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, 2009, 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 December 3, 2009. 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), unless otherwise noted.

Additional information about us, including our 2009 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.

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 SEC, in reports to shareholders and in other communications. Forward-looking statements in this document include, but are not limited to, statements relating to our medium-term objectives, our vision and strategic goals, the 2010 economic and market outlook for the Canadian, U.S. and global economies, the outlook and priorities for each of our business segments, and liquidity and funding management. The forward-looking information contained in this document is presented for the purpose of assisting the holders of our securities and financial analysts in understanding our financial position and results of operations as at and for the periods ended on the dates presented and our vision and strategic goals and medium-term objectives, and may not be appropriate for other purposes. Forward-looking statements are typically identified by words such as "believe", "expect", "forsee", "forecast", "anticipate", "intend", "estimate", "goal", "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 medium-term objectives, vision and strategic goals will not be achieved. We caution readers not to place undue reliance on these statements as a number of risk factors could cause our actual results to differ materially from the expectations expressed in such forward-looking statements. These factors – many of which are beyond our control and the effects of which can be difficult to predict – include: credit, market, operational and liquidity and funding risks, and other risks discussed in the Risk, capital and liquidity management and Overview of other risks sections; general business, economic and financial market conditions, including the ongoing impact from the market environment, the lack of liquidity in certain markets, the level of activity and volatility of the capital markets and recessionary conditions in Canada, the United States and certain other countries in which we conduct business; changes in accounting standards, policies and estimates, including changes in our estimates of provisions, allowances and valuations; the effects of changes in government fiscal, monetary and other policies; the effects of competition in the markets in which we operate; the impact of changes in laws and regulations, including tax laws; 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; and development and integration of our distribution networks.

We caution that the foregoing list 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 and other uncertainties and potential events. Except as 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 in the Risk, capital and liquidity management and Overview of other risks sections.

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

Selected financial and other highlights

Table 1

(C$ millions, except per share, number of and percentage amounts)	2009	2008	2007	2009 vs. 2008 Increase (decrease)	
Total revenue	$ 29,106	$ 21,582	$ 22,462	$ 7,524	34.9%
Provision for credit losses (PCL)	3,413	1,595	791	1,818	114.0%
Insurance policyholder benefits, claims and acquisition expense (PBCAE)	4,609	1,631	2,173	2,978	182.6%
Non-interest expense	14,558	12,351	12,473	2,207	17.9%
Goodwill impairment charge	1,000	–	–	1,000	n.m.
Net income before income taxes and non-controlling interest in subsidiaries	5,526	6,005	7,025	(479)	(8.0)%
Net income	$ 3,858	$ 4,555	$ 5,492	$ (697)	(15.3)%
Segments – net income (loss)					
Canadian Banking	$ 2,663	$ 2,662	$ 2,545	$ 1	–
Wealth Management	583	665	762	(82)	(12.3)%
Insurance	496	389	442	107	27.5%
International Banking	(1,446)	(153)	242	(1,293)	n.m.
Capital Markets	1,768	1,170	1,292	598	51.1%
Corporate Support	(206)	(178)	209	(28)	n.m.
Net income	$ 3,858	$ 4,555	$ 5,492	$ (697)	(15.3)%
Selected information					
Earnings per share (EPS) – basic	$ 2.59	$ 3.41	$ 4.24	$ (.82)	(24.0)%
EPS – diluted	$ 2.57	$ 3.38	$ 4.19	$ (.81)	(24.0)%
Return on common equity (ROE) (1)	11.9%	18.1%	24.7%	n.m.	(620) bps
Return on risk capital (RORC) (2)	19.5%	29.6%	37.4%	n.m.	(1,010) bps
Net interest margin (NIM) (3)	1.65%	1.39%	1.33%	n.m.	26 bps
Specific PCL to average net loans and acceptances	.97%	.53%	.33%	n.m.	44 bps
Gross impaired loans (GIL) as a % of loans and acceptances	1.86%	.96%	.45%	n.m.	90 bps
Capital ratios and multiples (4)					
Tier 1 capital ratio	13.0%	9.0%	9.4%	n.m.	400 bps
Total capital ratio	14.2%	11.0%	11.5%	n.m.	320 bps
Assets-to-capital multiple	16.3X	20.1X	20.0X	(3.8)X	n.m.
Tangible common equity (Tier 1 common capital) ratio (5)	9.2%	6.5%		n.m.	270 bps
Selected balance sheet and other information					
Total assets	$ 654,989	$ 723,859	$ 600,346	$ (68,870)	(9.5)%
Securities	186,272	171,134	178,255	15,138	8.8%
Retail loans (6)	205,224	195,455	169,462	9,769	5.0%
Wholesale loans (6)	78,927	96,300	69,967	(17,373)	(18.0)%
Deposits	398,304	438,575	365,205	(40,271)	(9.2)%
Average common equity (1)	30,450	24,650	21,850	5,800	23.5%
Average risk capital (2)	18,600	15,050	14,450	3,550	23.6%
Risk-adjusted assets (4)	244,837	278,579	247,635	(33,742)	(12.1)%
Assets under management (AUM)	249,700	226,900	161,500	22,800	10.0%
Assets under administration (AUA) – RBC	648,800	623,300	615,100	25,500	4.1%
– RBC Dexia IS (7)	2,484,400	2,585,000	2,713,100	(100,600)	(3.9)%
Common share information					
Shares outstanding (000s) – average basic	1,398,675	1,305,706	1,273,185	92,969	7.1%
– average diluted	1,412,126	1,319,744	1,289,314	92,382	7.0%
– end of period	1,417,610	1,341,260	1,276,260	76,350	5.7%
Dividends declared per share	$ 2.00	$ 2.00	$ 1.82	$ –	n.m.
Dividend yield (8)	4.8%	4.2%	3.3%	n.m.	60 bps
Common share price (RY on TSX) – close, end of period	$ 54.80	$ 46.84	$ 56.04	$ 7.96	17.0%
Market capitalization (TSX)	77,685	62,825	71,522	14,860	23.7%
Business information (number of)					
Employees (full-time equivalent)	71,186	73,323	64,815	(2,137)	(2.9)%
Bank branches	1,761	1,741	1,541	20	1.1%
Automated teller machines (ATM)	5,030	4,964	4,419	66	1.3%
Period average US$ equivalent of C$1.00 (9)	$ .858	$ .969	$ .915	$ (.111)	(11.5)%
Period-end US$ equivalent of C$1.00	.924	.830	1.059	.09	11.3%

(1) Average common equity and ROE 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. For further discussion on Average risk capital and RORC, refer to the Key performance and non-GAAP measures section.
(3) 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) 2009 and 2008 capital ratios and risk-adjusted assets were calculated using the Basel II framework, 2007 capital ratios and risk-adjusted assets were calculated using the Basel I framework, Basel I and Basel II are not directly comparable. For further discussion about Basel II, refer to the Capital management section.
(5) For further discussion, refer to the Key performance and non-GAAP measures section.
(6) Retail and wholesale loans do not include allowance for loan losses.
(7) Represents the total AUA of the joint venture, of which we have a 50% ownership interest, reported on a one-month lag.
(8) Defined as dividends per common share divided by the average of the high and low share price in the relevant period.
(9) Average amounts are calculated using month-end spot rates for the period.
n.m. not meaningful

About Royal Bank of Canada

Royal Bank of Canada (RY on TSX and NYSE) and its subsidiaries operate under the master brand name RBC. We are Canada's largest bank as measured by assets and market capitalization, and among the largest banks in the world, based on market capitalization. We are one of North America's leading diversified financial services companies, and provide personal and commercial banking, wealth management services, insurance, corporate and investment banking and transaction processing services on a global basis. We employ approximately 80,000 full- and part-time employees who serve more than 18 million personal, business, public sector and institutional clients through offices in Canada, the U.S. and 53 other countries. Our five business segments, listed below, are supported by Corporate Support.

ROYAL BANK OF CANADA

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

Corporate Support

- Operations
- Technology
- 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."**

Our clear commitment to our vision and long-term strategy reflects our diversified business model, our strong balance sheet, a comprehensive approach to risk management, and an approach that puts the client at the centre of all our business activities. As we continually strive to be a top performing bank that delivers sustainable, profitable growth and top quartile results for our shareholders, we are focused on our three strategic goals outlined below. We continued to make progress on these goals, as highlighted in the following table, despite the challenging economic and market conditions that persisted in 2009.

Strategic goals	Progress made during 2009
In **Canada**, our goal is to be the undisputed leader in financial services.	• Announced the WestJet RBC MasterCard, a new travel rewards card offering rewards to clients who travel in North America and the Caribbean on WestJet. This will make us the first large Canadian financial institution to offer both MasterCard and Visa. • Launched RBC International Remittance, a new remittance service that gives Canadian clients an economical and secure means to transfer money in various currencies to family and friends abroad. • Introduced 'Practice Accounts' through RBC Direct Investing, allowing clients to experiment with investment strategies without putting their own money at risk. This is the first integrated offering of its kind by a Canadian self-directed brokerage. • Continued to be the largest mutual fund company in Canada with 16% market share, $2.1 billion in long-term net sales (31% of industry), and were named by Lipper as best overall in Fixed Income in 2009. • Continued to be ranked #1 overall among Canadian bank-owned brokerage firms in Investment Executive's annual Brokerage Report Card. RBC Dominion Securities ranked first in 22 of the 31 categories, including overall satisfaction, products and support for high net worth clients, freedom to make objective product choices, as well as the firm's stability, strategic focus, corporate culture and ethics. • Introduced a new universal life product in our insurance business, to be sold through our independent insurance advisors in order to further strengthen our competitive positioning in the brokerage market. • Expanded our retail insurance network to 49 branches with 14 locations opening in 2009, providing our clients with more convenient access to insurance services.
In the **U.S.**, our goal is to be a leading provider of capital markets, wealth management and banking services by building on and leveraging our considerable capabilities.	• Built a significant U.S. dollar fixed income and currencies presence, expanded our equity sales and trading businesses, and were designated a U.S. primary dealer by the Federal Reserve Bank of New York. • Announced an agreement to acquire J.P. Morgan's Third Party Registered Investment Advisory (RIA) Servicing Business to expand the breadth and depth of our custody and clearing services (1). Recruited a record number of experienced financial consultants from the competition. • Began restructuring our U.S. banking business to improve effectiveness and efficiency, with a focus on providing our clients with superior service and choice of products.

Strategic goals	Progress made during 2009
Outside **North America**, our goal is to be a premier provider of select capital markets, wealth management and banking services in markets of choice.	• Named Best Overall Credit House in Europe, Best Bank for Sterling Bonds, Best Bank for Non-Core Currency Bonds and Best Bank for Electronic Trading in *Credit* magazine's 2009 European Credit Awards. We also ranked in the top 10 in six other categories. • Completed our acquisition of Mourant Private Wealth, an institutional private client trust business with operations in Jersey, Dubai and Cayman. This aligns with our strategy of providing integrated global wealth management services to international clients. • Continued to make progress with the integration of our RBTT Financial Group (RBTT) acquisition and opened our new Caribbean headquarters in Trinidad. • Our joint venture, RBC Dexia Investor Services (RBC Dexia IS), announced an agreement with Unione di Banche Italiane Scpa (UBI) to acquire UBI Banca's depositary bank business, which will make RBC Dexia IS the largest third party fund administrator and the fourth largest depositary bank in Italy (1).

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

Overview and outlook

2009 Economic and market review – data as at December 3, 2009
The Canadian economy contracted by an annualized 4.8% on average over the first two calendar quarters of 2009, mainly reflecting decreased consumer and business spending, rising levels of unemployment which exerted additional pressure on household and business credit quality throughout the year and weakness in housing and auto production. Exports have fallen as a result of lower U.S. demand, in part as a result of the restructuring of the North American auto sector.

In response, the Bank of Canada reduced the overnight rate to the historically low rate of .25% and the federal government introduced a fiscal stimulus package in the form of accelerated spending on infrastructure and tax cuts. Signs of recovery emerged in the third calendar quarter evidenced by gross domestic product (GDP) annualized growth of .4%, supported by improvements in consumer spending, particularly in durable goods, reflecting a surge in auto sales, and renewed consumer confidence. Financial markets stabilized and the housing market retraced losses recorded in late 2008 and the early part of 2009. The Canadian dollar has appreciated against most major currencies since early 2009 driven largely by higher commodity prices and investor movement away from U.S. dollar assets.

The U.S. economy remained in recession in 2009 by contracting 3.6% on average over the first calendar half of 2009, reflecting weak consumer and business spending, high levels of unemployment, deterioration in housing and financial markets and tightened credit conditions. In response, the Federal Reserve lowered the funds rate by 75 basis points (bps) in December 2008, and has held it at a historically low range of 0% to .25% throughout 2009. The U.S. government also approved additional fiscal stimulus. Signs of recovery emerged in the third calendar quarter of 2009 with GDP rising at an annualized rate of 2.8% from the previous quarter reflecting improvements in consumer spending, and in the housing market. However, commercial real estate remained weak throughout 2009.

Most global economies continued to deteriorate in early 2009 as domestic demand and global trade declined. Early recovery emerged in the second calendar quarter for most of the Eurozone, as France and Germany posted positive growth. Although the pace of decline slowed in the U.K., the economy was still under pressure during the third calendar quarter. Emerging economies, particularly in China and Asia, recovered strongly in 2009.

Global capital markets remained under pressure and exhibited significant volatility during early 2009. However, in the latter part of 2009, global capital markets improved and volatility moderated as compared to the prior year, reflecting the expectation of a sustained global economic recovery. Credit spreads for us and many issuers have narrowed, reflecting the general improvement in funding markets as a result of government initiatives and improved investor confidence. Senior debt markets and other funding sources have improved in terms of pricing and capacity while government funding programs were reduced. For further information, refer to the Liquidity and funding management section.

Medium-term objectives
We established medium-term (3 to 5 years) objectives last year to align with our three strategic goals and reflect our longer-term view of financial performance taking into account the constantly changing economic and market environment. By focusing on the execution of our medium-term objectives in our decision-making we believe we will be well positioned to provide sustainable earnings growth and returns to shareholders.

2009 Progress on medium-term objectives
Our objectives over the medium term are summarized in the table below and these objectives continue to reflect our commitment to strong earnings growth, prudent cost management and return on investment in our businesses, as well as sound and effective risk, and capital management. Our progress towards these objectives is discussed below.

2009 Progress on medium-term objectives — **Table 2**

	Medium-term objectives	2009 Progress
Diluted EPS growth	7% +	(24)%
Defined operating leverage (1)	› 3%	3.5%
ROE	18% +	11.9%
Tier 1 capital ratio	8.5% +	13.0%
Dividend payout ratio	40% - 50%	78%

(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). For further information, refer to the Key performance and non-GAAP measures section.

