

## Acceptances

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

## Allowance for credit losses

The amount deemed adequate by management to absorb identified credit losses as well as losses that have been incurred but are not yet identifiable as at the balance sheet date.

## Alt-A assets

A term used in the U.S. to describe assets (mainly mortgages) with a borrower risk profile between the prime and subprime categorizations. Categorization of assets as Alt-A (as opposed to prime) varies, such as limited verification or documentation of borrowers' income or a limited credit history.

## Asset-backed securities (ABS)

Securities created through the securitization of a pool of assets, for example auto loans or credit card loans.

## Assets-to-capital multiple

Total assets plus specified off balance sheet items, as defined by OSFI, divided by total regulatory capital.

## Assets under administration (AUA)

Assets administered by us, which are beneficially owned by clients, as at October 31, unless otherwise noted. Services provided in respect of assets under administration are of an administrative nature, including safekeeping, collecting investment income, settling purchase and sale transactions, and record keeping.

## Assets under management (AUM)

Assets managed by us, which are beneficially owned by clients, as at October 31, unless otherwise noted. Services provided in respect of assets under management include the selection of investments and the provision of investment advice. We have assets under management that are also administered by us and included in assets under administration.

## Auction rate securities (ARS)

Securities issued through variable interest entity (VIE) trusts that hold long-term assets funded with long-term debt, with an interest rate reset every week to 35 days via auctions managed by participating financial institutions.

## Bank-owned life insurance contracts (BOLI)

Our U.S. Insurance and Pension solutions business provides banks with BOLI stable value agreements (“wraps”) which insure the life insurance policy's cash surrender value from market fluctuations on the underlying investments, thereby guaranteeing a minimum tax-exempt return to the counterparty.

## Basis point (bp)

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

## Canadian GAAP

Canadian generally accepted accounting principles.

## Capital adequacy

The level of capital that is sufficient to underpin risk and accommodate potential unexpected increases in risk within specified regulatory targets while maintaining our business plans. This includes risks for which minimum regulatory capital requirements may not be specified.

## Capital position

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

## Cash capital position

Quantifies the extent to which illiquid (long term) assets are funded by short-term liabilities and represents a formula-based measure of both comparative and directional structural liquidity risk.

## Collateral

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

## Collateralized debt obligation (CDO)

An investment grade security that is backed by a pool of bonds, loans and/or any other type of debt instrument.

## Collateralized loan obligation (CLO)

Securities which are backed by a pool of commercial or personal loans, structured so that there are several classes of bondholders with varying maturities, called tranches.

## Commercial mortgage-backed securities (CMBS)

Securities created through the securitization of commercial mortgages.

## Commitments to extend credit

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

## Covered bonds

Full recourse on-balance sheet obligations issued by banks and credit institutions that are also fully collateralized by assets over which investors enjoy a priority claim in the event of an issuer's insolvency.

## Credit default swaps (CDS)

A derivative contract that provides the purchaser with a one-time payment should the referenced entity/entities default (or a similar triggering event occur).

## Derivative

A contract between two parties, which requires little or no initial investment and where payments between the parties are dependent upon the movements in price of an underlying instrument, index or financial rate. The notional amount of the derivative is the contract amount used as a reference point to calculate the payments to be exchanged between the two parties, and the notional amount itself is generally not exchanged by the parties.

## Dividend payout ratio

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

## Dividend yield

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

## Documentary and commercial letters of credit

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

## Earnings per share (EPS), basic

Calculated as net income less preferred share dividends divided by the average number of shares outstanding.

## Earnings per share (EPS), diluted

Calculated as net income less preferred share dividends divided by the average number of shares outstanding adjusted for the dilutive effects of stock options and other convertible securities.

## Economic Capital

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

## Embedded value

Embedded value is a measure of the shareholder value embedded in the balance sheet of our Insurance segment, excluding any value associated from future new sales. The change in embedded value between reporting periods is used by management as a measure of the value created by the operations during the year. The value of in-force business is the present value of future expected earnings on in-force business less the present value of capital required to support in-force business.

## Fair value

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

## Fair value adjustments on certain RBC debt designated as held-for-trading

The change in fair value of deposit liabilities and subordinated debentures designated as held-for-trading, largely as a result of the widening/(tightening) of our credit spreads, is defined as fair value adjustments on RBC debt designated as held-for-trading.

## Gross adjusted assets (GAA)

GAA are used in the calculation of the Assets-to-capital multiple. They represent our total assets including specified off-balance sheet items and net of prescribed deductions.

## Guarantees and letters of credit

Primarily represent irrevocable assurances that a bank will make payments in the event that its client cannot meet its financial obligations to third parties.

## Hedge

A risk management technique used to insulate financial results from market, interest rate or foreign currency exchange risk (exposure)

arising from normal banking operations. The elimination or reduction of such exposure is accomplished by establishing offsetting positions.

#### **Hedge funds**

A type of investment fund, marketed to wealthy individuals and institutions, that is subject to limited regulation and restrictions on its investments compared to retail mutual funds, and that often utilize aggressive strategies such as selling short, leverage, program trading, swaps, arbitrage and derivatives.

