningful

Canadian Banking
Net income increased $561 million, or 23%, from a year ago. The increase primarily reflected strong growth across all our business lines as well as a gain related to the Visa Inc. restructuring, partially offset by higher costs in support of business growth, increased provision for credit losses and higher credit card customer loyalty reward program costs this year. Our prior year results also included the hurricane-related charges and the receipt of a fee related to the termination of an agreement, whereas this year we included a favourable adjustment related to the reallocation of certain foreign investment capital.

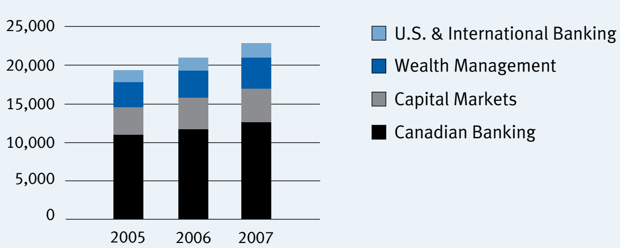
Wealth Management
Net income for the year of $762 million increased $158 million, or 26%, from a year ago. The increase was largely due to strong earnings growth across all our business lines reflecting the ongoing successful execution of our growth initiatives and generally favourable market conditions. We recorded a foreign exchange translation gain on certain deposits in the current year related to the implementation of the new financial instruments accounting standards.

U.S. & International Banking
Net income decreased $19 million, or 7%, from the prior year. The decrease was largely attributable to increased provision for credit losses, primarily reflecting higher impaired loans in our U.S. residential builder finance business. This was partially offset by strong business growth in *RBC Dexia IS*, as well as higher loan and deposit growth in the U.S. reflecting the inclusion of our acquisitions of Flag and the AmSouth branches, *de novo* branch openings and business expansion. Our results also reflected higher costs in support of business growth and a loss on the restructuring of our U.S. banking investment portfolio this year.

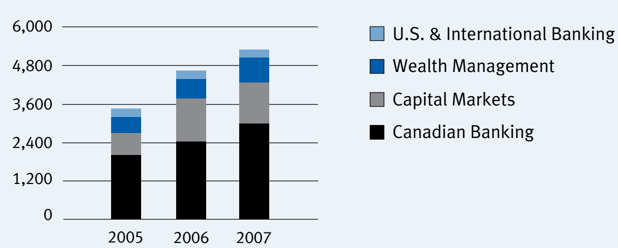
Capital Markets
Net income decreased $63 million, or 5%, compared to a year ago largely due to the writedowns on the valuation of U.S. subprime RMBS and CDOs of ABS in our Structured Credit business. The negative impact of the stronger Canadian dollar on the translated value of U.S. dollar-denominated earnings also contributed to the decrease. These factors were partially offset by broad-based revenue growth in many other businesses.

Corporate Support
Net income of $209 million for the year included income tax amounts largely related to enterprise funding activities that were not allocated to the business segments and favourable income tax settlements related to prior years. These factors were partially offset by the mark-to-market losses on derivatives relating to certain economic hedges, a cumulative adjustment for losses resulting from the fair valuing of certain derivatives that did not qualify for hedge accounting and higher capital taxes that were not allocated to the business segments.

Revenue contribution from our business segments (C$ millions)



Net income contribution from our business segments (C$ millions)



How we measure and report our business segments

Our management reporting framework is intended to measure the performance of each business segment as if it were a stand-alone business and reflect the way that business segment is managed. This approach is intended to ensure that our business segments' results reflect all relevant revenue and expenses associated with the conduct of their business and it depicts how management views those results.

The following highlights the key aspects of how our business segments are managed and reported:

- Canadian Banking reported results include securitized Canadian residential mortgage and credit card loans and related amounts for income and provision for credit losses. The securitized residential mortgage and credit card loans included as at October 31, 2007 were $19 billion and $4 billion, respectively
- Wealth Management reported results include additional disclosures in U.S. dollars for its *U.S. & International Wealth Management* business line, as we review and manage the results of this business line largely in U.S. dollars
- U.S. & International Banking reported results include additional disclosure in U.S. dollars for its *Banking* business line, as we review and manage the results of this business line largely on a U.S. dollar basis
- Capital Markets results are reported on a taxable equivalent basis (teb), which grosses up Net interest income from certain tax-advantaged sources (Canadian taxable corporate dividends) to their effective taxable equivalent value with a corresponding offset recorded in the provision for income taxes. This increases comparability between taxable and tax-advantaged sources of revenue
- Corporate Support results include all enterprise level activities that are undertaken for the benefit of the organization that are not allocated to our four business segments, such as enterprise funding, securitizations and net charges associated with unattributed capital. The reported results of the Corporate Support segment also reflect consolidation adjustments, including the elimination of the teb adjustments recorded in Capital Markets.

Key methodologies

The following outlines the key methodologies and assumptions used in our management reporting framework. These assumptions and methodologies are periodically reviewed by management to ensure they remain valid.

Expense allocation

In order to ensure that our business segments' results include expenses associated with the conduct of their business, we allocate costs incurred or services provided by GTO and Global Functions, which are directly undertaken or provided on the business segments' behalf. For other costs not directly attributable to our business segments, including overhead costs and other indirect expenses, we use our management reporting framework for allocating these costs to each business segment in a manner that reflects the underlying benefits.

Capital attribution

Our framework also assists in the attribution of capital to our business segments in a manner that is intended to consistently measure and align economic costs with the underlying benefits and risks associated with the activities of each business segment. The amount of capital assigned to each business segment is referred to as attributed capital. Unattributed capital and associated net charges, are reported in Corporate Support.

The capital attribution methodologies, detailed in the Capital management section, involve a number of assumptions and estimates that involve judgment and are revised periodically. Any changes to these factors directly impact other measures such as business segment return on average common equity and return on average risk capital.

Funds transfer pricing

Our funds transfer pricing methodology is used to allocate interest income and expense to each business segment. This allocation considers the interest rate risk, liquidity risk and regulatory requirements of our business segments. Our business segments may retain certain interest rate exposures, subject to management approval, that would be expected in the normal course of operations. Other activities conducted between our business segments are generally conducted at market rates.

Taxable equivalent basis (teb)

Similar to many other institutions, we analyze income from certain tax-advantaged sources (Canadian taxable corporate dividends) on a taxable equivalent basis. Under this approach, we gross up revenue from certain tax-advantaged sources, which currently only includes our Canadian taxable corporate dividends recorded in Net interest income, to their effective taxable equivalent value with a corresponding offset recorded in the provision for income taxes. We record teb adjustments in Capital Markets and record elimination adjustments in Corporate Support. We believe these adjustments are useful and reflect how Capital Markets manages its business since it increases the comparability of revenue and related ratios across taxable and our principal tax-advantaged sources of revenue. 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 for 2007 was $332 million (2006 – $213 million, 2005 – $109 million).

Changes made in 2007

The following highlights the key changes we made to our management reporting framework and business segments during the year. All segment results have been revised accordingly for 2006 and 2005. These changes did not have an impact on our consolidated results or disclosure, unless otherwise noted.

- We revised the assets under administration – *RBC Dexia IS* amount for 2006 to reflect the total assets under administration amount reported by our joint venture. We had previously disclosed only the total assets under custody amount related to *RBC Dexia IS*.
- We revised our definitions of assets under administration and assets under management to better align them with our business-specific practices. This change did not impact the amounts reported for 2006 and 2005.
- We reclassified certain amounts reported in Capital Markets from Interest income to Interest expense. There was no impact to Net interest income as a result of this reclassification.
- We reclassified certain amounts reported in Corporate Support related to interest settlements on swaps in fair value hedge relationships from Non-interest income to Net interest income. This reclassification did not impact results for 2006 and 2005.
- We reclassified certain deposits reported in Capital Markets and U.S. & International Banking related to *RBC Dexia IS*, in accordance with the Q2 2007 business segment realignment.
- We reclassified expenses related to internally developed software from Non-interest expense – Other to more specific Non-interest expense lines. All related comparative amounts were updated to reflect this reclassification, which impacted the Corporate Support segment only and had no impact on total Non-interest expense.
- Certain amounts related to trustee services within Canadian Banking were reclassified from Non-interest income – Investment management and custodial fees to Net interest income to better reflect their nature.

Impact of foreign exchange rates on our business segments

The translated value of our business segment results is impacted by fluctuations in the respective exchange rates relative to the Canadian dollar. Wealth Management, U.S. & International Banking and Capital Markets each have significant U.S. dollar-denominated operations, while U.S. & International Banking has material Euro-denominated results related to *RBC Dexia IS*, and Capital Markets has significant British pound-denominated operations.

In 2007, the Canadian dollar appreciated 4% on average relative to the U.S. dollar and depreciated 5% on average relative to both the British pound and Euro compared to a year ago. As a result of the impact of the changes in the respective exchange rates from last year, Wealth Management net income was down $9 million, U.S. & International Banking net income was up $4 million, while Capital Markets net income was down $30 million. For further discussion, refer to the applicable business segment results section.

Key performance and non-GAAP measures

Key performance measures

Return on equity and Return on risk capital

We measure and evaluate the performance of our consolidated operations and each business segment using a number of financial metrics such as net income, return on average common equity (ROE) and return on average risk capital (RORC). We use ROE and RORC as a measure of return on total capital invested in our businesses. RORC does not have a standardized meaning under GAAP and may not be comparable to similar measures used by other financial institutions.

Our consolidated ROE calculation is based on net income available to common shareholders divided by total average common equity for the period. Business segment ROE calculations are based on annualized segment net income available to common shareholders divided by average attributed capital for the period. For each segment, average attributed capital is based on attributed risk capital and amounts invested in goodwill and intangibles (1).

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

RORC is used to measure returns on capital required to support the risks related to ongoing operations. Our RORC calculations are based on net income available to common shareholders divided by attributed risk capital (which excludes goodwill and intangibles and unattributed capital). The business segment ROE and RORC measures are viewed as useful measures by management for supporting investment and resource allocation decisions because they adjust for certain items that may affect comparability between business segments and certain competitors. The following table provides a summary of the ROE and RORC calculations.

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

Calculation of Return on equity and Return on risk capital — Table 17

	2007						2006	2005
(C$ millions, except for percentage amounts) (1), (2)	Canadian Banking	Wealth Management	U.S. & International Banking	Capital Markets	Corporate Support	Total	Total	Total
Net income available to common shareholders	$ 2,953	$ 753	$ 228	$ 1,272	$ 198	$ 5,404	$ 4,668	$ 3,349
Average risk capital (2)	$ 6,500	$ 1,150	$ 1,950	$ 3,900	$ 950	$ 14,450	$ 12,750	$ 11,450
Add: Unattributed capital	–	–	–	–	2,000	2,000	2,500	2,300
Goodwill and intangible capital	2,100	1,150	1,400	900	–	5,550	4,650	4,850
Average equity (3)	$ 8,600	$ 2,300	$ 3,350	$ 4,800	$ 2,950	$ 22,000	$ 19,900	$ 18,600
Return on equity (ROE)	34.3%	32.4%	6.9%	26.6%	6.7%	24.6%	23.5%	18.0%
Return on risk capital (RORC)	45.5%	65.1%	11.7%	32.5%	n.m.	37.4%	36.7%	29.3%

(1) Average risk capital, Goodwill and intangible capital, and Average equity represent rounded figures. These amounts are calculated using methods intended to approximate the average of the daily balances for the period. ROE and RORC measures are based on actual balances before rounding.
(2) Average risk capital includes Credit, Market (trading and non-trading), Insurance, Operational and Business and fixed assets risk capital. For further details refer to the Capital management section.
(3) The amounts for the segments are also referred to as attributed capital.
n.m. not meaningful

Non-GAAP measures

Given the nature and purpose of our management reporting framework, we use certain non-GAAP financial measures, which are not defined nor do they have standardized meaning under GAAP. Hence these reported amounts and related ratios are not necessarily comparable with similar information reported by other financial institutions.

2007 Defined operating leverage

Our defined operating leverage refers to the difference between our revenue growth rate (as adjusted) and non-interest expense growth rate (as adjusted). Revenue is presented on a taxable equivalent basis, while the impact of consolidated VIEs is excluded, as they have no material impact on our earnings. Accounting adjustments related to the new financial instruments accounting standards are also excluded from revenue as they give rise to volatility, primarily relating to unrealized gains and losses arising from fair valuing of the instruments and are not viewed as a measure of economic performance. Global Insurance results are excluded, as certain changes in revenue can be largely offset in Insurance policyholder benefits, claims and acquisition expense, which is not captured in our defined operating leverage calculation.

The following table shows the defined operating leverage ratio calculation.

2007 Defined operating leverage			Table 18
(C$ millions, except percentage amounts)	2007	2006	Change
Total revenue	$ 22,462	$ 20,637	
Add: teb adjustment	332	213	
Less: Revenue related to VIEs	31	(7)	
Less: Global Insurance revenue	3,192	3,348	
Less: Impact of the new financial instruments accounting standards (1)	83	–	
Total revenue (adjusted)	$ 19,488	$ 17,509	11.3%
Non-interest expense	$ 12,473	$ 11,495	
Less: Global Insurance-related non-interest expense	537	517	
Non-interest expense (adjusted)	$ 11,936	$ 10,978	8.7%
Defined operating leverage			2.6%

(1) Excludes the impact of the new financial instruments accounting standards related to Global Insurance.

Consolidated revenue and Insurance-related results excluding the impact of the new financial instruments accounting standards and hurricane-related charges

In 2007 and 2006, there were certain items that impacted Total consolidated revenue, Global Insurance and Insurance-related results. Management believes that identifying and adjusting for these items enhances the comparability of our results, and enables a more meaningful comparison of our financial performance with certain other financial institutions that make similar adjustments.

The following table provides a reconciliation of consolidated revenue, Global Insurance and Insurance-related results excluding the impacts of the new financial instruments accounting standards and the hurricane-related charges.

Consolidated revenue, Global Insurance and Insurance-related results excluding the noted items								Table 19
	October 31, 2007				October 31, 2006			
(C$ millions)	Consolidated revenue (1)	Global Insurance revenue (2)	Insurance premiums, investment and fee income (1)	Insurance policyholder benefits, claims and acquisition expense (1)	Consolidated revenue (1)	Global Insurance revenue (2)	Insurance premiums, investment and fee income (1)	Insurance policyholder benefits, claims and acquisition expense (1)
GAAP reported amounts	$ 22,462	$ 3,192	$ 3,152	$ 2,173	$ 20,637	$ 3,348	$ 3,348	$ 2,509
Exclude: Impact of the new financial instruments accounting standards	77	160	160	154	–	–	–	–
Hurricane-related charges	–	–	–	–	–	–	–	(61)
Amounts excluding the noted items	$ 22,539	$ 3,352	$ 3,312	$ 2,327	$ 20,637	$ 3,348	$ 3,348	$ 2,448

(1) For further details, refer to the Financial performance section.
(2) For further details, refer to the Canadian Banking section.

Canadian Banking

Canadian Banking comprises our domestic personal and business banking operations, certain retail investment businesses and our global insurance operations. This segment includes *Personal Financial Services*, *Business Financial Services*, *Cards and Payment Solutions*, and *Global Insurance*.

Canadian Banking provides a broad suite of financial products and services to over 14 million individual and business clients through our extensive branch, automated teller machine (ATM), online and telephone banking networks, as well as through a large number of proprietary sales professionals in addition to a wide-ranging third-party network of independent insurance distributors.

We have top rankings in market share for most retail product categories and are the largest Canadian bank-owned insurer.

Highlights

- We launched new and innovative products to better serve our clients through the introduction of a new personal banking suite that includes several client-centric features, such as multi-product rebates, and a new high-interest online savings account.
- We strengthened our leading market position in personal lending, driven by 12% growth in residential mortgages.
- We continued to expand and upgrade our distribution network. We opened 30 bank branches and 12 insurance offices in Canada during the year.

Economic and market review

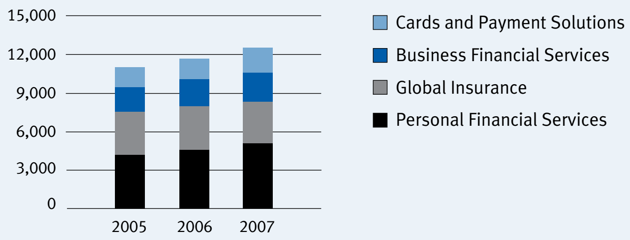
In Canada, strong economic growth, in part reflecting solid consumer and business spending in the early part of the year, weakened moderately in the latter part of the year, primarily due to slowing U.S. demand and a tightening of credit conditions as a result of the U.S. subprime mortgage market concerns. Nonetheless, robust domestic demand, largely underpinned by favourable labour market conditions, solid business investment and continued strong Canadian housing market activities, contributed to volume growth in all our businesses, particularly in the home equity lending and retail investment businesses. Competition in the personal deposits market remained strong from both traditional and niche financial institutions.

Canadian Banking financial highlights — Table 20

(C$ millions, except number of and percentage amounts)	2007	2006	2005
Net interest income	$ 6,353	$ 5,816	$ 5,233
Non-interest income	6,168	5,880	5,765
Total revenue	$ 12,521	$ 11,696	$ 10,998
Non-interest expense	5,285	5,027	4,830
Provision for credit losses (PCL)	788	604	542
Insurance policyholder benefits, claims and acquisition expense	2,173	2,509	2,625
Net income before income taxes and non-controlling interest in subsidiaries	$ 4,275	$ 3,556	$ 2,994
Net income	$ 2,987	$ 2,426	$ 2,007
Key ratios			
Return on equity (1)	34.3%	30.1%	26.3%
Return on risk capital (1)	45.5%	39.9%	36.3%
Net interest margin (2)	3.17%	3.22%	3.21%
Operating leverage (Banking-related operations) (3)	6.5%	4.4%	5.8%
Selected average balance sheet information (4)			
Total assets (5)	$ 220,000	$ 199,200	$ 181,100
Total earning assets (5)	200,400	180,500	163,200
Loans and acceptances (5)	200,000	179,700	160,700
Deposits	147,100	139,200	132,500
Attributed capital (1)	8,600	8,000	7,550
Risk capital (1)	6,500	6,050	5,450
Other information			
Assets under administration	$ 53,300	$ 44,600	$ 33,900
Number of employees (full-time equivalent)	25,813	24,828	23,794
Credit information			
Gross impaired loans as a percentage of average net loans and acceptances	.35%	.33%	.31%
Specific PCL as a percentage of average net loans and acceptances	.39%	.34%	.34%
Banking-related operations (6)			
Total revenue	$ 9,329	$ 8,348	$ 7,687
Provision for credit losses	788	604	542
Non-interest expense	4,748	4,510	4,329
Net income	2,545	2,124	1,852
Global insurance			
Total revenue	$ 3,192	$ 3,348	$ 3,311
Insurance policyholder benefits, claims and acquisition expense	2,173	2,509	2,625
Non-interest expense	537	517	501
Net income	442	302	155

(1) Segment Return on equity, Average risk capital and Return on risk capital are key performance measures. Average attributed capital and Return on equity are calculated using methods intended to approximate the average of the daily balances for the period. For further discussion, refer to the Key performance and non-GAAP measures section.
(2) Net interest margin (NIM) is calculated as Net interest income divided by Average total earning assets. Average total earning assets are calculated using methods intended to approximate the average earning asset balances for the period.
(3) Defined as the difference between revenue growth rate and non-interest expense growth rate for Banking-related operations.
(4) Average amounts are calculated using methods intended to approximate the average of the daily balances for the period.
(5) Total assets, Total earning assets, and Loans and acceptances include average securitized residential mortgage and credit card loans for the year of $19 billion and $4 billion, respectively (2006 – $15 billion and $4 billion; 2005 – $11 billion and $4 billion).
(6) The banking-related operations of Canadian Banking comprise *Personal Financial Services*, *Business Financial Services*, and *Cards and Payment Solutions*.

Revenue by business line (C$ millions)



Financial performance

2007 vs. 2006

Net income increased $561 million, or 23%, from a year ago. The increase primarily reflected strong growth across all our business lines as well as a $326 million ($269 million after-tax) gain related to the Visa Inc. restructuring, partially offset by higher costs in support of business growth, increased provision for credit losses and higher credit card customer loyalty reward program costs, reflecting a $121 million ($79 million after-tax) liability adjustment this year as compared to $72 million ($47 million after-tax) in the prior year. Our prior year results also included the hurricane-related charges, and the receipt of a fee related to the termination of an agreement, whereas this year we included a favourable adjustment related to the reallocation of certain foreign investment capital.

Average assets increased $21 billion, or 10%, over the prior year. The increase was largely attributable to strong loan growth, underpinned by our successful execution of growth initiatives, robust domestic demand and continued solid Canadian housing market activities. Average deposits were up $8 billion, or 6%, from a year ago, mainly due to growth in business deposits reflecting high liquidity within Canadian businesses.

Banking-related operations

Banking-related operations net income was up $421 million, or 20%, compared to the prior year. The increase was primarily due to solid growth across all business lines and a gain related to the Visa Inc. restructuring. These factors were partially offset by higher costs in support of business growth, increased provision for credit losses, the receipt of a fee related to the termination of an agreement in the prior year, and higher credit card customer loyalty reward program costs this year.

Total revenue was up $981 million, or 12%, over the prior year. The increase was largely attributable to strong volume growth across all business lines and the gain related to the Visa Inc. restructuring. These factors were partly offset by the receipt of a fee related to the termination of an agreement in the prior year and higher credit card customer loyalty reward program costs this year.

Net interest margin decreased 5 bps from a year ago, primarily reflecting the impact of changes in our product mix.

Non-interest expense increased $238 million, or 5%, compared to a year ago. The increase was largely attributable to higher costs in support of business growth, including a 4% increase in sales and service personnel, or approximately 900 staff, and *de novo* branch expansion, as well as higher costs associated with system development, professional fees and sundry losses.

Provision for credit losses increased $184 million, or 30%, from last year, which had been at a cyclically low level, and has trended up towards the historical average this year. The increase was mainly attributable to higher provisions in our business, credit card and personal loan portfolios, reflecting higher loss rates and portfolio growth.

Global Insurance

Global Insurance net income increased $140 million, or 46%, compared to the prior year. The increase was primarily related to the property catastrophe reinsurance business, reflecting the hurricane-related charges in the prior year, and a favourable adjustment related to the reallocation of certain foreign investment capital this year, which was partially offset by lower income from this business as we exited this business completely this year. A higher level of favourable net actuarial liability adjustments and solid growth in our European life reinsurance business also contributed to the increase. For a detailed discussion regarding Insurance policyholder benefits, claims and acquisition expense, refer to the Global Insurance business line discussion.

2006 vs. 2005

Net income increased $419 million, or 21%, from 2005. The increase primarily reflected solid revenue growth in our banking businesses and lower hurricane-related charges in 2006. These factors were partially offset by increased costs in support of business growth and higher provision for credit losses partly due to loan growth and lower recoveries.

Banking-related operations

Banking-related operations net income increased $272 million, or 15%, from 2005, largely reflecting solid revenue growth across all business lines. The increase in net income was partly offset by increased costs in support of business growth and higher provision for credit losses.

Total revenue increased $661 million, or 9%, from 2005. The increase was mainly due to strong volume growth across all business lines, and improved deposit and investment spreads, underpinned by our successful execution of growth initiatives and favourable economic conditions.

Net interest margin increased 1 bp compared to 2005, primarily reflecting improved spreads on deposits and investment products.

Non-interest expense increased $181 million, or 4%, primarily due to higher levels of sales and service personnel and infrastructure costs in our distribution network and increased marketing costs in support of business growth.

Provision for credit losses increased $62 million, or 11%, largely reflecting higher provisions in our personal loan portfolio and lower recoveries in our agriculture loan portfolio in 2006. In 2005, we included our 50% proportionate share of a provision recorded at Moneris.

Global Insurance

Global Insurance net income increased $147 million compared to 2005, largely reflecting a $142 million reduction in hurricane-related charges in 2006. In addition, business growth associated with Canadian life business and European life reinsurance business, as well as improved claims experience in our Canadian property and casualty business contributed to the increase. These factors were partially offset by lower revenue from property catastrophe reinsurance business reflecting our strategic reduction in exposure. For a detailed discussion regarding Insurance-related revenue and Insurance policyholder benefits, claims and acquisition expense, refer to the Financial performance section.

2008 Outlook and priorities

Canadian economic growth is expected to weaken in 2008 due to tighter credit conditions, though credit growth should continue to be supported by rising domestic demand amid expanding labour markets and solid business investment. We will remain focused on new client acquisition and growth in high-value markets, simplifying processes as well as augmenting our strengths in distribution capabilities, product breadth and integration, and client analytics to provide superior client service.

Key strategic priorities for 2008

- Deliver a superior client experience to help clients achieve financial success, allowing us to retain and grow their business.
- Continue to improve our processes and revise our business models to make it easier for our clients to do business with us.
- Focus on delivering relevant advice and solutions to attract new clients in specific markets, geographies and life stages.

Business line review

Personal Financial Services

Personal Financial Services focuses on meeting the needs of our individual clients at every stage of their lives through a wide range of lending and investment products and services, including home equity financing, lines of credit, personal loans, savings and chequing accounts, guaranteed investment certificates (GICs), mutual funds and self-directed brokerage accounts. We have the largest retail banking network in Canada with 1,146 branches and 3,946 ATMs. In addition, we have more than 75 private bankers and 1,700 sales specialists. We also rank first or second in market share for most personal banking products.

Financial performance

Total revenue increased $461 million, or 10%, over the prior year. The increase largely reflected strong volume growth in home equity lending and retail investments, and improved spreads across most products. Higher mutual fund distribution fees, reflecting a 18% growth in mutual fund balances as a result of strong net sales and capital appreciation also contributed to the increase.

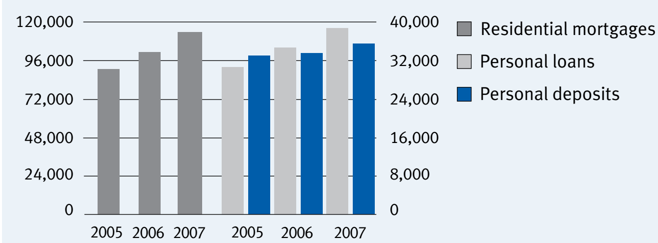
Average residential mortgage balances and personal loans were each up by 12% over the prior year, supported by relatively low interest rates in a historical context, strong labour market conditions and continued solid Canadian housing market activities. Average personal deposit balances increased 6% from a year ago, notwithstanding an increasingly competitive market, in part driven by the success of our recently launched high-interest online savings account.

Selected highlights — Table 21

(C$ millions)	2007	2006	2005
Total revenue	$ 5,082	$ 4,621	$ 4,181
Other information			
Residential mortgages (1)	113,200	100,800	89,700
Personal loans (1)	38,700	34,600	30,500
Personal deposits (1)	35,500	33,600	32,900
Personal GICs (1)	57,900	57,000	57,200
Branch mutual fund balances	66,900	56,500	46,600
AUA – Self-directed brokerage	28,300	23,200	19,800
New accounts opened (thousands) (2)	1,066	769	740
Number of:			
Branches	1,146	1,117	1,104
Automated teller machines	3,946	3,847	3,906

(1) Average amounts are calculated using methods intended to approximate the average of the daily balances for the period.
(2) Deposit accounts only.

Average residential mortgages, personal loans and deposits (C$ millions)



Business Financial Services

Business Financial Services offers a wide range of lending, leasing, deposit, investment and transaction products and services to small and medium-sized businesses, commercial, farming and agriculture clients across Canada. We also provide trade-related products and services to Canadian and international clients to assist them in the conduct of their import and export operations domestically and around the globe. Our extensive business banking network includes approximately 100 business banking centres and 2,000 business account managers, and our strong commitment to our clients has resulted in leading market share in business loans and deposits.

Financial performance

Total revenue increased $160 million, or 7%, over the prior year. The increase was largely attributable to solid growth in business loans and deposits, partially offset by lower spreads on deposits.

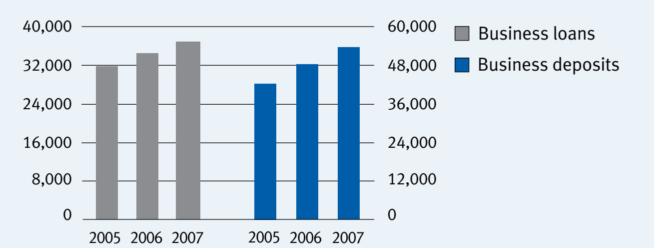
Average business loans grew by 7% and average business deposits increased 10%, primarily driven by continued solid business spending and high liquidity within Canadian businesses.

Selected highlights — Table 22

(C$ millions)	2007	2006	2005
Total revenue	$ 2,301	$ 2,141	$ 2,011
Other information (average) (1)			
Business loans (2)	36,900	34,400	31,700
Business deposits (3)	53,700	48,600	42,400

(1) Average amounts are calculated using methods intended to approximate the average of the daily balances for the period.
(2) Includes small business loans treated as retail and wholesale loans.
(3) Includes GIC balances.

Average business loans and deposits (C$ millions)



Cards and Payment Solutions

Cards and Payment Solutions provides a wide array of convenient and customized credit cards and related payment products and solutions. In addition, this business line includes our 50% interest in Moneris, the merchant card processing joint venture with the Bank of Montreal.

We have over 5 million credit card accounts and have an approximately 20% market share of Canada's credit card purchase volume.

Financial performance

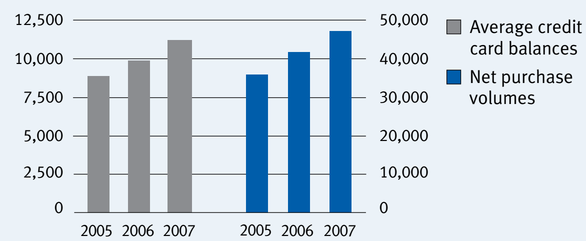
Total revenue increased $360 million, or 23%, compared to the prior year. The increase largely reflected a $326 million ($269 million after-tax) gain related to the Visa Inc. restructuring. Continued solid growth in credit card balances and transaction volumes also contributed to the increase. These factors were partially offset by the receipt of a fee related to the termination of an agreement in the prior year, as well as higher credit card customer loyalty reward program costs this year.

Selected highlights — Table 23

(C$ millions)	2007	2006	2005
Total revenue	$ 1,946	$ 1,586	$ 1,495
Other information			
Average credit card balances (1)	11,200	9,900	8,800
Net purchase volumes	47,200	41,500	36,100

(1) Average amounts are calculated using methods intended to approximate the average of the daily balances for the period.