We compared unfavourably to our medium-term objectives for diluted EPS growth, ROE and dividend payout ratio. Diluted EPS growth and ROE objectives were largely impacted by a high level of credit losses reflecting weak economic and market conditions, a goodwill impairment charge, as well as the dilutive effect of the common and preferred share issuances. These factors were partially offset by solid earnings driven by stronger trading revenue in certain of our capital markets businesses and volume growth in our banking-related businesses.

These factors also impacted our dividend payout ratio as our level of dividends remained unchanged in 2009 although earnings decreased.

Our defined operating leverage of 3.5% compared favourably in 2009 to our medium-term objective, mainly reflecting strong trading revenue and our ongoing commitment to prudent cost management. If we exclude the reduction of the Enron Corp.-related litigation provision of $542 million in 2008 from non-interest expense, as this is not reflective of our normal course operating expenses, our defined operating leverage is 8.2%. Our capital position remained strong as our Tier 1 capital ratio was comfortably above our objective, largely due to the issuance of $4.8 billion of capital during the year.

In 2009, we continued to measure our Total Shareholder Return (TSR) and other financial metrics against our North American peer group (1) and maintained our focus on maximizing shareholder value. TSR is a concept used to compare the performance of our common shares over a period of time, reflecting share price appreciation and dividends paid to common shareholders. The absolute size of the TSR will vary depending on market conditions, but the relative position reflects the market's perception of a company's overall performance relative to its peers over a period of time. Our three- and five-year average annual TSR of 8% (2) and 16% (2), respectively, ranked us in the first quartile within our peer group for both periods. The three- and five-year average annual TSR for our peer group was (13)% and (4)%, respectively (2).

As a result of changes in the financial services industry over the past several years, including mergers and acquisitions, and considering our performance and evolving global strategy, we recently completed a re-evaluation of our peer group with the goal of ensuring that we include only those institutions in the financial services industry globally, that we consider most relevant to us as competitors. Our new peer group will be effective in 2010 (3).

(1) Our North American peer group for 2009 consists of 19 financial institutions (18 excluding us: seven large Canadian financial institutions (Bank of Montreal, Canadian Imperial Bank of Commerce, Manulife Financial Corporation, National Bank of Canada, The Bank of Nova Scotia, Sun Life Financial Inc., and the Toronto Dominion Bank), and eleven U.S. financial institutions (BB&T Corporation, Bank of America Corporation, The Bank of New York Mellon Corporation, Fifth Third Bancorp, J.P. Morgan Chase & Co., KeyCorp, Northern Trust Corporation, The PNC Financial Services Group, Sun Trust Banks Inc., U.S. Bancorp and Wells Fargo & Company),

(2) The three-year average annual TSR is calculated based on our common share price appreciation plus reinvested dividend income for the period October 31, 2006 to October 31, 2009. The five-year average annual TSR is calculated based on the period October 31, 2004 to October 31, 2009 and is based on information as disclosed by Bloomberg L.P.

(3) Our new global peer group will consist of 20 financial institutions (19 excluding us – seven large Canadian financial institutions (Bank of Montreal, Canadian Imperial Bank of Commerce, Manulife Financial Corporation, National Bank of Canada, Power Financial Corporation, The Bank of Nova Scotia and The Toronto-Dominion Bank), five U.S. financial institutions (Bank of America Corporation, JPMorgan Chase & Co., The Bank of New York Mellon Corporation, U.S. Bancorp and Wells Fargo & Company), five European financial institutions (Banco Bilbao Vizcaya Argentaria Group (BBVA), Barclays PLC, BNP Paribas, Credit Suisse Group AG and Deutsche Bank Group) and two Australian financial institutions (National Australia Bank and Westpac Banking Corporation).

Total shareholder return — **Table 3**

For the year ended October 31	2009	2008	2007	2006	2005	Five-year CAGR (1)
Common share price (RY on TSX) - close, end of period	$ 54.80	$ 46.84	$ 56.04	$ 49.80	$ 41.67	11.6%
Dividends paid per share	2.00	2.00	1.72	1.32	1.13	15.3%
Increase (decrease) in share price	17.0%	(16.4)%	12.5%	19.5%	31.4%	
Total shareholder return (2)	22.7%	(12.8)%	16.2%	23.2%	35.4%	

(1) Compound annual growth rate (CAGR).
(2) Total shareholder return assumes reinvestment of dividends and therefore does not equal the sum of dividends paid per share and share price increase (decrease) in the table.

Impact of foreign exchange rates on our results

Our U.S. dollar-denominated results are impacted by fluctuations in the Canadian/U.S. dollar exchange rate as shown in the table below. Revenue, provision for credit losses (PCL), expenses and income denominated in U.S. dollars are translated at the average rate of exchange for the year.

While the Canadian dollar strengthened in the latter half of the year, it depreciated 11% on average relative to the U.S. dollar from a year ago, which had an unfavourable impact on our consolidated net income in 2009. Our U.S. dollar-denominated revenue, which was favourably impacted by the depreciation of the Canadian dollar, was more than offset by the unfavourable impact on our U.S. dollar-denominated PCL, Insurance policyholder benefits, claims and acquisition expense (PBCAE) and non-interest expense.

Impact of the U.S. dollar on our consolidated results — **Table 4**

(C$ millions, except per share amounts)	2009 vs. 2008	2008 vs. 2007
Canadian/U.S. dollar exchange rate (average)		
2009	$ .858	
2008	.969	$ .969
2007		.915
Percentage change in average US$ equivalent of C$1.00 (1)	(11)%	6 %
Increased (decreased) total revenue	$ 636	$ (340)
Increased (decreased) PCL	94	–
Increased (decreased) non-interest expense	498	(210)
Increased (decreased) net income	(84)	(90)
Increased (decreased) basic EPS	$ (.06)	$ (.07)
Increased (decreased) diluted EPS	$ (.06)	$ (.07)

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

Certain of our business segment results are impacted by fluctuations in the U.S. dollar, Euro and British pound exchange rates relative to the Canadian dollar. Wealth Management, International Banking and Capital Markets each have significant U.S. dollar-denominated operations, while International Banking and Capital Markets also have significant Euro- and British pound-denominated results, respectively. The Canadian dollar depreciated 4% on average relative to the Euro and appreciated 10% on average relative to the British pound compared to a year ago. For further details on the impact to our segments, refer to the Business segment results section.

2010 Economic and market outlook – data as at December 3, 2009

The Canadian economy is expected to grow at 2.6% in 2010, reflecting increased consumer spending, improvements in the U.S. economy, continued low borrowing costs and fiscal stimulus. Recovery in consumer spending is expected to improve as households' asset values are projected to increase reflecting continued stabilization in financial and housing markets. We anticipate credit quality to remain under pressure with some improvement, as we anticipate the unemployment rate to peak early in 2010. We expect business spending will lag the initial recovery as excess capacity remains but will rebound in the latter half 2010. We expect inflation pressures will be subdued during 2010 as the recovery is expected to be gradual. A strong Canadian dollar relative to the U.S. dollar is projected reflecting higher expected commodity prices and continued investor movement away from U.S. dollar assets. The Bank of Canada has made a conditional commitment to keep interest rates at .25% until the end of the second calendar quarter of 2010. We expect 50-basis-point increases by the Bank of Canada in both the third and fourth calendar quarters of 2010 as the expected recovery becomes further entrenched.

The U.S. economy is projected to grow by 2.5% in 2010 reflecting a modest increase in consumer spending and further stabilization in the housing market. We anticipate the pace of consumer spending to be slow as households repair balance sheets and will likely face tough labour conditions throughout 2010. Credit quality is expected to continue to be weak in the U.S. but should begin to stabilize through 2010 reflecting modest improvements in consumer and business spending and continued improvement in financial markets. The combination of government spending and improvements in business investment are expected to stabilize labour markets. We anticipate that the Federal Reserve will hold the federal funds rate at the current range until late 2010 and that the U.S. dollar will continue to weaken in 2010 against most major currencies, as a result of the expected slow recovery and weak fiscal position.

We expect a gradual recovery in global economies in 2010 with significant divergence between the pace of growth in advanced and emerging economies. A slower recovery is anticipated in the U.K. and Eurozone reflecting modest export growth resulting from the rebalancing of global demand, high unemployment and tightened credit conditions as banks continue to deleverage their balance sheets. We anticipate solid growth in China reflecting continued fiscal stimulus, increased domestic demand, and modest export growth, which will lead growth in emerging economies.

We project global capital markets will continue to stabilize and credit spreads will tighten further as the global economic recovery continues and access to credit improves.

As a result of the previous market disruption and related stress on the global financial system, it is expected that global financial institutions will be confronted by increased regulation, higher capital requirements and new leverage requirements.

These predictions and forecasts are based on information and assumptions from sources we consider reliable. If this information or these assumptions are not accurate, actual economic outlooks may differ materially from the outlook presented in this section.

Financial performance

Overview

2009 vs. 2008

We reported net income of $3,858 million for the year ended October 31, 2009, compared to $4,555 million a year ago, a decrease of 15%, mainly reflecting a goodwill impairment charge of $1 billion (US$838 million) on both a pre-tax and after-tax basis. This was a non-cash item and did not affect our ongoing operations or our capital ratios. Diluted earnings per share (EPS) were $2.57 down 24% from a year ago. Return on common equity (ROE) was 11.9%, compared to 18.1% a year ago.

Excluding the goodwill impairment charge, adjusted net income was $4,858 million. Adjusted diluted EPS were $3.28, down $.10, or 3%, and adjusted ROE was 14.9%, reflecting the dilutive effect of common and preferred share issuances, mainly in the early part of the year. The increase of $303 million, or 7%, in adjusted net income was driven by stronger trading revenue, which included lower market environment-related losses on held-for-trading (HFT) instruments, partially offset by higher related variable compensation in certain of our capital markets businesses. Higher net securitization gains, solid growth in our banking-related businesses, partly reflecting our prior year acquisitions, volume growth in our insurance businesses and lower market environment-related losses on available-for-sale (AFS) instruments also contributed to the increase. These factors were partially offset by losses on fair value adjustments on certain RBC debt designated as HFT and losses on credit default swaps used to economically hedge the corporate lending portfolio as compared to gains in the prior year, higher provision for credit losses, increased costs in support of business growth, including from our acquisitions, and a higher effective tax rate.

Last year, our results included the favourable impact of $542 million ($252 million after-tax and related compensation adjustments) related to the reduction of the Enron Corp-related litigation provision. Our Tier 1 capital ratio of 13.0% was up 400 bps from 9.0% a year ago. Adjusted measures are non-GAAP measures. For a detailed discussion on adjusted measures, refer to the Key performance and non-GAAP measures section.

Summary of 2008 and 2007

In 2008, net income was $4,555 million, down 17% from 2007. This primarily reflected higher total market environment-related net losses. Higher PCL, weaker equity origination activity and higher costs in support of business growth also contributed to the decrease in net income. Our results in 2007 also included a $326 million ($269 million after-tax) gain related to the Visa Inc. restructuring. These factors were partly offset by the reduction of the Enron-related litigation provision and solid volume growth in our banking-related and wealth management businesses, partly reflecting our acquisitions, the impact of which was partially offset by spread compression. Higher trading revenue also partly offset the decrease.

In 2007, net income was $5,492 million, up 16% from 2006. Our strong results were largely attributable to volume growth in our banking and wealth management businesses, strong insurance results, increased equity and foreign exchange and commodities trading results and strong equity origination activity, as well as the gain related to the Visa Inc. restructuring. These factors were partly offset by market environment-related losses in 2007 and higher PCL.

Results of operations				Table 5
(C$ millions)		2009	2008 (1)	2007
Interest income	$	20,543	$ 25,032	$ 26,547
Interest expense		9,037	15,984	18,845
Net interest income		11,506	9,048	7,702
Investments (2)		4,270	4,697	4,405
Insurance (3)		5,718	2,609	3,152
Trading		2,671	(96)	1,999
Banking (4)		3,456	3,076	2,620
Underwriting and other advisory		1,050	875	1,217
Other (5)		435	1,373	1,367
Non-interest income		17,600	12,534	14,760
Total revenue		29,106	21,582	22,462
PCL		3,413	1,595	791
Insurance PBCAE (3)		4,609	1,631	2,173
Non-interest expense		14,558	12,351	12,473
Goodwill impairment charge		1,000	–	–
Income before income taxes		5,526	6,005	7,025
Income taxes		1,568	1,369	1,392
Non-controlling interest in net income of subsidiaries		100	81	141
Net income	$	3,858	$ 4,555	$ 5,492
Additional information				
Total trading revenue (6)				
Net interest income – related to trading activities	$	2,294	$ 686	$ (220)
Non-interest income – trading revenue		2,671	(96)	1,999
Total	$	4,965	$ 590	$ 1,779
Total trading revenue by product (6)				
Interest rate and credit	$	3,304	$ (259)	$ 640
Equities		1,008	265	784
Foreign exchange and commodities		653	584	355
Total	$	4,965	$ 590	$ 1,779
Average assets	$	695,300	$ 650,300	$ 581,000
Net interest margin (NIM)		1.65%	1.39%	1.33%
Effective tax rate (7)		28.4%	22.8%	19.8%

(1) Certain trading revenue reported in Capital Markets was reclassified from Non-interest income – Trading revenue to Net interest income to better reflect its nature. There was no impact to Total revenue as a result of this reclassification.
(2) Includes securities brokerage commissions, investment management and custodial fees, and mutual funds.
(3) Includes premiums, investment and fee income. Investment income includes the change in fair value of investments backing policyholder liabilities and is largely offset in PBCAE.
(4) Includes service charges, foreign exchange revenue other than trading, card service revenue and credit fees.
(5) Includes other non-interest income, net gain (loss) on available-for-sale (AFS) securities (other-than-temporary impairment and realized gain/loss), fair value adjustments on certain RBC debt designated as HFT, the change in fair value of certain derivatives related to economic hedges and securitization revenue.
(6) Total trading revenue comprises trading-related revenue recorded in Net interest income and Non-interest income.
(7) Income taxes as a percentage of net income before income taxes.

Total revenue

2009 vs. 2008

Total revenue increased $7,524 million, or 35%, from a year ago.

Net interest income increased $2,458 million, or 27%, largely due to lower funding costs on certain trading positions. Loan and deposit growth, largely due to solid volume growth in our Canadian banking businesses, and a full year of revenue from our RBTT acquisition, and to a lesser extent, our Alabama National BanCorporation (ANB) acquisition, also contributed to the increase. These factors were partially offset by spread compression in our banking-related and wealth management businesses reflecting historically lower interest rates and higher impaired loan balances, largely in U.S. banking. Net interest margin of 1.65% was up 26 bps.

Investments-related revenue decreased $427 million, or 9%, mainly due to lower fee-based client assets and lower mutual fund distribution fees, partially offset by higher transaction volumes.