#### **Impaired loans**

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

#### **Innovative capital instruments**

Innovative capital instruments are capital instruments issued by Special Purpose Entities (SPEs), whose primary purpose is to raise capital.

#### **Master netting agreement**

An agreement between us and a counterparty designed to reduce the credit risk of multiple derivative transactions through the creation of a legal right of offset of exposure in the event of a default.

#### **Monoline insurer**

Insurance companies that specialize in financial guaranty insurance products, predominantly for the municipal bond market in the U.S. and structured finance products, such as CDOs.

#### **Net interest income**

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

#### **Net interest margin (average assets)**

Net interest income as a percentage of total average assets.

#### **Net interest margin (average earning assets)**

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

#### **Normal course issuer bid (NCIB)**

A program for the repurchase of our own shares, for cancellation, through a stock exchange that is subject to the various rules of the relevant stock exchange and securities commission.

#### **Off-balance sheet financial instruments**

A variety of arrangements offered to clients, which include credit derivatives, written put options, backstop liquidity facilities, stable value products, financial standby letters of credit, performance guarantees, credit enhancements, mortgage loans sold with recourse, commitments to extend credit, securities lending, documentary and commercial letters of credit, note issuances and revolving underwriting facilities, securities lending indemnifications and other indemnifications.

#### **Office of the Superintendent of Financial Institutions Canada (OSFI)**

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

#### **Options**

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

#### **Provision for credit losses**

The amount charged to income necessary to bring the allowance for credit losses, including specific and general to a level determined appropriate by management.

#### **Repurchase agreements**

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

#### **Residential mortgage-backed securities (RMBS)**

Securities created through the securitization of residential mortgage loans.

#### **Return on common equity (ROE)**

Net income less preferred share dividends, expressed as a percentage of average common equity.

#### **Reverse repurchase agreements**

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

#### **Risk**

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

#### **Risk-adjusted assets (RAA) – Basel II**

Used in the calculation of risk-based capital ratios as defined by guidelines issued by OSFI based on Basel II, effective November 1, 2007.

#### **Securities lending**

Transactions in which the owner of a security agrees to lend it under the terms of a prearranged contract to a borrower for a fee. The borrower must collateralize the security loan at all times. There are two types of securities lending arrangements: lending with and without credit or market risk indemnification.

#### **Securities sold short**

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

#### **Securitization**

The process by which various financial assets are packaged into newly issued securities backed by these assets.

#### **Special purpose entities (SPEs)**

SPEs are principally used to securitize financial and other assets in order to obtain access to funding, to mitigate credit risk and to manage capital.

#### **Standardized Approach**

Risk weights prescribed by OSFI are used to calculate risk-weighted assets for the credit risk exposures.

#### **Structured investment vehicles**

Managed investment vehicle that holds mainly highly rated asset-backed securities and funds itself using the short-term commercial paper market as well as the medium-term note (MTN) market.

#### **Subprime loans**

Subprime lending is the practice of making loans to borrowers who do not qualify for the best market interest rates because of their deficient credit history. Subprime lending carries more risk for lenders due to the combination of higher interest rates for the borrowers, poorer credit histories, and adverse financial situations usually associated with subprime applicants.

#### **Super senior tranches of structured credit transactions**

Represents the most senior class of commercial paper or notes that are issued in structured credit transactions. These financial instruments benefit from the subordination of all other securities, issued by structured credit vehicles.

#### **Survival horizon**

Measures the length of time over which RBC would have sufficient funds to repay its maturing liabilities and finance off-balance sheet commitments if access to wholesale unsecured funding suddenly became unavailable and liquid assets, excluding any portion of mortgages and loans, were monetized.

#### **Synthetic securitization**

The transfer of risks relating to selected elements of our financial assets to unaffiliated third parties through the use of certain financial instruments such as credit default swaps and guarantees.

#### **Taxable equivalent basis (teb)**

Income from certain specified tax advantaged sources is increased to a level that would make it comparable to income from taxable sources. There is an offsetting adjustment in the tax provision, thereby generating the same after-tax net income.

#### **Tier 1 capital and Tier 1 capital ratio**

Tier 1 capital consists of more permanent components of capital, is free of mandatory fixed charges against earnings and has a subordinate legal position to the rights of depositors and other creditors of the financial institution. The Tier 1 capital ratio is calculated by dividing the adjusted net Tier 1 capital by risk-adjusted assets.

#### **Tier 2 capital**

Tier 2 capital is composed of supplementary capital instruments that contribute to the overall strength of a financial institution as a going concern.

#### **Total capital**

Total capital is defined as the total of net Tier 1 and Tier 2 capital.

#### **Tranche**

A security class created by a process used in structured finance whereby the risks and returns associated with a pool of assets is packaged into several classes of securities

offering different risk and return profiles from those of the underlying asset pool.

**U.S. GAAP**

U.S. generally accepted accounting principles.

**Value-at-Risk (VaR)**

A generally accepted risk-measurement concept that uses statistical models based on

historical information 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.

**Variable interest entity (VIE)**

An entity which either does not have sufficient equity at risk to finance its activities without

additional subordinated financial support, or where the holders of the equity at risk lack the characteristics of a controlling financial interest.