Average credit card balances and net purchase volumes (C$ millions)



Global Insurance

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

We are the largest Canadian bank-owned insurer, with products distributed through more than 17,000 independent brokers and more than 650 career sales representatives in North America. Our Canadian insurance business holds lead positions in creditor, travel and individual living benefits insurance products, and has a significant presence in life, home and auto insurance. We are a preferred provider of protection, asset accumulation and retirement solutions in the U.S.

Financial performance

Global Insurance net income increased $140 million, or 46%, compared to the prior year. The increase was primarily related to the property catastrophe reinsurance business, reflecting the hurricane-related charges in the prior year, and a favourable adjustment related to the reallocation of certain foreign investment capital this year, which was partially offset by lower income from this business as we exited this business completely this year. A higher level of favourable net actuarial liability adjustments and solid growth in our European life reinsurance business also contributed to the increase.

Total revenue decreased $156 million, or 5%, from a year ago. Excluding the impact of the new financial instruments accounting standards, total revenue increased $4 million from the prior year. The increase was largely attributable to growth in our European life reinsurance and Canadian businesses, and a favourable adjustment related to the reallocation of certain foreign investment capital this year. These factors were largely offset by lower U.S. annuity sales mainly due to lower long-term interest rates and lower revenue from our property catastrophe reinsurance operations, which we exited completely this year. For a reconciliation of Global Insurance revenue excluding the impact of the new financial instruments accounting standards, refer to the Key performance and non-GAAP measures section.

Gross insurance premiums and deposits were up $54 million, or 2%, primarily reflecting new sales growth and stronger client retention, partially offset by a decline in U.S. annuity sales.

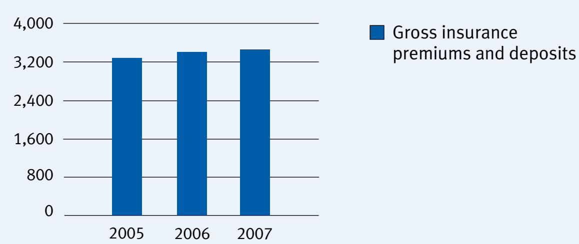
Non-interest expense was up $20 million, or 4%, from a year ago, primarily reflecting higher project-related spending and other costs in support of business growth.

Insurance policyholder benefits, claims and acquisition expense (PBCAE) decreased $336 million, or 13%, from the prior year. Excluding the impact of the new financial instruments accounting standards and the prior year hurricane-related charges, PBCAE decreased $121 million, or 5%, over last year. The decrease was largely attributable to the impact of lower U.S. annuity sales and a higher level of favourable net actuarial liability adjustments this year, which included cumulative valuation adjustments of $92 million relating to prior periods. These factors were partially offset by increased costs commensurate with growth in our European life reinsurance and Canadian businesses. For a reconciliation of PBCAE excluding the

Selected highlights — Table 24

(C$ millions)	2007	2006	2005
Total revenue	$ 3,192	$ 3,348	$ 3,311
Non-interest expense	537	517	501
Insurance policyholder benefits, claims and acquisition expense	2,173	2,509	2,625
Net income	442	302	155
Other information			
Gross insurance premiums and deposits	3,460	3,406	3,288
Insurance claims and policy benefit liabilities	7,283	7,337	7,117

Gross insurance premiums and deposits (C$ millions)



impact of the new financial instruments accounting standards, refer to the Key performance and non-GAAP measures section.

Insurance claims and policy benefit liabilities decreased $54 million, or 1%, over the prior year. The decrease primarily reflected the impact of a stronger Canadian dollar on the translated value of our U.S. dollar-denominated liabilities, lower property catastrophe reinsurance liabilities, net payments of claims related to hurricanes, and a net decrease in life and health insurance liabilities reflecting changes to actuarial assumptions and model enhancements. These factors were largely offset by increased costs commensurate with business growth and the impact of the new financial instruments accounting standards.

Wealth Management

Wealth Management comprises businesses that directly serve the growing wealth management needs of affluent and high net worth clients in Canada, the U.S. and outside North America, and businesses that provide asset management and trust products through RBC and external partners. This segment comprises *Canadian Wealth Management*, *U.S. & International Wealth Management* and *Global Asset Management*.

Highlights

- Wealth Management was created in February 2007 to focus on extending our leadership position in Canada and aggressively growing in the U.S. and international markets.
- The fastest growing segment in Canadian wealth management continues to be high net worth clients (households with more than $1 million in investable assets).
- Our Canadian full-service brokerage business was the first in the Canadian industry to surpass $150 billion in client assets under administration.
- We led the Canadian mutual fund industry in net sales of long-term funds for the 16th consecutive calendar quarter.
- We continued to grow our U.S. full-service brokerage business through the acquisition of J.B. Hanauer & Co. (J.B. Hanauer).
- We established international wealth management offices in several cities, including Mexico City, Beijing and Santiago.

Economic and market review

In 2007, economic growth was solid, underpinned by a relatively favourable interest rate environment, strong employment levels and higher wages, and a solid yet moderating housing market, which contributed to increased demand for wealth management products. The generally favourable capital market conditions during the year continued to support the growth of our wealth management business. Economic growth weakened moderately in the latter part of the year mainly attributable to slowing U.S. demand, and a tightening of credit conditions as a result of the U.S. subprime mortgage market concerns.

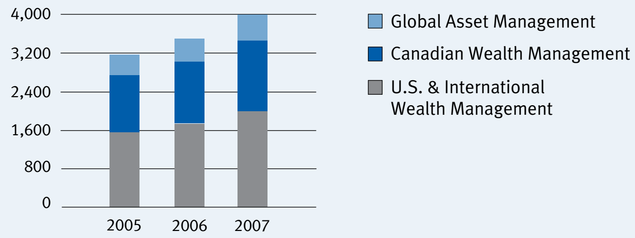
Wealth Management financial highlights — Table 25

(C$ millions, except number of and percentage amounts)	2007	2006	2005
Net interest income	$ 427	$ 397	$ 374
Non-interest income			
Fee-based revenue	2,109	1,745	1,458
Transactional and other revenue	1,456	1,345	1,319
Total revenue	$ 3,992	$ 3,487	$ 3,151
Non-interest expense	2,902	2,613	2,440
Provision for credit losses (PCL)	1	1	2
Net income before income taxes and non-controlling interest in subsidiaries	$ 1,089	$ 872	$ 708
Net income	$ 762	$ 604	$ 502
Key ratios			
Return on equity (1)	32.4%	27.8%	24.5%
Return on risk capital	65.1%	59.3%	54.8%
Pre-tax margin	27.3%	25.0%	22.5%
Selected average balance sheet information (2)			
Total assets	$ 16,600	$ 15,100	$ 13,200
Loans and acceptances	4,600	4,400	4,100
Deposits	24,900	22,100	20,700
Attributed capital (1)	2,300	2,150	2,050
Risk capital (1)	1,150	1,050	900
Other information			
Revenue per advisor (000s) (3)	$ 784	$ 694	$ 687
Assets under administration	488,500	476,500	380,700
Assets under management	161,200	142,800	118,500
Number of employees (full-time equivalent)	10,382	9,667	8,791
Number of advisors (3)	3,118	3,001	2,934

Impact of US$ translation on selected items	For the year ended 2007 vs. 2006
Reduced total revenue	$ 61
Reduced non-interest expense	49
Reduced net income	9
Percentage change in average US$ equivalent of C$1.00 (4)	4%

(1) Segment Return on equity, Average risk capital and Return on risk capital are key performance measures. Average attributed capital and Return on equity are calculated using methods intended to approximate the average of the daily balances for the period. For further discussion, refer to the Key performance and non-GAAP measures section.
(2) Average amounts are calculated using methods intended to approximate the average of the daily balances for the period.
(3) Includes investment advisors and financial consultants of our Canadian and U.S. full-service brokerage businesses.
(4) Average amounts are calculated using month-end spot rates for the year.

Revenue by business line (C$ millions)



Financial performance

2007 vs. 2006

Net income for the year of $762 million increased $158 million, or 26%, from a year ago. The increase was largely due to strong earnings growth across all our business lines reflecting the ongoing successful execution of our growth initiatives and generally favourable market conditions. We recorded a $35 million ($28 million after-tax) foreign exchange translation gain on certain deposits in the current year related to the implementation of the new financial instruments accounting standards.

Total revenue increased $505 million, or 14%, over the prior year, largely due to strong growth in fee-based client assets across all business lines, reflecting new sales, capital appreciation and the recruitment and retention of experienced advisors. A foreign exchange translation gain on certain deposits, the inclusion of our J.B. Hanauer acquisition, solid loan and deposit growth in our international wealth management business, and higher transactional volumes in our brokerage businesses reflecting generally favourable market conditions throughout the early part of the year also contributed to the increase. These factors were partially offset by the negative impact of the stronger Canadian dollar on the translated value of U.S. dollar-denominated revenue.

Non-interest expense was up $289 million, or 11%, mainly as a result of higher variable compensation commensurate with higher commission-based revenue, higher staffing levels and other costs in support of business growth, including our acquisition of J.B. Hanauer. These factors were partially offset by the favourable impact of the stronger Canadian dollar on the translated value of U.S. dollar-denominated expenses.

2006 vs. 2005

Net income increased $102 million, or 20%, compared to 2005. The increase primarily reflected strong earnings growth across all our business lines and generally favourable market conditions. This increase was partially offset by higher variable compensation due to higher commission-based revenue, higher staffing costs and increased costs in support of business growth, including our acquisition of Abacus Financial Services Group Limited.

Total revenue increased $336 million, or 11%, compared to 2005, largely due to strong growth in fee-based client assets reflecting new sales and capital appreciation, and the inclusion of our Abacus acquisition. These factors were partially offset by lower client transaction volumes in our brokerage businesses.

Non-interest expense increased $173 million, or 7%, compared to 2005. The increase was primarily due to higher variable compensation commensurate with higher commission-based revenue, the inclusion of our Abacus acquisition and higher staffing levels.

2008 Outlook and priorities

The Canadian economic and business environment is expected to weaken slightly although business growth should continue to be supported by generally favourable capital market conditions. In the U.S., we anticipate that financial market volatility will persist into early 2008, but economic growth will reaccelerate in the latter part of 2008. Growth in other global economies is expected to ease moderately in 2008. This economic environment and the successful execution of our strategic priorities are anticipated to fuel our growth.

Key strategic priorities for 2008

- Continue extending our lead in the Canadian wealth and asset management markets.
- Pursue strong organic and acquisition growth in our U.S. wealth management businesses that serve individual clients and advisors.
- Continue expanding our high net worth international wealth management business in select markets as well as through bolt-on acquisitions to complement our existing operations.
- Focus on expanding our asset management business globally, initially through acquisitions with a focus on U.S. opportunities.
- Work to continue attracting and retaining experienced advisors, private bankers and other client-facing professionals across all our businesses.

Business line review

Canadian Wealth Management

Canadian Wealth Management includes the market leader in full-service brokerage in Canada, with over 1,300 investment advisors, providing advisor-based comprehensive financial solutions. Additionally, we provide discretionary investment management and trust services to high net worth clients, offering a relationship approach for clients in need of sophisticated financial solutions. In these businesses, there are more than 28 investment counsellors and 125 trust professionals in locations across the country.

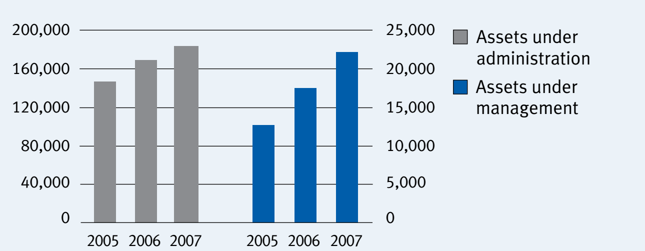
Financial performance

Revenue increased $170 million, or 13%, over the prior year, mostly due to strong growth in fee-based client assets reflecting higher net sales, capital appreciation and the recruitment and retention of experienced advisors. Higher transactional volumes in our brokerage business reflecting generally favourable market conditions also contributed to the increase.

Selected highlights — Table 26

(C$ millions)	2007	2006	2005
Total revenue	$ 1,460	$ 1,290	$ 1,164
Other information			
Assets under administration	183,000	168,600	146,400
Assets under management	22,200	17,500	12,700
Total assets under fee-based programs	83,300	70,200	56,500

Average assets under administration and management (C$ millions)



U.S. & International Wealth Management

U.S. & International Wealth Management consists of our retail brokerage business, which is one of the largest full-service firms in the U.S. with over 1,770 financial consultants. We also have a clearing and execution services business that serves small to mid-sized independent broker-dealers and institutions. Internationally, we provide customized banking, credit, investment and trust solutions to high net worth private clients through 2,300 employees across a network of 34 offices located in 20 countries around the world.

Financial performance

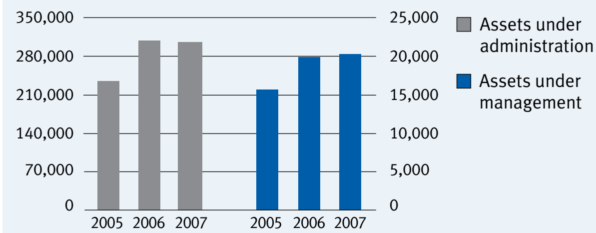
Revenue increased $256 million, or 15%, over the prior year. In U.S. dollars, revenue increased $293 million, or 19%, largely as a result of solid growth in fee-based client assets, higher transaction volumes in our U.S. brokerage business reflecting generally favourable market conditions throughout the early part of the year, and a foreign exchange translation gain on certain deposits. The inclusion of our J.B. Hanauer acquisition and solid loan and deposit growth in our international wealth management business also contributed to the increase.

Selected highlights — Table 27

(C$ millions)	2007	2006	2005
Total revenue	$ 1,988	$ 1,732	$ 1,580
Other information			
Total loans, guarantees and letters of credit (1), (2)	5,500	4,500	3,900
Total deposits (1), (2)	17,900	15,100	13,900
Assets under administration	305,500	307,900	234,300
Assets under management	20,200	19,700	15,600
Total assets under fee-based programs (3)	26,600	26,400	20,700
Other information (US$ millions)			
Total revenue	1,826	1,533	1,305

(1) Represents amounts related to our international wealth management businesses.
(2) Represents an average amount, which is calculated using methods intended to approximate the average of the daily balances for the period.
(3) Represents amounts related to our U.S. wealth management businesses.

Average assets under administration and management (C$ millions)



Global Asset Management

Global Asset Management is responsible for our proprietary asset management business in Canada and the U.S. In Canada, we provide a broad range of investment management services through mutual funds, pooled funds and separately managed portfolios. We distribute our investment solutions through a broad network of our bank branches, our discount and full-service brokers, independent advisors and direct-to-consumer. We are the largest single fund company and one of the largest money managers in Canada. In the U.S., we provide investment services to both retail and institutional clients through mutual funds, fee-based accounts and separately managed portfolios.

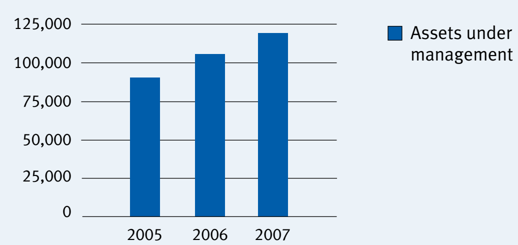
Financial performance

Revenue increased $79 million, or 17%, over the prior year, mainly reflecting strong growth in Canadian assets under management due to solid net long-term and money market mutual fund sales and capital appreciation.

Selected highlights — Table 28

(C$ millions)	2007	2006	2005
Total revenue	$ 544	$ 465	$ 407
Other information			
Canadian net long-term mutual fund sales	6,200	5,400	5,600
Assets under management	118,800	105,600	90,200

Average assets under management (C$ millions)



U.S. & International Banking

U.S. & International Banking comprises our banking businesses outside Canada, including our banking operations in the U.S. and Caribbean. In addition, this segment includes our 50% ownership in RBC Dexia IS.

All of our businesses leverage the global resources of RBC, while drawing upon the knowledge and expertise of our local professionals to deliver customized solutions to our clients. We differentiate ourselves in each of our highly competitive marketplaces by tailoring solutions to meet our clients' specific needs and building strong, long-lasting relationships by consistently delivering high-quality service.

Highlights

- We continued to expand our banking footprint in key growth areas in the U.S. Southeast through targeted acquisitions and *de novo* branch openings. We acquired 39 AmSouth Bank branches (AmSouth branches) in Alabama and added 17 branches in Georgia when we acquired Flag Financial Corporation (Flag).
- We realized a 12% (17% in Euros) growth in assets under administration with RBC Dexia IS, underpinned by both new and existing client growth.
- We added a real estate lending team to our Caribbean operations, giving us the expertise to better serve clients across the region. In addition, we formed a small business unit to serve this growing client segment.

Economic and market review

The solid U.S. economic growth in the middle of the year, primarily supported by continued non-residential investment, strong export growth and consumer spending, slowed in the latter part of the year. The weakening economic conditions largely reflected the ongoing housing market correction, a tightening of credit conditions and increased funding costs arising from the U.S. subprime mortgage market concerns. This resulted in a general weakening in credit quality of residential real estate-related loans. Internationally, economic conditions in the Caribbean remained strong, although strong competition in the deposits market also tempered business growth. Solid economic conditions in Canada and the fast-growing asset management industry in Europe continued to support our global custody business growth.

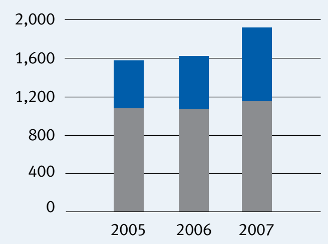
U.S. & International Banking financial highlights — Table 29

(C$ millions, except percentage amounts)	2007	2006	2005
Net interest income	$ 1,031	$ 940	$ 923
Non-interest income	884	688	654
Total revenue	$ 1,915	$ 1,628	$ 1,577
Non-interest expense	1,481	1,216	1,136
Provision for credit losses (PCL)	109	25	49
Net income before income taxes and non-controlling interest in subsidiaries	$ 325	$ 387	$ 395
Net income	$ 242	$ 261	$ 256
Key ratios			
Return on equity (1)	6.9%	10.6%	10.8%
Return on risk capital (1)	11.7%	16.1%	16.4%
Selected average balance sheet and other information (2)			
Total assets	$ 39,700	$ 32,600	$ 25,900
Loans and acceptances	22,300	18,500	17,200
Deposits	34,200	28,700	21,200
Attributed capital (1)	3,350	2,400	2,350
Risk capital (1)	1,950	1,600	1,550
Other information			
Assets under administration – RBC	–	–	1,361,100
Assets under administration – RBC Dexia IS (3)	2,713,100	2,421,100	–
Number of employees (full-time equivalent)	6,001	5,034	6,880
Credit information			
Gross impaired loans as a percentage of average net loans and acceptances	1.91%	1.01%	.94%
PCL as a percentage of average net loans and acceptances	.49%	.14%	.28%

Impact of US$ and Euro translation on selected items	For the year ended 2007 vs. 2006
Reduced total revenue	$ 8
Reduced non-interest expense	6
Increased net income	4
Percentage change in average US$ equivalent of C$1.00 (4)	4%
Percentage change in average Euro equivalent of C$1.00 (4)	(5)%

(1) Segment Return on equity, Average risk capital and Return on risk capital are key performance measures. Average attributed capital and Return on equity are calculated using methods intended to approximate the average of the daily balances for the period. For further discussion, refer to the Key performance and non-GAAP measures section.
(2) Average amounts are calculated using methods intended to approximate the average of the daily balances for the period.
(3) AUA – RBC Dexia IS represents the total AUA of the joint venture as at September 30, 2007. We have revised the 2006 amount to reflect the amount reported by *RBC Dexia IS*, as we had previously disclosed only the assets under custody amount related to our joint venture.
(4) Average amounts are calculated using month-end spot rates for the year.

Revenue by business line (C$ millions)



Financial performance

2007 vs. 2006

Net income decreased $19 million, or 7%, from the prior year. The decrease was largely attributable to increased provision for credit losses, primarily reflecting higher impaired loans in our U.S. residential builder finance business. This was partially offset by strong business growth in *RBC Dexia IS*, as well as higher loan and deposit growth in the U.S. reflecting the inclusion of our acquisitions of Flag and the AmSouth branches, *de novo* branch openings and business expansion. Our results also reflected higher costs in support of business growth and a loss on the restructuring of our U.S. banking investment portfolio this year.

Total revenue increased $287 million, or 18%, from the prior year. The increase was primarily attributable to *RBC Dexia IS*, reflecting strong market activity, an additional month of results and business growth. *Banking* revenue was also up largely due to loan and deposit growth, mainly reflecting the inclusion of Flag and the AmSouth branches, despite the negative impact of a stronger Canadian dollar on the translated value of U.S. dollar-denominated revenue. These factors were partially offset by a loss on the restructuring of our U.S. banking investment portfolio this year.

Non-interest expense was up $265 million, or 22%, over the prior year, largely reflecting higher costs in support of business growth. The increase primarily reflected higher processing and staff costs at *RBC Dexia IS* commensurate with business growth, the inclusion of our acquisitions of Flag and the AmSouth branches and the related integration costs, and U.S. *de novo* branch openings. Higher costs associated with an additional month of results relating to *RBC Dexia IS*, as well as an increase in sales and service personnel in our banking branch network also contributed to the increase.

Provision for credit losses was up $84 million, largely due to higher impaired loans in our U.S. residential builder finance business, reflecting the downturn in the U.S. housing market in the latter part of the year. As at October 31, 2007, we had $2.8 billion in our U.S. residential builder finance loans outstanding.

2006 vs. 2005

Net income increased $5 million, or 2%, from 2005, largely reflecting solid growth and improved credit quality in *Banking*, partially offset by transaction expenses related to the transfer of Institutional & Investor Services to *RBC Dexia IS*.

Total revenue increased $51 million, or 3%, from 2005, primarily reflecting strong revenue growth in *RBC Dexia IS* due to increased business volume. The increase was partially offset by lower *Banking* revenue due to the negative impact of a stronger Canadian dollar on the translated value of U.S. dollar-denominated revenue. In U.S. dollars, *Banking* revenue increased $58 million, or 7%, reflecting solid loan and deposit growth and higher fee-based activities.

Non-interest expense was up $80 million, or 7%, from 2005, primarily reflecting transaction expenses related to the transfer of IIS to *RBC Dexia IS*, as well as higher project-related spending and other costs in support of business growth.

Provision for credit losses decreased $24 million, or 49%, compared to 2005, primarily reflecting strong credit quality in our U.S. banking loan portfolio in 2006.

2008 Outlook and priorities

We continue to see significant opportunities in the U.S. and Caribbean to expand our *Banking* business, through a combination of organic growth and strategic acquisitions. We anticipate that the current financial market volatility in the U.S. will persist into early 2008, as investors and lenders will remain cautious and risk averse amid the continued correction in the U.S. housing market. The anticipated improved U.S. economic conditions in the latter part of 2008, primarily underpinned by rising business investment, strong export growth and continued consumer spending against a backdrop of the abatement of current financial market volatility and the housing market correction, should support business and revenue growth. The projected solid economic growth in Canada and the Eurozone, as well as the increasing trend of outsourcing by fund managers in Canada, the Eurozone and Asia should continue to support *RBC Dexia IS* business growth.

Key strategic priorities for 2008

- Continue implementing our long-term strategy to become the pre-eminent bank for businesses, business owners and professionals in the U.S. Southeast.
- Efficiently integrate the pending acquisition of Alabama National BanCorporation for our U.S. banking operations, while retaining and growing our client base through continuous enhancement of our products and services and distribution network.
- Build on our strong position in the Caribbean to create the leading bank in the region through the efficient integration of RBTT Financial Group, which we recently announced our intention to acquire, subject to closing conditions.
- Pursue growth strategies with *RBC Dexia IS* that focus on strengthening the global client franchise, broadening its suite of products through innovation and expanding its presence in high-growth markets.

Banking

Banking consists of our banking operations in the U.S. and Caribbean. These businesses offer a broad range of banking products and services to personal and business clients in their respective markets, including residential construction finance services. Our U.S. banking business ranks 5th in deposit market share in North Carolina and among the top 15 in its U.S. Southeast banking footprint. It has a network of 350 branches and 395 ATMs. Caribbean banking ranks in the top three in deposit market share in most of its markets and has 44 branches and 78 ATMs.

Financial performance

Total revenue increased $86 million, or 8%, compared to the prior year, despite the negative impact of a stronger Canadian dollar on the translated value of U.S. dollar-denominated revenue. In U.S. dollars, *Banking* revenue increased $114 million, or 12%, primarily driven by solid loan and deposit growth, reflecting the inclusion of Flag and the AmSouth branches, the 10 U.S. *de novo* branch openings since last year and business growth. These factors were partially offset by a loss on the restructuring of our U.S. banking investment portfolio. Net interest margin was down 16 bps, largely due to continued competitive pressure on deposit business, the reversal of accrued interest related to higher impaired loans this year, and a loss on the early redemption of trust preferred notes due to the impact of changes in our portfolio mix.

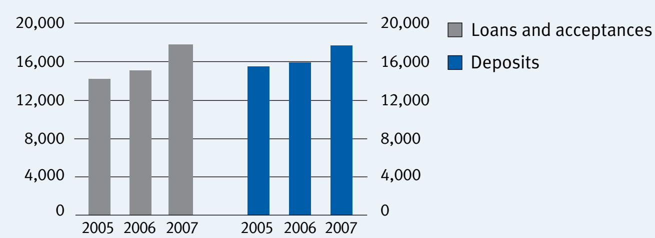
In U.S. dollars, average loans and acceptances and deposits were up $3 billion (18%) and $2 billion (11%), respectively, from the prior year. The increase was primarily attributable to growth in loans and acceptances, and deposits in our U.S. banking operations of 18% and 12%, respectively, reflecting our acquisitions of Flag and the AmSouth branches, *de novo* branch openings and business growth. Growth in loans and acceptances, and deposits in our Caribbean banking operations of 14% and 8%, respectively, reflecting our continued focus on enhancing sales management and client satisfaction, also contributed to the increase.

Selected highlights — Table 30

	2007	2006	2005
Total revenue (C$ millions)	$ 1,156	$ 1,070	$ 1,077
Other information (US$ millions)			
Total revenue	$ 1,059	$ 945	$ 887
Net interest margin (1)	3.56%	3.73%	3.70%
Average loans and acceptances (2), (3)	$ 17,800	$ 15,100	$ 14,200
Average deposits (2), (3)	17,700	15,900	15,500
Number of:			
Branches	394	325	315
Automated teller machines	473	385	371

(1) Net interest margin (NIM) is calculated as Net interest income divided by Average total earning assets. Average total earning assets are calculated using methods intended to approximate the average of the daily balances for the period.
(2) Average amounts are calculated using methods intended to approximate the average of the daily balances for the period.
(3) Average loans and acceptances and Average deposits have been adjusted for 2005 for netting of a large Caribbean government account effective the fourth quarter of 2005, which reduced loan and deposit balances by a similar amount.

Average loans and deposits (US$ millions)



RBC Dexia Investor Services

Our joint venture, *RBC Dexia IS*, offers 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. RBC Dexia IS was created on January 2, 2006, when we combined our Institutional & Investor Services (IIS) business with Luxembourg-based Dexia Funds Services in return for a 50% joint venture interest in RBC Dexia IS.

Financial performance

Total revenue was up $201 million, or 36%, compared to the prior year. The increase primarily reflected growth in our custodian and securities lending business on strong market activity, as well as organic growth from existing clients and the acquisition of new clients. An additional month of results reported in the year also contributed to the increase.

Assets under administration were up 12% from a year ago. The increase was largely attributable to the acquisition of new clients, largely driven by an increase in sales as a result of our broadened product and service offerings, organic growth from existing customers and market appreciation.

Selected highlights — Table 31

(C$ millions)	2007	2006	2005
Total revenue (1)	$ 759	$ 558	$ 500
Other information			
Assets under administration			
RBC (2)	–	–	1,361,100
RBC Dexia IS (3)	2,713,100	2,421,100	–

(1) Given the similarities between the IIS and *RBC Dexia IS* businesses, we have disclosed the revenue from our prior IIS business and our 50% proportionate ownership of RBC Dexia IS on the same line for comparative purposes. Revenue presented for 2006 represents two months of revenue from our IIS business earned between November 1, 2005, and the creation of RBC Dexia IS on January 2, 2006. The current period revenue also includes our proportionate share of RBC Dexia IS for the twelve months ended September 30, 2007, as RBC Dexia IS reports on a one month lag.
(2) AUA – RBC represents total Assets under administration (AUA) of our IIS business. IIS AUA of $1,400 billion was contributed to RBC Dexia IS in exchange for our 50% ownership interest.
(3) AUA – RBC Dexia IS represents the total AUA of the joint venture as at September 30, 2007. We have revised the 2006 amount to reflect the amount reported by RBC Dexia IS, as we had previously disclosed only the assets under custody amount related to our joint venture.

Capital Markets

Capital Markets comprises our global wholesale banking business, which provides a wide range of corporate and investment banking, sales and trading, research and related products and services to corporations, public sector and institutional clients in North America and specialized products and services in select global markets. This segment consists of two main businesses, *Global Markets* and *Global Investment Banking and Equity Markets*. All other businesses are grouped under *Other*.

We have an established reputation as a premier Canadian investment bank with top-tier market share in virtually all lines of wholesale business in Canada. We offer a full suite of products and service capabilities and have long-standing and deep relationships with our clients. We have a select but diversified set of global capabilities which includes fixed income, equity, foreign exchange, structured products, global infrastructure finance, and energy and mining.

We remain committed to our businesses and will maintain our focus on being the undisputed leader in Canada, a top-tier leader in the U.S. mid-market, a global structurer and trader, and a leading global fixed income bank.

Highlights

- We completed three acquisitions to access new clients and build on our capabilities: Carlin Financial Group, a U.S. broker-dealer known for its proprietary trade execution platform; Daniels & Associates, L.P., a U.S. merger and acquisition advisory firm; and Seasongood & Mayer, LLC, a U.S. public finance firm and municipal debt underwriter.
- In 2007, we led or jointly led many significant debt and equity new issuance transactions totalling $184 billion.
- We were involved in the top five merger and acquisitions transactions with Canadian involvement through the first three calendar quarters of 2007.
- We were named Dealmaker of the Year in Canada for four of the last five years (*Financial Post*) and the Best Investment Bank in Canada (*Financial Post* and *Global Finance* magazine).