Insurance-related revenue increased $3,109 million, largely due to the change in fair value of investments backing our life and health policyholder liabilities and increased annuity volumes, both of which were largely offset by higher related PBCAE. Volume growth across all businesses also contributed to the increase. For further details, refer to the Insurance segment section.

Trading revenue in Non-interest income increased $2,767 million. Total trading revenue, which comprises trading-related revenue recorded in Net interest income and Non-interest income, was $4,965 million, up $4,375 million. Stronger trading revenue, which included lower market-environment related losses on HFT instruments, benefitted from favourable market opportunities, including a historically low interest rate environment and increased client activity. Gains on credit valuation adjustments on certain derivative contracts as compared to losses in the prior year also contributed to the increase. For further details, refer to the Market environment impacts section.

Banking revenue was up $380 million, or 12%, mainly due to improved results in our client-based securitization activity and lending businesses in Capital Markets, higher service fee revenue across banking-related businesses, and a favourable adjustment related to our credit card customer loyalty reward program liability.

Underwriting and other advisory revenue increased $175 million, or 20%, mainly due to higher equity and debt origination activities, partially offset by lower mergers and acquisitions (M&A) activity.

Other revenue was down $938 million, primarily due to losses on the fair value adjustments on certain RBC debt designated as HFT as compared to gains in the prior year in Capital Markets and Corporate Support, reflecting the tightening of our credit spreads. Losses on credit default swaps recorded at fair value used to economically hedge certain corporate loan portfolios as compared to gains in the prior year in Capital Markets also contributed to the decrease. Net losses on AFS securities increased $8 million from the prior year, which included a loss of $144 million on certain Canadian bank common shares in the latter part of 2009 which more than offset the decrease in market environment-related losses. These factors were partially offset by higher securitization revenue of $708 million predominantly attributable to Corporate Support reflecting a higher than historical level of securitization activity from our participation in government-sponsored funding programs. A gain, as compared to a loss in the prior year, on our stock based compensation plan in our U.S. brokerage business also contributed to the increase. For further details about our loss on certain Canadian bank common shares, refer to Note 3 to our Consolidated Financial Statements.

Our revenue for the year was favourably impacted by the weaker Canadian dollar relative to the U.S. dollar. For further details, refer to the Impact of foreign exchange rates on our results section.

2008 vs. 2007

Total revenue decreased $880 million, or 4%, from 2007.

Net interest income increased $1,346 million, or 17%, largely driven by lower funding costs on certain trading positions, and solid loan and deposit growth in Canadian Banking, partially offset by spread compression.

Investments-related revenue increased $292 million, or 7%, primarily due to increased fee-based and transaction revenue as a result of our acquisitions, and solid growth in fee-based client assets.

Insurance-related revenue decreased $543 million, or 17%, mainly reflecting the change in fair value of investments backing our life and health policyholder liabilities, largely offset in PBCAE. Investment losses and lower annuity volumes also contributed to the decrease. These factors were partially offset by solid growth in our reinsurance and Canadian businesses.

Trading revenue in Non-interest income decreased by $2,095 million. Total trading revenue was $590 million, down $1,189 million, or 67%, largely due to market environment-related losses on HFT securities.

Banking revenue was up $456 million, or 17%, mainly due to a credit card customer loyalty reward program liability charge in 2007, improved results in our syndicated finance business, and higher foreign exchange revenue.

Underwriting and other advisory revenue decreased $342 million, or 28%, mainly due to weak equity origination and lower M&A activities.

Other revenue was flat compared to 2007. The gain on fair value adjustments on RBC debt designated as HFT, as well as higher gains on credit default swaps recorded at fair value used to economically hedge our corporate lending portfolio favourably impacted revenue. These factors were offset by market environment-related losses on AFS securities, and the Visa Inc. restructuring gain recorded in 2007.

Our revenue was also unfavourably impacted by the stronger Canadian dollar relative to the U.S. dollar.

Change in net interest income (1) **Table 6**

	2009 vs. 2008			2008 vs. 2007		
	Increase (decrease) due to changes in			Increase (decrease) due to changes in		
(C$ millions)	Average volume (2)	Average rate (2)	Net change	Average volume (2)	Average rate (2)	Net change
Assets						
Deposits with other banks						
Canada	$ 16	$ (24)	$ (8)	$ 7	$ (5)	$ 2
U.S.	15	(141)	(126)	60	(99)	(39)
Other international	(127)	(75)	(202)	114	(117)	(3)
Securities						
Trading	(378)	(443)	(821)	(525)	(1,234)	(1,759)
Available-for-sale	448	(343)	105	309	447	756
Asset purchased under reverse repurchase agreements and securities borrowed	(801)	(1,157)	(1,958)	(165)	(566)	(731)
Loans						
Canada						
Retail	681	504	1,185	998	(2,934)	(1,936)
Wholesale	(204)	(1,060)	(1,264)	275	1,121	1,396
U.S.	385	(769)	(384)	684	(763)	(79)
Other international	329	(1,345)	(1,016)	375	503	878
Total interest income	$ 364	$ (4,853)	$ (4,489)	$ 2,132	$ (3,647)	$ (1,515)
Liabilities						
Deposits						
Canada	$ 221	$ (1,698)	$ (1,477)	$ 244	$ (1,490)	$ (1,246)
U.S.	161	(1,141)	(980)	115	(920)	(805)
Other international	(540)	(2,399)	(2,939)	1,654	(1,215)	439
Obligations related to securities sold short	(265)	26	(239)	(54)	(418)	(472)
Obligations related to assets sold under repurchase agreements and securities loaned	4	(1,208)	(1,204)	(303)	(448)	(751)
Subordinated debentures	9	(13)	(4)	24	(8)	16
Other interest-bearing liabilities	(1)	(103)	(104)	37	(79)	(42)
Total interest expense	$ (411)	$ (6,536)	$ (6,947)	$ 1,717	$ (4,578)	$ (2,861)
Net interest income	$ 775	$ 1,683	$ 2,458	$ 415	$ 931	$ 1,346

(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.

Net interest margin
2009 vs. 2008
Net interest margin was 1.65%, up 26 bps, largely reflecting lower funding costs on certain trading positions in Capital Markets, partially offset by spread compression in our banking-related and wealth management businesses. This reflected the historically low interest rate environment and the impact of changes in the Canadian retail product mix, resulting from higher volume growth in lower margin products. For further details, refer to Table 66 in the Supplemental information section.

2008 vs. 2007
Net interest margin increased 6 bps, largely reflecting lower funding costs on certain trading positions in Capital Markets, largely offset by spread compression.

Provision for credit losses
Credit quality has deteriorated from the prior year consistent with the global economic cycle. For further details on our PCL, refer to the Risk, capital and liquidity management section.

2009 vs. 2008
Total PCL of $3.4 billion increased $1.8 billion from a year ago, primarily attributable to increased specific provisions of $1.4 billion, mainly in our corporate loan portfolio, and in our U.S. banking and our Canadian unsecured retail and business lending portfolios. An increase in the general provision of $424 million, predominantly related to U.S. banking and to a lesser extent, our U.S. corporate lending and Canadian retail and business lending portfolios, also contributed to the increase.

2008 vs. 2007
Total PCL of $1.6 billion increased $804 million from 2007 reflecting increased specific PCL of $648 million, largely attributable to higher impaired loans in U.S. banking, mainly in our residential builder finance, and commercial loan portfolios, reflecting deteriorated economic conditions. An increase in the general provision of $156 million, reflecting volume growth and weaker credit quality in our Canadian retail and U.S. banking portfolios also contributed to the increase.

Insurance policyholder benefits, claims and acquisition expense
2009 vs. 2008
PBCAE increased $2,978 million from a year ago, largely reflecting the change in fair value of investments backing our life and health policyholder liabilities and higher costs commensurate with increased annuity volumes, largely offset in revenue. For further details, refer to the Insurance segment section.

2008 vs. 2007
PBCAE decreased $542 million, or 25%, from 2007, primarily reflecting the change in fair value of investments backing our life and health policyholder liabilities, largely offset in revenue.

Non-interest expense
2009 vs. 2008
Non-interest expense increased $2,207 million, or 18% from a year ago, largely due to increased variable compensation driven by higher trading results. Approximately 60% of our variable compensation was earnings-based with the remainder sales commission-based. Increased costs in support of business growth, which included acquisition-related staff and occupancy costs, reflecting a full year of expenses from our acquisitions of RBTT, Ferris, Baker Watts Inc. (FBW), ANB and Philips, Hager & North Investment Management Ltd. (PH&N), and the impact of the weaker Canadian dollar relative to the U.S. dollar also contributed to the increase. These factors were partially offset by our ongoing focus on cost management. Last year, our non-interest expense included the favourable impact of $542 million related to the reduction of the Enron-related litigation provision.

2008 vs. 2007
Non-interest expense decreased $122 million, or 1%, compared to 2007, largely reflecting the reduction of the Enron-related litigation provision. Lower variable compensation reflecting higher market environment-related losses on HFT instruments, the impact of stronger Canadian dollar relative to the U.S. dollar and lower stock-based compensation expense in our U.S. brokerage business, were partially offset by increased costs in support of business growth, including acquisition-related staff and occupancy costs.

Non-interest expense — **Table 7**

(C$ millions)	2009	2008	2007
Salaries	$ 4,146	$ 3,845	$ 3,541
Variable compensation	3,561	2,689	2,975
Benefits and retention compensation	1,189	1,168	1,150
Stock-based compensation	82	77	194
Human resources	$ 8,978	$ 7,779	$ 7,860
Equipment	1,025	934	847
Occupancy	1,045	926	839
Communications	761	749	723
Professional and other external services	860	903	838
Other expenses	1,889	1,060	1,366
Non-interest expense	$ 14,558	$ 12,351	$ 12,473

Goodwill impairment
In 2009, we recorded a goodwill impairment charge in our International Banking reporting unit of $1 billion. The impairment reflected the continuing impact of the deterioration in the overall U.S. economic environment, including declines in the U.S. housing market and in the market value of U.S. banks. For further details, refer to Note 10 to our Consolidated Financial Statements.

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.

2009 vs. 2008
Income tax expense increased $199 million, or 15%, from a year ago despite lower earnings before income taxes in 2009. The effective tax rate of 28.4% increased 5.6% from 22.8% a year ago, largely due to the goodwill impairment charge, which was not deductible for tax purposes. Excluding the goodwill impairment charge, the adjusted effective tax rate was 24.0%, an increase of 1.2%, mainly due to lower earnings reported by our subsidiaries operating in jurisdictions with lower income tax rates, partially offset by a reduction in the statutory Canadian corporate income tax rate in 2009. For further details on the adjusted effective income tax rate refer to the Key performance and non-GAAP measures section.

Other taxes increased by $60 million from 2008, largely due to higher capital taxes, reflecting higher capital levels and higher property taxes, net of a release of amounts accrued due to favourable resolution of a goods and services tax audit. In addition to the income and other taxes reported in our Consolidated Statements of Income, we recorded income taxes of $1,706 million in 2009 (2008 – $2,225 million income tax recovery) in shareholders' equity, an increase of $3,931 million, primarily reflecting increased unrealized foreign currency translation gains, net of hedging, unrealized gains in both our AFS portfolio and derivatives designated as cash flow hedges.

2008 vs. 2007
Income tax expense decreased $23 million, or 2%, from 2007 due to lower earnings before income taxes in 2008. The effective tax rate of 22.8% as compared to 19.8% was largely due to lower earnings reported by our subsidiaries operating in jurisdictions with lower income tax rates and a higher tax rate on the reduction of the Enron-related litigation provision. These factors were partially offset by a lower statutory Canadian corporate income tax rate in 2008 and a higher level of income from tax-advantaged sources (Canadian taxable corporate dividends) in 2008.

Other taxes increased by $13 million. Higher payroll, business and property taxes were partially offset by lower capital taxes due to a lower Canadian capital tax base and a reduction in the goods and services taxes rate.

Taxes **Table 8**

(C$ millions, except percentage amounts)	2009	2008	2007
Income taxes	**$ 1,568**	$ 1,369	$ 1,392
Other taxes			
Goods and services and sales taxes	**$ 180**	$ 204	$ 208
Payroll taxes	**249**	242	227
Capital taxes	**161**	104	117
Property taxes (1)	**115**	103	97
Insurance premium taxes	**46**	42	41
Business taxes	**20**	16	8
	$ 771	$ 711	$ 698
Total income and other taxes	**$ 2,339**	$ 2,080	$ 2,090
Net income before income taxes	**$ 5,526**	$ 6,005	$ 7,025
Effective income tax rate	**28.4%**	22.8%	19.8%
Effective total tax rate (2)	**37.1%**	31.0%	27.1%

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

Quarterly financial information

Fourth quarter 2009 performance

Fourth quarter net income of $1,237 million was up $117 million, or 10%, from a year ago mainly due to higher trading revenue, including lower market environment-related losses on HFT instruments, which was partially offset by higher related variable compensation. Lower net losses on AFS securities, improved equity origination activity and volume growth in Canadian Banking and Insurance also contributed to the increase. These factors were partially offset by higher PCL. Our prior year results were favourably impacted by the reduction of the Enron-related litigation provision.

Total revenue increased $2,390 million, due to higher insurance related revenue, mainly resulting from the change in fair value of investments and higher annuity volumes, largely offset in PBCAE and higher trading revenue, including lower market environment-related losses. Lower net losses on our AFS securities, improved equity origination activity in Capital Markets, volume growth in Canadian Banking and growth in transactional volumes in Wealth Management also contributed to the increase. These factors were partially offset by cumulative accounting adjustments related to prior periods and losses on the change in fair value of certain derivatives used to economically hedge our funding activities compared to gains last year. A $52 million ($39 million after-tax) provision related to the restructuring of certain Caribbean banking mutual funds also unfavourably impacted revenue.

Total PCL was up $264 million or 43% from a year ago, mainly reflecting higher specific provisions related to a number of specific clients in our corporate lending portfolio. Increased loss rates in our Canadian credit card and unsecured personal portfolios, and the impact of $28 million related to our adoption of the amendments to Canadian Institute of Chartered Accountants (CICA) section 3855, *Financial Instruments – Recognition and Measurement* as certain impaired AFS securities were reclassified to loans, mainly in U.S. banking also contributed to the increase. These factors were partially offset by lower specific PCL in U.S. banking reflecting stabilizing asset quality, largely in our residential builder finance portfolio. The general provision of $156 million increased $11 million from last year's general provision of $145 million, mainly reflecting credit deterioration related to U.S. banking. For further information on the reclassification, refer to the CICA section 3855 – reclassification of securities to loans section.

PBCAE increased $1,408 million, largely due to the change in fair value of investments and an increase in annuity volumes, both of which were largely offset in revenue. Unfavourable actuarial adjustments resulting from management actions and assumption changes also contributed to the increase.

Non-interest expense increased $617 million, or 21%, largely due to increased variable compensation driven by higher trading results, partially offset by our ongoing commitment to cost management. Last year non-interest expense was favourably impacted by the reduction of the Enron-related litigation provision.

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 and market conditions, and fluctuations in foreign exchange rates. The following table summarizes our results for the last eight quarters.

Quarterly results **Table 9**

(C$ millions, except per share amounts)	2009 Q4	2009 Q3	2009 Q2	2009 Q1	2008 Q4	2008 Q3	2008 Q2	2008 Q1
Net interest income	$ 2,876	$ 2,900	$ 2,898	$ 2,832	$ 2,629	$ 2,221	$ 2,131	$ 2,067
Non-interest income	4,583	4,923	3,863	4,231	2,440	3,691	2,823	3,580
Total revenue	$ 7,459	$ 7,823	$ 6,761	$ 7,063	$ 5,069	$ 5,912	$ 4,954	$ 5,647
PCL	883	770	974	786	619	334	349	293
Insurance PBCAE	1,322	1,253	958	1,076	(86)	553	548	616
Non-interest expense	3,606	3,755	3,575	3,622	2,989	3,272	2,970	3,120
Goodwill impairment charge	–	–	1,000	–	–	–	–	–
Net income before income taxes and non-controlling interest in subsidiaries	$ 1,648	$ 2,045	$ 254	$ 1,579	$ 1,547	$ 1,753	$ 1,087	$ 1,618
Income taxes	389	449	266	464	428	442	156	343
Non-controlling interest in net income of subsidiaries	22	35	38	5	(1)	49	3	30
Net income (loss)	$ 1,237	$ 1,561	$ (50)	$ 1,110	$ 1,120	$ 1,262	$ 928	$ 1,245
EPS – basic	$ .83	$ 1.06	$ (.07)	$ .78	$ .82	$ .93	$ .70	$ .96
– diluted	$ .82	$ 1.05	$ (.07)	$ .78	$ .81	$ .92	$ .70	$ .95
Segment net income (loss)								
Canadian Banking	$ 717	$ 669	$ 581	$ 696	$ 676	$ 709	$ 604	$ 673
Wealth Management	161	168	126	128	116	186	182	181
Insurance	104	167	113	112	59	137	104	89
International Banking	(125)	(95)	(1,126)	(100)	(206)	(16)	38	31
Capital Markets	561	562	420	225	584	269	13	304
Corporate Support	(181)	90	(164)	49	(109)	(23)	(13)	(33)
Net income (loss)	$ 1,237	$ 1,561	$ (50)	$ 1,110	$ 1,120	$ 1,262	$ 928	$ 1,245
Effective tax rate	23.6%	22.0%	104.7%	29.4%	27.7%	25.2%	14.4%	21.2%
Period average US$ equivalent of C$1.00	$ .924	$ .900	$ .805	$ .815	$ .901	$ .988	$ .994	$ 1.002

Seasonality

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

Overview of consolidated results

As economic and market conditions deteriorated over most of the period, our net income has been unfavourably impacted by PCL and total market environment-related net losses. PCL has generally increased, particularly over the last five quarters, while market environment-related losses have moderated since the first quarter of 2009. A number of other items, noted below, have also affected our results.

- In the second quarter of 2009, we recorded a goodwill impairment charge of $1 billion, resulting in a net loss of $50 million for the quarter and an effective tax rate of 104.7%. Excluding this charge, adjusted net income for the quarter was $950 million and the adjusted effective tax rate was 21.2%, as the goodwill impairment charge was not deductible for tax purposes.
- In the fourth quarter of 2008, we recorded a reduction of the Enron-related litigation provision of $542 million.
- The Canadian dollar depreciated significantly, on average, relative to the U.S. dollar from the first quarter of 2008 to the second quarter of 2009, and has strengthened considerably since the third quarter of 2009. These fluctuations in the Canadian/U.S. dollar exchange rate have had an impact on our consolidated net income over the period.

Trend analysis

Our quarterly results have generally increased over the corresponding period in the prior year. However, for the first two quarters of 2009 our results decreased from the comparative quarters in 2008. For the last two quarters of 2009, our results have increased over the comparative quarters in 2008 due to solid performances across most of our businesses as a result of improved market conditions.

Revenue has generally fluctuated over the period. Increases in revenue have mainly resulted from solid trading revenue in certain of our capital markets businesses and changes in the fair value of our investment portfolios backing our life and health policyholder liabilities in Insurance due to market volatility, largely offset in PBCAE. As well, higher banking-related revenue due to solid volume growth, partly reflecting our acquisitions, and revenue growth in our wealth management businesses, primarily driven by our acquisitions, also contributed to revenue. Revenue has been unfavourably impacted by total market environment-related losses, mainly in the latter part of 2008 and the early half of 2009, reduced fee-based client assets due to capital depreciation, lower transaction volumes, and spread compression in our banking-related and wealth management businesses.

PCL has generally trended significantly higher over the period due to weakness in the economic environment. We have also made additions to our general provision, which were particularly elevated in the last five quarters, largely reflecting credit deterioration mainly related to the economic environment. For further details, refer to the Credit quality performance section.

PBCAE has fluctuated considerably over the period. Although underlying business growth has generally increased PBCAE, there can be significant quarterly volatility resulting from the change in fair value of investments backing our life and health policyholder liabilities, claims experience and actuarial liability adjustments.

Non-interest expense has generally increased over the last eight quarters, mainly due to higher variable compensation resulting from higher trading revenue, increased costs in support of business growth, including the impact of our acquisitions, and the impact of the generally weaker Canadian dollar relative to the U.S. dollar. These factors were partially offset by our ongoing focus on cost management.

Our effective tax rate has generally fluctuated over the last eight quarters, reflecting a varying portion of income being reported by our subsidiaries operating in jurisdictions with differing income tax rates and a fluctuating level of income from tax-advantaged sources (Canadian taxable corporate dividends). Market environment-related losses and the reduction of the Enron-related litigation provision, which were recorded at higher income tax rates, the goodwill impairment charge, and a reduction in statutory Canadian corporate income tax rates also impacted our effective tax rate over the period.

Business segment results

Results by business segment

Table 10

(C$ millions, except for percentage amounts)	2009 Canadian Banking	Wealth Management	Insurance	International Banking	Capital Markets (1)	Corporate Support (1)	Total	2008 Total	2007 Total
Net interest income	$ 6,947	$ 397	$ –	$ 1,687	$ 3,399	$ (924)	$ 11,506	$ 9,048	$ 7,702
Non-interest income	2,943	3,683	5,715	903	3,524	832	17,600	12,534	14,760
Total revenue	$ 9,890	$ 4,080	$ 5,715	$ 2,590	$ 6,923	$ (92)	$ 29,106	$ 21,582	$ 22,462
PCL	1,275	–	–	980	702	456	3,413	1,595	791
Insurance PBCAE	–	–	4,609	–	–	–	4,609	1,631	2,173
Goodwill impairment charge	–	–	–	1,000	–	–	1,000	–	–
Non-interest expense	4,729	3,262	559	2,346	3,628	34	14,558	12,351	12,473
Net income before income taxes and non-controlling interest in net income of subsidiaries	$ 3,886	$ 818	$ 547	$ (1,736)	$ 2,593	$ (582)	$ 5,526	$ 6,005	$ 7,025
Net income	$ 2,663	$ 583	$ 496	$ (1,446)	$ 1,768	$ (206)	$ 3,858	$ 4,555	$ 5,492
Return on equity (ROE)	35.9%	14.2%	37.0%	(19.4)%	21.0%	(10.4)%	11.9%	18.1%	24.7%
Return on risk capital (RORC)	48.4%	49.2%	42.9%	(49.1)%	24.3%	(26.0)%	19.5%	29.6%	37.4%
Average assets	$ 258,900	$ 20,500	$ 13,100	$ 63,700	$ 347,900	$ (8,800)	$ 695,300	$ 650,300	$ 581,000

(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.

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 include all applicable revenue and expenses associated with the conduct of their business and 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 specific provision for credit losses.
- Wealth Management, Insurance and International Banking reported results include disclosure in U.S. dollars as we review and manage the results of certain business lines largely in U.S. dollars.
- Insurance reported results include the change in fair value of investments backing our life and health policyholder liabilities recorded as revenue, which is largely offset in PBCAE.
- 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. We record the elimination of the teb adjustments in Corporate Support. We believe these adjustments are useful and reflect how Capital Markets manages its business, since it enhances the comparability of revenue and related ratios across taxable revenue and our principal tax-advantaged source of revenue. The use of teb adjustments and measures may not be comparable to similar GAAP measures or similarly adjusted amounts disclosed by other financial institutions.
- Corporate Support results include all enterprise-level activities that are undertaken for the benefit of the organization that are not allocated to our five business segments, such as volatility related to treasury activities, securitizations and net charges associated with unattributed capital.
- Specific allowances are recorded to recognize estimated losses on our lending portfolio on loans that have become impaired. The specific provisions for credit losses are included in the results of each business segment to fully reflect the appropriate expenses related to the conduct of each business segment. A general allowance is established to cover estimated credit losses incurred in the lending portfolio that have not been specifically identified as impaired. Changes in the general allowance are included in Corporate Support, as Group Risk Management effectively controls this through its monitoring and oversight of various portfolios of loans throughout the enterprise.

Key methodologies

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

Expense allocation

To ensure that our business segments' results include expenses associated with the conduct of their business, we allocate costs incurred or services provided by Operations, Technology and Functions, which were 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 determines 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. For further information, refer to the Capital management and Key performance and non-GAAP measures sections.

Funds transfer pricing

A funds transfer pricing methodology is used to allocate interest income and expense by product to each business segment. This allocation considers the interest rate risk, liquidity and funding risk and regulatory requirements of each of our business segments. We base transfer pricing on external market costs and each business segment fully absorbs the costs of running its business. Our business segments may retain certain interest rate exposures subject to management approval that would be expected in the normal course of operations.

Changes made in 2009

The following highlights the key changes we made to our business segments during the year to reflect how each business is appropriately managed. Unless specifically stated, comparative amounts have been revised and did not have an impact on our consolidated results.

- We realigned Capital Markets into two main businesses, Capital Markets Sales and Trading, and Corporate and Investment Banking.
- We realigned Insurance into three main businesses, Canadian Insurance, U.S. Insurance, and International & Other Insurance.

For further details, refer to the Capital Markets and Insurance segment sections.

Canadian Banking

Canadian Banking comprises our domestic personal and business banking operations and certain retail investment businesses and is operated through three business lines: Personal Financial Services, Business Financial Services, and Cards and Payment Solutions. Canadian Banking provides a broad suite of financial products and services to over 10 million individual and business clients through our extensive branch, automated teller machines (ATMs), online and telephone banking networks, as well as through a large number of proprietary sales professionals. The competitive landscape of our Banking-related operations in the Canadian financial services industry consists of 22 Schedule I banks, 47 independent trust companies, 26 foreign banks and a number of credit unions and caisses populaires. In this competitive environment, we have top rankings in market share for most retail financial product categories, the largest branch network, the most ATMs and the largest mobile sales network across Canada.

Year in review

- Cost management was a focus throughout this year and we launched several significant transformational initiatives that are focused on enhancing sales and service productivity and improving processes through streamlining and automation.
- We announced the new WestJet RBC Mastercard, a new travel rewards card offering rewards to clients who travel in North America and the Caribbean on WestJet. This will make us the first large Canadian financial institution to offer both MasterCard and Visa.
- We expanded our highly successful RBC Reward credit card points program to additional banking products and services, rewarding our clients for their loyalty.

Economic and market review

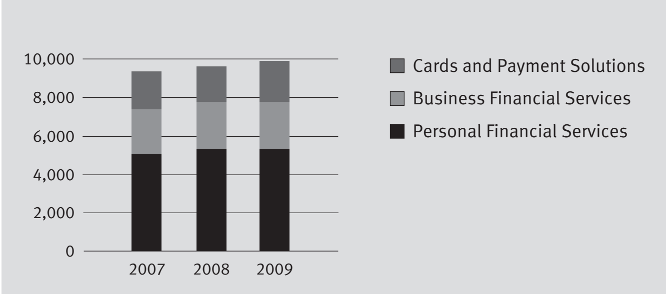
Our results were impacted by the slowdown in the economy resulting in higher credit losses across our loan portfolios. Historically low interest rates contributed to strong growth in our home equity business; however it also resulted in significant spread compression. A reduction in businesses spending resulted in strong growth in business deposits and investments and moderate growth in our business lending portfolio. Clients shifted to lower risk investment products such as our guaranteed investment certificates (GIC) and deposit products and short term money market funds due to volatility in the equity markets. Our market position increased, most notably in the auto financing and leasing business, as foreign and niche competitors withdrew or reduced their presence in the Canadian marketplace. For further details on our general economic review, refer to the 2009 Economic and market review section.

Canadian Banking financial highlights — Table 11

(C$ millions, except number of and percentage amounts)	2009	2008	2007
Net interest income	$ 6,947	$ 6,718	$ 6,353
Non-interest income	2,943	2,868	2,976
Total revenue	$ 9,890	$ 9,586	$ 9,329
PCL	1,275	867	788
Non-interest expense	4,729	4,758	4,748
Net income before income taxes and non-controlling interest in subsidiaries	$ 3,886	$ 3,961	$ 3,793
Net income	$ 2,663	$ 2,662	$ 2,545
Key ratios			
ROE	35.9%	38.1%	34.9%
RORC	48.4%	52.2%	48.1%
NIM (1)	2.76%	2.98%	3.17%
Operating leverage	3.8%	2.6%	6.5%
Selected average balance sheet information			
Total assets (2)	$ 258,900	$ 232,300	$ 207,500
Total earning assets (2)	251,600	225,600	200,400
Loans and acceptances (2)	249,600	225,000	199,200
Deposits	172,600	155,000	147,100
Attributed capital	7,250	6,900	7,200
Risk capital	5,400	5,050	5,250
Other information			
AUA	$ 133,800	$ 109,500	$ 120,200
Number of employees (full-time equivalent)	23,280	24,222	23,930
Credit information			
Gross impaired loans as a percentage of average net loans and acceptances	.50%	.36%	.35%
Specific PCL as a percentage of average net loans and acceptances	.51%	.39%	.39%

(1) NIM is calculated as Net interest income divided by Average total earning assets.
(2) Average total assets, Average total earning assets, and Average loans and acceptances include average securitized residential mortgage and credit card loans for the year of $37 billion and $4 billion, respectively (2008 – $22 billion and $4 billion; 2007 – $19 billion and $4 billion).

Revenue by business line (C$ millions)



Financial performance

2009 vs. 2008

Net income was flat as strong volume growth in personal and business products and effective cost management were fully offset by significantly higher PCL and spread compression.

Total revenue increased $304 million, or 3%, from the previous year largely reflecting strong volume growth in home equity loans and personal and business deposits and a favourable adjustment to our credit card customer loyalty reward program in the current year. These factors were partly offset by lower spreads due to the historically low interest rate environment and a decline in mutual fund distribution fees reflecting capital depreciation.