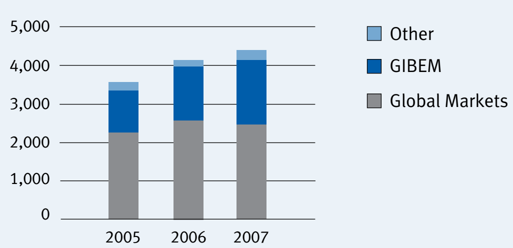
Capital Markets financial highlights — Table 32

(C$ millions, except number of and percentage amounts)	2007	2006	2005
Net interest income (1)	$ 453	$ 131	$ 557
Non-interest income	3,936	4,005	3,005
Total revenue (1)	$ 4,389	$ 4,136	$ 3,562
Non-interest expense	2,769	2,603	2,890
Provision for (recovery of) credit losses (PCL)	(22)	(115)	(91)
Net income before income taxes and non-controlling interest in subsidiaries (1)	$ 1,642	$ 1,649	$ 762
Net income	$ 1,292	$ 1,355	$ 686
Key ratios			
Return on equity (2)	26.6%	31.5%	17.5%
Return on risk capital (2)	32.5%	38.7%	22.4%
Selected average balance sheet information (3)			
Total assets	$ 311,200	$ 260,600	$ 229,100
Trading securities	152,900	132,300	109,600
Loans and acceptances	29,000	22,100	17,600
Deposits	125,700	108,100	96,500
Attributed capital (2)	4,800	4,250	3,850
Risk capital (2)	3,900	3,450	3,050
Other information			
Number of employees (full-time equivalent)	3,364	2,936	2,762
Credit information			
Gross impaired loans as a percentage of average net loans and acceptances	.06%	.28%	.67%
Specific PCL as a percentage of average net loans and acceptances	(.08)%	(.52)%	(.52)%

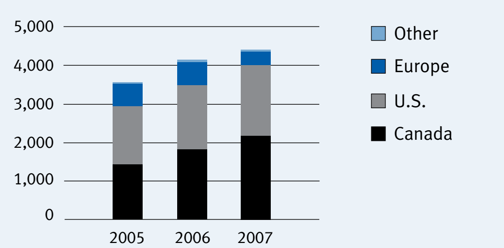
Impact of US$ and British pound translation on selected items (1)	For the year ended 2007 vs. 2006
Reduced total revenue (1)	$ 70
Reduced non-interest expense	15
Reduced net income	30
Percentage change in average US$ equivalent of C$1.00 (4)	4%
Percentage change in average British pound equivalent of C$1.00 (4)	(5)%

(1) Taxable equivalent basis. For further discussion, refer to the How we measure and report our business segments section.
(2) Segment Return on equity, Average risk capital and Return on risk capital are key performance measures. Average attributed capital and Return on equity are calculated using methods intended to approximate the average of the daily balances for the period. For further discussion, refer to the Key performance and non-GAAP measures section.
(3) Average amounts are calculated using methods intended to approximate the average of the daily balances for the period.
(4) Average amounts are calculated using month-end spot rates for the year.

Revenue (1) by business line (C$ millions)



Revenue (1) by geography (C$ millions)



(1) Taxable equivalent basis. For further discussion, refer to the How we measure and report our business segments section.

Economic and market review

Capital markets were generally favourable for the first part of 2007; however, a sudden and deep deterioration in the U.S. subprime residential mortgage-backed securities (RMBS) market in the latter part of 2007 had negative effects on the broader credit markets. This was characterized by significant credit spread widening, increased volatility in global equities, the credit rating agency downgrades of a broad group of collateralized debt obligations of asset-backed securities (CDOs of ABS) and U.S. RMBS instruments and a general lack of liquidity across a broad range of products including securities with strong credit ratings. The severe disruption in financial markets contributed to substantial writedowns and negatively impacted the effectiveness of hedging strategies for certain credit related products. Global central banks continued to provide liquidity to financial markets in an effort to minimize the impact of the market dislocation on the broader economy, including a 75 bps aggressive reduction in its overnight borrowing rate by the U.S. Federal Reserve during the fourth quarter of 2007. Lower levels of liquidity coupled with increased financial market volatility contributed to lower levels of origination activity compared to 2006. M&A activity remained strong for most of the year. The stronger Canadian dollar negatively impacted the translated value of our U.S. dollar-denominated earnings.

Financial performance

2007 vs. 2006

Net income decreased $63 million, or 5%, compared to a year ago largely due to writedowns recorded in the current year totalling $357 million on the valuation of U.S. subprime RMBS and CDOs of ABS in our Structured Credit business. The writedowns reflected the deterioration in the credit markets in the latter part of 2007 as a result of concerns over the U.S. subprime market, a general lack of liquidity and the recent credit rating agency downgrades of a broad group of CDOs of ABS and U.S. RMBS instruments. The negative impact of the stronger Canadian dollar on the translated value of U.S. dollar-denominated earnings also contributed to the decrease. These factors were partially offset by broad-based revenue growth in many other businesses. The writedowns of $357 million were offset by a $119 million compensation adjustment and $78 million income tax adjustment for a net impact of $160 million.

Total revenue increased $253 million, or 6%. The increase was primarily due to increased equity derivatives and foreign exchange trading revenue, strong equity origination activity across all geographies and the inclusion of our recent acquisitions. Higher M&A activity, mainly in the U.S. gains associated with credit derivative contracts used to economically hedge our core lending portfolio reflecting the widening of credit spreads, and higher distributions on private equity investments also contributed to the increase. These factors were partially offset by lower trading revenue in our fixed income businesses reflecting the writedowns on the valuation of U.S. subprime RMBS and CDOs of ABS, the negative impact of the stronger Canadian dollar on the translated value of U.S. dollar-denominated revenue and lower U.S. debt origination results due in part to the tightening of credit markets in the latter part of 2007.

Non-interest expense increased $166 million, or 6%, primarily reflecting increased costs in support of business growth, including higher staffing levels and the inclusion of our recent acquisitions. These factors were partially offset by lower variable compensation commensurate with weaker results and lower professional fees.

Recovery of credit losses of $22 million in the current year compares to a recovery of credit losses of $115 million in the prior year, which included a $50 million reversal of the general allowance.

Average assets were up $51 billion, or 19%, mainly due to increased trading securities primarily resulting from growth in certain equity trading strategies and in our fixed income trading businesses. Loans and acceptances increased $7 billion, or 31%, mainly related to strong investment banking activity and growth in our Infrastructure Finance business. Deposits increased $18 billion, or 16%, primarily due to increased funding requirements of our trading businesses. Credit quality remained strong as gross impaired loans decreased $43 million, or 72%, from a year ago.

2006 vs. 2005

Net income increased $669 million, or 98%, compared to 2005 primarily due to the prior year Enron litigation-related provision of $591 million ($326 million after-tax). Also contributing to the increase were record trading results, a lower effective income tax rate and near record M&A fees. These factors were partly offset by higher variable compensation on improved business performance and the negative impact of a stronger Canadian dollar on the translated value of our U.S. dollar- and British pound-denominated earnings.

Total revenue increased $574 million, or 16%. The increase was primarily due to record trading results on improved market conditions and growth in certain equity trading strategies and stronger M&A activity. Higher distributions and gains from private equity investments, increased brokerage commissions and increased credit fees related to investment banking activity also contributed to the increase. These factors were partially offset by a decline in equity origination in Canada mainly reflecting uncertainty in equity markets outside the resource sector. Debt origination fees were also down, mainly in the U.S., due to the rising interest rate environment and further weakening of the U.S. dollar.

Non-interest expense decreased $287 million, or 10%, largely reflecting the Enron litigation-related provision recorded in 2005 and the favourable reduction in the translated value of U.S. dollar- and British pound-denominated expenses due to the stronger Canadian dollar. Higher variable compensation on stronger business performance and higher spending in support of business growth initiatives partly offset the decrease.

Recovery of credit losses of $115 million in 2006, including a $50 million reversal of the general allowance, compared to a recovery of credit losses of $91 million in 2005.

2008 Outlook and priorities

Credit market and liquidity concerns should abate as capital markets stabilize globally and gradually return to more normal levels of activity. The expected gradual improvement in market conditions should result in the recovery of underperforming businesses. In Canada, we will continue to build on our leadership position, while in the U.S. we remain focused on leveraging the strengths of recent acquisitions continuing to build our mid-market franchise and expanding into new sectors. Internationally, we will strategically expand our global capabilities, including strengthening our Infrastructure Finance business and expanding the distribution of structured and fixed income products into Asian markets. Our deal pipeline should remain fairly healthy and is expected to continue to grow; however, conversion remains a concern.

Key strategic priorities for 2008

- Maintain our leadership position in Canada and deepen our penetration in the Canadian mid-market segment.
- Continue to grow our Municipal Products business with the recently acquired platform of Seasongood & Mayer, expand our banking activities geographically and develop new product segments in the U.S.
- Continue to expand the distribution of structured and fixed income products into Asian markets.
- Continue to expand our infrastructure and project finance product offering from U.K. to other international and U.S. markets.
- Continue to build our global energy capabilities, an area of strength for us.

Global Markets

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

Financial performance

Global Markets revenue decreased $124 million, or 5%, from a year ago. Trading-related revenue was down $94 million, or 4%, primarily due to lower trading revenue in certain fixed income business as a result of writedowns totalling $357 million on the valuation of U.S. subprime RMBS and CDOs of ABS in our Structured Credit business. This was partially offset by higher equity derivatives and foreign exchange trading revenue due to business expansion and increased market volatility. Other revenue was down $30 million from a year ago largely due to lower private equity investment gains.

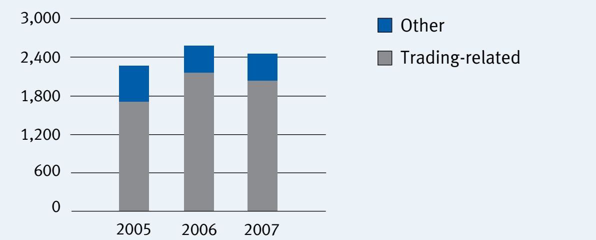
We led or jointly led 1,005 debt issues, up from 615 deals a year ago, with a total value of approximately $164 billion, and in Municipal Finance, we were involved in 779 issues with a total value of US$81 billion through October 2007.

Selected highlights Table 33

(C$ millions)	2007	2006	2005
Total revenue (1)	$ 2,455	$ 2,579	$ 2,256
Other information			
Trading-related	2,060	2,154	1,706
Other (2)	395	425	550

(1) Taxable equivalent basis. For further discussion, refer to the How we measure and report our business segments section.
(2) Other includes debt origination, municipal products, gains/losses on private equity instruments, derivatives non-trading and securitization revenue.

Trading-related and Other revenue (C$ millions)



Global Investment Banking and Equity Markets

Global Investment Banking and Equity Markets brings together our investment banking and equity sales and trading capabilities to provide a complete suite of advisory and equity-related services to clients from origination, structuring and advising to distribution, sales and trading.

Given the significant growth in our National Clients business, we transferred this business from *Other* to *Global Investment Banking and Equity Markets* in the second quarter of 2007.

Financial performance

Global Investment Banking and Equity Markets revenue increased $293 million, or 21%, compared to the prior year. Gross underwriting and advisory revenue was up $166 million, or 25%, largely reflecting strong equity origination activity across all geographies and improved M&A activity mainly in the U.S. Equity sales and trading revenue increased $92 million, or 33%, mainly due to the inclusion of our recent acquisitions, while Other revenue was up $35 million, or 8%, primarily reflecting higher private equity distributions and increased lending activity.

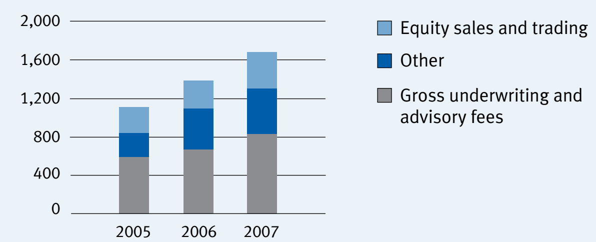
In 2007, we advised on 98 announced M&A deals with a total value of $190 billion. In 2007, we led or co-led 142 equity and equity-related new issues with a total market value of $20 billion, up from 82 in the prior year.

Selected highlights Table 34

(C$ millions)	2007	2006	2005
Total revenue (1)	$ 1,675	$ 1,382	$ 1,098
Other information			
Gross underwriting and advisory fees	831	665	598
Equity sales and trading	375	283	252
Other (2)	469	434	248

(1) Taxable equivalent basis. For further discussion, refer to the How we measure and report our business segments section.
(2) Other includes increases in private equity distributions, growth in revenue associated with our core lending portfolio and syndicated finance and the gain on the exchange of our NYSE seats for NYX shares.

Gross underwriting and advisory fees, equity sales and trading, and Other revenue (C$ millions)



Other

Other consists of our remaining businesses including our Global Credit business, which oversees the management of our core lending portfolios and manages our non-strategic lending portfolio. Global Credit also includes our Global Financial Institutions business which delivers innovative and creative solutions to global financial institutions including correspondent banking, treasury and cash management services. Research offers economic and securities research products to institutional clients in Canada and globally.

Financial performance

Revenue from *Other* was $259 million, an increase of $84 million, or 48%, over the prior year. The increase mainly reflected gains associated with credit derivative contracts used to economically hedge our core lending portfolio reflecting the widening of credit spreads and increased revenue in our Global Financial Institutions business due to higher deposit balances.

Corporate Support

Corporate Support segment activities include our global technology and operations group, corporate treasury, finance, human resources, risk management, internal audit and other global functions, the costs of which are largely allocated to the business segments.

The reported results for the Corporate Support segment mainly reflect activities that are undertaken for the benefit of the organization, and which are not allocated to the business segments such as enterprise funding, securitization and the net charges associated with unattributed capital. The results also include consolidation adjustments including the elimination of the teb adjustments recorded in Capital Markets related to the gross-up of income from Canadian taxable corporate dividends to their taxable equivalent value. These adjustments are recorded in net interest income and offset in the provision for income taxes.

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

Corporate Support financial highlights — Table 35

(C$ millions)	2007	2006	2005
Net interest income (1)	$ (732)	$ (488)	$ (294)
Non-interest income	377	178	190
Total revenue (1)	$ (355)	$ (310)	$ (104)
Non-interest expense	36	36	61
Recovery of credit losses	(85)	(86)	(47)
Business realignment charges	–	–	39
Net loss before income taxes and non-controlling interest in subsidiaries (1)	$ (306)	$ (260)	$ (157)
Net income (loss)	$ 209	$ 111	$ (14)
Selected average balance sheet and other information (2)			
Total assets	$ (6,500)	$ (5,400)	$ (4,000)
Attributed capital (3)	2,950	3,100	2,800
Securitization			
Total securitizations sold and outstanding (4)	$ 17,889	$ 15,836	$ 11,587
New securitization activity in the year (5)	4,264	6,142	3,821
Other information			
Number of employees (full-time equivalent)	19,485	18,393	17,785

(1) Taxable equivalent basis. For further discussion, refer to the How we manage and report our business segments section. These amounts included the elimination of the adjustment related to the gross-up of income from Canadian corporate dividends of $332 million in 2007 recorded in Capital Markets (2006 – $213 million, 2005 – $109 million).
(2) Average amounts are calculated using methods intended to approximate the average of the daily balances for the period.
(3) For further discussion, refer to the Key performance and non-GAAP measures section.
(4) Total securitizations sold and outstanding comprises credit card loans and residential mortgages.
(5) New securitization activity comprises residential mortgages and credit card loans securitized and sold in the year. For further details, refer to Note 5 to our Consolidated Financial Statements.

2007

Net income of $209 million for the year included income tax amounts largely related to enterprise funding activities that were not allocated to the business segments and favourable income tax settlements related to prior years. These factors were partially offset by the mark-to-market losses mainly related to the recognition of the ineffectiveness of hedged items and the related derivatives in hedge accounting relationships, a cumulative adjustment for losses resulting from the fair valuing of certain derivatives that did not qualify for hedge accounting and higher capital taxes that were not allocated to the business segments.

2006

Net income of $111 million for the year mainly reflected income tax amounts which were largely related to enterprise funding activities and the favourable resolution of income tax audits related to prior years not allocated to the business segments. Mark-to-market gains on derivatives related to certain economic hedges also contributed to net income in the year. These factors were partially offset by the timing of securitization activity and an amount accrued related to a leased space which we will not occupy and expect to sublease at a rate lower than our contracted rate.

2005

Net loss of $14 million largely reflected business realignment charges of $39 million, and mark-to-market losses on derivatives relating to certain economic hedges, which were partially offset by securitization activity and interest refunds relating to the resolution of disputed tax items for the 1993 to 1998 tax periods.

Financial condition

Balance sheet

Table 36

(C$ millions)	As at October 31 2007	2006
Interest-bearing deposits with banks	$ 11,881	$ 10,502
Securities	178,255	184,869
Assets purchased under reverse repurchase agreements and securities borrowed	64,313	59,378
Loans	239,429	209,939
Other assets	103,735	69,100
Total assets	600,346	536,780
Deposits	365,205	343,523
Other liabilities	201,284	160,575
Non-controlling interest in subsidiaries	1,483	1,775
Shareholders' equity	24,439	22,123

With the adoption of the new financial instruments accounting standards, certain financial instruments are now measured at fair value that were previously reported at cost or amortized cost. As a result, a greater portion of our Consolidated Balance Sheet is now measured at fair value, including certain derivative instruments. For further details, refer to the Critical accounting policies and estimates section as well as Notes 1 and 2 to our Consolidated Financial Statements.

2007 vs. 2006

Total assets were up $64 billion, or 12%, from a year ago, driven by growth across most asset categories. The increase was largely attributable to solid loan growth, including Canadian residential mortgages and personal and business loans, amid generally favourable domestic market conditions. Higher balances related to derivative-related amounts, primarily reflecting changes in market conditions, also contributed to the increase.

Interest-bearing deposits with banks increased $1 billion, or 13%, from the prior year, largely reflecting a shift in our portfolio mix to higher-yielding assets.

Securities were down $7 billion, or 4%, from a year ago, primarily due to a strategic reduction in our positions taking into account recent financial market volatility, and the impact of a stronger Canadian dollar on the translated value of U.S. dollar-denominated securities.

Assets purchased under reverse repurchase agreements and securities borrowed increased $5 billion, or 8%, from a year ago. This growth primarily reflected higher balances in support of our equity and fixed income trading strategies.

Loans increased $29 billion, or 14%, from a year ago, reflecting increases across all categories. The largest growth was attributable to Canadian residential mortgages, which increased $13 billion, or 14% (despite the offsetting effect of $13 billion of securitizations over the past 12 months) and personal loans, largely driven by demand for home equity lending amid continued strong Canadian housing market activities, relatively low interest rates in a historical context and strong labour market conditions. Solid growth in our wholesale loans of $11 billion, or 19%, mainly reflecting continued growth in corporate lending also contributed to the increase.

Other assets were up $35 billion, or 50%. The growth was mainly attributable to an increase in derivative-related amounts primarily in foreign exchange and interest rate contracts, reflecting increased volatility, strong shifts in exchange rates and interest rates, as well as higher client and trading activity. These factors were partially offset by the impact of a stronger Canadian dollar on the translated value of U.S. dollar-denominated derivative-related assets.

Deposits increased $22 billion, or 6%, from a year ago. The growth was largely due to increased business and government deposits mainly reflecting higher balances in support of business activities, increased balances at *RBC Dexia IS*, and domestic business growth. Higher personal deposits in part driven by the success of our recently launched high-interest online savings account also contributed to the increase. These factors were partially offset by a reduction in interest-bearing deposits with banks in part reflecting our lower funding requirements compared to a year ago.

Other liabilities rose $41 billion, or 25%, from last year. The increase was mainly due to derivative-related amounts, primarily reflecting the same factors noted above in derivative-related assets. Increased securities sold short, mainly reflecting business growth and higher balance in support of our fixed income trading strategies, also contributed to the increase.

Shareholders' equity increased $2 billion, or 10%, over the prior year. The growth largely reflected strong earnings growth, net of dividends, and a $1 billion net issuance of preferred shares since last year.

Capital management

Capital management framework

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

Our capital management framework provides the policies and processes for defining, measuring, raising and investing all forms of capital in a co-ordinated and consistent manner. We manage and monitor our capital from several perspectives, including:

(i) Regulatory capital: capital required for regulatory compliance defined in accordance with the Office of the Superintendent of Financial Institutions Canada (OSFI) criteria;
(ii) Economic Capital: an internal assessment of the amount of equity capital required to underpin our risks; and
(iii) Subsidiary capital: the amount of regulatory capital invested in subsidiaries.

This co-ordinated approach to capital management serves an important business function. Our goal is to optimize our capital usage and structure and provide efficient support for our business segments and clients and better returns for our shareholders, while protecting our depositors and senior creditors.

Governance

The Board of Directors is responsible for the annual review and approval of our capital plan, in conjunction with our operating plan. The Audit Committee is responsible for the governance of capital management, which includes the approval of capital management policies, the regular review of our capital position and liquidity, funding and capital management processes, and the ongoing review of internal control over financial reporting. In addition, the OSFI meets with our Audit Committee and the Conduct Review and Risk Policy Committee (CR&RPC) to discuss policies and procedures regarding capital management.

The Asset & Liability Committee and the Group Executive share management oversight responsibility for capital management and receive regular reports detailing compliance with the established limits and guidelines. Corporate Treasury and Group Risk Management (GRM) are responsible for the design and implementation of policies for regulatory, economic and subsidiary capital.

Risk-adjusted assets (RAA)

Under the current Basel I framework, the calculation of RAA is determined by the OSFI-prescribed rules relating to on-balance sheet and off-balance sheet exposures and includes an amount for the market risk exposure associated with our trading portfolios.

During the year, RAA increased by $23.9 billion, with strong growth across most categories including loans, mortgages, and off-balance sheet derivative instruments. However, growth in nominal assets was partially offset by the impact of a stronger Canadian dollar on the translated value of our foreign currency-denominated assets.

Risk-adjusted assets (1) — **Table 37**

(C$ millions, except percentage amounts)	Balance sheet amount	Weighted average of risk weights (2)	Risk-adjusted balance 2007	Risk-adjusted balance 2006
Balance sheet assets				
Cash and deposits with banks	$ 16,107	18%	$ 2,852	$ 2,322
Securities				
Issued or guaranteed by Canadian or other OECD (3) governments	16,858	–	52	42
Other	161,591	6%	9,495	7,811
Residential mortgages (4)				
Insured	27,994	1%	355	363
Conventional	81,713	40%	32,885	27,921
Other loans and acceptances (4)				
Issued or guaranteed by Canadian or other OECD (3) governments	32,577	17%	5,651	3,848
Other	171,422	69%	118,723	107,336
Other assets	92,100	11%	10,487	10,609
	$ 600,362		$ 180,500	$ 160,252
	Credit equivalent amount (5)			
Off-balance sheet financial instruments				
Credit instruments				
Guarantees and standby letters of credit	$ 19,758	60%	$ 11,807	$ 14,092
Documentary and commercial letters of credit	100	78%	78	65
Securities lending (6)	36,187	3%	962	3,022
Commitments to extend credit	21,954	85%	18,752	16,666
Liquidity facilities	4,826	98%	4,746	4,413
Note issuances and revolving underwriting facilities	–	–	–	4
	$ 82,825		$ 36,345	$ 38,262
Derivatives (7)	57,973	25%	14,457	10,432
Total off-balance sheet financial instruments	$ 140,798		$ 50,802	$ 48,694
Total specific and general market risk			16,333	14,763
Total risk-adjusted assets			$ 247,635	$ 223,709

(1) Calculated using guidelines issued by the OSFI.
(2) Represents the weighted average of counterparty risk weights within a particular category.
(3) OECD stands for Organisation for Economic Co-operation and Development.
(4) Amounts are shown net of allowance for loan losses.
(5) The amount of credit exposure attributable to an off-balance sheet financial instrument, derived from the notional value of the exposure.
(6) In 2007, we implemented a new trading credit risk system in our London office that enables clearer identification of these balances, resulting in a lower risk-adjusted balance.
(7) Excludes non-trading credit derivatives given guarantee treatment for credit risk capital purposes.

Regulatory capital and capital ratios

Capital levels for Canadian banks are regulated pursuant to guidelines issued by the OSFI, based on standards issued by the Bank for International Settlements. Regulatory capital is allocated to two tiers: Tier 1 and Tier 2. Tier 1 capital comprises the more permanent components of capital and consists primarily of common shareholders' equity, non-cumulative preferred shares, the majority of which do not have conversion features into common shares, and the eligible amount of innovative capital instruments. In addition, goodwill is deducted from Tier 1 capital.

Tier 2 capital consists mainly of subordinated debentures, trust subordinated notes, the eligible amount of innovative capital instruments that could not be included in Tier 1 capital, and an eligible portion of the total general allowance for credit losses. Total capital is defined as the total of Tier 1 and Tier 2 capital less deductions as prescribed by the OSFI. For further details on the terms and conditions of our non-cumulative preferred shares and innovative capital instruments, refer to Notes 17 and 18 of our Consolidated Financial Statements.

Regulatory capital ratios are calculated by dividing Tier 1 and Total capital by RAA. The OSFI formally establishes risk-based capital targets for deposit-taking institutions in Canada. These targets are currently a Tier 1 capital ratio of 7% and a Total capital ratio of 10%. In addition to the Tier 1 and Total capital ratios, Canadian banks are required to ensure that their assets-to-capital multiple, which is calculated by dividing gross adjusted assets by Total capital, does not exceed a maximum level prescribed by the OSFI.

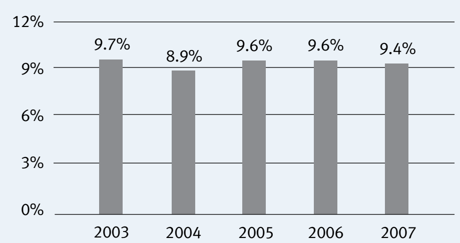
The components of regulatory capital and our regulatory capital ratios are shown in the following table.

Regulatory capital and capital ratios (1) — Table 38

(C$ millions, except percentage amounts)	2007	2006
Tier 1 capital		
Common equity (2)	$ 22,272	$ 21,065
Non-cumulative preferred shares	2,344	1,345
Trust capital securities	3,494	3,222
Other non-controlling interest in subsidiaries	25	28
Goodwill	(4,752)	(4,182)
	23,383	21,478
Tier 2 capital		
Permanent subordinated debentures (3)	779	839
Non-permanent subordinated debentures (3)	5,473	6,313
General allowances	1,221	1,223
Trust capital securities (excess over 15% Tier 1)	–	249
Trust subordinated notes	1,027	–
Accumulated net unrealized gain on available-for-sale equity securities (4)	105	–
	8,605	8,624
Other deductions from capital		
Investment in insurance subsidiaries	(2,912)	(2,795)
Other	(505)	(643)
Total capital	$ 28,571	$ 26,664
Capital ratios		
Tier 1 capital to risk-adjusted assets	9.4%	9.6%
Total capital to risk-adjusted assets	11.5%	11.9%
Assets-to-capital multiple	19.9X	19.7X

(1) As defined in the guidelines issued by the OSFI.
(2) This amount is Shareholders' equity less preferred shares of $2,050 million and other items not included in regulatory capital of $117 million.
(3) Subordinated debentures that are within five years of maturity are subject to straight-line amortization to zero during their remaining term and, accordingly, are included above at their amortized value.
(4) As prescribed by the OSFI, certain components of Accumulated other comprehensive income (AOCI) are included in the determination of regulatory capital. Accumulated net foreign currency translation adjustments are included in Tier 1 capital in common equity. Net unrealized fair value losses on available-for-sale (AFS) equities are deducted in the determination of Tier 1 capital while net unrealized fair value gains on AFS equities are included in Tier 2 capital.

Tier 1 capital ratio



As at October 31, 2007, the Tier 1 capital ratio was 9.4% and the Total capital ratio was 11.5%.

The Tier 1 capital ratio was down 20 bps from a year ago. The decrease was largely due to business growth, including acquisitions, which resulted in an increase in RAA and a higher goodwill deduction from capital. The impact of our common share repurchases under our normal course issuer bid also contributed to the decrease. These factors were partially offset by strong generation of capital from earnings and the issuance of preferred shares.

The Total capital ratio was down 40 bps from a year ago due to growth in RAA and the redemption of subordinated debentures. These factors were partially offset by the issuance of trust subordinated notes.

As at October 31, 2007, our assets-to-capital multiple was 19.9 compared to 19.7 a year ago. Our assets-to-capital multiple remains below the maximum of 23 that is allowed by the OSFI.

Selected capital management activity — Table 39

(C$ millions)	2007	2006
Dividends		
Common	$ 2,321	$ 1,847
Preferred	88	60
Common shares issued (1)	152	115
Repurchase of common shares – normal course issuer bid (2)	(646)	(844)
Preferred shares issued	1,150	600
Preferred shares redeemed	(150)	(250)
Subordinated debentures issued	87	–
Repurchase and redemption of debentures (3)	(985)	(955)
Issuance of Trust subordinated notes (4)	1,000	–

(1) Represents cash received for stock options exercised during the year.
(2) For further details, refer to Note 18 to our Consolidated Financial Statements.
(3) For further details, refer to Note 16 to our Consolidated Financial Statements.
(4) For further details, refer to Note 17 to our Consolidated Financial Statements.

In 2007, we undertook several initiatives to support the effective management of our capital.

Tier 1

In 2007, we repurchased 11.8 million common shares for $646 million under our NCIB that expired on October 31, 2007. Effective November 1, 2007, we renewed our NCIB to repurchase up to 20 million common shares, or 1.6%, of our outstanding common shares as at October 31, 2007. This NCIB will expire on October 31, 2008.

On April 26, 2007, we issued $250 million of Non-cumulative First Preferred Shares Series AG at $25 per share.

On March 14, 2007, we issued $200 million of Non-cumulative First Preferred Shares Series AF at $25 per share.

On January 19, 2007, we issued $250 million of Non-cumulative First Preferred Shares Series AE at $25 per share.

On December 13, 2006, we issued $250 million of Non-cumulative First Preferred Shares Series AD at $25 per share.

On November 24, 2006, we redeemed all of the issued and outstanding $150 million Non-cumulative First Preferred Shares Series O.