Net interest margin decreased 22 bps from a year ago reflecting sharply lower interest rates, higher term funding costs and the impact of changes in product mix, reflecting higher volume growth in lower margin products including personal deposits and home equity loans.

PCL increased $408 million, or 47%, mainly reflecting higher loss rates in credit cards and unsecured personal portfolios and higher impaired loans in our business lending portfolio primarily as a result of recessionary conditions. For further details, refer to the Credit quality performance section.

Non-interest expense decreased $29 million, or 1%, mainly due to our ongoing focus on cost management, including lower staff levels reflecting productivity initiatives and lower pension and benefit costs, partly offset by higher operational costs in support of business volume growth and branch network expansion.

Average assets increased $27 billion, or 11% largely due to continued strong growth in home equity and personal lending products. Average deposits were up $18 billion, or 11%, reflecting strong growth in both personal and business deposits.

2008 vs. 2007

Net Income increased $117 million, or 5%, from 2007, reflecting solid volume growth and effective cost management, which were partially offset by spread compression and higher PCL.

Total revenue increased $257 million, or 3%, reflecting solid volume growth across all businesses, higher foreign exchange revenue, service fees and mutual fund distribution fees, partially offset by spread compression. Our results for 2007 included a gain related to the Visa IPO shares upon the reorganization of Visa Inc., which was partially offset by an unfavorable adjustment related to our credit card customer loyalty reward program liability.

Net Interest margin decreased 19 bps, largely reflecting the impact of changes in our retail product mix, the lower interest rate environment and competitive pressure.

PCL increased $79 million, or 10%, reflecting portfolio growth and higher loss rates in our credit cards and personal loan portfolios.

Non-interest expense of $4,758 million was essentially flat, as higher sales and service expenses in our banking branch network in support of business growth and project spending were largely offset by lower operational support and infrastructure costs.

Outlook and priorities

The expected return to economic growth in 2010, increased consumer spending and a continued low interest rate environment should generate solid consumer lending growth, particularly in home equity lending. Further improvements in the equity markets are expected to renew consumer confidence and lead to stronger growth in our mutual funds products. We expect business lending growth to lag the economic recovery given the higher levels of liquidity and excess capacity. With unemployment rates expected to peak in early 2010, credit losses will likely remain elevated. For further details on our general economic outlook, refer to the 2010 Economic and market outlook section.

Key strategic priorities for 2010

- Continue to deliver a superior client experience.
- Continue to simplify the way we do business by eliminating complexity and automating key processes.
- Enable collaboration and convergence of people and channels to increase employee engagement and productivity and strengthen our distribution capabilities.

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 financing and investment products and services, including home equity financing, personal lending, deposit accounts, mutual funds and self-directed brokerage accounts, GICs and Canadian private banking. We rank first or second in market share for most personal banking products and our retail banking network is the largest in Canada with 1,197 branches and 4,214 ATMs.

Financial performance

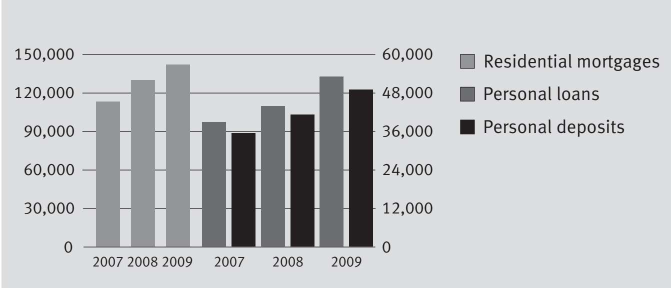
Total revenue was relatively flat compared to the prior year as the impact of lower interest rates on deposit spreads and lower mutual fund distribution fees, due to capital depreciation, offset strong volume growth in home equity loans and deposits accounts, and higher lending spreads.

Average residential mortgages were up 9% over last year, supported by historically low interest rates and a solid housing market. Average personal deposits grew by 19% from last year, driven by the continued success of our key savings products and customer preference for reduced risk.

Selected highlights			Table 12
(C$ millions)	**2009**	2008	2007
Total revenue	**$ 5,305**	$ 5,315	$ 5,082
Other information (average)			
Residential mortgages	**141,800**	129,800	113,200
Personal loans	**53,000**	43,700	38,700
Personal deposits	**49,000**	41,200	35,500
Personal GICs	**58,000**	55,600	57,900
Branch mutual fund balances (1)	**63,300**	58,000	66,900
AUA – Self-directed brokerage (1)	**35,500**	26,500	28,300
New deposit accounts opened (thousands)	**990**	1,129	1,066
Number of:			
Branches	**1,197**	1,174	1,146
Automated teller machines (ATMs)	**4,214**	4,149	3,946

(1) Represents year-end spot balances.

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



Business Financial Services

Business Financial Services offers a wide range of lending, leasing, deposit, investment, foreign exchange, cash management and trade products and services to small and medium-sized businesses and commercial, agriculture and agribusiness clients across Canada. Our extensive business banking network includes over 100 business banking centres and over 2,000 business account managers. Our strong commitment to our clients has resulted in leading market share in business loans and deposits.

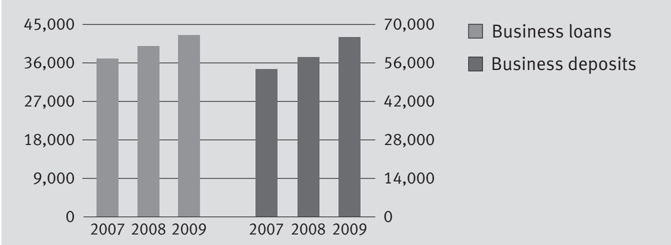
Financial performance
Total revenue was relatively flat compared to the prior year as strong volume growth in deposits and improved lending spreads, offset lower spreads on deposits, due to the historically low interest rate environment.

Over the course of the year, businesses have increased their liquidity levels, leading to strong growth of 13% in business deposits; however this reduced demand for credit, limiting our business loan growth to 6%.

Selected highlights			Table 13
(C$ millions)	**2009**	2008	2007
Total revenue	**$ 2,457**	$ 2,441	$ 2,301
Other information (average)			
Business loans (1)	**42,400**	39,900	36,900
Business deposits (2)	**65,400**	58,000	53,700

(1) Includes small business loans treated as retail and wholesale loans.
(2) 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. We have over 6 million credit card accounts and have an approximately 20% market share of Canada's credit card purchase volume.

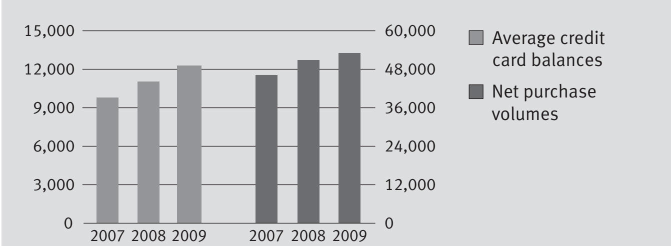
In addition, this business line includes our 50% interest in Moneris Solutions, Inc., our merchant card processing joint venture with the Bank of Montreal.

Financial performance
Total revenue increased $298 million or 16%, compared to the past year, primarily reflecting higher spreads from lower funding costs and higher transactional volumes. The increase also reflected a favourable adjustment of $52 million related to our credit card customer loyalty rewards program liability reflecting favorable assumption changes on the cost of the program. A gain of $18 million on the sale of a portion of our remaining Visa IPO shares this year as compared to a loss of $29 million on the redemption of our Visa IPO shares in the prior year also increased revenue.

Balances remained relatively flat compared to last year reflecting lower overall market growth as well as strategies implemented in early 2009 to limit credit losses during the economic downturn, which included a reduction in our marketing and direct mail programs.

Selected highlights			Table 14
(C$ millions)	**2009**	2008	2007
Total revenue	**$ 2,128**	$ 1,830	$ 1,946
Other information			
Average credit card balances	**12,500**	12,400	11,200
Net purchase volumes	**53,200**	52,600	47,200

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



Wealth Management comprises Canadian Wealth Management, U.S. & International Wealth Management and Global Asset Management. We serve affluent and high net worth clients in Canada, the United States, Latin America, Europe and Asia with a full suite of investment, trust and other wealth management solutions. We also provide asset management products and services directly, through other RBC distribution channels and through third-party distributors to institutional and individual clients. Our competitive environment is discussed below in each business.

Year in review

- We successfully leveraged the strength and stability of RBC to attract client-facing professionals through proactive hiring campaigns in each of our businesses. We added more than 158 financial consultants and client-facing professionals across our Canadian, U.S. and international businesses.
- We completed the acquisition of Mourant Private Wealth and successfully integrated our FBW and J.B. Hanauer & Co. (JBH) acquisitions in U.S. & International Wealth Management. We also announced an agreement to acquire J.P. Morgan's Third Party Registered Investment Advisory (RIA) Servicing Business to expand the breadth and depth of our custody and clearing services. (1)
- We made solid progress in integrating our Phillips, Hager & North (PH&N) acquisition and realigning our Canadian and U.S. asset management businesses focusing on the following three areas of opportunities: (i) Canadian retail asset management where we continued to demonstrate strong sales and performance with $2.1 billion of net long-term fund sales in 2009; (ii) Canadian institutional asset management where we are the third largest in Canada by AUM; and (iii) in U.S. asset management where we repositioned our Voyageur Asset Management business for growth.
- We won the 2009 "Outstanding Private Bank – North America" award by *Private Banker International*, recognizing our strength, stability and leadership.

Economic and market review

Fee-based client asset values and transaction volumes were impacted by continued weak market conditions in early 2009. However, improvements during the latter half of the year partially offset this impact through capital appreciation and higher investor confidence driving higher transaction volumes and higher net sales. Also, as a few competitors retrenched their operations as a result of market disruption, we continued to grow our market share and attracted a record number of experienced client-facing professionals, largely in U.S. Wealth Management. For further details on our general economic review, refer to the 2009 Economic and market review section.

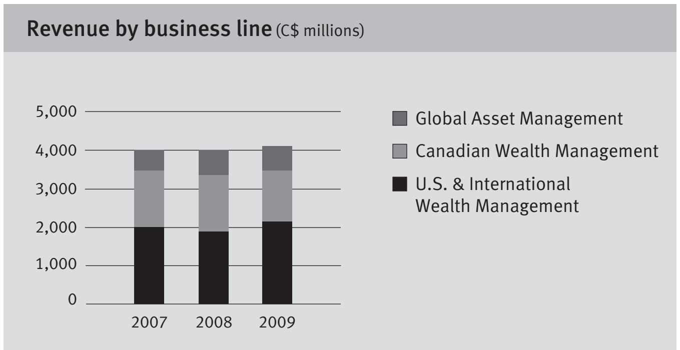
(1) The acquisition is subject to regulatory approvals and other customary closing conditions and is expected to close in the second quarter of 2010.

Wealth Management financial highlights — **Table 15**

(C$ millions, except number of and percentage amounts)	2009	2008	2007
Net interest income	$ 397	$ 468	$ 427
Non-interest income			
Fee-based revenue	2,154	2,276	2,109
Transactional and other revenue	1,529	1,243	1,456
Total revenue	$ 4,080	$ 3,987	$ 3,992
Non-interest expense	3,262	3,038	2,902
Net income before income taxes and non-controlling interest in subsidiaries	$ 818	$ 948	$ 1,089
Net income	$ 583	$ 665	$ 762
Key ratios			
ROE	14.2%	23.3%	32.4%
RORC	49.2%	64.9%	65.1%
Pre-tax margin (1)	20.0%	23.8%	27.3%
Selected average balance sheet information			
Total assets	$ 20,500	$ 16,900	$ 16,600
Loans and acceptances	5,800	5,200	4,600
Deposits	31,500	26,900	24,900
Attributed capital	3,900	2,800	2,300
Risk capital	1,100	1,000	1,150
Other information			
Revenue per advisor (000s) (2)	$ 670	$ 731	$ 787
AUA	502,300	495,100	488,500
AUM	245,700	222,600	161,200
Number of employees (full-time equivalent)	10,818	10,954	9,621
Number of advisors (3)	4,504	4,346	3,811

Impact of US$ translation on selected items	2009 vs. 2008
Increased (decreased) total revenue	$ 197
Increased (decreased) non-interest expense	163
Increased (decreased) net income	33
Percentage change in average US$ equivalent of C$1.00	(11)%

(1) Pre-tax margin is defined as net income before income taxes and non-controlling interest in subsidiaries dividend by total revenue.
(2) Includes investment advisors and financial consultants of our Canadian and U.S. full-service brokerage businesses.
(3) Includes client-facing advisors across all our wealth management businesses.



Financial performance
2009 vs. 2008
Net income for the year of $583 million decreased $82 million, or 12%, from a year ago, mainly reflecting lower average fee-based client assets and spread compression. These factors were partially offset by a gain, as compared to a loss in the prior year, on our stock-based compensation plan, the prior year provisions related to the Reserve Primary Fund and auction rate securities, the impact of the weaker Canadian dollar relative to the U.S. dollar and the inclusion of a full year of results from our PH&N acquisition.

Total revenue increased $93 million, or 2%, mainly due to the impact of the weaker Canadian dollar relative to the U.S. dollar. A gain, as compared to a loss in the prior year, on our stock-based compensation plan in our U.S. brokerage business and higher transaction volumes reflecting a full year of revenue from FBW also contributed to the increase. These factors were largely offset by lower fee-based revenue reflecting decreased average fee-based client assets, resulting from capital depreciation, which was only partially offset by the inclusion of a full year of revenue from PH&N, as well as spread compression.

Non-interest expense was up $224 million, or 7%, mainly due to the impact of the weaker Canadian dollar relative to the U.S. dollar. Higher infrastructure and staff costs in support of business growth largely reflecting a full year of expense from PH&N and FBW and the recruitment of experienced client-facing advisors, and the increase in the fair value of our earned compensation liability related to our stock-based compensation plan also contributed to the increase. These factors were partially offset by our focus on cost management, the prior year provisions related to our support agreement for clients of FBW invested in the Reserve Primary Fund and Wealth Management's share of the settlement with U.S. regulators relating to auction rate securities.

2008 vs. 2007
Net income for the year of $665 million decreased $97 million, or 13%, from 2007, mainly due to lower transaction volumes, a loss on our stock-based compensation plan, and the impact of the stronger Canadian dollar relative to the U.S. dollar. These factors were partially offset by solid growth in fee-based client assets throughout most of 2008.

Total revenue was flat compared to 2007. Higher fee-based revenue due to higher net sales, the recruitment of experienced advisors, and the contribution of our PH&N acquisition was impacted by significant capital depreciation in the latter part of the year due to the general decline in asset valuations. Increased transaction revenue from our JBH and FBW acquisitions was partially offset by lower transaction volumes in our full-service brokerage business and a loss on our stock-based compensation plan. Revenue was also unfavourably impacted by the stronger Canadian dollar relative to the U.S. dollar.

Non-interest expense was up $136 million, or 5%, mainly reflecting higher infrastructure and staff costs in support of business growth largely related to our acquisitions. This increase also reflected the provisions related to the Reserve Primary Fund and auction rate securities.

Outlook and priorities
We expect further market improvement and increased investor confidence will generate higher asset valuations and transaction volumes in the near term. We will continue to recruit and retain the best client-facing professionals across all businesses, while remaining focused on the development of innovative wealth management products and services, which should collectively support steady growth in fee-based client assets in the medium-term. We anticipate loan and deposit growth will be partially offset by spread compression resulting from the low interest environment. We will remain committed to prudent cost management. For further details on our general economic outlook, refer to the 2010 Economic and market outlook section.

Key strategic priorities for 2010
- Actively consider acquisition opportunities, presented by the current market environment, for our Global Asset Management business and continue to leverage its capabilities across our network.
- Continue to grow our high net-worth client base by retaining and attracting the best advisors, pursuing new acquisitions for International Wealth Management and delivering a broader range of our wealth management products and services.
- Translate recent acquisitions and record recruitment in our U.S. Wealth Management business into enhanced profitability.
- Continue our investments in our people, products, services and infrastructure to enable global growth, improve operating efficiency and maintain the highest standards of client stewardship and regulatory compliance.
- Consistent with our position as a top 20 global wealth manager, continue to build brand awareness for RBC Wealth Management with top talent, personal, corporate and institutional clients and other stakeholders.

Business line review

Canadian Wealth Management

Canadian Wealth Management includes our full-service Canadian retail brokerage, which is the market leader as measured by AUA, with more than 1,430 investment advisors providing advice-based, wide-ranging comprehensive financial solutions to affluent and high net worth clients. Additionally, we provide discretionary investment management and estate and trust services to our clients through close to 70 investment counsellors and more than 120 trust professionals in locations across Canada.

We compete with domestic banks and trust companies, global private banks, investment counseling firms, bank-owned full service brokerage and boutique brokerages, and mutual fund companies. In Canada, bank-owned wealth managers continue to be the major players.

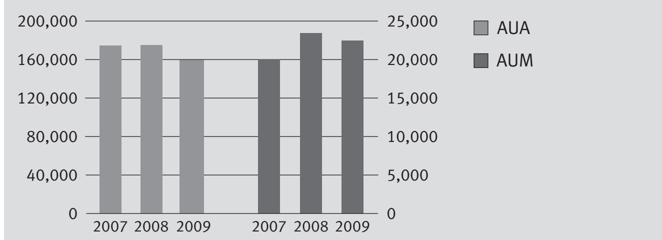
Financial performance
Revenue decreased $151 million, or 10%, compared to the prior year, largely as a result of lower average fee-based client assets reflecting capital depreciation and spread compression. These factors were partially offset by a full year of revenue from PH&N's private counsel business.

Assets under administration increased 8% from a year ago, mainly due to capital appreciation resulting from improved market conditions in the latter half of the year and fee-based net sales.

Selected highlights			Table 16
(C$ millions)	2009	2008	2007
Total revenue	**$ 1,323**	$ 1,474	$ 1,460
Other information			
AUA (1)	**174,200**	160,700	183,000
AUM (1)	**24,700**	23,000	22,200
Total assets under fee-based programs	**88,000**	78,800	83,300

(1) Represents year-end spot balances.

Average assets under administration and management (1) (C$ millions)



(1) Represents average balances, which are more representative of the impact client balances have upon our revenue.

U.S. & International Wealth Management

U.S. & International Wealth Management includes one of the largest full-service retail brokerage firms in the U.S., with close to 2,300 financial consultants. We also operate a clearing and execution services business that serves small to mid-sized independent broker-dealers and institutions. Internationally, we provide customized trust, banking, credit, and investment solutions to high net worth private clients with over 2,500 employees across a network of 31 offices located in 21 countries around the world.

We operate in a fragmented and extremely competitive industry. There are approximately 5,000 registered broker-dealers in the U.S., comprising independent, regional and global players. Competitors in international wealth management comprise global wealth managers, traditional offshore private banks, domestic wealth managers and U.S. investment-led private client operations.

Financial performance

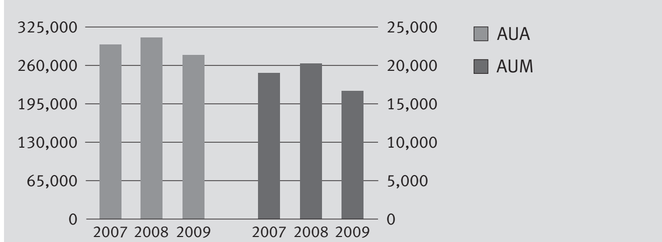
Revenue increased $263 million, or 14%. In U.S. dollars, revenue increased $27 million, or 1%, largely due to higher transaction volumes reflecting a full year of revenue from FBW, and a gain as compared to a loss in the prior year on our stock-based compensation plan. These factors were partially offset by lower average fee-based client assets resulting from capital depreciation and spread compression.

In U.S. dollars, assets under administration increased 9% from a year ago, mainly due to capital appreciation resulting from improved market conditions in the second half of the year.

Selected highlights			Table 17
(C$ millions)	**2009**	2008	2007
Total revenue	**$ 2,132**	$ 1,869	$ 1,988
Other information (US$ millions)			
Total revenue	**1,839**	1,812	1,826
Total loans, guarantees and letters of credit (1), (2)	**5,500**	5,200	5,100
Total deposits (1), (2)	**18,700**	18,500	16,500
AUA (3)	**303,300**	277,600	323,300
AUM (3)	**19,700**	16,200	21,400
Total assets under fee-based programs (4)	**31,000**	21,300	28,100

(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 year end spot balances.
(4) Represents amounts related to our U.S. wealth management businesses.

Average assets under administration and management (1) (US$ millions)



(1) Represents average balances, which are more representative of the impact client balances have upon our revenue.

Global Asset Management

Global Asset Management is responsible for our proprietary asset management business. We provide a broad range of investment management services through mutual and pooled funds, fee-based accounts and separately managed portfolios. We distribute our investment solutions through a broad network of our bank branches, our discount and full-service brokerage businesses, independent advisors and directly to consumers. We also provide investment solutions directly to institutional clients, including pension plans, endowments and foundations. We are the largest fund company and one of the largest money managers in Canada, with a 16% market share as measured by AUM as recognized by the Investment Funds Institute of Canada.

We face competition in Canada from major banks, insurance companies, asset management organizations and boutique firms. The Canadian fund management industry is large, and mature, but still a relatively fragmented industry. Our U.S. asset manager competes with independent asset management firms, as well as those that are part of national and international banks, insurance companies and boutique asset managers.

Financial performance

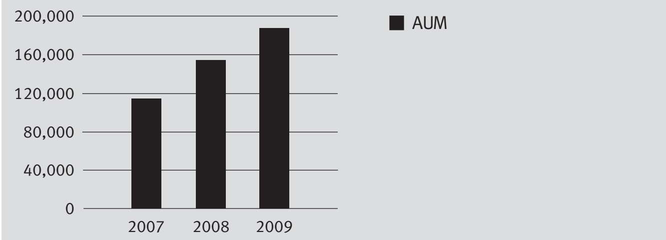
Revenue decreased $19 million, or 3%, mainly due to lower average fee-based client assets resulting from capital depreciation, largely offset by a full year of revenue from PH&N's asset management business.

Assets under management increased 11% from a year ago, mainly due to capital appreciation from improved market conditions in the latter half of the year, strong money market sales in our U.S. asset management business and solid long-term fund net sales in Canada, partially offset by a stronger Canadian dollar relative to the U.S. dollar on our U.S. denominated assets and domestic money market fund net redemptions.

Selected highlights			Table 18
(C$ millions)	2009	2008	2007
Total revenue	$ 625	$ 644	$ 544
Other information			
Canadian net long-term mutual fund sales	2,100	300	6,200
Canadian net money market mutual fund sales	(2,000)	8,400	1,300
AUM (1)	199,700	180,100	118,800

(1) Represents year end spot balances.

Average assets under management (1) (C$ millions)



(1) Represents average balances, which are more representative of the impact client balances have upon our revenue.

Insurance

Insurance comprises Canadian Insurance, U.S. Insurance, and International & Other. In Canada, we offer our products and services through our growing proprietary channels including retail insurance branches, call centers, and our career sales force as well as through independent insurance advisors and travel agencies. In the U.S., we offer products through independent marketing organizations, call centers, financial institutions, and our career sales force. Outside North America, we operate in reinsurance markets globally. Our competitive environment is discussed below in each business.

Year in review

- We realigned Insurance into three lines of business to be more responsive to the evolving needs of our clients and to position us to further strengthen our distribution economics, deepen client relationships and simplify the way we do business.
- We expanded our Canadian retail insurance network to 49 branches in 2009, from 35 branches in 2008, giving our clients more convenient access to insurance services.
- We continued to expand and diversify our reinsurance businesses during the year.
- We entered into an agreement with a large travel provider in the U.S. to sell our travel insurance products through its distribution networks.

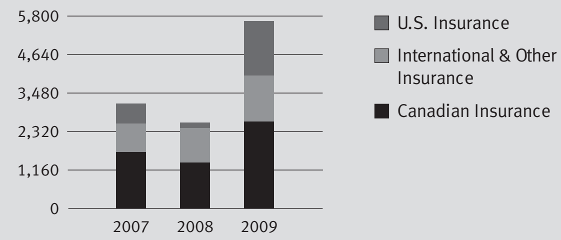
Economic and market review

The insurance businesses experienced minimal impact from the market environment. In the U.S., the market environment resulted in market opportunities in fixed annuity products, reflecting the strength of the RBC brand, and a growing market for income products. Revenue growth, claims and investment performance in our Canadian and International insurance businesses remained solid. For further details on our general economic review, refer to the 2009 Economic and market review section.

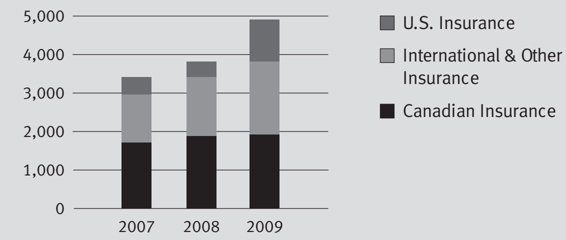
Insurance financial highlights			Table 19
(C$ millions, except number of and percentage amounts)	2009	2008	2007
Non-interest income			
Net earned premiums	$ 3,889	$ 2,864	$ 2,593
Investment income (1)	1,579	(458)	402
Fee income	247	204	197
Total revenue	$ 5,715	$ 2,610	$ 3,192
Insurance policyholder benefits and claims (1)	3,975	1,029	1,588
Insurance policyholder acquisition expense	634	602	585
Non-interest expense	559	576	537
Net income before income taxes and non-controlling interest in subsidiaries	$ 547	$ 403	$ 482
Net income	$ 496	$ 389	$ 442
Key ratios			
ROE	37.0%	32.8%	31.2%
RORC	42.9%	37.1%	34.7%
Selected average balance sheet information			
Total assets	$ 13,100	$ 12,600	$ 12,500
Attributed capital	1,300	1,150	1,400
Risk capital	1,150	1,050	1,250
Other information			
Premiums and deposits (2)	$ 4,970	$ 3,861	$ 3,460
Insurance claims and policy benefit liabilities	8,922	7,385	7,283
Fair value changes on investments backing policyholder liabilities (1)	917	(870)	(108)
Embedded value (3)	5,915	4,919	n.a.
AUM	200	400	300
Number of employees (full-time equivalent)	1,653	1,722	1,575

(1) Investment income can experience volatility arising from fluctuation in the fair value of HFT assets. The investments which support actuarial liabilities are predominantly fixed income assets designated as HFT, and consequently changes in fair values of these assets are recorded in investment income in the consolidated statements of income. Changes in the fair values of these assets are largely offset by changes in the fair value of the actuarial liabilities, the impact of which is reflected in insurance policyholder benefits and claims.
(2) Premiums and deposits include premiums on risk-based insurance and annuity products, and individual and group segregated fund deposits, consistent with insurance industry practices.
(3) Embedded value is defined as the value of equity held in our Insurance segment and the value of in-force business (existing policies). For further details, refer to the Key performance and non GAAP measures section.

Revenue by business line (C$ millions)



Premiums and deposits by business line (C$ millions)



Financial performance

2009 vs. 2008

Net income increased by $107 million, or 28%, compared to the prior year, as the prior year included investment losses of $110 million ($80 million after-tax). Volume growth in all businesses, new U.K. annuity reinsurance arrangements, lower allocated funding costs on capital, and our ongoing focus on cost management also contributed to the increase. These factors were partially offset by unfavourable actuarial adjustments.

Total revenue increased $3,105 million, mainly due to the change in fair value of investments and an increase in annuity volumes in our U.S. and International & Other insurance businesses, both of which were largely offset in policyholder benefits, claims and acquisition expense (PBCAE). Volume growth in all businesses, the impact of the weaker Canadian dollar relative to the U.S. dollar and the prior year investment losses on disposals and impairments, reflecting the impacts of equity market movements, also contributed to the increase.

PBCAE increased $2,978 million, primarily reflecting the change in fair value of investments backing our life and health policyholder liabilities and higher costs commensurate with the increased annuity volumes. Business growth, the unfavourable actuarial adjustments reflecting management actions and assumption changes and the impact of the weaker Canadian dollar relative to the U.S. dollar also contributed to the increase.

Non-interest expense decreased $17 million, or 3%, reflecting our ongoing focus on cost management, largely offset by the impact of the weaker Canadian dollar relative to the U.S. dollar and higher costs commensurate with business growth, including the addition of new Canadian retail insurance branches.

Premiums and deposits were up $1,109 million, or 29%, reflecting business growth, mostly in U.S. and reinsurance annuity volumes, and the favourable impact of the weaker Canadian dollar relative to the U.S. dollar.

Embedded value increased $996 million, or 20%, largely reflecting growth from new sales, including the favourable impact of product and pricing initiatives and new U.K. annuity reinsurance arrangements. Also contributing to the growth was favourable policyholder experience and a lower cost of capital related to changes in capital requirements in our Canadian businesses. These factors were partially offset by transfers of capital from our Insurance businesses. For further details, refer to the Key performance and non-GAAP measures section.

2008 vs. 2007

Net income decreased by $53 million, or 12%, over 2007, mainly due to investment losses. Our 2007 results included a gain related to the reallocation of certain foreign investment capital. These factors were partially offset by a higher level of favourable net actuarial adjustments and solid business growth.