On November 1, 2006, we issued $200 million of Non-cumulative First Preferred Shares Series AC at $25 per share.

Tier 2

During the year, we purchased US$24 million of our outstanding US$300 million floating rate debentures maturing in 2085.

On June 26, 2007, we issued JP¥10 billion (C$87 million) Japanese Yen-denominated subordinated debentures.

On June 4, 2007, we redeemed all of our outstanding $500 million subordinated debentures due June 4, 2012, at par value plus accrued interest.

On April 30, 2007, we issued $1 billion of subordinated debentures through RBC Subordinated Notes Trust, a closed-end trust wholly owned by us.

On November 8, 2006, we redeemed all of our outstanding US$400 million floating-rate subordinated debentures due November 8, 2011, for 100% of their principal amount plus accrued interest to the redemption date.

Dividends

Our common share dividend policy reflects our earnings outlook, desired payout ratio and the need to maintain adequate levels of capital to fund business opportunities. The targeted common share dividend payout ratio for 2007 was 40% to 50%. In 2007, the dividend payout ratio was 43%, up from 40% in 2006. Common share dividends paid during the year were $2.3 billion, up 26% from a year ago.

Share data and dividends — Table 40

	2007			2006			2005		
(C$ millions, except number of shares and per share amounts)	Number of shares (000s)	Amount	Dividends per share	Number of shares (000s)	Amount	Dividends per share	Number of shares (000s)	Amount	Dividends per share
First Preferred (1)									
Non-cumulative Series N	12,000	$ 300	$ 1.18	12,000	$ 300	$ 1.18	12,000	$ 300	$ 1.18
Non-cumulative Series O	–	–	–	6,000	150	1.38	6,000	150	1.38
Non-cumulative Series S	–	–	–	–	–	1.33	10,000	250	1.53
Non-cumulative Series W	12,000	300	1.23	12,000	300	1.23	12,000	300	.99
Non-cumulative Series AA	12,000	300	1.11	12,000	300	.71	–	–	–
Non-cumulative Series AB	12,000	300	1.18	12,000	300	.41	–	–	–
Non-cumulative Series AC	8,000	200	1.22	–	–	–	–	–	–
Non-cumulative Series AD	10,000	250	1.06	–	–	–	–	–	–
Non-cumulative Series AE	10,000	250	.95	–	–	–	–	–	–
Non-cumulative Series AF	8,000	200	.77	–	–	–	–	–	–
Non-cumulative Series AG	10,000	250	.65	–	–	–	–	–	–
Total First Preferred		$ 2,350			$ 1,350			$ 1,000	
Common shares outstanding	1,276,260	$ 7,300	$ 1.82	1,280,890	$ 7,196	$ 1.44	1,293,502	$ 7,170	$ 1.18
Treasury shares – preferred	(249)	(6)		(94)	(2)		(91)	(2)	
Treasury shares – common	(2,444)	(101)		(5,486)	(180)		(7,053)	(216)	
Stock options									
Outstanding	26,623			32,243			36,481		
Exercisable	21,924			26,918			28,863		

(1) As at October 31, 2007, the aggregate number of common shares issuable on the conversion of the First Preferred Shares Series N was approximately 5,743,000. As at October 31, 2007, the First Preferred Shares Series W was not yet convertible. The other preferred shares do not have conversion options.

As at November 23, 2007, the number of outstanding common shares and stock options were 1,276,292,000 and 26,591,000, respectively. As at November 23, 2007, the number of Treasury shares – preferred and Treasury shares – common were 263,000 and 2,775,000, respectively. For further information about our share capital, refer to Notes 18 and 21 to our Consolidated Financial Statements.

Hedging foreign currency-denominated operations

Increasing amounts of U.S. dollar-denominated assets and deductions from regulatory capital prompted our development of a policy for hedging our foreign exchange exposure with respect to our foreign operations. The objectives of our hedging policy are: (i) stabilization of our consolidated regulatory capital ratios from currency fluctuations, and (ii) mitigation of potential earnings volatility that might result if we dispose of these investments in foreign operations. When the Canadian dollar strengthens/weakens against other currencies, the losses/gains on net foreign investments reduce/increase our capital, as well as our RAA and goodwill of the foreign currency-denominated operations. Selecting an appropriate level of hedging for our investment in foreign operations ensures that our regulatory capital ratios are not materially impacted by currency fluctuations due to the offsetting impact of the proportionate movements in the assets and capital.

Hedging our operations denominated in foreign currencies promotes orderly and efficient capital management. It facilitates compliance with regulatory requirements on an ongoing basis and enables us to maintain greater control over key capital ratios, thereby reducing the need for capital transactions in response to currency fluctuations.

Economic Capital

Economic Capital is our own quantification of risks associated with business activities. Economic Capital is defined as the capital required to remain solvent and in business even under extreme market conditions, given our desire to maintain a debt rating of at least AA. Economic Capital is attributed to each business segment in proportion to management's assessment of the risks. It allows for comparable performance measurements among our business segments through Return on Equity (ROE) and Return on Risk Capital (RORC), which are described in detail in the Key performance and non-GAAP measures section. Accordingly, Economic Capital aids senior management in resource allocation and serves as a reference point for the assessment of our aggregate risk appetite in relation to our financial position, recognizing that factors outside the scope of Economic Capital must also be taken into consideration.

Economic Capital is also used to assess the adequacy of our capital base. Our policy is to maintain a level of common equity and other instruments with equity-like permanence and loss absorption features that exceed Economic Capital with a comfortable cushion.

Economic Capital is calculated and attributed on a wider array of risks than is regulatory capital, which is primarily limited to credit, market (trading) and, under Basel II, operational risk. Economic Capital also includes goodwill and intangibles. The identified risks (described below) for which we calculate Economic Capital are credit, market (trading and non-trading), operational, business, fixed asset, and insurance. Additionally, Economic Capital allows for diversification benefits across risks and business segments.

- *Credit risk* is the risk of loss associated with a counterparty's inability or unwillingness to fulfill its payment obligations.
- *Market risk* is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, equity or commodity prices, or the volatility of these factors, in both banking and trading books. Market risk can be exacerbated by thinly traded or illiquid markets.
- *Operational risk* is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.
- *Business risk* is the risk of loss due to variances in volumes, prices and costs caused by competitive forces, regulatory changes, reputation and strategic risks.
- *Fixed asset risk* is defined as the risk that the value of fixed assets will be less than their book value at a future date.
- *Insurance risk* is the risk of loss that may occur when assumptions made in insurance product design and pricing activities differ from actual experience.

For further discussion of credit, market, operational and insurance risk, refer to the Risk management section.

The calculation and attribution of Economic Capital involves a number of assumptions and judgments. The methodologies are continually monitored to ensure that the Economic Capital framework is comprehensive and consistent. Economic Capital measurement models and techniques are developed by GRM and are subject to independent assessment for appropriateness and reliability. The models are continually benchmarked to leading industry practices via participation in surveys, reviews of methodologies and ongoing interaction with external risk-management industry professionals. The models and input parameters are subject to independent vetting and validation, as per internal model risk policies.

Economic Capital — Table 41

(C$ millions average balances)	2007	2006
Credit risk	$ 6,850	$ 5,800
Market risk (trading and non-trading)	2,700	2,500
Operational risk	2,750	2,450
Business and fixed asset risk	2,000	1,800
Insurance risk	150	200
Risk capital	$ 14,450	$ 12,750
Goodwill and intangibles	5,550	4,650
Economic Capital	$ 20,000	$ 17,400
Unattributed capital	2,000	2,500
Common equity	$ 22,000	$ 19,900

Economic Capital increased $2.6 billion from a year ago largely due to increases in Credit risk capital, Goodwill and intangibles and Operational risk capital. The increases in Credit risk and Operational risk capital were primarily due to business growth including the impact of our acquisitions of Flag, the AmSouth branches and Carlin. Goodwill and intangibles increased primarily as a result of these acquisitions, which were partially offset by the favourable impact of a stronger Canadian dollar on the translated value of foreign currency-denominated assets.

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

Subsidiary capital

Management of consolidated capital has become a strategic objective for us as the amount of capital deployed in subsidiaries to build their businesses has grown in order to maximize profits and returns to our shareholders. Accordingly, regulatory bodies have focused on ensuring that for all internationally active banks, capital recognized in regulatory capital measurements is accessible by the parent entity. At the same time, subsidiaries should be sufficiently capitalized on a stand-alone basis and in compliance with local regulatory requirements at all times. In addition to minimum capital requirements, these local regulations may include restrictions on the transfer of assets in the form of cash, dividends, loans or advances. For further details, refer to Note 18 to our Consolidated Financial Statements. To balance these regulatory requirements and facilitate the co-ordinated generation and allocation of capital across the enterprise, we have put in place a comprehensive subsidiary capital management framework. This framework sets guidelines for defining capital investments in our subsidiaries and establishes an overall limit for total investment in those subsidiaries.

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

Other considerations affecting capital

Transition to Basel II

Beginning in the first quarter of 2008, as a result of the OSFI's adoption of new guidelines based on "International Convergence of Capital Measurement and Capital Standards: A Revised Framework – Comprehensive Version (June 2006)," known as Basel II, Canadian banks will be required to calculate and report their regulatory capital ratios under new measurement standards. We intend to adopt the Advanced Internal Ratings Based (AIRB) Approach for credit risk and, initially, the Standardized Approach for operational risk. There will be no changes in the treatment of market risk. For details on our Basel II risk approaches, refer to the Risk management section.

As part of the Basel II process, Canadian banks must demonstrate to the OSFI that they have met the AIRB requirements and that their capital reporting is accurate and of high quality. The OSFI has been engaged in extensive AIRB approval reviews throughout 2007. Our final application package, for adoption of the AIRB Approach for most material portfolios, was submitted to the OSFI on October 31, 2007 and the formal approval decision is expected by December 31, 2007. Once we achieve full compliance with the AIRB requirements and the OSFI has agreed, we may proceed to reflect capital below Basel I levels, subject to a two-year transitional floor requirement where our capital must reflect 90% and 80% of our Basel I capital charges. As required by the OSFI since November 1, 2006, we have been calculating capital requirements in parallel under both the Basel I and Basel II rules.

Also, the OSFI has made some allowances for staged implementation. In particular, the OSFI has approved a waiver for RBC Centura Bank to use the Standardized Approach for credit risk until 2010. We have also been granted an extension (applicable to non-North American portfolios) for RBC Dexia IS, which plans to implement the AIRB approach by June 2008. Additionally, the OSFI has approved an exemption for our Caribbean banking operations to report under the Standardized Approach as long as that portfolio remains non-material (defined as 1% or less of total balance sheet and credit equivalent amounts).

Notwithstanding that our risk and capital management processes were already substantially consistent with the principles embodied in Basel II, we have introduced new policies and enhanced practices, as appropriate, to facilitate transition to Basel II. These include meeting requisite standards for:

- risk rating system design and operation
- risk quantification, validation, and use of rating systems and internal ratings
- corporate governance and oversight
- implementation of a robust internal capital adequacy assessment process (ICAAP).

Our approach to capital adequacy is a co-ordinated effort involving functional units such as GRM, Corporate Treasury, and Finance. Currently, GRM works in partnership with our businesses to identify, measure, mitigate and monitor all forms of risk, as described in the Risk management section. Capital adequacy is assessed and determined with consideration of the full range of risk controls and capital management tools available to us. We view capital adequacy as a dynamic process that considers multiple variables, including earnings, asset growth and capital transactions, within regulatory and financial market constraints in order to meet strategic goals.

Our initial ICAAP was presented to the Audit Committee in October 2007. This ICAAP incorporates senior management oversight, comprehensive risk-based stress testing of regulatory capital requirements and our own assessment of risk based on Economic Capital, which is expected to play a greater role in capital adequacy assessments under Basel II.

Our ICAAP demonstrates that we are well capitalized, having enough capital to meet management's assessment of required capital under both normal market conditions and a range of severe but plausible stress testing scenarios. It serves as an important tool in the establishment of our internal capital ratios target within the broader context of our capital management framework, and will be subject to annual review and ongoing development.

In addition to our ICAAP, several of our subsidiaries are required to submit entity level ICAAPs to local regulators. While these assessments are the responsibility of the respective subsidiaries, Corporate Treasury liaises with subsidiaries to ensure enterprise-wide consistency.

Our implementation of Basel II will produce capital requirements that may differ from those calculated under the current Basel I framework. For the most part, this reflects a shift in calculation methodology from application of prescribed risk weights to processes that are more closely aligned with our internal risk management practices. Also, Basel II incorporates a specific charge for operational risk that is not currently required under Basel I. As Basel II will be applied on a prospective basis, comparability to historical data and capital ratios reported under Basel I may be difficult.

Disclosure requirements under Basel II will begin with our first quarter 2008 financial disclosure, and will continue to evolve over 2008, with all quantitative and qualitative requirements being met with the release of our 2008 annual report.

Accounting considerations

In addition to the regulatory environment, we closely monitor changes in accounting rules and their potential impact on our capitalization levels. With the recent adoption of the new financial instruments accounting standards under Canadian GAAP, differences exist between the measurement of capital as disclosed in the financial statements and that used for regulatory capital purposes. For example, under Canadian GAAP, available-for-sale (AFS) debt securities are recognized at fair value, with unrealized gains and losses reported in Accumulated other comprehensive income (AOCI). In contrast, for regulatory capital purposes, these securities are measured at amortized cost, and consequently, no unrealized gains or losses are reflected in regulatory capital. Additionally, the unrealized gains and losses on derivatives designated as cash flow hedges and reported in AOCI are excluded from regulatory capital.

Capital treatment for equity investments in other entities is determined by a combination of accounting and legal guidelines based on the size or nature of the investment. Three broad approaches apply as follows:

- Consolidation: entities in which we have a controlling interest must be fully consolidated on our consolidated balance sheet. Joint ventures are consolidated on a pro rata basis. Consolidated holdings are capitalized directly by asset class and are not treated as equity investments for regulatory capital calculation purposes.

- Deduction: certain holdings are deducted in full from our regulatory capital. These include all "substantial" investments (as defined by the *Bank Act*), as well as all investments in insurance subsidiaries.
- Risk weighting: unconsolidated equity investments that are not deducted from capital are risk weighted at a prescribed rate for determination of capital charges.

While Basel II retains the same criteria for determination of capital treatment of equities, the prescribed risk weightings are generally higher than under Basel I.

Off-balance sheet arrangements

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

Derivatives

On November 1, 2006, we adopted three new accounting standards that were issued by the CICA related to financial instruments. These standards and the impact on our financial position and results of operations are discussed in the Impact of the new financial instruments accounting standards section and in Note 1 to our Consolidated Financial Statements. With the adoption of these standards, all derivatives including derivatives that qualified for hedge accounting are now recognized on the Consolidated Balance Sheets at fair value. Prior to November 1, 2006, derivatives that qualified for hedge accounting were not carried at fair value on our Consolidated Balance Sheets. Refer to Note 7 to our Consolidated Financial Statements for detailed information on our derivatives products.

Special purpose entities

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

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

Securitization of our financial assets

We periodically securitize our credit card receivables and residential mortgage loans primarily to diversify our funding sources and enhance our liquidity position. We also securitize residential and commercial mortgage loans for sales and trading activities. Gains and losses on securitizations are included in Non-interest income. Refer to Note 1 to our Consolidated Financial Statements for our accounting policy for loan securitizations.

In addition to traditional securitizations where we sell our loans and receivables, we also enter into synthetic securitizations to transfer risks relating to selected elements of our financial assets without actually transferring the assets through the use of certain financial instruments.

Credit card receivables

We securitize a portion of our credit card receivables through a SPE on a revolving basis. The SPE is funded through the issuance of senior and subordinated notes collateralized by the underlying credit card receivables. The issuances are rated by at least two of DBRS, Moody's Investors Service (Moody's) or Standard & Poor's Corporation (S&P). This SPE meets the criteria for a QSPE and, accordingly, as the transferor of the credit card receivables, we are precluded from consolidating this SPE.

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

Residential mortgage loans

We securitize Canadian insured residential mortgage loans through the creation of mortgage-backed securities (MBS) and sell a portion of these MBS to an independent SPE on a revolving basis. We retain interests in the excess spread on the sold MBS and continue to service the underlying mortgages that we have securitized for funding and liquidity purposes.

We did not securitize any residential mortgages synthetically in 2007. As at October 31, 2006, we had synthetically securitized $20 billion in residential mortgage loans through financial guarantees.

Commercial mortgage loans

We securitize commercial mortgages by selling them in collateral pools, which meet certain diversification, leverage and debt coverage criteria, to SPEs, one of which is sponsored by us. The SPEs finance the purchase of these pools by issuing certificates that carry varying degrees of subordination. The certificates issued by the SPE which we sponsor range from AAA to B- and are rated by any two of DBRS, Moody's and S&P. The most subordinated certificates are unrated. The certificates represent undivided interests in the collateral pool, and the SPE which we sponsor, having sold all undivided interests available in the pool, retains none of the risk of the collateral pools. We do not retain any beneficial interests in the loans sold unless we purchase some of the securities issued by the SPEs for our own account. We are the primary servicer under contract with a third-party master servicer for the loans that are sold to the SPE that is sponsored by us.

Our financial asset securitizations		Table 42
(C$ millions)	2007	2006
Outstanding securitized assets		
Residential mortgages	$ 18,384	$ 14,131
Credit cards	3,650	3,650
Commercial mortgages	3,727	1,914
Total	$ 25,761	$ 19,695
Retained interests		
Residential mortgages		
Mortgage-backed securities retained (1)	$ 5,954	$ 5,591
Retained rights to future excess interest	414	206
Credit cards		
Asset-backed securities purchased (2)	870	1,390
Retained rights to future excess interest	27	26
Subordinated loan receivables	3	6
Commercial mortgages		
Asset-backed securities purchased (2)	47	–
Total	$ 7,315	$ 7,219

(1) All residential mortgages securitized are Canadian insured mortgages.
(2) Securities purchased during the securitization process.

Securitization activities during 2007

During the year, we securitized $13.3 billion of residential mortgages, of which $6.2 billion were sold, $3.7 billion were reinvested in revolving securitizations and the remaining $3.4 billion were retained. We also securitized $1.9 billion of commercial mortgages and purchased $48 million (principal value) related securities during the securitization process. Refer to Note 5 to our Consolidated Financial Statements for further details and the amounts of impaired and past due loans that we manage and any losses recognized on securitization activities during the year.

Capital trusts

We issue innovative capital instruments, RBC Trust Capital Securities (TruCS) and RBC Trust Subordinated Notes (TSNs), through three SPEs: (i) RBC Capital Trust (Trust), (ii) RBC Capital Trust II (Trust II) and (iii) RBC Trust Subordinated Trust (Trust III). We consolidated Trust but do not consolidate Trust II or Trust III because 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 these trusts. As at October 31, 2007, we held the residual interest of $1 million and $1 million (2006 – $1 million and nil) in Trust II and Trust III, respectively. We had a loan receivable of $40 million (2006 – $42 million) from Trust II and of $30 million from Trust III (2006 – nil), and reported the senior deposit notes of $900 million and $999.8 million (2006 – $900 million and nil) that we issued to Trust II and Trust III in our deposit liabilities. Under certain circumstances, TruCS of Trust II will be automatically exchanged for our preferred shares and TSNs exchanged for our subordinated notes without prior consent of the holders. In addition, TruCS holders of Trust II have the right to exchange for our preferred shares as outlined in Note 17 to our Consolidated Financial Statements.

Interest expenses on the senior deposit notes issued to Trust II and Trust III amounted to $52 million and $23.6 million, respectively (2006 – $52 million and nil, 2005 – $52 million and nil) during the year. For further details on the capital trusts and the terms of the TruCS and TSNs issued and outstanding, refer to the Capital management section and Note 17 to our Consolidated Financial Statements.

Securitization of client financial assets

Within our Global Securitization Group, our principal relationship with SPEs comes in the form of administering seven multi-seller asset-backed commercial paper conduit programs (multi-seller conduits) – four in Canada and three in the United States. We are involved in the multi-seller conduit markets because our clients value these transactions, they offer us a growing source of revenue and they generate a favourable risk-adjusted return for us. Our clients primarily utilize multi-seller conduits to diversify their financing sources and to reduce funding costs by leveraging the value of high-quality collateral. The multi-seller conduits purchase various financial assets from clients and finance the purchases by issuing highly rated asset-backed commercial paper. The multi-seller conduits typically purchase the financial assets as part of a securitization transaction by our clients. In these situations, the sellers of the financial assets continue to service the respective assets and generally provide some amount of first-loss protection on the assets.

The multi-seller conduits also financed assets that were either in the form of securities, including collateralized debt obligations (CDOs) or instruments that closely resemble securities such as credit-linked notes. The credit quality of these transactions is very high, often in the highest available rating categories established by the rating agencies that assign ratings to these types of securities or security-like instruments. In these situations, the multi-seller conduit is often one of many investors in the securities or security-like instruments.

The commercial paper issued by each multi-seller conduit is in the multi-seller conduit's own name with recourse to the financial assets owned by the multi-seller conduit. The multi-seller conduit commercial paper is non-recourse to us except through our participation in liquidity and/or credit enhancement facilities, and non-recourse to the other multi-seller conduits that we administer.

We do not maintain any ownership or retained interests in these multi-seller conduits. We provide services such as transaction structuring and administration as specified by the multi-seller conduit program documents, for which we receive fees. In addition, we provide backstop liquidity facilities and partial credit enhancements to the multi-seller conduits. Our maximum exposure to loss under these facilities is $42.9 billion for 2007 and $35.1 billion for 2006. The increase in liquidity and credit facilities is due to the increase in the multi-seller conduits' activities during the year. We have no rights to, or control of, the assets owned by the multi-seller conduits. Fee revenue for all such services, which is reported as Non-interest income, amounted to $72 million during the year (2006 – $60 million, 2005 – $58 million).

Total commitments and amounts outstanding under liquidity and credit enhancement facilities for the multi-seller conduits as at October 31, 2007 and 2006, which are also included in our discussion in the Guarantees section, are shown below:

Liquidity and credit enhancement facilities						Table 43
	2007			2006		
(C$ millions)	Committed	Maximum exposure to loss	Outstanding	Committed	Maximum exposure to loss	Outstanding
Backstop liquidity facilities	$ 42,567	$ 38,726	$ –	$ 34,880	$ 31,686	$ –
Credit enhancement facilities	4,185	4,185	–	3,404	3,404	–

The following is a summary of our maximum exposure to loss categorized by securitized client asset type in the multi-seller conduits for the years ended October 31, 2007 and 2006.

Maximum exposure to loss by client asset type — Table 44

(C$ millions)	2007	2006
Outstanding securitized assets		
Auto loans and leases	$ 12,157	$ 7,073
Asset-backed securities	164	195
Consumer loans	1,769	2,659
Credit cards	11,125	8,856
Dealer floor plan receivables	496	–
Electricity market receivables	306	306
Equipment receivables	2,279	2,132
Insurance premiums	610	664
Other loans	288	–
Residential mortgages	3,793	4,358
Securities	1,669	1,497
Student loans	2,654	2,928
Trade receivables	5,133	3,537
Truck loans and leases	468	885
Other	–	–
Total	$ 42,911	$ 35,090

All the multi-seller conduits were restructured in 2004. As part of the restructurings, an unrelated third party (expected loss investor) agreed to absorb credit losses, up to a maximum contractual amount, that may occur in the future on the assets in the multi-seller conduits (multi-seller conduit first-loss position) before us and the multi-seller conduit's debt holders. In return for assuming this multi-seller conduit first-loss position, the expected loss investor is paid by the multi-seller conduit a return commensurate with its risk position. Moreover, each multi-seller conduit has granted to the expected loss investor material voting rights, including the right to approve any transaction prior to the multi-seller conduit purchasing and financing a transaction. As a result of the restructurings, we do not consolidate any of the multi-seller conduits. As a result of increased activities during 2007, these seven multi-seller conduits have financial assets totalling $29.3 billion as at October 31, 2007 (2006 – $24.8 billion). The maximum assets that may have to be purchased by the conduits under purchase commitments outstanding as at October 31, 2007 were $41.8 billion (2006 – $34.3 billion).

Creation of credit investment products

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

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

There are many functions required to create such a product. We fulfill some of these functions and independent third parties or specialist service providers fulfill the remainder. Currently we act as sole arranger and swap provider for SPEs where we are involved and, in most cases, act as paying and issuing agent as well. As with all our trading derivatives, the derivatives with these SPEs are carried at fair value in derivative-assets and liabilities.

The assets in these SPEs amounted to $5.2 billion as at October 31, 2007 (2006 – $3.8 billion), of which $.3 billion were consolidated as at October 31, 2007 (2006 – $.7 billion). The majority of the increase in these assets is due to the creation of new SPEs in 2007.

Structured finance

We occasionally invest in off-balance sheet entities in the form of loan substitute and equity investments that are part of transactions structured to achieve a desired outcome, such as limiting exposure to specific assets or risks, obtaining indirect (and usually risk mitigated) exposure to financial assets, funding specific assets, supporting an enhanced yield and meeting client requirements. These transactions usually yield a higher return or provide lower-cost funding on an after-tax basis than financing non-SPE counterparties, holding an interest in financial assets directly, or receiving on-balance sheet funding. These transactions are structured to mitigate risks associated with directly investing in the underlying financial assets, or directly receiving funding, and may be structured so that our ultimate credit risk is that of a non-SPE, which in most cases is another financial institution. Exit mechanisms are built into these transactions to curtail exposure from changes in law or regulations. We consolidate structured finance VIEs in which our interests expose us to a majority of the expected losses. In 2007, we reduced our total investments in certain transactions. The unconsolidated entities in which we have significant investments or loans had total assets of $4.8 billion as at October 31, 2007 (2006 – $6.9 billion). As at October 31, 2007, our total investments in and loans to these entities were $2.5 billion (2006 – $2.9 billion), which are reflected on our Consolidated Balance Sheets.

Investment funds

We enter into derivative transactions with third parties including mutual funds, unit investment trusts and other investment funds for fees to provide their investors with the desired exposure and hedge our exposure from these derivatives by investing in other funds. We consolidate the investment funds when our participation in the derivative or our investment in other funds exposes us to a majority of the respective expected losses. The total assets held in the funds where we have significant exposure and which we did not consolidate were $1.6 billion as at October 31, 2007 (2006 – $3.6 billion). The decrease is primarily due to a reduction of assets in one of the investment funds. As at October 31, 2007, our total exposure was $423 million (2006 – $319 million).

Trusts, mutual and pooled funds

Our joint venture *RBC Dexia IS* provides global custody, fund and pension administration of client assets as well as the provision of shareholders services, foreign exchange, securities lending and other related services. With respect to trusteeship and/or custodian services for personal and institutional trusts, *RBC Dexia IS* has a fiduciary responsibility to act in the best interests of the beneficiaries of the trusts. *RBC Dexia IS* earns fees for providing these services and we include 50% of these fees in our revenue, representing our share of interest in the joint venture. Refer to Note 9 to our Consolidated Financial Statements for more details.

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

Guarantees

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

Due to the adoption of the three new financial instrument accounting standards on November 1, 2006, financial guarantees are now recognized at inception at the fair value of the obligation undertaken in issuing the guarantee. Subsequent measurement of financial guarantees at fair value is not required unless the financial guarantee qualifies as a derivative. As the carrying value of these financial guarantees does not reflect our maximum potential amount of future payments, we continue to consider guarantees as off-balance sheet arrangements. Prior to November 1, 2006, financial guarantees were required to be disclosed only in the notes to our Consolidated Financial Statements.

Our maximum potential amount of future payments in relation to our guarantee products as at October 31, 2007, amounted to $152 billion (2006 – $125 billion). In addition, as at October 31, 2007, *RBC Dexia IS* securities lending indemnifications totalled $63.5 billion (2006 – $45.6 billion); we are exposed to 50% of this amount. The maximum potential amount of future payments represents the maximum risk of loss if there was a total default by the guaranteed parties, without consideration of possible recoveries under recourse provisions, insurance policies or collateral held or pledged.

As at October 31, 2007, we had $40.4 billion in backstop liquidity facilities related to asset-backed commercial paper programs, of which 96% were committed to RBC-administered multi-seller conduits.

Note 27 to our Consolidated Financial Statements provides detailed information regarding the nature and maximum potential exposure for the above-mentioned types of guarantee products.

Commercial commitments

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

Commercial commitments (1) — Table 45

(C$ millions)	Within 1 year	1 to 3 years	Over 3 to 5 years	Over 5 years	Total
Documentary and commercial letters of credit	$ 477	$ 24	$ –	$ –	$ 501
Commitments to extend credit and liquidity facilities	40,015	30,053	22,596	8,924	101,588
Uncommitted amounts (2)	47,110	–	–	–	47,110
	$ 87,602	$ 30,077	$ 22,596	$ 8,924	$ 149,199

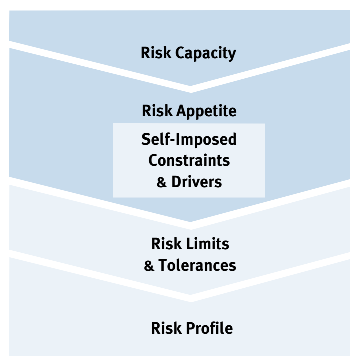
(1) Based on remaining term to maturity.
(2) Uncommitted amounts represent an amount for which we retain the option to extend credit to a borrower.

Risk management

Overview

Our business activities expose us to a wide variety of risks in virtually all aspects of our operations. We manage these risks by seeking to ensure that business activities and transactions provide an appropriate balance of return for the risk assumed and remain within our risk appetite.

Our management of risk is supported by sound risk management practices and effective enterprise risk management frameworks. The cornerstone of these frameworks is a strong risk management culture, supported by a robust enterprise-wide set of policies, procedures and limits, which involve our risk management professionals, business segments and other functional teams. This partnership is designed to ensure the ongoing alignment of business strategies and activities within our risk appetite.



Risk appetite

Our risk appetite framework provides a structured approach to defining the amount and type of risk we are able and willing to accept in the pursuit of our business objectives. The risk appetite framework includes:

- Identification of regulatory constraints that restricts our ability to accept risk and helps us to define our Risk Capacity, which represents the maximum amount and type of risk we can accept
- Establishment and regular confirmation of Self-Imposed Constraints & Drivers where we have chosen to limit or otherwise influence the amount of risk we undertake
- Translation of Risk Appetite into Risk Limits and Tolerances that guide our businesses in their risk taking activity
- Periodic measurement and monitoring of our Risk Profile, which compares actual exposure to our established Risk Limits and Tolerances.

Risk management principles

We apply the following six overarching principles in the identification, monitoring and management of risk throughout the organization:

(i) Balancing risk and reward is achieved through (a) aligning risk appetite with business strategy, (b) diversifying risk, (c) pricing appropriately for risk, (d) mitigating risk through preventive controls, and (e) transferring risk to third parties
(ii) Management of risk is shared at all levels of the organization. Business management is accountable for all risks assumed in their operations, with direction and oversight provided by Group Risk Management (GRM), Global Technology and Operations (GTO), and Global Functions
(iii) Effective decision-making is based on a strong understanding of risk
(iv) All business activities are conducted with the view of not risking our reputation
(v) Assuring that services we provide are suitable for and understood by our clients
(vi) Applying appropriate judgment is required throughout the organization in order to manage risk.

Risk governance

Our overall risk governance structure is presented below. It illustrates the roles and responsibilities of the various stakeholders.

Board and its committees

The Board of Directors provides oversight and carries out its risk management mandate through the Conduct Review and Risk Policy Committee (CR&RPC) and the Audit Committee.

CR&RPC is designed to ensure that we have risk policies, processes and controls in place to manage significant risks and ensure compliance with the *Bank Act* (Canada) and other relevant laws and regulations.

Audit Committee provides oversight over the integrity of the financial statements and reviews the adequacy and effectiveness of internal controls and the control environment, and ensures that policies related to liquidity, funding and capital management are in place.

Group Executive (GE) and Group Risk Committee (GRC)

GE is our senior management team and is led by our President and Chief Executive Officer (CEO). GE has overall responsibility for our strategy and its execution by establishing the "tone at the top." Their risk oversight role is executed primarily through the mandate of GRC and the five supporting risk committees as follows:

- The Asset and Liability Committee (ALCO) reviews, recommends, and approves policy frameworks pertaining to capital management, structural interest rate risk management, funds transfer pricing, liquidity and funding and subsidiary governance
- The Ethics and Compliance Committee directly supports our management of regulatory, compliance and reputation risk
- The Policy Review Committee acts as the senior risk approval authority relating to policies, products and services
- The Structured Transactions Oversight Committee reviews structured transactions and complex credits
- The USA Corporate Governance Committee is responsible for all corporate governance matters of our U.S. operations.

GRM and Corporate Treasury

GRM works in full partnership with our businesses to identify, assess, mitigate and monitor all forms of risk. Together with the CEO and other members of GE, the Chief Risk Officer (CRO) and GRM are primarily responsible for the promotion of our risk management culture. The CRO and GRM responsibilities include:

- Establishing comprehensive risk identification and approval processes
- Establishing appropriate methodologies for risk measurement
- Establishing risk controls and limits to ensure appropriate risk diversification and optimization of risk and return on both a portfolio and transactional basis
- Monitoring risk levels and reporting to senior management and the Board of Directors on major risks we assume or face
- Acting as the catalyst in defining and communicating our risk appetite.

Corporate Treasury is responsible for the management, oversight and reporting of our capital position, structural interest rate risk, and liquidity and funding risks. Corporate Treasury recommends policies and authorities relating to the identification, measurement and management of liquidity and funding risk through ALCO and GRC for approval by the Audit Committee.

Business segments and corporate support groups

The business segments, GTO and Global Functions also have responsibility for the management of risk. These responsibilities include (i) accountability for their risks, (ii) alignment of business strategy with risk appetite, and (iii) identification, control and management of their risks.

Risk measurement

Our ability to measure risks is a key component of our enterprise-wide risk management process. Certain measurement methodologies are common to a number of risk types, while others only apply to a single risk type. While quantitative risk measurement is important, we also place reliance on qualitative factors. Our measurement models and techniques are continually subject to independent assessment by GRM for appropriateness and reliability. For those risk types that are hard to quantify, we place greater emphasis on qualitative risk factors and assessment of activities to gauge the overall level of risk in order to ensure that they are within our risk appetite.

Expected loss

Expected loss represents those losses that are statistically expected to occur in the normal course of business in a given period of time.

With respect to credit risk, the key parameters used to measure our expected loss are the probability of default (PD), loss given default (LGD) and exposure at default (EAD). These parameters are determined based on historical experience, supplemented by benchmarking and updated on a regular basis, and are defined as follows:

- PD: An estimated percentage that represents the probability that obligors within a specific rating grade or for a particular pool of exposures will default within a one-year period
- LGD: An estimated percentage of EAD that is expected to be lost in the event of default of an obligor
- EAD: An estimated dollar value of the expected gross exposure of a facility upon default of the obligor before specific provisions or partial write-offs.

With respect to trading market risk, we use a statistical technique known as Value-at-Risk to measure expected loss. It is a generally accepted risk management concept that uses statistical models to estimate within a given level of confidence the maximum loss in market value we would experience in our trading portfolio from an adverse one-day movement in market rates and prices. For further details, refer to the Market risk section.

Unexpected loss and Economic Capital

Unexpected loss is a statistical estimate of the amount by which actual losses can exceed expected loss over a specified time horizon, measured at a specified level of confidence. On an enterprise-wide basis, we use Economic Capital to estimate the unexpected loss associated with our business activities. We calculate Economic Capital by estimating the level of capital that is necessary to cover risks consistent with our desired solvency standard and desired debt rating.

The use of Economic Capital as a risk measure enables us to assess performance on a comparable risk-adjusted basis at the transaction and portfolio levels. For further information, refer to the Capital management section.

Sensitivity analysis and stress testing
Sensitivity analysis and stress testing help us ensure that the risks we take remain within our risk appetite and that our level of capital remains adequate. Under sensitivity analysis, model inputs and assumptions are varied to assess how significantly the risk measure changes. Stress testing helps us determine the effects of potentially extreme market volatility on our portfolios. Stress scenarios are conservatively based on unlikely but possible adverse market events and economy-wide developments.

Model validation
To ensure robustness of our measurement techniques, model validation is carried out by our risk professionals independent of those responsible for the development and use of the models and assumptions.

Risk control
Our enterprise-wide risk management approach is supported by a comprehensive set of risk controls. This includes the development and communication of policies, establishment of formal risk review and approval processes, and the establishment of delegated authorities and limits. The implementation of robust risk controls enables the optimization of risk and return on both a portfolio and a transactional basis.

Risk policy architecture
Our risk management frameworks and policies are structured into the following four levels:

Level 1: Enterprise Risk Management Framework: This framework serves as the foundation of our risk management frameworks and policies, and sets the "tone at the top."

Level 2: Risk-Specific Frameworks: These individual frameworks elaborate on each risk type and explain the following areas:
- Mechanisms for identifying, measuring, monitoring and reporting of risk
- Key policies
- Respective roles and responsibilities related to a specific risk.

Level 3: Enterprise Risk Policies: These policies are considered our minimum requirements for our business segments, GTO and Global Functions with respect to various risk types.

Level 4: Business Segments and GTO Specific Policies and Procedures: These policies and procedures are established by the business segments and GTO to manage the risks that are unique to their operations.

Risk review and approval processes
Our risk review and approval processes are established by GRM based on the nature, size and complexity of the risk involved. In general, the risk review and approval process involves a formal review and approval by an individual, group or committee that is independent from the originator. The approval responsibilities are governed by delegated authorities based on the following four categories:
- Projects and Initiatives: Documentation of risk assessment is formalized through the requirement that each Project Appropriation Request (PAR) be reviewed and approved by GRM and Global Functions
- New Products and Services: The policies and procedures for the approval of new or amended products and services have been developed to ensure that our products and services are subject to a broad and robust review and approval process that fully considers associated risks, while striving to facilitate business opportunities
- Transactions: We ensure that risk assessment processes are in place for the review and approval of all types of transactions, including credit transactions
- Structured Transactions and Complex Credits: The Structured Transactions Oversight Committee reviews new structured products and transactions with significant reputation, legal, accounting, regulatory or tax risks.

Authorities and limits
The Board of Directors, through the CR&RPC, delegates the setting of credit, market and insurance risk limits to the CEO, Chief Operating Officer (COO) and CRO. These delegated authorities allow these officers to set risk tolerances, approve geographic (country and region) and industry sector exposure limits within defined parameters, and establish underwriting and inventory limits for trading and investment banking activities. These delegated authorities are reviewed and approved annually by the Board of Directors and the CR&RPC. GRM is responsible for establishing:
- The criteria whereby these authorities may be further delegated
- The minimum requirements for documenting, communicating and monitoring the use of these delegated authorities.

CR&RPC must approve any transactions which exceed management's delegated authorities.

The Board of Directors through the Audit Committee approves risk limits for controlling liquidity and funding risk. These limits form part of our liquidity management framework and are a key risk control designed to ensure that reliable and cost-effective sources of cash are available to satisfy our current and prospective commitments, both on- and off-balance sheet.

Reporting
Enterprise level risk monitoring and reporting is a critical component of our enterprise risk management program and supports the ability of senior management and the Board of Directors to effectively perform their risk management and oversight responsibilities.

Internal reporting is provided in the Enterprise Risk Report on a regular basis with the purpose of ensuring senior management and the Board of Directors receive timely and actionable forward-looking risk reporting on significant risk issues impacting our organization. We also have individual risk-specific reporting, which aligns with governance and relevant laws and regulations. Annually, the CRO provides the Board of Directors with a comprehensive review of emerging risks facing the organization as a whole as well as those facing the business segments. External reporting is provided as required by law and other relevant regulations. Regular reporting on risks is provided to stakeholders including regulators, external ratings agencies and analysts.

Basel II
As at November 1, 2007, we have implemented Basel II, which more closely aligns regulatory capital requirements with our underlying risk profile and internal risk management practices compared to Basel I. Basel II represents a major change in bank regulations, in that it allows banks to select from a menu of approaches to calculate the minimum capital required to support the credit risk and operational risks they undertake.

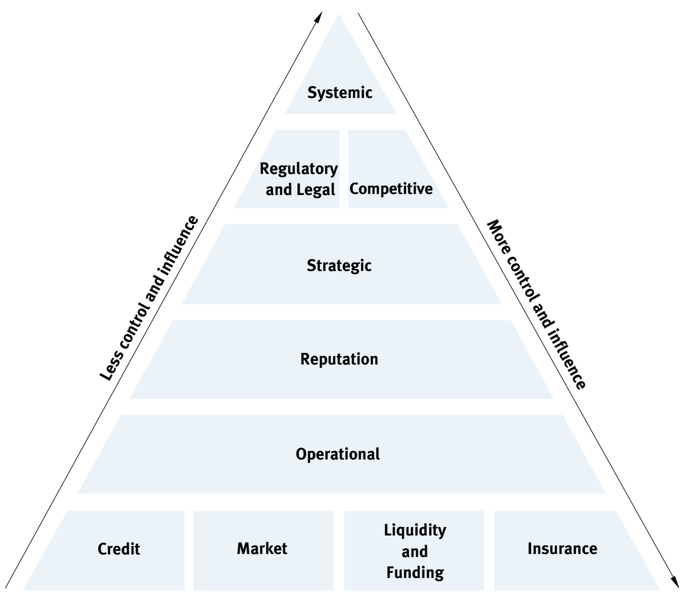
Credit risk
The Office of the Superintendent of Financial Institutions Canada (OSFI) expects each major bank in Canada to adopt the Advanced Internal Ratings Based (AIRB) Approach for all of its material portfolios, although some flexibility is permitted regarding the timing of adoption. For further details, refer to the Capital management section. Once our AIRB internal ratings systems have been approved by the OSFI, we are permitted to assess the credit risk of our exposures using our internal rating systems, and to employ the risk measurements produced by those ratings systems in the calculation of required regulatory capital.

Operational risk
The OSFI has been less prescriptive with respect to the calculation of capital for operational risk. The two options available to us under Basel II are the Standardized Approach and the Advanced Measurement Approach (AMA). We have elected to implement the more sophisticated risk management and governance practices that are required under AMA, but will initially use the Standardized Approach for the calculation of operational risk capital.

The Standardized Approach provides the benefits of sounder operational risk management and governance, positioning us to migrate to AMA once advances in measurement capabilities warrant the adoption of a model-based calculation approach. The OSFI fully endorses this strategy of focusing on sound management of operational risk while working towards more advanced measurement capabilities.

Market risk
Basel II treatment of market risk is unchanged from the treatment under Basel I.

Risk Pyramid
We use a pyramid to identify and categorize our risks. These risks are organized vertically within the Risk Pyramid to reflect the degree of controllability. The Risk Pyramid provides us with a common language and discipline for the identification and assessment of risk in our businesses, products, initiatives, acquisitions and alliances. The Risk Pyramid is reviewed regularly to ensure that all key risks are reflected and ranked appropriately.



The base of the pyramid – The risk categories along the base of the Risk Pyramid are those over which we have the greatest level of control and influence. These are credit, market, liquidity and funding, and insurance risks. Operational risk, while still viewed as one of the risks over which we have the most control and influence, is ranked on a higher level than the other highly controllable risks. This ranking acknowledges the level of controllability associated with people, systems and external events.

The middle of the pyramid – Strategic and reputation risks, while more controllable than the risks at the top of the pyramid, are considered less controllable compared to the risks at the base of the pyramid. Strategic risk arises in one of two situations: (i) we choose the wrong strategy, or (ii) we choose the right strategy, but execute it poorly. Reputation risk is placed in the middle of the pyramid to denote the fair degree of control and influence we can use to manage this risk type, which generally occurs in connection with other risks, primarily regulatory and legal, and operational risks.

The top of the pyramid – Systemic risk is placed at the top of the Risk Pyramid, which is the least controllable and typically cannot be managed through any type of direct mitigation efforts, such as risk limits and/or portfolio diversification. Regulatory and legal and competitive risks, which can be viewed as somewhat controllable, can be influenced through our role as a corporate entity, and as an active participant in the Canadian and global financial services industry.

Credit risk

Credit risk is the risk of loss associated with a counterparty's inability or unwillingness to fulfill its payment obligations. Credit risk may be direct (issuer, debtor, obligor or policyholder) or indirect to a secondary obligor (guarantor or reinsurer).

We offer a wide range of credit products and services to individual and business clients within Canada, the United States and in numerous countries. Core products offered include loans, residential and commercial mortgages, credit cards, lines of credit and letters of credit. Specialized credit services include asset-backed financing, margin lending, securities lending and project finance. The majority of our businesses offer credit products and services. Credit risk is also incurred through other activities not directly linked to the provision of credit products and services to clients, such as short-term investments relating to liquidity management and insurance business investment activities.

Our credit offerings are a significant driver of overall business performance. The failure to effectively manage credit risk across the organization and all products, services and activities can have a direct, immediate and material impact on our earnings and reputation.

Our credit risk management principles are guided by the six overall risk management principles discussed in the Risk management overview section. In particular, the following two principles are complemented by the items below with respect to credit risk management.

The effective balancing of risk and return is achieved through:

- Ensuring that credit quality is not compromised for growth
- Diversifying credit risks in transactions, relationships and portfolios
- Using our credit risk rating and scoring systems, policies and tools
- Pricing appropriately for the credit risk taken
- Applying consistent credit risk exposure measurements
- Mitigating credit risk through preventive and detective controls
- Transferring credit risk to third parties where appropriate through approved credit risk mitigation techniques, including hedging activities and insurance coverage.

Our business activities are conducted with the view of not risking our reputation. Therefore, there are certain types of clients and transactions that we avoid in order to maintain our reputation, such as:

- Financing the manufacture of equipment or material for nuclear, chemical or biological warfare and landmines
- Financing of Internet gambling businesses
- Granting credit to entities subject to economic sanctions
- Credit transactions that facilitate illegal activity, or contribute to misleading financial statements or regulatory reporting
- Credit transactions involving undocumented agreements, disbursements or funds transfers
- Granting credit to a business or individual engaged in activities inconsistent with generally accepted standards of ethical behaviour in the community.

Responsibilities

We deem credit risk management to be an enterprise-wide activity. The following provides a high-level overview of the key committees involved in the management of credit risk.

Board of Directors and Conduct Review & Risk Policy Committee

- Shapes and influences credit risk culture; approves credit risk appetite.
- Ensures that management has in place frameworks, policies, processes and procedures to manage credit risk (including approval authority for Credit Risk Management Framework and key enterprise-wide credit risk policies), and evaluates our effectiveness in managing credit risk.
- Approves credit risk limits, delegates approval authorities to the CEO, COO, CRO, and approves credit transactions in excess of management's authorities.
- Reviews enterprise-wide credit reporting, significant exposures and exceptions to limits.

Group Risk Committee

- Ensures credit risk profile is consistent with strategic objectives.
- Ensures that there are ongoing, appropriate and effective risk management policies, processes and procedures to manage credit risk (including recommending the Credit Risk Management Framework and key enterprise-wide credit risk policies to the Board of Directors for approval).
- Approves credit policies and products with significant risk implications, as referred by the CRO.
- Recommends credit transactions in excess of management's authority to the Board of Directors for approval.
- Reviews enterprise-wide credit reporting, significant exposures and processes, and ensures that appropriate and timely information is provided to the Board of Directors on matters relating to credit risk and its management.

Policy Review Committee

- Reviews and recommends approval of the Credit Risk Management Framework.
- Approves enterprise-wide credit risk policies.
- Approves new and amended business specific credit risk policies and products with significant risk implications.

Structured Transactions Oversight Committee

- Provides risk oversight of structured transactions and complex credits, including identification and mitigation of risks.
- Reviews and approves products and transactions referred to it in accordance with our policies.

Risk measurement

Given the potential for credit risk to significantly impact our earnings, it is critical that we accurately quantify credit risk at both the individual obligor and portfolio levels. This allows us to effectively estimate expected credit losses and minimize unexpected losses in order to manage and limit earnings volatility.

Our credit risk exposures are classified as wholesale and retail portfolios, and we employ different risk measurement processes for each portfolio. The wholesale portfolio comprises business, sovereign and bank exposures, which include mid-size to large corporations and certain small businesses that are managed on an individual client basis. The retail portfolio is comprised of residential mortgages and personal, credit card and small business loans, which are managed on a pooled basis. This categorization of exposures is consistent with Basel II guidelines, which require banks to disclose their exposures based on how they manage their business and risks.

Credit risk rating systems are designed to assess and quantify the risk inherent in credit activities in an accurate and consistent manner. We use a two-dimensional rating system for both wholesale and retail credit exposures.

Wholesale credit portfolio

The wholesale credit risk rating system is designed to measure and identify the risk inherent in our credit activities in an accurate and consistent manner along two dimensions.

In the first dimension, each obligor is assigned a borrower risk rating (BRR), which reflects an assessment of the credit quality of the obligor. Each BRR has a probability of default (PD) assigned to it. This PD is an estimate of the probability that an obligor with a certain BRR will default within a one-year time horizon. The BRR differentiates the riskiness of obligors and represents our evaluation of the obligor's ability and willingness to meet its contractual obligations despite adverse or stressed business conditions, troughs in the business cycle, economic downturns or unexpected events that may occur. The assignment of BRRs is based on the evaluation of obligors' business and financial performance against several risk factors. We use Risk Criteria Papers, which present a structured process for the consistent identification and analysis of material information needed to assess obligors in various industry sectors. Generally, the key risk factors assessed include industry, markets, firm competitiveness, company strategy and management quality, financial performance and access to funds. Risk Criteria Papers provide guidance on what to emphasize in the analysis of companies within an industry sector, and provide weightings, which may vary from industry to industry. Our internal risk ratings are reviewed at least on an annual basis.

Our rating system is largely consistent with that of external rating agencies. The following table provides a mapping of our 22-grade internal risk ratings compared to ratings by external rating agencies.

Internal ratings map **Table 46**

Rating	Standard & Poor's	Moody's Investors Service	Description
1 to 4	AAA to AA-	Aaa to Aa3	Investment Grade
5 to 7	A+ to A-	A1 to A3	
8 to 10	BBB+ to BBB-	Baa1 to Baa3	
11 to 13	BB+ to BB-	Ba1 to Ba3	Non-investment Grade
14 to 16	B+ to B-	B1 to B3	
17 to 20	CCC+ to CC	Caa1 to Ca	
21 to 22	C to D	C to Bankruptcy	Impaired/Default

In the second dimension, loss given default (LGD) represents the portion of exposure at default (EAD) expected to be lost when an obligor defaults. LGD rates are largely driven by factors such as seniority of debt, collateral security, client type, and the industry in which the obligor operates. EAD represents an estimate of the expected gross exposure of a credit facility at the time of default of the obligor. At default the obligor may have drawn the facility fully or have repaid some of the principal. We estimate EAD based on the outstanding portion and an estimated amount of the undrawn portion that is expected to be drawn at the time of default. The estimation of these parameters represents a critical part of our credit rating system. It is a process of quantifying the risk associated with obligors and the related facilities by estimating and assigning values to the parameters. Parameter estimations are based on historical internal experience, and are benchmarked to external data where applicable. While PD is used at the obligor level, LGD and EAD are estimated for the various credit facilities under that obligor.

These ratings and risk measurements are used in the determination of our expected losses, unexpected losses as well as economic and regulatory capital. They are also used in the setting of risk limits, portfolio management and product pricing.

Retail credit portfolio

Credit scoring is the primary risk rating system for assessing obligor and transaction risk for retail exposures. Credit scoring is employed in the acquisition of new clients (acquisition scoring) and portfolio management of existing clients (behavioural scoring).

Acquisition scoring models, which are used for underwriting purposes, utilize established statistical methods of analyzing new applicant characteristics and past performance to estimate future credit performance. In model development, all accessible sources of data are used and include information obtained from the client (employment status), data from our own systems (loan information) and information from external sources (credit bureaus).

Behavioural scoring is used in the ongoing management of retail clients with whom we have an established relationship. It utilizes statistical techniques that capture past performance to predict future behaviour and incorporate information such as cash flow and borrowing trends, as well as the extent of our relationship with the client. The behavioural risk score is dynamic and is generally updated on a monthly basis to continually re-evaluate the risk. Characteristics used in behavioural scoring models are based on information from existing accounts and lending products for each client, and from information obtained from external sources, such as credit bureaus.

For overall portfolio management, retail exposures are assessed on a pooled basis, with each pool consisting of exposures that possess similar homogeneous characteristics. Pooling of exposures allows for more precise and consistent estimates of default and loss characteristics. Criteria used to pool exposures for risk quantification include behavioural score product type (mortgage, credit cards, lines of credit and installment loans), collateral type (chattel, liquid assets and real estate) and the delinquency status (performing, delinquent and default) of the exposure. Regular monitoring and periodic adjustments and alignments are conducted to ensure that this process provides for a meaningful differentiation of risk. It also allows the grouping of homogeneous exposures from a risk perspective and permits accurate and consistent estimation of loss characteristics at the pool level. Migration between the pools is considered when assessing credit quality.

The pools are assessed in two dimensions: PD and LGD. The estimation of PD and EAD considers both borrower and transaction characteristics, including behavioural credit score, product type and delinquency status. The LGD is estimated based on transaction specified factors, including product and collateral types. Our risk ratings are reviewed and updated on a regular basis.

The following table maps PD ranges to various risk levels:

Internal ratings map **Table 47**

PD bands	Description
0.0%–1.0%	Low Risk
1.1%–6.4%	Medium Risk
6.5%–99.99%	High Risk
100.00%	Impaired/Default

Validation

We ensure that our credit risk rating systems and methodologies are subject to independent validation on a regular basis. The validation processes provide confirmation that our systems properly identify factors that help discriminate risk, appropriately quantify risk, produce measures of risk that respond to changes in the macroeconomic and credit environments, and are consistent with regulatory requirements and our ratings philosophy. Those responsible for performing validation activities are functionally separate from the group whose methodologies and processes are subject to validation.

We ensure that there is proper separation of responsibility between (i) transaction origination and approval which takes place within the business segments, and (ii) design, development and maintenance of the risk rating methodologies, which takes place within GRM. GRM is also responsible for estimating the three risk parameters as described above. To ensure there is a proper segregation of responsibilities, models developed within the business segments are approved by GRM.

The validation of risk parameter estimation for both wholesale and retail portfolios addresses the estimation process and the reasonableness of the estimates used for the calculation of regulatory capital. The following items are examined and assessed:

- Quantification methodologies and processes, as well as the reasonableness of outputs
- Relationship between historical experience and internally derived parameter values that incorporate estimators' expert judgment and external benchmarking
- Sufficiency of data observations, the appropriateness of data sources and data segmentation
- Statistical significance and predictive power of the estimated values. Levels of tolerance are defined and mapped against actual results, with deviations explicitly noted.

A combination of quantitative (statistical) and qualitative (non-statistical) validation methods is employed to ensure that our credit risk rating system is valid. At a minimum, we adopt the following techniques intended to ensure that the validation process:

- Examines relevant and material data available from internal and external sources, to establish a context for assumptions, calculations and outputs
- Demonstrates that estimates are grounded in historical experience
- Provides reasonable predictors of future default and loss.

Detailed validation reports are produced for the assessment of risk rating methodology and risk parameter estimation.

Economic Capital

Economic Capital is management's estimate of the amount of equity required to underpin our risks. It is used in risk-based pricing decisions and profitability measurement to ensure an appropriate risk and return balance. Within our wholesale credit portfolio, it is also used in setting single-name and industry limits in order to manage concentration risk. For further details, refer to the Capital management section.

Sensitivity and stress testing

Sensitivity and stress tests are used to determine the size of potential losses related to various scenarios for the wholesale and retail credit portfolios. While unexpected losses are, by nature difficult to quantify, we use stress testing, scenario and sensitivity analysis to better understand and mitigate unexpected credit losses. These activities serve to alert management to unlikely but possible adverse market events and economy-wide developments and implications on overall capital adequacy. Scenarios for credit risk such as economic or industry downturns, are chosen on the basis of being meaningful, representative of realistic potential events or circumstances, and reasonably conservative.

Risk control

Our enterprise-wide credit risk policies are developed, communicated and maintained by GRM. These policies set out the minimum requirements for the prudent management of credit risk in a variety of transactional and portfolio management contexts.

Credit risk policies

Our credit risk policies have evolved over many years as the organization has grown in geographic scope and product complexity, and have been refined based on experience, regulatory influences and innovations in risk management and are managed under six major categories as follows:

- Credit Risk Assessment includes policies related to credit risk analysis, risk rating, risk scoring and trading credit
- Credit Risk Mitigation includes credit structuring, collateral and guarantees
- Credit Risk Approval includes credit risk limits and exceptions
- Credit Documentation focuses on documentation and administration
- Credit Review and Deterioration includes monitoring and review
- Credit Portfolio Management includes portfolio management and risk quantification.

Approval of credit products and services

Our products and services are subject to robust risk review and approval processes. New or amended products and services must be reviewed relative to all risk types, including credit risk, in our Risk Pyramid, and as the level of risk increases, a more senior level of approval is required.

Credit risk limits

Limits are used to ensure our portfolio is well diversified and within our risk appetite as approved by the Board of Directors. Our credit limits are established at the following levels to ensure adequate diversification and to reduce concentration risk:

- Single-name limits
- Underwriting risk
- Geographic (county and region) limits
- Industry sector limits
- Product and portfolio limits.

The Economic Capital limit is intended to work as a complement to the notional limits and, as such, single names must satisfy both limits. To ensure single-name credit risk exposure remains well under regulatory thresholds, and concentration risk is prudently managed, we have established (i) internal single-name credit risk exposure limits as a percentage of total capital, which are lower than that required by the OSFI, and (ii) a broader and more conservative definition of single-name credit risk exposure than that used by the OSFI. These controls provide a significant buffer between our exposure tolerances and those of our regulators. Exceptions are monitored by GRM and reported to the CRO, with requisite reporting to the CR&RPC in accordance with its mandate.

Credit risk mitigation

We seek to mitigate our exposure to credit risk through a variety of means, including structuring of transactions, collateral and credit derivatives. The policies and processes that are in place regarding the monitoring of the effectiveness of our credit risk mitigation are discussed below.

Structuring of transactions

Proper structuring of a credit facility is a key factor in mitigating risk at the transaction level and often includes the use of guarantees, security, seniority and covenants. We use credit policies and procedures to set out requirements for structuring transactions. Product-specific guidelines set out appropriate product structuring and client criteria.

Collateral

We generally require obligors to pledge collateral as security when we advance credit. This provides some protection in case of default. Real estate, liquid assets, cash, bonds and government securities are examples of the collateral securities we accept. The extent of risk mitigation provided by collateral depends on the amount type and quality of the collateral taken. Specific requirements relating to collateral valuation and management are documented in our credit risk management policies. GRM manages collateral positions through a system, which maintains information according to counterparty. Valuations of collateral are based on various sources and are compared to our collateral positions.

Credit derivatives
We also mitigate risk through credit derivatives that serve to transfer the risk to a third party. These derivatives are also used as a tool to mitigate industry sector concentration and single name exposure. Procedures are in place to ensure these hedges are efficient and effective.

All derivative transactions supported by collateral are documented using industry-standard master agreements. Internal policies have been developed for each jurisdiction in order to ensure the legal enforceability of the collateral arrangements. Cash and securities held as collateral are held by us or by our authorized custodian. Concentration within the collateral taken is minimal.

Credit valuation adjustments are made for derivative transactions which are exposed to changes in counterparty credit quality. Credit valuation adjustments are calculated at least once a month using internal models and GRM-approved methodology, which consist of sophisticated mathematical algorithms. The reasonableness of the level of valuation adjustments is independently verified on a monthly basis.

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 for all financial instruments covered by the agreement in the event of default on, or termination of, any one contract with the counterparty. Our trading units provide GRM with all relevant details of outstanding transactions, including itemized mark-to-market data. This data is used to monitor the amount of netting benefit recognized. For further details, refer to Note 7 to our Consolidated Financial Statements.

Reporting
GRM provides a number of enterprise level credit risk reports to senior management and the Board of Directors so as to ensure that shifts in our credit risk exposure or negative trends in our credit profile are highlighted and appropriate actions can be taken where necessary.

An Enterprise Risk Report is distributed to the Board of Directors, Group Risk Committee and senior executives on a quarterly basis. The report provides a dynamic overview of our risk profile, including trending information and significant risk issues. It also includes analysis of significant shifts in exposures, expected loss, Economic Capital and risk ratings. Large exposure subject to credit policy exceptions, as well as significant counterparty exposure and downgrades are also reported. Analysis is provided on a portfolio and industry basis and includes the results of stress testing and sensitivity analysis.

Separate business specific reports are also provided to senior management, who monitor the credit quality of their respective portfolios and emerging industry or market trends.