Total revenue decreased $582 million, or 18%, mainly due to the change in fair value of investments, largely offset in PBCAE. Investment losses, lower U.S. annuity sales and the impact of the stronger Canadian dollar relative to the U.S. dollar also contributed to the decrease. These factors were partially offset by solid businesses growth in our reinsurance and our Canadian insurance businesses.

Insurance PBCAE decreased $542 million, or 25%, primarily reflecting the change in fair value of investments, largely offset in revenue and a higher level of favourable net actuarial adjustments. The impact of the stronger Canadian dollar relative to the U.S. dollar and the impact of lower U.S. annuity sales also contributed to the decrease. These factors were partially offset by higher costs commensurate with business growth.

Non-interest expense was up $39 million, or 7%, primarily reflecting higher costs commensurate with business growth.

Outlook and priorities

Improvement in global capital markets will likely continue to favourably impact investment returns. Growth in travel insurance may be negatively impacted in the near term as we anticipate a slow recovery in travel activity largely reflecting continued weakness in labour markets. Regulatory pricing reform related to auto insurance rates in Canada may impact results in the near-term. For further details on our general economic outlook, refer to the 2010 Economic and market outlook section.

Key strategic priorities for 2010

- Increase sales through proprietary distribution channels and strengthen our position in third-party distribution channels.
- Deepen client relationships by providing customers with a unique suite of products and services based on their needs.
- Simplify the way we do business by enhancing and streamlining all business processes to ensure that clients find it easy to do business with us.
- Pursue selected international niche opportunities with the aim to grow our reinsurance business.

Business line review

Canadian Insurance

We offer life and health, home and auto and travel insurance products as well as wealth accumulation solutions, to individual and group clients across Canada. Our life and health portfolio includes universal life, critical illness, disability, long-term care insurance, segregated funds, and group benefits. We offer personal home and auto insurance, and commercial insurance through our partnership with Aon Reed Stenhouse Inc. Our travel products include out of province medical coverage, trip cancellation and interruption insurance.

In Canada, we compete against approximately 250 other insurance companies. We hold a leading market position in travel insurance products, have a significant presence in life and health products, and a growing presence in the home and auto markets.

Financial performance

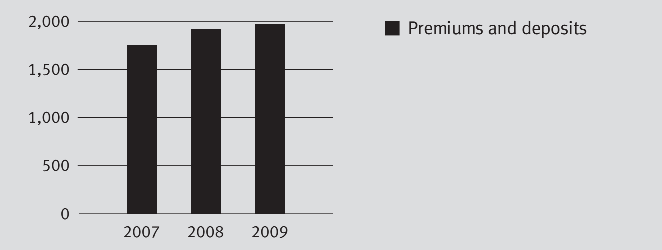
Total revenue increased $ 1,254 million, compared to the prior year, mainly due to the change in fair value of investments backing our policyholder liabilities, largely offset in PBCAE. Investment gains as compared to losses in the prior year, solid business growth in life and home and auto products and lower allocated funding costs on capital also contributed to the increase.

Premiums and deposits increased $49 million, or 3%, reflecting sales growth in life, and home and auto products. In addition, we continued to experience strong client and policy retention in these businesses.

Selected highlights — **Table 20**

(C$ millions)	2009	2008	2007
Total revenue	$ 2,654	$ 1,400	$ 1,733
Other information			
Premiums and deposits			
Life and health	1,210	1,188	1,141
Property and casualty	708	643	600
Annuity and segregated fund deposits	46	84	5
Fair value changes on investments backing policyholder liabilities	452	(524)	(93)

Premiums and deposits (C$ millions)



U.S. Insurance

We offer life insurance, annuities and travel insurance to clients across the United States. Life and health products include term, indexed universal life, whole life, accidental death and critical illness protection. We also offer traditional fixed and fixed-indexed annuities. Travel insurance products include trip cancellation, interruption insurance and emergency medical coverage.

There are approximately 2,000 active life and health insurance companies operating in the United States. We rank in the top 100 in total life insurance policies in force and are a top 15 provider of fixed indexed annuities.

Selected highlights — **Table 21**

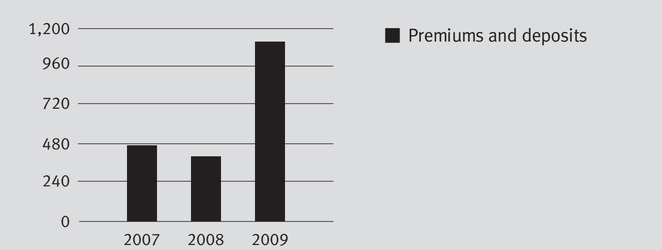
(C$ millions)	2009	2008	2007
Total revenue	$ 1,662	$ 146	$ 601
Fair value changes on investments backing policyholder liabilities	458	(346)	(18)
Other information (US$ millions)			
Total revenue	1,448	166	553
Premiums and deposits			
Life and health	247	263	260
Property and casualty	11	4	3
Annuity	704	115	159
Fair value changes on investments backing policyholder liabilities	400	(313)	(13)

Financial performance

Total revenue increased $1,516 million, compared to the prior year, largely due to the change in fair value of investments backing our policyholder liabilities and increased annuity volumes, both largely offset in PBCAE. The impact of the weaker Canadian dollar relative to the U.S. dollar also contributed to the increase. These factors were partially offset by higher investment losses.

Premiums and deposits increased $708 million, reflecting strong fixed annuity deposit growth and the impact of the weaker Canadian dollar relative to the U.S. dollar.

Premiums and deposits (US$ millions)



International & Other Insurance

International & Other Insurance is primarily comprised of our Reinsurance businesses which insure risks of other insurance and reinsurance companies. We offer life & health, accident, and credit and financial reinsurance products. We continued to expand into the life annuity reinsurance market.

The global reinsurance market is dominated by a few large players, with significant presence in the U.S., U.K. and Eurozone. The reinsurance industry is competitive and barriers to entry remain high.

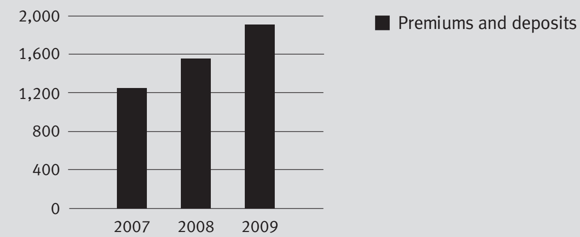
Financial performance

Total revenue increased $335 million, or 31%, over the prior year, primarily due to growth in our European life and other life retrocession businesses and the continued expansion of our U.K. annuity reinsurance business.

Premiums and deposits increased $352 million, or 23%, primarily for the reasons noted above.

Selected highlights			Table 22
(C$ millions)	2009	2008	2007
Total revenue	$ 1,399	$ 1,064	$ 858
Other information			
Premiums and deposits			
Life and health	1,643	1,374	1,199
Property and casualty	41	52	52
Annuity	219	125	–

Premiums and deposits (C$ millions)



International Banking

International Banking comprises Banking and our joint venture, RBC Dexia Investor Services (RBC Dexia IS). Banking includes our banking businesses in the U.S. and Caribbean, which offer a broad range of financial products and services to individuals, business clients and public institutions in their respective markets. RBC Dexia IS offers an integrated suite of products to institutional investors worldwide. Our competitive environment is discussed below in each business.

Year in review

- In light of our performance during the extremely challenging economic and market conditions in the U.S. since mid-2008, we began restructuring our U.S. banking business, which involves realigning our distribution capabilities, governance structure and risk management, reducing management layers, streamlining end-to-end processes, and strengthening our senior management team to improve effectiveness and efficiency in order to enhance our competitive position in the southeastern U.S.
- In the Caribbean, we continue to integrate RBTT as we move to establish a common platform for growth and expansion in the region. We also opened our new Caribbean headquarters in Trinidad, which will serve as the centre of our Caribbean banking network.
- RBC Dexia IS announced an agreement to acquire UBI Banca's depositary bank business (1). The acquisition will enhance our presence in key markets in Europe, broaden the scope of our capabilities and strengthen our client base.

Economic and market review

Recessionary conditions and the challenging market environment resulted in higher PCL and losses on our AFS portfolios in U.S. banking. Our results were also impacted by continued spread compression in both the U.S. and Caribbean due to historically low interest rates and competitive pressures. In the Eurozone, the impact of economic and market conditions on RBC Dexia IS resulted in lower transaction volumes and reduced fee-based client assets. For further details on our general economic review, refer to the 2009 Economic and market review section.

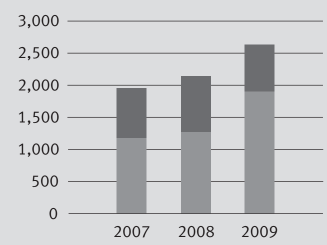
In 2009, we recorded a goodwill impairment charge which reflected the continuing impact of the deterioration in the overall U.S. economic environment, including declines in the U.S. housing market and in the market value of U.S. banks. For further details, refer to Note 10 to our Consolidated Financial Statements.

(1) The acquisition is subject to regulatory and other customary closing conditions and is expected to close in the first half of 2010.

International Banking financial highlights			Table 23
(C$ millions, except number of and percentage amounts)	2009	2008	2007
Net interest income	$ 1,687	$ 1,330	$ 1,031
Non-interest income	903	771	884
Total revenue	$ 2,590	$ 2,101	$ 1,915
PCL	980	497	109
Non-interest expense	2,346	1,876	1,481
Goodwill impairment charge	1,000	–	–
Net (loss) income before income taxes and non-controlling interest in subsidiaries	$ (1,736)	$ (272)	$ 325
Net (loss) income	$ (1,446)	$ (153)	$ 242
Key ratios			
ROE	(19.4)%	(3.4)%	6.9%
RORC	(49.1)%	(8.1)%	11.7%
Selected average balance sheet information			
Total assets	$ 63,700	$ 51,300	$ 39,700
Loans and acceptances	35,800	27,000	22,300
Deposits	51,600	42,500	34,200
Attributed capital	7,750	5,200	3,350
Risk capital	3,050	2,150	1,950
Other information			
AUA - RBC (1)	$ 7,700	$ 11,200	$ –
- RBC Dexia IS (2)	2,484,400	2,585,000	2,713,100
AUM - RBC (1)	3,800	3,900	–
Number of employees (full-time equivalent)	11,462	12,335	6,001
Credit information			
Gross impaired loans as a percentage of average net loans and acceptances	8.80%	5.97%	1.81%
Specific PCL as a percentage of average net loans and acceptances	2.74%	1.84%	.49%
Impact of US$ and Euro translation on selected items	2009 vs. 2008		
Increased (decreased) total revenue	$ 134		
Increased (decreased) PCL	94		
Increased (decreased) non-interest expense	142		
Increased (decreased) net income	(70)		
Percentage change in average US$ equivalent of C$1.00	(11)%		
Percentage change in average Euro equivalent of C$1.00	(4)%		

(1) These represent the AUA and AUM of RBTT, reported on a one-month lag.
(2) Represents the total AUA of the joint venture, of which we have a 50% ownership interest, reported on a one-month lag.

Revenue by business line (C$ millions)



Financial performance

2009 vs. 2008

Net loss of $1,446 million compares to a net loss of $153 million last year, reflecting the goodwill impairment charge and higher PCL. These factors were partially offset by the decrease in losses on our AFS portfolios of $272 million ($184 million after-tax), and a full year of results from RBTT.

Total revenue increased $489 million, or 23%. The increase was mainly due to deposit and loan growth largely driven by a full year of revenue from RBTT, and to a lesser extent, ANB. Lower losses on our AFS portfolios, partially resulting from our adoption of the amendments to CICA section 3855 as certain AFS securities were reclassified to loans, and the impact of the weaker Canadian dollar relative to the U.S. dollar also contributed to the increase. These factors were partially offset by lower revenue at RBC Dexia IS and spread compression, primarily in U.S. banking. For further details on the reclassification, refer to the CICA section 3855 – reclassification of securities to loans section.

PCL was up $483 million, mainly attributable to U.S. banking, reflecting impaired loans in our commercial, residential builder finance, lot loan, home equity and residential mortgage portfolios primarily as a result of deteriorated economic and housing market conditions. The impact of the weaker Canadian dollar on the translation of U.S. specific PCL, higher provisions of $59 million resulting from the reclassification noted above and a full year of results from RBTT also contributed to the increase. For further details, refer to the Credit quality performance section.

Non-interest expense increased $470 million, or 25%, primarily reflecting higher staff and occupancy costs mainly related to a full year of expenses from RBTT, and to a lesser extent, ANB. The impact of the weaker Canadian dollar relative to the U.S. dollar and the restructuring of our U.S. banking business also contributed to the increase.

2008 vs. 2007

Net loss of $153 million compared to net income of $242 million in 2007. The decrease in earnings, predominantly in U.S. banking, was mainly attributable to higher PCL and market environment-related losses of $297 million ($201 million after-tax) on our AFS portfolios. These factors were partially offset by RBTT and ANB, reflecting loan and deposit growth, and business growth at RBC Dexia IS.

Total revenue increased $186 million, or 10%, primarily due to ANB and RBTT, business growth at RBC Dexia IS and the impact of the stronger Euro relative to the Canadian dollar. These factors were partially offset by the market environment-related losses and the impact of the stronger Canadian dollar relative to the U.S. dollar.

PCL of $497 million increased $388 million, primarily in U.S. banking, reflecting higher impaired loans in our U.S. residential builder finance, commercial and retail portfolios.

Non-interest expense increased $395 million, or 27%, mainly due to higher staff, occupancy and integration costs related to ANB and RBTT, and increased business volume at RBC Dexia IS. These factors were partially offset by the impact of the stronger Canadian dollar relative to the U.S. dollar.

Outlook and priorities

In the U.S., economic recovery is expected to be slow, which will likely have a continued unfavourable impact on our loan and deposit growth. PCL in U.S. banking is expected to remain at elevated levels in the near term and decline towards the end of 2010 as economic conditions gradually improve. The Caribbean economy will likely remain under pressure, which is expected to have an unfavourable effect on our loan and deposit growth, although some signs of recovery are likely by the end of 2010. In the Eurozone, the expected improvement in capital markets and the return of investor confidence should increase transaction volumes and fee-based client assets at RBC Dexia IS. For further details on our general economic outlook, refer to the 2010 Economic and market outlook section.

Key strategic priorities for 2010

- Continue to transform our U.S. banking business by implementing a strategic plan to strengthen our retail operating model and improve performance by simplifying the way we do business, improving risk management and distribution capabilities and delivering an enhanced client experience.
- Further strengthen our position in the Caribbean by completing the rollout of our new Caribbean banking platform and effectively integrating RBTT.
- Focus on growth strategies at RBC Dexia IS by pursuing select client and market initiatives that respond to emerging opportunities.