Loans and acceptances by portfolio and industry Table 48

(C$ millions)	2007	2006	2005	2004	2003
Residential mortgages	$ 109,745	$ 96,675	$ 91,043	$ 81,998	$ 75,790
Personal	48,743	44,902	41,045	36,848	32,186
Credit cards	8,322	7,155	6,200	6,456	4,816
Small business (1)	2,652	2,318	1,951	1,928	1,335
Retail	$ 169,462	$ 151,050	$ 140,239	$ 127,230	$ 114,127
Business (2)					
Agriculture	5,367	5,435	5,238	4,992	4,789
Automotive	3,285	2,958	2,545	2,370	2,346
Consumer goods	5,206	4,553	4,437	4,566	4,920
Energy	7,632	6,010	5,628	3,462	3,621
Non-bank financial services	4,245	2,588	1,892	935	1,120
Forest products	1,349	1,126	1,210	1,150	1,523
Industrial products	4,119	3,659	3,157	2,827	2,952
Mining and metals	2,301	1,072	543	511	987
Real estate and related	19,187	16,145	13,730	12,224	12,286
Technology and media	2,423	2,326	2,244	2,135	2,723
Transportation and environment	2,656	2,400	1,900	2,555	3,196
Other	17,583	15,586	14,772	12,319	11,894
Sovereign (3)	932	887	550	800	732
Bank	5,468	3,252	903	668	1,176
Wholesale	$ 81,753	$ 67,997	$ 58,749	$ 51,514	$ 54,265
Total loans and acceptances	$ 251,215	$ 219,047	$ 198,988	$ 178,744	$ 168,392
Total allowance for loan losses	$ (1,493)	$ (1,409)	$ (1,498)	$ (1,644)	$ (2,055)
Total loans and acceptances, net of allowance for loan losses	$ 249,722	$ 217,638	$ 197,490	$ 177,100	$ 166,337

(1) Includes small business exposure managed on a pooled basis.
(2) Includes small business exposure managed on an individual client basis.
(3) Sovereign refers to all central governments and agencies, central banks, as well as other qualifying public sector entities and multilateral development banks.

Credit portfolio analysis

2007 vs. 2006
During 2007, our credit portfolio remained well diversified and continued to show strong growth. Total loans and acceptances increased $32 billion, or 15%, compared to the prior year, reflecting continued growth in both our retail and wholesale loan portfolios.

Retail credit portfolio
Retail loans increased $18 billion, or 12%, from a year ago, largely due to solid growth across all categories in our Canadian loan portfolio.

Residential mortgages were up $13 billion, or 14%, despite the offsetting effect of $13 billion of securitization during the year. The increase was supported by continued solid housing market activities in Canada, relatively low interest rates in a historical context, and strong labour market conditions.

Personal loans grew $4 billion, or 9%, primarily reflecting strong growth in home equity lending in Canada, driven by continued solid housing market activities and favourable labour market conditions.

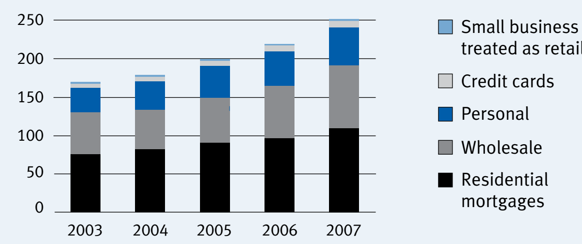
Credit cards increased $1 billion, or 16%, reflecting successful sales efforts and continued consumer spending.

Wholesale credit portfolio
Wholesale loans and acceptances were up $14 billion, or 20%, primarily reflecting strong growth across various sectors, with the largest increase in the Real estate and related, Bank and Energy sectors. Our Real estate and related exposure increased $3 billion, largely attributable to continued strong property development activities in Canada. Our exposure to the Bank sector was up $2 billion, with widespread increases across Canada, the U.S. and Other International. Our exposure to the Energy sector increased $2 billion, primarily reflecting continued investments by companies related to electricity generation, as well as oil and gas exploration and production in Canada.

Our portfolio remained well diversified and the overall mix did not change significantly from the prior year. The portfolio remained well balanced with residential mortgages comprising 44%, wholesale loans 33%, personal loans 19%, credit cards 3% and small business managed on a pooled basis 1%.

The portfolio grew across all geographic regions. The largest increase was in Canada, with broad-based growth across both our retail and wholesale loan portfolios on generally favourable economic conditions. Growth in business lending accounted for most of the increase in the U.S. and Other International. For further details, refer to Table 59 in the Additional financial information section.

Total loans and acceptances by credit portfolio (C$ billions)



Five-year trend
Over the last five years, total loans and acceptances continued to grow. Compared to 2003, our portfolio increased $83 billion, or 49%, driven by growth in both our retail and wholesale loan portfolios.

Retail loans grew $55 billion, or 48%, since 2003, largely reflecting strong growth in Canada across all categories, particularly residential mortgages and personal loans, notwithstanding mortgage and credit card securitizations over the period. This growth reflected our continued focus on expanding our retail portfolios, underpinned by continued solid Canadian housing market activities, relatively low interest rates and strong labour market conditions.

Our wholesale portfolio grew $27 billion, or 51%, since 2003. The largest growth sectors were Real estate and related, Bank, Energy and Non-bank financial services, primarily driven by strong loan demand in Canada amid generally favourable economic conditions over the period. The increase in Real estate and related exposure over the period was largely due to relatively strong North American housing markets combined with our U.S. acquisitions. While the U.S. housing market had been relatively solid over the past few years, it slowed down significantly in the latter part of 2007, which tempered loan growth. Our exposure to the Energy sector increased $4 billion, largely attributable to increased investments by companies related to oil and gas exploration and production in Canada and the U.S.

Our portfolio in Canada continued to grow over the period, underpinned by our extensive distribution capabilities and continued product enhancement on the back of solid loan demand and generally favourable economic conditions. Our exposure in the U.S. and Other International generally trended downward except for the last three years, partly reflecting our strategic reduction in exposure to risk sensitive sectors, a reduction in single-name concentrations and our exit from non-core client relationships. With our successful strategic realignment in these areas, our exposure in the U.S. and Other International increased since 2005, primarily reflecting our successful market expansion initiatives, including acquisitions.

Credit derivatives position (notional amounts) (1) — **Table 49**

(C$ millions)	2007 Protection purchased (2)	2007 Protection sold (2)	2006 Protection purchased (2)	2006 Protection sold (2)
Portfolio management				
Business				
Automotive	$ 379	$ –	$ 272	$ 5
Consumer goods	–	67	–	92
Energy	957	–	273	7
Non-bank financial services	1,161	–	441	–
Industrial products	–	–	–	35
Mining and metals	591	–	95	–
Real estate and related	413	–	–	–
Technology and media	10	–	6	11
Transportation and environment	335	–	177	–
Other	472	119	520	142
Sovereign (3)	220	–	–	–
Bank	731	–	22	–
Total portfolio management	$ 5,269	$ 186	$ 1,806	$ 292

(1) Comprises credit default swaps, total return swaps and credit default baskets.
(2) Net of offsetting protection purchased and sold in the amount of $261 million (2006 – $312 million).
(3) Sovereign refers to all central governments and agencies, central banks, as well as other qualifying public sector entities and multilateral development banks.

2007 vs. 2006

Total credit derivatives protection purchased increased $3 billion from the prior year. The credit protection bought was mainly related to the Non-bank financial services, Bank, Energy, and Mining and metals sectors, largely reflecting the acquisition of credit protection to mitigate single-name concentration risks in our portfolio. Our credit protection sold was down $106 million, or 36%, from a year ago. The decrease was mainly related to Industrial products, Consumer goods, and Technology and media sectors largely reflecting unfavourable U.S. financial market conditions.

Gross impaired loans and Allowance for credit losses

Loans are generally classified as impaired when there is no longer reasonable assurance of timely collection of the full amount of principal or interest.

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

Gross impaired loans continuity Table 50

(C$ millions, except percentage amounts)	2007	2006	2007 vs. 2006 Increase (decrease)	
Gross impaired loans, beginning of year				
Retail	$ 383	$ 340	$ 43	13%
Wholesale	451	434	17	4
	$ 834	$ 774	$ 60	8%
New impaired loans				
Retail	$ 926	$ 810	$ 116	14%
Wholesale	720	271	491	181
	$ 1,646	$ 1,081	$ 607	56%
Repayment, return to performing status, sold and other				
Retail	$ (132)	$ (144)	$ 12	8%
Wholesale	(340)	(164)	(218)	(133)
	$ (472)	$ (308)	$ (206)	(67)%
Net impaired loan formations				
Retail	$ 794	$ 666	$ 128	19%
Wholesale	380	107	273	255
	$ 1,174	$ 773	$ 401	52%
Write-offs				
Retail	$ (759)	$ (623)	$ (136)	(22)%
Wholesale	(109)	(90)	(19)	(21)
	$ (868)	$ (713)	$ (155)	(22)%
Gross impaired loans, end of year				
Retail	$ 418	$ 383	$ 35	9%
Wholesale	722	451	271	60
Total gross impaired loans	$ 1,140	$ 834	$ 306	37%
Key ratios				
Gross impaired loans as a % of loans and acceptances	.45%	.38%	n.m.	7 bps
Total net write-offs as a % of average net loans and acceptances	.30%	.25%	n.m.	5 bps

n.m. not meaningful

Allowance for credit losses continuity Table 51

(C$ millions, except percentage amounts)	2007	2006	2007 vs. 2006 Increase (decrease)	
Specific allowance				
Balance, beginning of year	$ 263	$ 282	$ (19)	(7)%
Provision for credit losses	782	482	300	62
Write-offs	(868)	(713)	(155)	(22)
Recoveries	170	205	(35)	(17)
Adjustments	4	7	(3)	(43)
Specific allowance for credit losses, end of year	$ 351	$ 263	$ 88	33%
General allowance				
Balance, beginning of year	$ 1,223	$ 1,286	$ (63)	(5)%
Provision for credit losses	9	(53)	62	117
Adjustments	(11)	(10)	(1)	(10)
General allowance for credit losses, end of year	$ 1,221	$ 1,223	$ (2)	–
Allowance for credit losses	$ 1,572	$ 1,486	$ 86	6%

2007 vs. 2006
Total gross impaired loans (GIL) increased $306 million, or 37%, compared to the prior year, primarily reflecting higher impaired loans in our U.S. residential builder finance business triggered by the downturn in the U.S. housing market.

Retail gross impaired loans increased $35 million, or 9%, from a year ago. The increase mainly reflected higher impairment in both U.S. and Canadian residential mortgages and small business loans commensurate with portfolio growth in Canada, partially offset by lower impaired Canadian personal loans.

Wholesale gross impaired loans increased $271 million, or 60%, compared to the prior year. The increase was largely attributable to the Real estate and related sector, primarily reflecting higher impaired loans in our U.S. residential builder finance business as a result of the downturn in the U.S. housing market. This was partially offset by lower impaired loans in the Technology and media sector mainly due to the favourable resolution of a particular impaired loan.

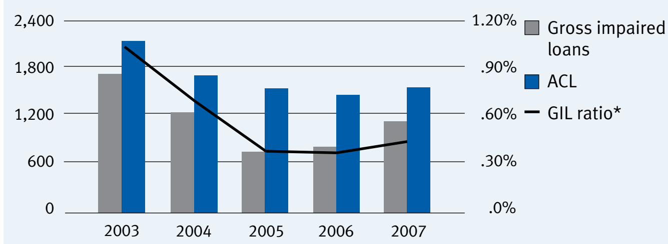
Gross impaired loans as a percentage of loans and acceptances were .45% compared to .38% in the prior year, primarily reflecting higher impaired loans in our U.S. residential builder finance business. For further details, refer to Table 60 in the Additional financial information section.

Allowance for credit losses
Total allowance for credit losses increased $86 million, or 6%, from a year ago, primarily reflecting increased specific allowance related to a weakening in credit quality of our U.S. residential builder finance loan portfolio.

The specific allowance increased $88 million, or 33%, from the prior year. The increase was mainly driven by higher impaired loans in our U.S. residential builder finance business, primarily reflecting the downturn in the U.S. housing market.

The general allowance remained relatively stable compared to the prior year, as an increase in allowance mainly related to our U.S. residential builder finance loan portfolio was offset by the impact of a stronger Canadian dollar on the translated value of our U.S. dollar-denominated allowance.

Gross impaired loans and allowance for credit losses (C$ millions)



* GIL ratio: GIL as a percentage of loans and acceptances.

Five-year trend

Gross impaired loans
Gross impaired loans trended downward from 2003 to 2006, and decreased $911 million, or 52%, primarily reflecting lower impairment in our wholesale loan portfolio. In 2007, gross impaired loans increased $306 million, or 37%, from the prior year, largely due to higher impaired loans in our U.S. residential builder finance business as a result of the downturn in the U.S. housing market.

Retail gross impaired loans remained relatively stable over the period. The increase in gross impaired loans in both U.S. and Canadian residential mortgages, primarily due to portfolio growth, was largely offset by a decrease in impairment in our Canadian personal loan portfolio over the period.

Wholesale gross impaired loans generally trended downward from 2003 to 2006, and decreased $613 million, or 46%. The decline was across all geographic areas and most industry sectors, with the largest decrease in the Energy, Forest products, Transportation and environment, and Agriculture sectors due to generally favourable economic conditions over the period. In 2007, wholesale gross impaired loans increased significantly, largely reflecting higher impairment in our U.S. residential builder finance business triggered by the downturn in the U.S. housing market.

The ratio of gross impaired loans as a percentage of loans and acceptances declined significantly from 1.04% in 2003 to .38% in 2006, and increased to .45% in 2007, reflecting the factors discussed above. For further details, refer to Table 60 in the Additional financial information section.

Allowance for credit losses
Over the last five years, total allowance for credit losses of $1,572 million in 2007, decreased $592 million, or 27%, from 2003, primarily reflecting a reduction in specific allowance.

The specific allowance of $351 million in 2007 was down $406 million, or 54%, compared to 2003. For the period 2003 to 2006, the wholesale loan portfolio recorded the largest reduction in specific allowance, and was broad-based across portfolios, industry sectors and geographic regions. In 2007, specific allowance increased largely resulting from a weakening in credit quality of our U.S. residential builder finance loan portfolio driven by the downturn in the U.S. housing market.

The general allowance of $1,221 million in 2007 decreased $186 million, or 13%, compared to 2003. The decrease was largely due to the reversal of general allowance of $175 million and $50 million in 2004 and 2006, respectively, largely reflecting improved credit quality and economic conditions in those years.

Provision for credit losses

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

Provision for (recovery of) credit losses — Table 52

(C$ millions, except percentage amounts)	2007	2006	2007 vs. 2006 Increase (decrease)	
Residential mortgages	$ 13	$ 6	$ 7	117%
Personal	364	306	58	19
Credit cards	223	163	60	37
Small business (1)	34	29	5	17
Retail	$ 634	$ 504	$ 130	26%
Business (2)	$ 148	$ (22)	$ 170	n.m.
Sovereign (3)	–	–	–	–
Bank	–	–	–	–
Wholesale	$ 148	$ (22)	$ 170	n.m.
Total specific provision for loan losses	$ 782	$ 482	$ 300	62%
Total general provision	$ 9	$ (53)	$ 62	117%
Total provision for credit losses	$ 791	$ 429	$ 362	84%
Specific PCL as a % of average net loans and acceptances	.33%	.23%	n.m.	10 bps

(1) Includes small business exposure managed on a pooled basis.
(2) Includes small business exposure managed on an individual client basis.
(3) Sovereign refers to all central governments and agencies, central banks, as well as other qualifying public sector entities and multilateral development banks.
n.m. not meaningful

2007 vs. 2006

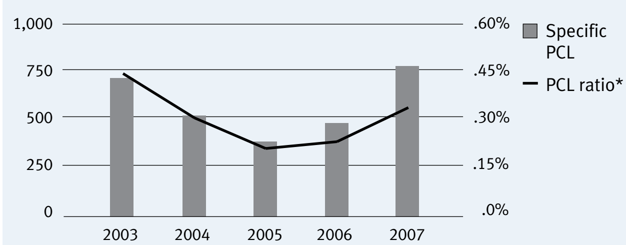
Total provision for credit losses (PCL) increased $362 million, or 84%, compared to the prior year, which had been at a cyclically low level, and has trended up towards the historical average. The increase reflected higher provisions for both our wholesale and retail loan portfolios, primarily reflecting portfolio growth and higher impaired loans in our U.S. residential builder finance business triggered by the downturn in the U.S. housing market. Specific PCL as a percentage of average net loans and acceptances increased from a year ago, largely reflecting higher impaired loans in our U.S. residential builder finance business.

Specific PCL for retail loans was up $130 million, or 26%, from a year ago. The increase was primarily attributable to higher provisions in our credit cards and personal unsecured credit line portfolios, largely reflecting higher loss rates and portfolio growth.

Specific PCL for wholesale loans increased $170 million over the prior year. The increase was largely attributable to our business portfolio mainly due to higher impaired loans in our U.S. residential builder finance business and higher write-offs in Canada. Lower recoveries in our corporate loan portfolio this year also contributed to the increase in provisions.

The general provision increased $62 million from a year ago, primarily reflecting a $50 million reversal of the general allowance related to our corporate loan portfolio in the prior year. Higher provisions in our U.S. residential builder finance loan portfolio, largely reflecting a weakening in credit quality as a result of the downturn in the U.S. housing market, also contributed to the increase.

Specific provision for credit losses (C$ millions)



* PCL ratio: Specific PCL as a percentage of average net loans and acceptances.

Five-year trend

During the period 2003 to 2005, specific provision for credit losses generally trended downward, primarily reflecting a reduction in provisions for our business loan portfolio. We recorded significant recoveries particularly in corporate loans in 2005 and 2006. In 2007, specific provisions has trended up towards the historical average, mainly reflecting higher provisions for our business loan portfolio, largely due to increased impaired loans in our U.S. residential builder finance business, portfolio growth and higher write-offs in Canada. Higher provisions in our personal loan and credit cards portfolios due to higher loss rates and portfolio growth also contributed to the increase. The specific provision as a percentage of average net loans and acceptances broadly declined from 2003 to 2006, largely due to a reduction in provisions for our business loan portfolio. The ratio increased to .33% in 2007, primarily reflecting higher impaired loans in our U.S. residential builder finance business. For further details, refer to Table 61 in the Additional financial information section.

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, equity or commodity prices, and credit spreads. We are exposed to market risk in our trading activity and our asset/liability management activities. The level of market risk to which we are exposed varies depending on market conditions, expectations of future price and yield movements and the composition of our trading portfolio.

Trading market risk

Trading market risk encompasses various risks associated with cash and related derivative products that are traded in interest rate, foreign exchange, equity, credit and commodity markets. Trading market risk is comprised of the following components:

- *Interest rate risk* is the potential adverse impact on our earnings and economic value due to changes in interest rates. It is composed of: (i) directional risk – arising from parallel shifts in the yield curve, (ii) yield curve risk – arising from non-uniform rate changes across a spectrum of maturities, (iii) basis risk – resulting from an imperfect hedge of one instrument type by another instrument type whose changes in price are not perfectly correlated, and (iv) option risk – from changes in the value of embedded options due to changes in prices or rates and their volatility. Most financial instruments have exposure to interest rate risk.
- *Foreign exchange rate risk* is the potential adverse impact on our earnings and economic value due to currency rate and precious metals price movements and volatilities. In our proprietary positions, we are exposed to the spot, forward and derivative markets.
- *Equity risk* is the potential adverse impact on our earnings due to movements in individual equity prices or general movements in the level of the stock market. We are exposed to equity risk from the buying and selling of equities and indices as principal in conjunction with our investment banking activities and from our trading activities, which include tailored equity derivative products, arbitrage trading and relative value trading.
- *Commodities risk* is the potential adverse impact on our earnings and economic value due to commodities price movements and volatilities. Principal commodities traded include crude oil, heating oil and natural gas. In our proprietary positions, we are exposed to the spot, forwards and derivative markets.
- *Credit spread risk* is the general adverse impact on our earnings and economic value due to changes in the credit spreads associated with our holdings of instruments subject to credit risk.
- *Credit specific risk* is the potential adverse impact on our earnings and economic value due to changes in the creditworthiness and default of issuers on our holdings in bonds and money market instruments, and those underlying credit derivatives.

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

Responsibilities

Oversight of market risk is provided by the Board of Directors through the Conduct Review & Risk Policy Committee (CR&RPC). Market risk limit approval authorities are established by the Board of Directors, upon recommendation of the CR&RPC, and delegated to senior management.

The independent oversight of trading market risk management activities is the responsibility of Group Risk Management (GRM) – Market and Trading Credit Risk, which includes major units in Toronto, London, New York and Sydney. The Market and Trading Credit Risk group establishes market risk policies and limits, develops quantitative techniques and analytical tools, vets trading models and systems, maintains the Value-at-Risk (VaR) and stress risk measurement systems, and provides enterprise risk reporting on trading activities. This group also provides independent oversight on trading activities, including the establishment and administration of trading operational limits, market risk and counterparty credit limit compliance, risk analytics, and the review and oversight of non-traditional or complex transactions.

Business segments are accountable for their market risks, working in partnership with GRM to ensure the alignment between risk appetite and business strategies.

GRM – Market and Trading Credit Risk is responsible for the determination and reporting of regulatory and Economic Capital requirements for market risk, and provides assurance to regulators in regular filings on reporting accuracy, timeliness and the proper functioning of statistical models within the approved confidence level.

Risk measurement

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

The majority of trading positions in foreign exchange, interest rate, equity, commodity and credit trading have capital calculated under an internal models approach while structured credit derivatives are calculated under the Standardized Approach. Also calculated under the Standardized Approach for migration and default (specific) risk are a limited set of interest rate products. These products and risks are not included in our global VaR.

Value-at-Risk (VaR)

VaR is a statistical technique that measures the worst-case loss expected over the period within a 99% confidence level. Larger losses are possible, but with low probability. For example, based on a 99% confidence interval, a portfolio with a VaR of $20 million held over one day would have a one in one hundred chance of suffering a loss greater than $20 million in that day. VaR is measured over a 10-day horizon for the purpose of determining regulatory capital requirements.

We measure VaR by major risk category on a discrete basis. We also measure and monitor the effects of correlation in the movements of interest rates, credit spreads, exchange rates, equity and commodity prices and highlight the benefit of diversification within our trading portfolio. This is then quantified in the diversification effect shown in our Global VaR table on the following page.

As with any modeled risk measure, there are certain limitations that arise from the assumptions used in VaR. Historical VaR assumes that the future will behave like the past. As a result, historical scenarios may not reflect the next market cycle. Furthermore, the use of a 10-day horizon VaR for risk measurement implies that positions could be unwound or hedged within 10 days but this may not be a realistic assumption if the market becomes largely or completely illiquid. For example, this was observed for certain U.S. subprime-related securities since August 2007. VaR is calculated based on end-of-day positions.

Validation

To ensure VaR effectively captures our market risk, we continuously monitor and enhance our methodology. Daily back-testing serves to compare hypothetical profit or loss against the VaR to monitor the statistical validity of 99% confidence level of the daily VaR measure.

Back-testing is calculated by holding position levels constant and isolating the effect of the movement of actual market rates over the next day and over the next 10 days on the market value of the portfolios. Intra-day position changes account for most of the difference between theoretical back-testing and actual profit and loss. VaR models and market risk factors are independently reviewed periodically to further ensure accuracy and reliability. In 2007, there were five occurrences of a back-test exceeding VaR. This occurred during the volatile markets of July and August. VaR calculated using a historical window can lead to back-testing breaches when the historical window used in the calculation is less volatile than current markets. During this period, we frequently updated our scenarios to keep pace with current market events.

Sensitivity analysis and stress testing

Sensitivity analysis is used to measure the impact of small changes in individual risk factors such as interest rates and foreign exchange rates and is designed to isolate and quantify exposure to the underlying risk.

VaR is a risk measure that is only meaningful in normal market conditions. To address more extreme market events, stress testing is used to measure and alert senior management to our exposure to potential political, economic or other disruptive events. We run several types of stress testing, including historical stress events such as the 1987 stock market crash, as well as hypothetical "what-if" stress events that represent potential future events that are plausible but have a very low probability of occurring. Our stress scenarios are reviewed and updated as required to reflect relevant events and hypothetical situations. While we endeavour to be conservative in our stress testing, there can be no assurance that our stress testing assumptions will cover every market scenario that may unfold.

Risk control

Policies

A comprehensive risk policy framework governs trading-related risks and activities and provides guidance to trading management, middle office compliance functions and operations. We employ an extensive set of principles, rules, controls and limits, which conform to industry best practice. Our market risk management framework is designed to ensure that our risks are appropriately diversified on a global basis. Limits on measures such as notional size, term and overall risk are monitored at the desk, and at the portfolio and business levels.

Reporting

Reports on trading risks are provided by GRM – Market and Trading Credit Risk to the Chief Risk Officer (CRO) and the operating committee of Capital Markets on a weekly basis and to senior management on a daily basis. Enterprise-wide reporting is used to monitor compliance against VaR and stress limits approved by the Board of Directors, and the operating limits derived from these board limits. In addition to this monitoring, GRM – Market and Trading Credit Risk pre-approves excesses and reports any breach to the CRO and the operating committee of Capital Markets.

Internal reporting to senior management includes stand-alone risk calculations for portfolios that have standardized regulatory capital which are then combined with models-based results to present an aggregated enterprise risk profile.

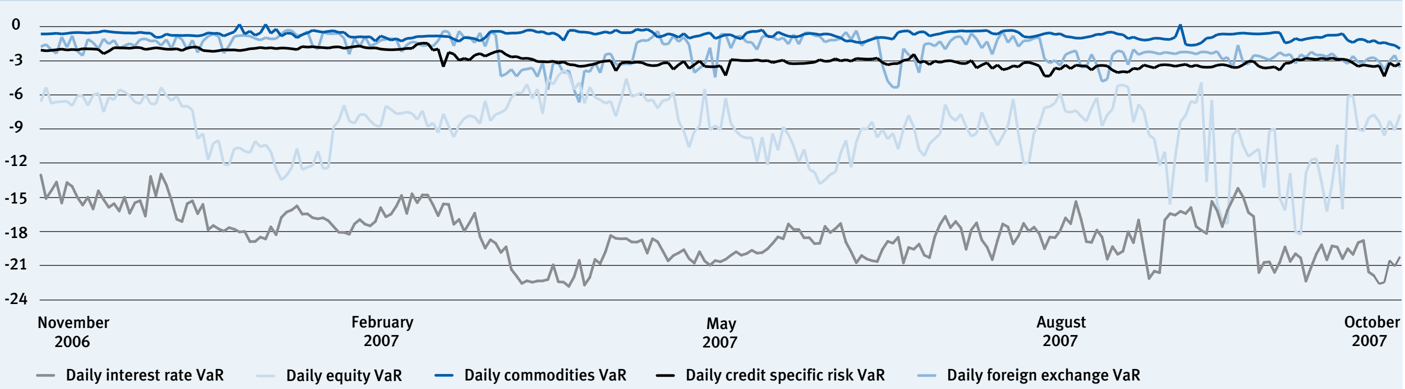
The following table shows our global VaR for total trading activities under our models based approach for capital by major risk category and also shows the diversification effect, which is calculated as the difference between the global VaR and the sum of the separate risk factor VaRs.

Global VAR by major risk category Table 53

	2007				2006			
		For the year ended October 31				For the year ended October 31		
(C$ millions)	As at Oct. 31	High	Average	Low	As at Oct. 31	High	Average	Low
Equity	$ 8	$ 18	$ 9	$ 4	$ 7	$ 11	$ 7	$ 5
Foreign exchange	4	7	2	1	2	4	2	1
Commodities	2	2	1	–	1	2	1	–
Interest rate	20	23	19	14	13	20	13	9
Credit specific	3	5	3	2	3	4	3	2
Diversification	(19)	n.m.	(13)	n.m.	(9)	n.m.	(8)	n.m.
Global VAR	$ 18	$ 27	$ 21	$ 16	$ 17	$ 25	$ 18	$ 13

n.m. not meaningful

Global VaR by major risk category (C$ millions)



Global VaR

2007 vs. 2006

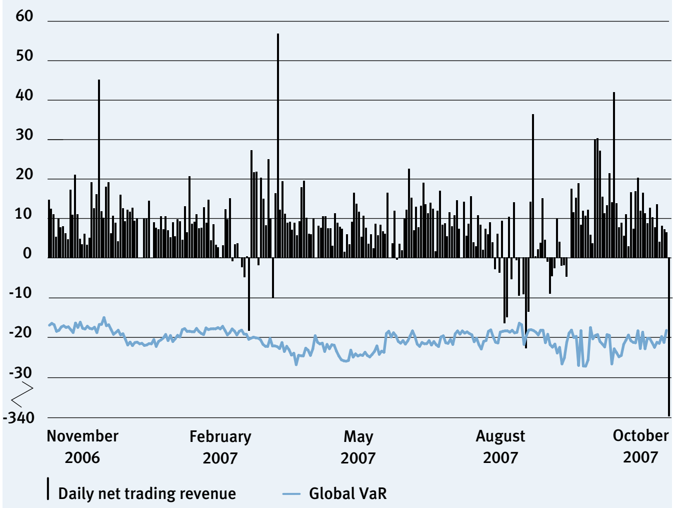
Average global VaR for the year of $21 million was up compared to $18 million a year ago. This increase largely reflected an increase in both Interest rate and Equity VaR due to a higher level of trading activity and increased market volatility during the current year. These increases were mostly offset by an improvement in the overall diversification effect, which rose to 38% compared to 31% a year ago.

Trading revenue

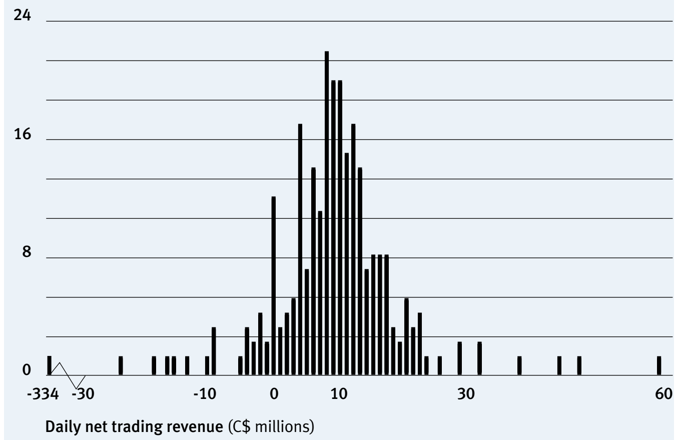
2007 vs. 2006

The volatility in daily trading revenue in the latter part of 2007 reflected difficult trading conditions in both interest rates and credit-related products arising from a very stressed market during that period. Equity markets also experienced high volatility in July and August. Writedowns related to the valuation of U.S. subprime RMBS and CDOs of ABS in our Structured Credit business totalled $357 million. In addition to this one-day trading loss, we experienced 25 days of net trading losses with the largest one-day loss of $23 million.

Daily net trading revenue and global VaR (1), (2) (C$ millions)



Histogram of daily net trading revenue (1), (2) (number of days)



(1) Trading revenue on a taxable equivalent basis excluding revenue related to consolidated VIEs.
(2) The $357 million writedown on the valuation of U.S. subprime RMBS and CDOs of ABS was included on October 31, 2007.

Non-trading market risk (Asset/liability management)

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

Our goal is to manage the interest rate risk of the non-trading balance sheet to a target level. We modify the risk profile of the balance sheet through proactive hedging to achieve our target level. For additional information regarding the use of derivatives in asset and liability management, refer to the Off-Balance sheet section and Note 7 to our Consolidated Financial Statements. We continually monitor the effectiveness of our interest rate risk mitigation activity within Corporate Treasury on a value and earnings basis.

For a discussion of the management of foreign exchange risk in the non-trading balance sheet, refer to the Hedging foreign currency-denominated operations discussion in the Capital management section.

Responsibilities

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

Risk measurement

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

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

The economic value of equity is equal to the net present value of our assets, liabilities and off-balance sheet instruments.

Funds transfer pricing

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

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

Validation

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

As part of our monitoring of the effectiveness of our interest rate risk mitigation activity within Corporate Treasury which is done on a value and earnings basis, model assumptions are validated against actual client behaviour.

Risk control

Policies and limits

The interest rate risk policies define the management standards and acceptable limits within which risks to net interest income over a 12-month horizon, and the economic value of equity, are to be contained. These ranges are based on immediate and sustained ±100 basis point parallel shift of the yield curve. The limit for net interest income risk is 3% of projected net interest income, and for economic value of equity risk, the limit is 5% of projected common equity. Interest rate risk policies and limits are reviewed and approved annually by the Board of Directors.

Risk reporting

The individual subsidiaries and business segments report the interest rate risk management activity on a monthly basis. They must also immediately report any exceptions to the interest rate risk policies to Corporate Treasury and seek approval of the corrective actions.

An Enterprise interest rate risk report is reviewed monthly by the ALCO and quarterly by the Group Risk Committee and the Board of Directors.

Market risk measures – Non-trading banking activities **Table 54**

	2007						2006		2005	
	Economic value of equity risk			Net interest income risk						
(C$ millions)	Canadian dollar impact	U.S. dollar impact (1)	All currencies	Canadian dollar impact	U.S. dollar impact (1)	All currencies	Economic value of equity risk	Net interest income risk	Economic value of equity risk	Net interest income risk
Before-tax impact of:										
100bp increase in rates	$ (391)	$ (49)	$ (440)	$ 40	$ 14	$ 54	$ (496)	$ 87	$ (435)	$ 106
100bp decrease in rates	315	(6)	309	(97)	(14)	(111)	375	(153)	291	(181)
Before-tax impact of:										
200bp increase in rates	(819)	(111)	(930)	68	29	97	(1,044)	147	(920)	162
200bp decrease in rates	640	(87)	553	(202)	(29)	(231)	658	(319)	461	(365)

(1) Represents the impact on the non-trading portfolios held in our U.S. banking operations.

2007 Analysis

The above table provides the potential before-tax impact of an immediate and sustained 100 basis point and 200 basis point increase or decrease in interest rates on net interest income and economic value of equity of our non-trading portfolio, assuming that no further hedging is undertaken. These measures are based upon assumptions made by senior management and validated by empirical research. All interest rate risk measures are based upon interest rate exposures at a specific time and continuously change as a result of business activities and our risk management initiatives. Over the course of 2007, our interest rate risk exposure was well within our target level.

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

Operational risk is embedded in all our activities, including the practices and controls used to manage other risks. Failure to manage operational risk can result in direct or indirect financial loss, reputational impact, regulatory censure, or failure in the management of other risks such as credit or market risk.

Our operational risk management framework flows directly from our enterprise risk management framework and sets out the principles and practices that we use to manage operational risk by identifying, measuring, controlling, and monitoring and reporting it. During 2007, we strengthened our operational risk management framework by expanding the common operational risk language that supports the consistent identification, assessment and understanding of risks. We also implemented our “converged” operational risk and control assessment and monitoring program. This enterprise-wide program integrated several stand-alone programs to identify and assess operational risks.

Responsibilities

The Board of Directors is responsible for providing oversight and ensuring that appropriate policies have been implemented to manage operational risk. The Chief Risk Officer (CRO) and Group Risk Management (GRM) are responsible for implementing the operational risk management framework on an enterprise-wide basis, as well as for directing and approving significant area-specific operational risk policies. A dedicated team within GRM designs and supports operational risk policies, programs and initiatives, and monitors implementation progress and ongoing execution. The businesses and corporate support groups are responsible for the informed and active management of the operational risks within their activities in accordance with the operational risk management framework. Where appropriate, execution of operational risk management programs is conducted by GTO on behalf of the businesses and corporate support groups.

Risk measurement

Operational risk is difficult to measure in a complete and precise manner, given that exposure to operational risk is often implicit, bundled with other risks, or otherwise not taken on intentionally. In the banking industry, measurement tools and methodologies continue to evolve. Nonetheless, we are able to gauge our operational risk exposure by using several approaches concurrently.

Risk assessment

Operational risks are identified and their potential impact assessed through our enterprise-wide integrated operational risk and control assessment and monitoring program. Our operational risk management framework is used to ensure consistent identification and assessment of operational risks and the controls used to manage these.

Risk indicators

Our businesses and corporate support groups use a broad range of risk indicators to manage their day-to-day activities. GRM uses indicators to monitor operational risk at the enterprise level. These indicators provide insight into the level and composition of our operational risk exposure and potential changes in these.

Operational event data collection and analysis

Operational risk events are reported in a central enterprise database. Comprehensive information about these events is then collected, and includes information regarding amount, occurrence, discovery date, business area and product involved, root causes and risk drivers. Analysis of operational risk event data helps us to understand where and how our risks are manifesting themselves, provides a historical perspective of our operational risk experience, and establishes a basis for measuring our operational risk exposure and the capital needed to underpin this type of risk.

Industry loss analysis

We review and analyze information on operational losses that have occurred at other financial institutions, using published information and information we acquire through our membership in the Operational Riskdata eXchange (ORX), a private data-sharing consortium. Both provide insights into the size and nature of potential exposures, which enables us to benchmark our loss experience against those of our peers to determine if our experience puts us in an outlier position. It also allows us to monitor emerging developments and trends that affect the financial industry as a whole.

Risk control
Operational risk is managed through our infrastructure, controls, systems and people, complemented by central enterprise-wide groups focusing on management of specific operational risks such as fraud, privacy, outsourcing, and business disruption, as well as people and systems risks.

A number of our enterprise-wide groups ensure that all of these controls and systems are effective under our operational risk management framework. These include compliance, which ensures a complete view of our regulatory obligations and provides a co-ordinated, effective response to these, and the internal audit group, which provides independent assessment of risk management practices, internal controls and corporate governance processes.

Risk mitigation
Any high-risk exposures that we identify are subject to remedial measures, monitoring and control testing. This includes exposures identified through our integrated risk and control assessment and monitoring program, internal audits, compliance reviews, business continuity readiness reviews, or operational risk event reporting.

Our corporate insurance program enables us to transfer some of our operational risk exposure by purchasing insurance coverage, the nature and amounts of which are determined on a central, enterprise-wide basis.

Reporting
GRM provides quarterly enterprise level risk reporting to senior management and the Board of Directors. The operational risk reporting includes an overview of our operational risk profile and the trend and outlook for our exposure. Details are provided on areas of elevated risk, individual operational risks where there is heightened awareness, regulatory or compliance issues, and large operational risk events. This reporting is supplemented with more detailed specific reporting by groups such as compliance, audit, legal and human resources.

Liquidity and funding risk

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

Our liquidity and funding management framework is designed to ensure that adequate sources of reliable and cost-effective cash or its equivalents are continually available to satisfy our current and prospective financial commitments under normal and contemplated stress conditions. To achieve this goal, we are dedicated to the preservation of the following key liquidity and funding risk mitigation strategies:
- A large base of core client deposits
- Continual access to diversified sources of wholesale funding, including demonstrated capacities to monetize specific asset classes
- A comprehensive and enterprise-wide liquidity contingency plan supported by an earmarked pool of unencumbered marketable securities (referred to as "contingency liquidity assets") that provide assured access to cash in a crisis.

Our liquidity and funding management practices and processes reinforce these risk mitigation strategies by assigning prudential limits or targets to metrics associated with these activities and regularly measuring and monitoring various sources of liquidity risk under both normal and stressed market conditions. In managing this risk, we aim to achieve a prudent balance between the level of risk we take and the cost of its mitigation, recognizing that this balance may need to be adjusted if our internal and/or external environments change materially.

Responsibilities
The Board of Directors is responsible for oversight of our liquidity and funding management framework, which is developed and implemented by senior management.
- The Audit Committee approves our liquidity and funding management framework, our pledging framework, and liquidity contingency plan and establishes broad liquidity risk tolerance levels, and the Board of Directors is informed on a periodic basis about our current and prospective liquidity condition.
- The Group Risk Committee and our Asset and Liability Committee (ALCO) share management oversight responsibility for liquidity and funding policies and receive regular reports detailing compliance with key limits and guidelines.
- Corporate Treasury has global responsibility for the development of liquidity and funding management policies, strategies and contingency plans and for recommending and monitoring limits within the framework. In this role, Corporate Treasury is assisted by Group Risk Management. Corporate Treasury actively participates in national and international industry initiatives to benchmark and enhance its liquidity management practices.
- Treasury departments of business segments and key subsidiaries execute transactions in line with liquidity management policies and strategies.
- Subsidiaries are responsible for managing their own liquidity in compliance with policies and practices established under advice and counsel by Corporate Treasury and within governing regulatory requirements.

Risk measurement
The assessment of our liquidity position reflects management's conservative estimates, assumptions and judgments pertaining to current and prospective firm-specific and market conditions and the related behaviour of our clients and counterparties. We measure and manage our liquidity position from three risk perspectives as follows:

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

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

Contingent liquidity risk
Contingent liquidity risk management assesses the impact of and our intended responses to sudden stressful events. The liquidity contingency plan identifies comprehensive action plans that would be implemented depending on the duration and severity of the various liquidity crises identified in our stress testing program. Corporate Treasury maintains and administers the liquidity contingency plan. The Liquidity Crisis Team, consisting of senior representatives of all key business and functional units, meets regularly to engage in stress testing and to review our liquidity contingency preparedness.

Our stress testing exercises are based on models that measure our potential exposure to global, country-specific or RBC-specific events (or a combination thereof) and consider both historical and hypothetical events. Different levels of severity are considered for each type of crisis including ratings downgrades of two and four notches and to non-investment grade for RBC-specific events. These comprehensive tests include elements of scenario and sensitivity stress testing techniques. In all cases, the crisis impact is measured over a nine-week horizon, which is also used in our key measure of tactical liquidity risk and is what we consider to be the most crucial time span for a liquidity event. Liquidity Crisis Team members contribute to assumptions about the expected behaviour of balance sheet asset and liability categories and off-balance sheet exposures based on their specialized client, product and market perspectives. Some tests are run monthly, others are only run annually. Frequency is determined by considering a combination of their likelihood and impact. After reviewing test results, the liquidity contingency plan and other related liquidity and funding risk management practices may be modified in light of lessons learned. Failure to meet predetermined minimum targets in some of these tests, as well as in aforementioned risk measures, would result in discussion with senior management and, as necessary, the Board of Directors, and possibly lead to revised limits and targets.

Our liquid assets are primarily a diversified pool of highly rated marketable securities and include segregated portfolios (in both Canadian and U.S. dollars) of contingency liquidity assets to address potential on- and off-balance sheet liquidity exposures (such as deposit erosion, loan drawdowns and higher collateral demands), that have been estimated through models we have developed or by the scenario analyses and stress tests that we conduct periodically. These portfolios are subject to minimum asset levels and strict eligibility guidelines to ensure ready access to cash in emergencies.

Risk control
We monitor and manage our liquidity position on a consolidated basis and consider legal, regulatory, tax, operational and any other applicable restrictions when analyzing our ability to lend or borrow funds between branches, branches and subsidiaries, and subsidiaries.

Policies
Our principal liquidity and funding policies are reviewed and approved annually by senior management committees and the Board of Directors. These broad policies establish risk tolerance parameters and authorize senior management committees or Corporate Treasury to approve more detailed policies and limits related to specific measures, businesses and products. These policies and procedures govern management, measurement and reporting requirements and define approved liquidity and funding limits.

Authorities and limits
Targets for our structural liquidity position, based on both a "cash capital" metric and a "survivability horizon" measurement, are approved at least annually and monitored regularly.

With respect to net short-term funding requirements, all limits are monitored regularly to ensure compliance. The prescribed treatment of cash flow assets and liabilities under varying conditions are reviewed periodically to determine if they remain valid or changes to assumptions and limits are required in light of internal and/or external developments. Global market volatility in the latter part of 2007 has prompted us to modify the liquidity treatment of certain asset classes to reflect our expectations that market liquidity for these products will be sporadic for some time. Some limits are in the process of being reviewed and possibly revised to take into consideration the results of updated stress tests that reflect lessons learned during this period of market volatility.

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

Funding
Funding strategy
Diversification of funding sources is a crucial component of our overall liquidity management strategy. Diversification expands our funding flexibility while minimizing funding concentration and dependency and generally reducing financing costs. To that effect, we completed the first Canadian covered bond issuance in November 2007. Maintaining competitive credit ratings is also critical to cost-effective funding. Core funding, comprising capital, longer-term liabilities and a diversified pool of personal and, to a lesser extent, commercial deposits, is the foundation of our strong structural liquidity position.

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

Credit ratings **Table 55**

As at November 29, 2007 (1)	Short-term debt	Senior long-term debt	Outlook
Moody's Investors Service	P-1	Aaa	stable
Standard & Poor's	A-1+	AA–	positive
Fitch Ratings	F1+	AA	stable
DBRS	R-1(high)	AA	stable

(1) Credit ratings are not recommendations to purchase, sell or hold a financial obligation inasmuch as they do not comment on market price or suitability for a particular investor. Ratings are subject to revision or withdrawal at any time by the rating organization.

During the year, there were two positive developments with respect to our ratings. In the second quarter of 2007, Moody's Investors Service upgraded our senior long-term debt rating to Aaa from Aa2 as a result of refinements made to their joint default analysis, and in the third quarter of 2007, Standard & Poor's revised our rating outlook to positive from stable, citing among other points, a sound liquidity profile and a very robust liquidity management infrastructure. Our Fitch and DBRS ratings and outlooks remain unchanged from October 31, 2006. Our collective ratings continue to be the highest categories assigned by the respective agencies to a Canadian bank and these strong credit ratings support our ability to competitively access unsecured funding markets.

Deposit profile

The composition of our global deposit liabilities is summarized in Note 13 to our Consolidated Financial Statements. In 2007, personal deposits remained the key source of funding for our Canadian dollar balance sheet while most foreign currency deposits originated from unsecured, wholesale sources, including large corporate and institutional clients and foreign commercial and central banks.

Our personal deposit franchise constitutes the principal source of constant funding while certain commercial and institutional client groups also maintain relational balances with low volatility profiles. Taken together, these clients represent a highly stable supply of core deposits in most conceivable environments as they typically are less responsive to market developments than transactional lenders and investors due to the impact of deposit insurance and extensive and, at times, exclusive relationships with us. Core deposits, consisting of our own statistically derived estimates of the highly stable portions of all of our relational personal, commercial and institutional balances (demand, notice and fixed-term) together with wholesale funds maturing beyond one year, increased during the year by about 2% to 56% of our total deposits. We encourage wholesale funding diversity and regularly review sources of short-term funds to ensure that they are well-diversified by provider, product, market and geographic origin. In addition, we maintain an ongoing presence in different funding markets, which allows us to constantly monitor market developments and trends in order to identify opportunities and risks and to take appropriate and timely actions.

Term funding sources — Table 56

(C$ millions)	2007	2006	2005
Long-term funding outstanding	$ 51,540	$ 33,361	$ 24,004
Total mortgage-backed securities sold	14,239	12,186	8,487
Commercial mortgage-backed securities sold	2,405	1,914	1,237
Credit card receivables financed through notes issued by a securitization special purpose entity	2,759	2,250	2,500

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

During 2007, we continued to expand our long-term funding base by issuing, either directly or through our subsidiaries, $30.7 billion of senior deposit notes in various currencies and markets. Total long-term funding outstanding increased $18.2 billion. Outstanding senior debt containing ratings triggers, which would accelerate repayment, constitutes a very small proportion of our overall outstanding debt.

Other liquidity and funding sources

We use commercial mortgage, residential mortgage and credit card receivable-backed securitization programs as alternative sources of funding and for liquidity and asset/liability management purposes. We hold retained interests in our residential mortgage and credit card securitization programs. Our total outstanding mortgage-backed securities sold increased year over year by $2.1 billion. Our credit card receivables, which are financed through notes issued by a securitization special purposes entity, increased year over year by $509 million. For further details, refer to the Off-balance sheet arrangements section and Note 5 to our Consolidated Financial Statements.

Impact of global market turmoil to our term funding capacity

Despite recent global market events, including a reduction in liquidity in term funding markets, our liquidity and funding position remains sound and adequate to execute our strategy. There are no known trends, demands, commitments or events that are presently expected to materially change this position.

By leveraging our new and existing domestic and global funding programs, we continued to raise wholesale term funding in size during the latter half of 2007. Most of the funding was raised through large benchmark-sized transactions, but a significant amount was also raised in a variety of lower-cost funding transactions. In 2007, we raised wholesale term funding in 12 different currencies, including six currencies in the fourth quarter. The market turmoil did not prevent us from launching the first Canadian covered bond program, where we sold €2 billion of notes in the inaugural transaction, which settled on November 5, 2007. Our ability to raise wholesale term funding continued to significantly exceed our funding needs during the latter half of 2007.

Contractual obligations

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

Contractual obligations — Table 57

	2007					2006	2005
(C$ millions) (1)	Within 1 year	1 to 3 years	Over 3 to 5 years	Over 5 years	Total	Total	Total
Unsecured long-term funding	$ 16,892	$ 16,350	$ 13,628	$ 4,670	$ 51,540	$ 33,361	$ 24,004
Subordinated debentures	–	118	–	6,117	6,235	7,103	8,167
Obligations under leases (2)	494	835	608	1,224	3,161	2,486	2,508
	$ 17,386	$ 17,303	$ 14,236	$ 12,011	$ 60,936	$ 42,950	$ 34,679

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

Reputation risk

Reputation risk is the risk that an activity undertaken by an organization or its representatives will impair its image in the community or lower public confidence in it, resulting in the loss of business, legal action or increased regulatory oversight.

Reputation risk can arise from a number of events and primarily occurs in connection with regulatory, legal and operational risks. Operational failures and non-compliance with laws and regulations can have a significant reputational impact on us.

In addition to the six risk management principles discussed earlier in the Risk management overview section, the following principles also apply to our overall management of reputation risk:

- We must operate with integrity at all times in order to sustain a strong and positive reputation
- Protecting our reputation is the responsibility of all our employees, including senior management, and extends to all members of the Board of Directors.

Code of Conduct

Our corporate values and Code of Conduct underpin the management of risk to our reputation and drive our ethical culture. Our Code of Conduct is the foundation of employee and director awareness of the kinds of conduct that protect our reputation, and those that put our reputation at risk.

Responsibilities

The management of reputation risk is overseen by the Board of Directors. The key senior management committees involved with monitoring and reporting on reputation risk at an enterprise level are: Ethics and Compliance Committee, Policy Review Committee, Structured Transactions Oversight Committee and the Group Risk Committee.

Risk control

Policies

Policies and procedures support the management of reputation risk across the organization. Business segments have specific policies in place to manage the risks within their businesses, including reputation risk. A comprehensive set of policy requirements applies to the identification and assessment of reputation risk, including Know Your Client due diligence controls and procedures, anti-money laundering and anti-terrorist financing policy requirements, auditor independence requirements, research standards, whistle blowing, and the requirements for managing conflicts of interest.

Reporting

The responsibility for monitoring and reporting on reputation risk issues is primarily within GRM. Regular comprehensive reporting is provided to the Group Risk Committee and the Board of Directors and its committees. This includes annual reporting on fraud issues, litigation issues and quarterly reporting on regulatory, compliance and operational risk issues. Reputation risk issues are also raised in internal audit reports provided to senior management, summaries of which are provided to the Audit Committee.

Regulatory and legal risk

Regulatory and legal risk is the risk of negative impact to business activities, earnings or capital, regulatory relationships or reputation as a result of failure to comply with or a failure to adapt to current and changing regulations, law, industry codes or rules, regulatory expectations or ethical standards.

Global Compliance, which is a part of Group Risk Management (GRM) has developed a comprehensive enterprise compliance management (ECM) framework that is consistent with regulatory guidance from the OSFI and other regulators. The framework is designed to promote the proactive, risk-based management of regulatory risk. It applies to all of our businesses and operations, legal entities and employees globally and confirms the shared accountability of all employees across the organization for ensuring we maintain robust and effective regulatory risk and compliance controls. The framework covers the following eight elements of compliance management: liaison with regulators, risk identification and assessment, control design and evaluation, learning and awareness, compliance execution, monitoring and oversight, issue management and reporting, and new initiative management.

Responsibilities

Global Compliance sets out the enterprise-wide requirements for the identification, assessment, control, monitoring and reporting of regulatory and compliance risk (and associated operational and reputation risk), as well as remediation of any issues identified. Oversight is provided by the Board of Directors through the CR&RPC and the Audit Committee. The Ethics and Compliance Committee supports our management of regulatory risk. It approves compliance programs and compliance-related policies and informs and advises the Group Risk Committee (GRC), CR&RPC and the Audit Committee on significant regulatory issues and remedial measures.

The Chief Compliance Officer (CCO) and Global Compliance work closely with business partners to ensure the overall effectiveness of compliance and regulatory risk management controls across the enterprise through the ECM framework, which includes policies for consistent and effective compliance, independent oversight of compliance controls, timely reporting of trends and escalation of issues to senior management and the Board of Directors and timely execution of appropriate action plans.

Risk measurement

The identification and assessment of regulatory risk includes formal risk assessment activities carried out across the organization, both at the individual business and operational level, and at the enterprise level. Risk is measured through the assessment of the impact of regulatory and organizational changes, the introduction of new products and services, and the acquisition or development of new lines of business. It is also measured through the testing of the effectiveness of the controls established to ensure compliance with regulatory requirements and expectations. Although the use of metrics to measure compliance-related matters is relatively new and there are few proven methods for detecting leading indicators, we are working to develop such metrics. Meanwhile, we use what measures are available to identify issues and trends.

Risk control

Policies

We have a strong ethical and compliance culture grounded in our Code of Conduct. The Code of Conduct is regularly reviewed and updated to ensure that it continues to meet the expectations of regulators and other stakeholders. All our employees must reconfirm their understanding of and commitment to comply with the Code of Conduct at least every two years, and employees in certain key roles, such as Group Executive and others in financial oversight roles as identified in our Auditor Independence Policy, must do so annually.

We provide online and face-to-face training for all our employees in the area of anti-money laundering compliance and training in other compliance and regulatory risk related matters for relevant employees through other online tools and other job aids, as part of employees' regular job training, in new employee orientation materials, and periodically through targeted face-to-face or webcast training.

Reporting
On a quarterly basis, the CCO reports compliance matters to senior management, management committees, the Audit Committee and CR&RPC. In addition, the CCO provides an annual report on overall compliance, and on specific topics, such as related party transactions, conflicts of interest, and compliance with Canadian consumer protection requirements, and the Global Chief Anti-Money Laundering Officer reports at least annually on anti-money laundering and anti-terrorist financing compliance. Similarly, senior compliance officers of our operating subsidiaries provide relevant annual and quarterly reports to their respective senior management and Boards of Directors.

Environmental risk

Environmental risk is the risk of loss to financial, operational or reputation value resulting from the impact of environmental issues. Environmental risk arises from our business activities and our operations. For example, the environmental issues associated with our clients' purchase and sale of contaminated property or development of large-scale projects may give rise to credit and reputation risk for us. Operational and legal risks may arise when we are faced with environmental issues at our branches, offices or data processing centres.

We undertake independent and collaborative research to identify and better understand the material environmental risks we face. Some current and emerging issues include climate change, biodiversity, water and the rights of indigenous peoples, among others.

Responsibilities
Environmental risk management activities are managed by the Corporate Environmental Affairs Group (CEA) with support from our business segments and Corporate Support groups. The CEA is responsible for developing and implementing the environmental risk management system, including identifying environmental risks in the organization, designing and supporting environmental risk policies, programs and initiatives, monitoring implementation, and leading communication and training. The CEA also provides advisory services and support to business and functional units on the management of specific environmental risks.

Risk measurement
Some environmental risks associated with our business and operational activities can be easily quantified while others are assessed on a qualitative basis. For example, in our lending activities, we quantify the potential cost of cleaning up environmental contamination of properties used as security for loans, and the cost to an obligor of making operational changes that may be required to meet environmental regulatory requirements or satisfy other obligations. In our own operations, we quantify our cost to maintain compliance with environmental regulations or applicable standards. Other environmental risks are assessed on a qualitative basis, for example, the exposure of a particular industry to the effects of climate change and climate change regulations. As environmental risk measurement methodologies mature, particularly with respect to climate change, we will incorporate more quantitative risk measures into our processes.

Risk control
We manage environmental risk by maintaining an environmental management system, including policy requirements, management and mitigation strategies, and reporting. Specifically, to manage environmental risk, we:

- Develop and maintain environmental policies, standards, procedures and guidelines
- Monitor relevant laws and regulations, as well as other requirements to which the bank adheres
- Maintain environmental programs and initiatives
- Establish roles and responsibilities for environmental management in the organization
- Train employees to identify and manage environmental risks
- Maintain an open dialogue with stakeholders, both internal and external to the organization
- Measure our performance and compare it to our objectives, which enables us to identify enhancement opportunities
- Periodically verify that our environmental risk management policies and processes are operating as intended.

Policies
Our Environmental Blueprint, launched in October 2007, updates our corporate environmental policy. It details environmental issues that are important to our stakeholders and us and outlines our commitment to reducing our environmental footprint, responsible lending and investment, and business growth and development of environmental products and services.

Our suite of environmental credit risk management policies enables us to proactively identify and manage environmental risks in our lending activities. These policies are regularly reviewed to ensure compliance with legal and operational requirements, and to take into account evolving business activities.

In addition to general policies for commercial and corporate lending, we have sector-specific and business-segment-specific policies and guidelines. For example, we have a separate Policy on Social and Environmental Review in our Project Finance business, which reflects our commitment to the Equator Principles (EPs). The EPs, which were revised in 2007, are voluntary guidelines that help financial institutions address the environmental and social risks associated with project finance.

Management and mitigation
In addition to adherence to policies, standards, procedures and guidelines, environmental risk is mitigated through transaction structuring and the use of insurance as well as other mechanisms. The CEA supports lenders, risk managers and clients in the management and mitigation of environmental risks in transactions, by recommending strategies to treat, eliminate or transfer (via insurance) environmental risk.

Reporting
The Board of Directors and senior management committees are periodically provided with reports and analysis on risks associated with environmental issues (for example, climate change and the Kyoto Accord, and the EPs), as appropriate. Loan losses resulting from environmental issues are tracked and reported to senior management.

We report on our implementation of the EPs annually in our Corporate Responsibility Report and Public Accountability Statement (CRR & PAS) and on rbc.com. The CRR & PAS also provides information about our environmental policies, lending, emerging issues, stakeholder engagement, and environmental performance and initiatives.

Insurance risk

Insurance risk is the risk of loss that may occur when actuarial assumptions made in insurance product design and pricing activities differ from actual experience. Insurance risk arises from our life and health, creditor, home and auto, and travel insurance, and reinsurance businesses. Insurance risk can be categorized into the following sub-risks:

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

Responsibilities

Insurance risk approval authorities are established by the Board of Directors upon recommendation of its committees and delegated to senior management.

The respective boards of directors of the insurance subsidiaries are responsible for the stewardship of the insurance companies. These boards of directors oversee and monitor the management of the insurance subsidiaries and ensure that the subsidiaries are properly managed and functioning within our overall strategies and policies.

Group Risk Management (GRM) is responsible for providing risk management direction and oversight to the insurance businesses and for providing comprehensive reporting of insurance risks facing the organization. The Appointed Actuaries of our Canadian insurance subsidiaries are appointed by the boards of directors and have statutory requirements to provide opinions on adequacy of liabilities, sufficiency of capital, the insurance company's future financial condition and fairness of treatment for policyholders. External actuarial reviewers, in accordance with the OSFI guidelines and Canadian Institute of Actuaries standards, provide oversight on the work of the Appointed Actuaries. Our international insurance subsidiaries receive similar actuarial oversight. Global Functions and Global Technology and Operations (GTO) also provide direction and oversight to manage risk within their areas of expertise.

Insurance business units are responsible for the active management of insurance risk in partnership with GRM, other Global Functions groups and GTO.

Risk measurement

We measure insurance risks at regular intervals to ensure that our risk profile is appropriately monitored, reported, and aligned with business assumptions. These risk measurements are used for Economic Capital quantification, valuation of actuarial liabilities, and to meet statutory reporting requirements. This process is managed by GRM through the use of models.

Models used for risk measurement are subject to a robust and systematic process of review and reporting in accordance with our Model Risk Policy. Key elements of the policy include maintaining appropriate model documentation, an approval process to ensure appropriate segregation of duties, independent and periodic model reviews, and clear accountability and oversight.

Risk control

Policies

Insurance risk policies articulate our strategies to identify, prioritize and manage insurance risk. GRM is responsible for insurance risk policies which establish the expectations and parameters within which the insurance businesses may operate, communicate our risk tolerance, and ensure accountability through clear roles and responsibilities.

Authorities and limits

Risk approval authorities and limits are established by the Board of Directors and delegated to management within the business units in order to guide insurance business activities. These delegated authorities and limits ensure our insurance portfolio is well diversified and within the risk appetite as approved by the Board of Directors.

Risk oversight and approval

GRM provides independent oversight over our insurance business activities including product development, product pricing, underwriting and claims management. GRM also approves authority for activities, which exceed business unit authorities and limits, and certain business activities, which are deemed to be of significant risk.

Risk mitigation

Our key elements for identifying, assessing and managing insurance risk include a risk-based approach for product development and pricing, effective guidelines and practices for underwriting and claims management. In addition, transferring insurance risk to independent insurance companies or reinsurance is used to diversify our portfolio of insurance risks, limit loss exposure to large risks, and provide additional capacity for future growth.

Actuarial liabilities

Actuarial liabilities are estimates of the amounts required to meet obligations resulting from insurance contracts. Liabilities for estimated future policy benefits and expenses are established in accordance with the standards of practice of the Canadian Institute of Actuaries and the requirements of the OSFI and other relevant professional and regulatory bodies. Actuarial liabilities under Canadian GAAP are calculated using the Canadian Asset Liability Method. These estimates and actuarial assumptions include explicit provisions for adverse deviations to ensure adequacy of liabilities and are validated through extensive internal and independent external reviews and audits.

Reporting

GRM regularly provides independent evaluation and reporting on our insurance risk exposures to management at the business segment level and at the enterprise level. The reports analyze and communicate insurance risk information and contribute to the overall understanding of insurance risk. Reporting includes an assessment of risks facing the insurance business units, trends related to all claims and adequacy of actuarial liabilities. The reports also provide an assessment of the risk-return profile of insurance products and a view of future potential risks.

Strategic risk

Strategic risk is the risk that an enterprise or a particular business area makes inappropriate strategic choices, or is unable to successfully implement selected strategies or related plans and decisions.
We apply the following principles to manage strategic risk:

- Significant decisions are aligned with our enterprise strategy
- Business segment strategy is aligned with our enterprise strategy
- All business strategies are supported by market and competitive analysis and financial projection of their expected impact.

The effective identification and assessment of this risk is critical for us and involves the Group Executive and the Board of Directors when identifying and assessing various strategic opportunities for the organization.

Responsibilities

Responsibility for successfully implementing strategies is mandated to the individual heads of the businesses. The Strategy and Development team within Global Functions is responsible for the articulation of our enterprise strategy. This team also provides support for the development of strategies of the business segments and lines of business. The identification and analysis of strategic issues, opportunities and risks we face is an ongoing component of their overall responsibilities.

Risk control

The project appropriation request (PAR) process is used to manage strategic risk. Our strategic initiatives group provides an initial review and co-ordinates circulating each PAR to GRM, Law and Corporate Treasury for review, comments and approval. The Board of Directors and/or Group Risk Committee may approve the finalized version if their approval is warranted. PARs are a critical part of our corporate governance framework and are available for review by regulators or our external auditors as required.

Competitive risk

Competitive risk is the risk associated with the inability to build or maintain sustainable competitive advantage in a given market or markets. This risk can arise within or outside the financial sector, from traditional or non-traditional competitors, domestically or globally.

We manage competitive risk through appropriate identification and assessment as part of our overall risk management process. This includes risk assessment of new or enhanced products and services, alliances and acquisitions. Our ability to adapt to a changing competitive environment will impact our overall financial performance.

Systemic risk

Systemic risk is the risk that the financial system as a whole may not withstand the effects of a crisis resulting from extraordinary economic, political, social or financial circumstances. This could result in financial, reputation or other losses.

Systemic risk is considered to be the least controllable risk we face. Our ability to mitigate this risk when undertaking business activities is very limited, other than through collaborative mechanisms between industry participants, and, as appropriate, the public sector, to reduce the frequency and impact of these risks.

Additional risks that may affect future results

By their very nature, forward-looking statements, including those made in this document, require us to make assumptions and are subject to inherent risks and uncertainties which may cause our actual results to differ materially from our expectations expressed in such forward-looking statements. Factors that might cause our actual financial performance to vary from that described in our forward-looking statements include credit, market, operational, liquidity and funding risks, and other risks discussed in detail in the Risk management section. In addition, the following discussion sets forth other factors we believe could cause our actual results to differ materially from expected results.

Industry factors

General business and economic conditions in Canada, the United States and other countries in which we conduct business

Interest rates, foreign exchange rates, the stability of various financial markets, including the impact from the continuing volatility in the U.S. subprime and related markets and lack of liquidity in various other financial markets, consumer spending, business investment, government spending, the level of activity and volatility of the capital markets, inflation and terrorism each impact the business and economic environments in which we operate and, ultimately, the level of business activity we conduct and earnings we generate in a specific geographic region. For example, an economic downturn in a country may result in high unemployment and lower family income, corporate earnings, business investment and consumer spending, and could adversely affect the demand for our loan and other products. In addition, our provision for credit losses would likely increase, resulting in lower earnings. Similarly, a downturn in a particular equity or debt market could cause a reduction in new issue and investor trading activity or assets under management and assets under administration, resulting in lower fee, commission and other revenue. Also, defaults by a large financial institution in Canada, the United States or internationally could adversely affect the financial markets generally and us specifically.

Currency rates

Our revenue, expenses and income denominated in currencies other than the Canadian dollar are subject to fluctuations in the movement of the Canadian dollar relative to those currencies. Such fluctuations may affect our overall business and financial results. Our most significant exposure is to the U.S. dollar due to our level of operations in the U.S., and other activities conducted in U.S. dollars. The strengthening of the Canadian dollar compared to the U.S. dollar over the last four years has had a significant effect on our results. We are also exposed to the British pound and the Euro due to our activities conducted internationally in these currencies. Further appreciation of the Canadian dollar relative to the U.S. dollar, British pound and Euro reduced the translated value of U.S. dollar-, British pound- and Euro-denominated revenue, expenses and earnings.

Government monetary and other policies

Our businesses and earnings are affected by the monetary policies that are adopted by the Bank of Canada and the Board of Governors of the Federal Reserve System in the United States, as well as those adopted by international agencies, in jurisdictions in which we operate. For example, monetary policy decisions by the Bank of Canada have an impact on the level of interest rates, fluctuations of which can have an impact on our earnings. As well, such policies can adversely affect our clients and counterparties in Canada, the United States and internationally, which may increase the risk of default by such clients and counterparties. Our businesses and earnings are also affected by fiscal or other policies that are adopted by various regulatory authorities in Canada, the United States and international agencies.

Level of competition
The competition for clients among financial services companies in the consumer and business markets in which we operate is intense. Client loyalty and retention can be influenced by a number of factors, including relative service levels, the prices and attributes of our products or services, our reputation and actions taken by our competitors. Other financial companies, such as insurance and mono-line companies and non-financial companies are increasingly offering services traditionally provided by banks. Such competition could also reduce fee revenue and adversely affect our earnings.

Changes in laws and regulations
Laws and regulations are in place to protect the financial and other interests of our clients, investors and the public interest. Changes to laws, including tax laws, regulations or regulatory policies, including changes to our capital management framework, as well as changes in how they are interpreted, implemented or enforced, could adversely affect us, for example, by lowering barriers to entry in the businesses in which we operate or increasing our costs of compliance. In addition, our failure to comply with applicable laws, regulations or regulatory policies could result in sanctions and financial penalties by regulatory agencies that could adversely impact our reputation and earnings.

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

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

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

Bank specific factors
Execution of our strategy
Our ability to execute on our objectives and strategic goals will influence our financial performance. If our strategic goals do not meet with success or there is a change in our strategic goals, our financial results could be adversely affected.

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

Changes in accounting standards, accounting policies and estimates
From time to time, the Accounting Standards Board of the CICA changes the financial accounting and reporting standards that govern the preparation of our financial statements. These changes can be difficult to anticipate and can materially impact how we record and report our financial condition and results of operations. In some instances, we may be required to retroactively apply a new or revised standard that results in our restating prior period financial statements.

The accounting policies and methods we utilize determine how we report our financial condition and results of operations, and they require management to make estimates or rely on assumptions about matters that are inherently uncertain. Such estimates and assumptions may require revisions, and changes to them may materially adversely affect our results of operations and financial condition. Significant accounting policies are described in Note 1 to our Consolidated Financial Statements.

As detailed in the Critical accounting policies and estimates section, we have identified seven accounting policies as being “critical” to the presentation of our financial condition and results of operations as they; (i) require management to make particularly subjective and/or complex judgments about matters that are inherently uncertain; and (ii) carry the likelihood that materially different amounts could be reported under different conditions or using different assumptions and estimates.

Ability to attract employees and executives
Competition for qualified employees and executives is intense both within the financial services industry and from non-financial industries looking to recruit. If we are unable to retain and attract qualified employees and executives, our results of operations and financial condition, including our competitive position, may be materially adversely affected.

Changes to our credit ratings
There can be no assurance that our credit ratings and rating outlooks from rating agencies such as Moody’s Investors Service, Standard & Poor’s, Fitch Ratings or DBRS will not be lowered or that these ratings agencies will not issue adverse commentaries about us, potentially resulting in higher financing costs and reduced access to capital markets. A lowering of our credit ratings may also affect our ability, and the cost, to enter into normal course derivative or hedging transactions.

Development and integration of our distribution networks
Although we regularly explore opportunities to expand our distribution networks, either through acquisitions or organically by adding, for example, new bank branches, insurance offices, online savings accounts and ATMs in high-growth markets in Canada, the United States and internationally, if we are not able to develop or integrate these distribution networks effectively, our results of operations and financial condition may be negatively affected.

Other factors
Other factors that may affect actual results include changes in government trade policy, the timely and successful development of new products and services, technological changes and our reliance on third parties to provide components of our business infrastructure, fraud by internal or external parties, unexpected changes in consumer spending and saving habits, the possible impact on our business from disease or illness that affects local, national or global economies, disruptions to public infrastructure, including transportation, communication, power and water, international conflicts and other political developments including those relating to the war on terrorism, and our success in anticipating and managing the associated risks.

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

Additional financial information

Net interest income on average assets and liabilities from continuing operations (1) — Table 58

	Average balances (2)			Interest (3)			Average rate		
(C$ millions, except percentage amounts)	2007	2006	2005	2007	2006	2005	2007	2006	2005
Assets									
Deposits with other banks									
Canada	$ 1,570	$ 1,218	$ 915	$ 43	$ 41	$ 31	2.74%	3.37%	3.39%
United States	2,904	1,856	1,587	176	155	55	6.06	8.35	3.47
Other International	5,436	4,913	4,068	319	284	145	5.87	5.78	3.56
	9,910	7,987	6,570	538	480	231	5.43	6.01	3.52
Securities									
Trading	162,828	134,166	110,356	6,621	5,056	3,711	4.07	3.77	3.36
Available-for-sale (4)	31,516	–	–	1,044	–	–	3.31	–	–
Investments (4)	–	38,792	37,876	–	1,133	895	–	2.92	2.36
	194,344	172,958	148,232	7,665	6,189	4,606	3.94	3.58	3.11
Asset purchased under reverse repurchase agreements and securities borrowed	71,759	55,615	44,420	3,450	2,827	1,354	4.81	5.08	3.05
Loans (5)									
Canada									
Retail	152,588	135,852	124,001	9,376	8,157	7,037	6.14	6.00	5.67
Wholesale	31,541	31,539	28,087	1,047	1,264	1,262	3.32	4.01	4.49
	184,129	167,391	152,088	10,423	9,421	8,299	5.66	5.63	5.46
United States	25,718	21,871	20,572	2,240	2,110	1,626	8.71	9.65	7.90
Other International	13,388	8,286	6,993	2,061	1,177	865	15.39	14.20	12.37
	223,235	197,548	179,653	14,724	12,708	10,790	6.60	6.43	6.01
Total interest-earning assets	499,248	434,108	378,875	26,377	22,204	16,981	5.28	5.11	4.48
Non-interest-bearing deposits with other banks	2,137	2,806	2,567	–	–	–	–	–	–
Customers' liability under acceptances	10,270	8,748	6,411	–	–	–	–	–	–
Other assets	69,345	56,438	57,447	–	–	–	–	–	–
Total assets	$ 581,000	$ 502,100	$ 445,300	$ 26,377	$ 22,204	$ 16,981	4.54%	4.42%	3.81%
Liabilities and shareholders' equity									
Deposits (6)									
Canada	$ 166,983	$ 167,015	$ 161,866	$ 5,669	$ 5,024	$ 3,724	3.39%	3.01%	2.30%
United States	53,817	47,913	40,004	2,563	2,018	1,047	4.76	4.21	2.62
Other International	121,924	91,334	70,168	5,538	3,666	2,175	4.54	4.01	3.10
	342,724	306,262	272,038	13,770	10,708	6,946	4.02	3.50	2.55
Obligations related to securities sold short	46,654	38,630	34,169	1,997	2,071	1,381	4.28	5.36	4.04
Obligations related to assets sold under repurchase agreements and securities loaned	42,503	32,786	25,912	2,364	1,882	1,120	5.56	5.74	4.32
Subordinated debentures	6,704	8,013	8,359	338	419	442	5.04	5.23	5.29
Other interest-bearing liabilities	3,569	2,759	4,041	376	328	299	10.54	11.89	7.40
Total interest-bearing liabilities	442,154	388,450	344,519	18,845	15,408	10,188	4.26	3.97	2.96
Non-interest-bearing deposits	25,752	17,037	16,159	–	–	–	–	–	–
Acceptances	10,270	8,882	6,414	–	–	–	–	–	–
Other liabilities	79,087	66,755	58,757	–	–	–	–	–	–
Total liabilities	$ 557,263	$ 481,124	$ 425,849	$ 18,845	$ 15,408	$ 10,188	3.38%	3.20%	2.39%
Shareholders' equity									
Preferred	$ 1,553	$ 1,022	$ 811	$ –	$ –	$ –	–%	–%	–%
Common	22,184	19,954	18,640	–	–	–	–	–	–
Total liabilities and shareholders' equity	$ 581,000	$ 502,100	$ 445,300	$ 18,845	$ 15,408	$ 10,188	3.24%	3.07%	2.29%
Net interest income and margin	$ 581,000	$ 502,100	$ 445,300	$ 7,532	$ 6,796	$ 6,793	1.30%	1.35%	1.53%
Net interest income and margin (average earning assets) (7)									
Canada	$ 280,385	$ 257,319	$ 229,184	$ 6,435	$ 6,045	$ 5,628	2.30%	2.35%	2.46%
United States	106,044	90,684	74,842	412	108	608	.39	.12	.81
Other International	112,819	86,105	74,849	685	643	557	.61	.75	.74
Total	$ 499,248	$ 434,108	$ 378,875	$ 7,532	$ 6,796	$ 6,793	1.51%	1.57%	1.79%

(1) Geographic classification for selected assets and liabilities is based on the domicile of the booking point of the subject assets and liabilities.
(2) Calculated using methods intended to approximate the average of the daily balances for the period.
(3) Interest income includes loan fees of $331 million (2006 – $348 million; 2005 – $343 million).
(4) Available-for-sale securities are carried at fair value. Prior to November 1, 2006, Available-for-sale securities were classified as investment securities and were carried at amortized cost.
(5) Average balances include impaired loans.
(6) Deposits include savings deposits with average balances of $46 billion (2006 – $46 billion; 2005 – $46 billion), interest expense of $.4 billion (2006 – $.4 billion; 2005 – $.3 billion) and average rates of .9% (2006 – .8%; 2005 – .6%). Deposits also include term deposits with average balances of $240 billion (2006 – $206 billion; 2005 – $181 billion), interest expense of $10.7 billion (2006 – $8.3 billion; 2005 – $5.3 billion) and average rates of 4.43% (2006 – 4.02%; 2005 – 2.95%).
(7) During the year, we reviewed the geographic information that was used to prepare the Net interest income and margin for the prior periods and determined that some information was incorrectly classified; accordingly, the Net interest income and margins presented for the comparative periods have been revised.

Loans and acceptances by geography (1)

Table 59

(C$ millions)	2007	2006	2005	2004	2003
	As at October 31				
Canada					
Residential mortgages	$ 107,453	$ 94,272	$ 88,808	$ 80,168	$ 73,978
Personal	42,506	37,946	33,986	30,415	26,445
Credit cards	8,142	6,966	6,024	6,298	4,663
Small business (2)	2,652	2,318	1,951	1,928	1,335
Retail	160,753	141,502	130,769	118,809	106,421
Business (3)	51,237	44,353	42,383	35,214	34,551
Sovereign (4)	585	553	521	535	572
Bank	3,235	2,031	74	106	118
Wholesale	55,057	46,937	42,978	35,855	35,241
	$ 215,810	$ 188,439	$ 173,747	$ 154,664	$ 141,662
United States					
Retail	6,804	7,652	7,741	7,010	6,189
Wholesale	18,548	13,847	12,317	11,698	13,213
	25,352	21,499	20,058	18,708	19,402
Other International					
Retail	1,905	1,896	1,729	1,411	1,517
Wholesale	8,148	7,213	3,454	3,961	5,811
	10,053	9,109	5,183	5,372	7,328
Total loans and acceptances	$ 251,215	$ 219,047	$ 198,988	$ 178,744	$ 168,392
Total allowance for loan losses	(1,493)	(1,409)	(1,498)	(1,644)	(2,055)
Total loans and acceptances, net of allowance for loan losses	$ 249,722	$ 217,638	$ 197,490	$ 177,100	$ 166,337

(1) Geographic information is based on residence of borrower.
(2) Includes small business exposure managed on a pooled basis.
(3) Includes small business exposure managed on an individual client basis.
(4) Sovereign refers to all central governments and agencies, central banks, as well as other qualifying public sector entities and multilateral development banks.

Impaired loans by portfolio and geography (1) — Table 60

(C$ millions, except percentage amounts)	2007	2006	2005	2004	2003
			As at October 31		
Residential mortgages	$ 210	$ 165	$ 146	$ 156	$ 138
Personal	189	205	183	204	255
Small business (2)	19	13	11	8	17
Retail	$ 418	$ 383	$ 340	$ 368	$ 410
Business (3)					
Agriculture	$ 65	$ 45	$ 48	$ 89	$ 146
Automotive	5	8	4	8	12
Consumer goods	83	85	73	59	75
Energy	3	6	47	162	240
Non-bank financial services	14	15	15	14	45
Forest products	29	12	16	163	181
Industrial products	29	17	12	60	44
Mining and metals	4	5	4	10	57
Real estate and related	345	82	74	102	113
Technology and media	10	49	52	89	129
Transportation and environment	19	19	14	19	143
Other	116	108	75	116	150
Sovereign (4)	–	–	–	–	–
Bank	–	–	–	–	–
Wholesale	$ 722	$ 451	$ 434	$ 891	$ 1,335
Total impaired loans (5), (6)	$ 1,140	$ 834	$ 774	$ 1,259	$ 1,745
Canada					
Residential mortgages	$ 149	$ 127	$ 106	$ 96	$ 110
Personal	152	183	161	178	213
Small business (2)	19	13	11	8	17
Retail	$ 320	$ 323	$ 278	$ 282	$ 340
Business (3)	377	266	225	501	724
Sovereign (4)	–	–	–	–	–
Bank	–	–	–	–	–
Wholesale	$ 377	$ 266	$ 225	$ 501	$ 724
	$ 697	$ 589	$ 503	$ 783	$ 1,064
United States					
Retail	$ 57	$ 15	$ 16	$ 44	$ 29
Wholesale	314	151	173	332	332
	$ 371	$ 166	$ 189	$ 376	$ 361
Other International					
Retail	$ 41	$ 45	$ 46	$ 42	$ 41
Wholesale	31	34	36	58	279
	$ 72	$ 79	$ 82	$ 100	$ 320
Total impaired loans	$ 1,140	$ 834	$ 774	$ 1,259	$ 1,745
Specific allowance for loan losses	(351)	(263)	(282)	(487)	(757)
Net impaired loans	$ 789	$ 571	$ 492	$ 772	$ 988
Gross impaired loans as a % of loans and acceptances:					
Residential mortgages	.19%	.17%	.16%	.19%	.18%
Personal	.39%	.46%	.45%	.55%	.79%
Small business (2)	.72%	.56%	.56%	.41%	1.27%
Retail	.25%	.25%	.24%	.29%	.36%
Wholesale	.88%	.66%	.74%	1.73%	2.46%
Total	.45%	.38%	.39%	.70%	1.04%
Specific allowance for loan losses as a % of gross impaired loans	30.79%	31.53%	36.43%	38.68%	43.38%

(1) Geographic information is based on residence of borrower.
(2) Includes small business exposure managed on a pooled basis.
(3) Includes small business exposure managed on an individual client basis.
(4) Sovereign refers to all central governments and agencies, central banks, as well as other qualifying public sector entities and multilateral development banks.
(5) Includes foreclosed assets of $36 million in 2007 (2006 – $9 million; 2005 – $17 million; 2004 – $27 million; 2003 – $34 million).
(6) Past due loans greater than 90 days not included in impaired loans were $353 million in 2007 (2006 – $305 million; 2005 – $304 million; 2004 – $219 million; 2003 – $222 million).

Provision for (recovery of) credit losses by portfolio and geography (1) — Table 61

(C$ millions, except percentage amounts)	2007	2006	2005	2004	2003
	For the year ended October 31				
Residential mortgages	$ 13	$ 6	$ 2	$ 7	$ 8
Personal	364	306	259	222	254
Credit cards	223	163	194	167	155
Small business (2)	34	29	27	27	39
Retail	$ 634	$ 504	$ 482	$ 423	$ 456
Business (3)					
Agriculture	$ 2	$ (1)	$ (12)	$ 7	$ –
Automotive	2	4	–	2	–
Consumer goods	27	7	24	(11)	17
Energy	(7)	(53)	(20)	50	78
Non-bank financial services	–	4	10	–	(1)
Forest products	10	2	(52)	7	16
Industrial products	10	4	(7)	13	5
Mining and metals	1	–	(1)	(3)	5
Real estate and related	70	1	(11)	(1)	(8)
Technology and media	(2)	(5)	(6)	2	32
Transportation and environment	7	1	8	(32)	79
Other	28	14	(26)	64	42
Sovereign (4)	–	–	–	–	–
Bank	–	–	–	–	–
Wholesale	$ 148	$ (22)	$ (93)	$ 98	$ 265
Total specific provision	$ 782	$ 482	$ 389	$ 521	$ 721
Canada					
Residential mortgages	$ 5	$ 6	$ 1	$ 6	$ 4
Personal	334	296	247	211	230
Credit cards	220	161	192	166	152
Small business (2)	34	29	27	27	39
Retail	$ 593	$ 492	$ 467	$ 410	$ 425
Business (3)	102	15	(32)	3	102
Sovereign (4)	–	–	–	–	–
Bank	–	–	–	–	–
Wholesale	$ 102	$ 15	$ (32)	$ 3	$ 102
	$ 695	$ 507	$ 435	$ 413	$ 527
United States					
Retail	$ 34	$ 12	$ 15	$ 13	$ 30
Wholesale	50	(38)	(60)	106	78
	$ 84	$ (26)	$ (45)	$ 119	$ 108
Other International					
Retail	$ 7	$ –	$ –	$ –	$ 1
Wholesale	(4)	1	(1)	(11)	85
	$ 3	$ 1	$ (1)	$ (11)	$ 86
Total specific provision	$ 782	$ 482	$ 389	$ 521	$ 721
Total general provision	$ 9	$ (53)	$ 66	$ (175)	$ –
Total provision for credit losses	$ 791	$ 429	$ 455	$ 346	$ 721
Specific provision as a % of average net loans and acceptances	.33%	.23%	.21%	.30%	.43%

(1) Geographic information is based on residence of borrower.
(2) Includes small business exposure managed on a pooled basis.
(3) Includes small business exposure managed on an individual client basis.
(4) Sovereign refers to all central governments and agencies, central banks, as well as other qualifying public sector entities and multilateral development banks.

Allowance for credit losses by portfolio and geography (1) — Table 62

(C$ millions, except percentage amounts)	2007	2006	2005	2004	2003
Allowance at beginning of year	$ 1,486	$ 1,568	$ 1,714	$ 2,164	$ 2,314
Provision for credit losses	791	429	455	346	721
Write-offs by portfolio					
Residential mortgages	(5)	(5)	(5)	(7)	(10)
Personal	(444)	(379)	(353)	(332)	(379)
Credit cards	(268)	(204)	(237)	(207)	(192)
Small business (2)	(42)	(36)	(34)	(44)	(53)
Retail	$ (759)	$ (624)	$ (629)	$ (590)	$ (634)
Business (3)	$ (109)	$ (89)	$ (141)	$ (411)	$ (348)
Sovereign (4)	–	–	–	–	–
Bank	–	–	–	–	–
Wholesale	$ (109)	$ (89)	$ (141)	$ (411)	$ (348)
Less developed countries exposures	$ –	$ –	$ –	$ –	$ –
Total write-offs by portfolio	$ (868)	$ (713)	$ (770)	$ (1,001)	$ (982)
Recoveries by portfolio					
Residential mortgages	$ 1	$ –	$ –	$ –	$ –
Personal	74	64	69	68	68
Credit cards	46	41	43	39	37
Small business (2)	7	7	9	11	12
Retail	$ 128	$ 112	$ 121	$ 118	$ 117
Business (3)	$ 42	$ 93	$ 53	$ 98	$ 53
Sovereign (4)	–	–	–	–	–
Bank	–	–	–	–	–
Wholesale	$ 42	$ 93	$ 53	$ 98	$ 53
Total recoveries by portfolio	$ 170	$ 205	$ 174	$ 216	$ 170
Net write-offs	$ (698)	$ (508)	$ (596)	$ (785)	$ (812)
Adjustments (5)	(7)	(3)	(5)	(11)	(59)
Total allowance for credit losses at end of year	$ 1,572	$ 1,486	$ 1,568	$ 1,714	$ 2,164
Canada					
Residential mortgages	$ 13	$ 11	$ 9	$ 11	$ 12
Personal	79	88	101	108	129
Small business (2)	9	9	8	6	13
Retail	$ 101	$ 108	$ 118	$ 125	$ 154
Business (3)	$ 153	$ 112	$ 112	$ 202	$ 284
Sovereign (4)	–	–	–	–	–
Bank	–	–	–	–	–
Wholesale	$ 153	$ 112	$ 112	$ 202	$ 284
	$ 254	$ 220	$ 230	$ 327	$ 438
United States					
Retail	$ 14	$ 3	$ 3	$ 5	$ 11
Wholesale	54	12	18	118	131
	$ 68	$ 15	$ 21	$ 123	$ 142
Other International					
Retail	$ 13	$ 12	$ 12	$ 14	$ 15
Wholesale	16	16	19	23	162
	$ 29	$ 28	$ 31	$ 37	$ 177
Total specific allowance for loan losses	$ 351	$ 263	$ 282	$ 487	$ 757
General allowance	$ 1,221	$ 1,223	$ 1,286	$ 1,227	$ 1,407
Total allowance for credit losses	$ 1,572	$ 1,486	$ 1,568	$ 1,714	$ 2,164
Key ratios					
Allowance for credit losses as a % of loans and acceptances	.63%	.68%	.79%	.97%	1.30%
Net write-offs as a % of average net loans and acceptances	.30%	.25%	.32%	.46%	.49%

(1) Geographic information is based on residence of borrower.
(2) Includes small business exposure managed on a pooled basis.
(3) Includes small business exposure managed on an individual client basis.
(4) Sovereign refers to all central governments and agencies, central banks, as well as other qualifying public sector entities and multilateral development banks.
(5) Other adjustments include primarily foreign exchange translations on non-Canadian dollar denominated allowance for credit losses and acquisition adjustments for Flag Bank, $21 million in 2007; Provident Financial Group Inc., $6 million in 2004; Admiralty Bancorp, Inc., $8 million in 2003.

Credit quality information by Canadian province (1)					Table 63
(C$ millions)	2007	2006	2005	2004	2003
Loans and acceptances					
Atlantic provinces (2)	$ 11,556	$ 10,256	$ 10,255	$ 9,598	$ 9,191
Quebec	35,168	32,723	26,646	23,670	22,564
Ontario	92,956	83,839	78,283	70,896	64,351
Prairie provinces (3)	40,956	32,598	31,190	26,701	24,084
B.C. and territories (4)	35,174	29,023	27,373	23,799	21,472
Total loans and acceptances in Canada	$ 215,810	$ 188,439	$ 173,747	$ 154,664	$ 141,662
Gross impaired loans					
Atlantic provinces (2)	$ 53	$ 53	$ 47	$ 60	$ 81
Quebec	118	68	44	131	155
Ontario	322	286	269	254	348
Prairie provinces (3)	112	107	78	93	140
B.C. and territories (4)	92	75	65	245	340
Total gross impaired loans in Canada	$ 697	$ 589	$ 503	$ 783	$ 1,064
Specific provision					
Atlantic provinces (2)	$ 40	$ 33	$ 30	$ 34	$ 46
Quebec	66	47	7	(1)	77
Ontario	490	344	368	318	309
Prairie provinces (3)	51	38	44	31	55
B.C. and territories (4)	48	45	(14)	31	40
Total specific provision for credit losses in Canada	$ 695	$ 507	$ 435	$ 413	$ 527

(1) Based on residence of borrower.
(2) Comprises Newfoundland and Labrador, Prince Edward Island, Nova Scotia and New Brunswick.
(3) Comprises Manitoba, Saskatchewan and Alberta.
(4) Comprises British Columbia, Nunavut, Northwest Territories and Yukon.

Small business loans and acceptances in Canada by sector (1)					Table 64
			As at October 31		
(C$ millions)	2007	2006	2005	2004	2003
Agriculture	$ 271	$ 248	$ 715	$ 519	$ 70
Automotive	650	601	490	463	462
Consumer goods	2,350	2,043	1,728	1,764	1,777
Energy	370	284	182	150	137
Non-bank financial services	88	73	78	51	97
Forest products	351	366	311	276	298
Industrial products	1,543	1,377	1,057	999	952
Mining and metals	98	88	57	62	65
Real estate and related	2,822	2,565	1,982	1,821	1,777
Technology and media	314	300	243	232	242
Transportation and environment	901	774	549	502	503
Other	4,488	4,098	3,365	3,298	3,325
Total small business loans	$ 14,246	$ 12,817	$ 10,757	$ 10,137	$ 9,705

(1) Includes small business exposure managed on a pooled and individual client basis.