Business line review

Banking

Banking consists of our banking operations in the U.S. and Caribbean. Our U.S. banking business provides a complete line of banking products and services through 438 banking centres, approximately 500 ATMs and online banking. Our Caribbean banking business offers a comprehensive suite of banking products and services, as well as international financing and trade promotion services through an extensive branch and ATM network, and online banking.

In the southeastern U.S., we compete against approximately 1,200 other banks, thrifts and credit unions. Deteriorating economic and market conditions during the first half of 2009 resulted in significant consolidation in the U.S. retail banking industry, with numerous bank failures and some acquisitions. In this environment, we are among the top five deposit holders in North Carolina and rank seventh overall as measured by deposits in our southeastern U.S. footprint (1).

In the Caribbean, we compete against banks, trust companies and investment companies serving retail, corporate and institutional customers. We are the second largest bank, by assets, in the English Caribbean, with 125 branches in 17 countries.

Financial performance

Total revenue increased $634 million, or 51%, from the prior year. In U.S. dollars, Banking revenue increased $391 million, or 32%, primarily reflecting deposit and loan growth largely driven by a full year of revenue from RBTT, and to a lesser extent, ANB. Lower market environment-related losses, partially reflecting the reclassification noted above, also contributed to the increase. These factors were partially offset by spread compression due to historically low interest rates and higher impaired loan balances, largely in U.S. banking.

(1) Our southeastern U.S. banking footprint comprises North Carolina, South Carolina, Virginia, Alabama, Florida, and Georgia.

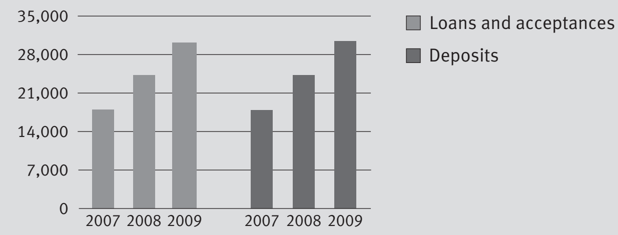
In U.S. dollars, average deposits and average loans and acceptances both increased $6 billion, or 26% and 24%, respectively. The increase was mainly due to growth in loans and acceptances of 89%, and deposits of 72% in Caribbean banking, largely reflecting RBTT. In U.S. banking, loans and acceptances, and deposits grew 12% and 10%, respectively, primarily attributable to ANB.

Selected highlights **Table 24**

(C$ millions, except percentage amounts)	2009 (1)	2008 (1)	2007
Total revenue	**$ 1,880**	$ 1,246	$ 1,156
Other information (US$ millions)			
Total revenue	**1,612**	1,221	1,059
Net interest margin	**3.57%**	3.62%	3.56%
Average loans and acceptances	**$ 30,000**	$ 24,100	$ 17,800
Average deposits	**30,300**	24,100	17,700
AUA	**7,100**	9,300	–
AUM	**3,500**	3,300	–
Number of:			
Branches	**563**	566	394
ATMs	**816**	815	473

(1) RBTT reports on a one-month lag. For 2008, our results included RBTT results from June 16 to September 30.

Average loans and deposits (US$ millions)



RBC Dexia IS

RBC Dexia IS, of which we have a 50% ownership interest, offers global custody, fund and pension administration, securities lending, shareholder services, analytics and other related services to institutional investors.

RBC Dexia IS, with offices in 16 countries on four continents, competes against the world's largest global custodians and, in certain markets, against select local financial institutions providing investor services. Although competition continues to be intense, RBC Dexia IS ranks among the top 10 global custodians and consistently achieves top quartile standing in leading industry surveys.

Financial performance

Total revenue decreased $145 million, or 17%, compared to last year, mainly due to lower transaction volumes and reduced fee-based client assets, reflecting capital depreciation. These factors were partially offset by the impact of the weaker Canadian dollar relative to the Euro.

Assets under administration decreased 4%, largely reflecting capital depreciation.

Selected highlights **Table 25**

(C$ millions)	2009	2008	2007
Total revenue	**$ 710**	$ 855	$ 759
Other information			
AUA (1)	**2,484,400**	2,585,000	2,713,100

(1) Represents the total AUA of the joint venture, of which we have a 50% ownership interest, reported on a one-month lag.

Capital Markets

Capital Markets comprises our global wholesale banking businesses providing corporate, public sector and institutional clients with a wide range of products and services. In North America we offer a full suite of products and service capabilities and have long-standing and deep relationships with our clients. Internationally, we have a select but diversified set of capabilities, which includes fixed income, equity, foreign exchange, structured products, and investment banking. This segment comprises Capital Markets Sales and Trading and Corporate and Investment Banking. Our competitive environment is discussed below in each business.

Year in review

- We acted as global coordinator in a US$4.0 billion equity offering which was the largest bought deal ever globally, the largest equity offering for a gold producer and the largest equity offering ever completed by a Canadian company.
- We continued to take advantage of market opportunities by attracting top talent and building teams in our U.S. and European operations, further expanding key businesses and establishing new client relationships. As a result of investments in infrastructure and talent we have increased our market share across several businesses in the U.S., including building a significant U.S. dollar fixed income and currencies presence.
- We are the only Canadian bank currently designated as a primary dealer in the U.S. which gives us increased access to clients, greater information and market insight and demonstrates our ongoing commitment to our U.S. fixed income trading business.
- We continue to be Canada's leading global investment bank, and were again named Dealmaker of the Year in Canada (*Financial Post*); Best Investment Bank in Canada winning all three categories – debt, equity, and M&A (*Euromoney*); and a leader in Canadian equity underwriting and corporate debt financing (Bloomberg/Thomson Reuters). We were also recognized as the Best Overall Credit House in Europe (*Credit* Magazine's 2009 European Credit Awards), recognizing the success of our credit trading businesses.

Economic and market review

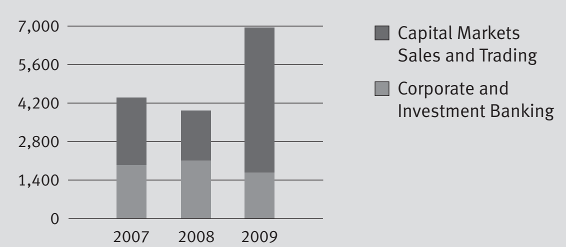
Improvements in global capital markets and easing of credit markets during the latter half of 2009 resulted in lower total market environment-related net losses for 2009 in Capital Markets. Many of our trading businesses benefitted from favourable market opportunities, wider bid/ask spreads, the lower interest rate environment, increased client activity and narrowing credit spreads. However, trading results moderated as market conditions stabilized in the latter part of 2009. Traditional investment banking activities increased in 2009 from the prior year mainly in the latter half of the year and largely in Canada. For further details on our general economic review, refer to the 2009 Economic and market review section.

Capital Markets financial highlights — Table 26

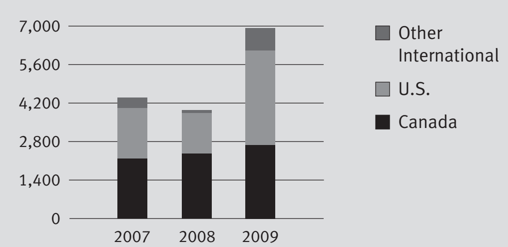
(C$ millions, except number of and percentage amounts)	2009	2008	2007
Net interest income (1)	$ 3,399	$ 1,527	$ 623
Non-interest income	3,524	2,408	3,766
Total revenue (1)	$ 6,923	$ 3,935	$ 4,389
Provision for (recovery of) credit losses	702	183	(22)
Non-interest expense	3,628	2,121	2,769
Net income before income taxes and non-controlling interest in subsidiaries (1)	$ 2,593	$ 1,631	$ 1,642
Net income	$ 1,768	$ 1,170	$ 1,292
Key ratios			
ROE	21.0%	20.5%	26.6%
RORC	24.3%	24.5%	32.5%
Selected average balance sheet information			
Total assets	$ 347,900	$ 340,300	$ 311,200
Trading securities	121,100	140,200	152,900
Loans and acceptances	39,500	38,300	29,000
Deposits	108,100	132,600	125,700
Attributed capital	8,100	5,600	4,800
Risk capital	7,000	4,700	3,900
Other information			
Number of employees (full-time equivalent)	3,097	3,296	3,339
Credit information			
Gross impaired loans as a percentage of average net loans and acceptances	2.32%	1.30%	.06%
Specific PCL as a percentage of average net loans and acceptances	1.78%	.48%	(.08)%
Impact of US$ and British pound translation on selected items (1)	**2009 vs. 2008**		
Increased (decreased) total revenue	$ 166		
Increased (decreased) non-interest expense	130		
Increased (decreased) net income	19		
Percentage change in average US$ equivalent of C$1.00	(11)%		
Percentage change in average British pound equivalent of C$1.00	10%		

(1) Taxable equivalent basis. The teb adjustment for 2009 was $366 million (2008 – $410 million, 2007 – $332 million). For further discussion, refer to the How we measure and report our business segments section.

Revenue by business line (C$ millions)



Revenue by geography (C$ millions)



Financial performance

2009 vs. 2008

Net Income increased $598 million or 51% from a year ago, primarily due to stronger trading revenue. Improved results in certain of our corporate and investment banking businesses, and decreased total market environment-related net losses also contributed to the increase. These factors were partially offset by higher variable compensation and PCL, and the reduction of the Enron-related litigation provision of $542 million ($252 million after-tax and related compensation adjustments) in the prior year. A higher effective tax rate also unfavourably impacted net income.

Total revenue increased $3 billion or 76%, mainly reflecting stronger trading revenue, which included decreased market environment-related losses on HFT instruments. These factors were partially offset by losses on the fair value adjustment of certain RBC debt designated as HFT and losses on credit default swaps used to economically hedge the corporate lending portfolio as compared to gains in the prior year. Refer to the Market environment impacts section for further information.

PCL increased $519 million reflecting a number of impaired loans in our corporate lending portfolio related to specific clients specializing in non-bank financial services, financing products and technology & media sectors. For further details refer to the Credit quality performance section.

Non-interest expense increased $1.5 billion largely due to increased variable compensation driven by higher trading results and the impact of the weaker Canadian dollar relative to the U.S. dollar. Last year, the reduction of the Enron-related litigation provision favourably impacted non-interest expense.

2008 vs. 2007

Net income decreased $122 million, or 9%, compared to 2007 largely due to significantly higher total market environment-related net losses, weak equity and debt origination activities and higher PCL. The decrease in net income was partially offset by higher trading results in certain businesses and lower non-interest expenses.

Total revenue decreased $454 million, or 10%, primarily due to significantly higher market environment-related losses on HFT instruments and weak equity and debt origination activities. The impact of the stronger Canadian dollar relative to the U.S. dollar and British pound also contributed to the decrease. These items were partially offset by higher trading results, higher gains on credit derivative contracts recorded at fair value used to economically hedge our corporate lending portfolio and gains on fair value adjustments on certain RBC debt designated as HFT.

PCL of $183 million compared to a recovery of $22 million in 2007 due to a few impaired specific corporate loans.

Non-interest expense decreased $648 million, or 23%, mainly due to the reduction of the Enron-related litigation provision and lower variable compensation mostly attributable to market environment-related losses on HFT instruments and the impact of a stronger Canadian dollar relative to the U.S. dollar and British pound. These factors were partially offset by higher infrastructure investments in certain businesses and sundry losses.

Outlook and priorities
Increases in equity and debt origination and M&A fees in the near-term are likely as market and economic conditions are expected to improve. We anticipate that most of our trading businesses will perform at a more moderate level in 2010 due to expected lower market volatility, narrower bid/ask and credit spreads, the potential easing of government liquidity programs, increased competition and rising interest rates. Our lending businesses will likely be impacted by narrower credit spreads affecting revenue, while lower PCL is anticipated resulting from projected improved economic conditions in the near-term. Our trading revenue may be impacted by changes to the regulatory environment in which we operate due to higher capital requirements and new leverage requirements. We expect significantly lower total market environment-related net losses as markets are expected to continue to stabilize in the near-term. For further details on our general economic outlook, refer to the 2010 Economic and market outlook section.

Key strategic priorities for 2010
- To remain the undisputed leader in Canada.
- We intend to be a top-tier provider of both client and trading focused products and services in the U.S., which includes increases in origination activities and expansion of our client base in our investment banking businesses and further expansion of our fixed income trading businesses by leveraging our designation as a primary dealer.
- Continue to grow our businesses in Europe and Asia by leveraging our strength in fixed income and other trading products. Our investment banking businesses will remain focused on expanding our share of energy and mining clients.
- Further invest in our commodities businesses to establish a leading energy trading and marketing platform in North America and Europe by leveraging our existing expertise in this sector.
- We will continue to manage our balance sheet to position assets for the highest return, maintain a diverse portfolio of businesses and manage market and credit risk within established enterprise constraints. We remain committed to prudent cost management while making investments in our risk and control infrastructure.

Business line review

Capital Markets Sales and Trading

Capital Markets Sales and Trading comprises our trading and distribution operations largely related to fixed income, foreign exchange, equities and derivative products for institutional and corporate clients and our proprietary trading operations.

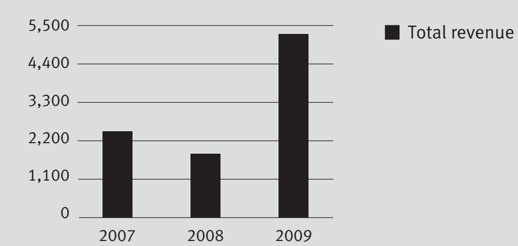
Our Capital Markets Sales and Trading businesses compete with global and regional investment banks. We have taken advantage of market opportunities resulting from the market disruption as a number of competitors have exited or have significantly reduced their investments related to these areas.

Financial performance
Capital Markets Sales and Trading revenue increased $3.4 billion from a year ago largely reflecting stronger trading revenue, which included a decrease in market environment-related losses on HFT instruments and gains on credit valuation adjustments on certain derivative contracts as compared to losses in the prior year. Strong performances in our U.S.-based equity and global fixed income and money markets businesses contributed to the increase in trading revenue. These factors were partially offset by losses on fair value adjustments on certain RBC debt designated as HFT, resulting from the narrowing of our credit spreads as compared to gains in the prior year.

Selected highlights — Table 27

(C$ millions)	2009	2008	2007
Total revenue	**$ 5,247**	$ 1,824	$ 2,453
Other information			
Average assets	**315,700**	309,700	282,900
FTE	**1,493**	1,595	1,655

Total revenue (C$ millions)



Corporate and Investment Banking

Corporate and Investment Banking comprises our investment banking, debt and equity origination, advisory services, corporate lending, private equity, and client securitization businesses. It also includes our global credit business, which oversees the management of our lending portfolios and global financial institutions business. Our Research group offers economic and securities research to institutional and retail clients globally.

Our Corporate and Investment Banking businesses primarily compete with global investment banks, commercial banks and boutique firms. 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.

Financial performance
Corporate and Investment Banking revenue decreased $435 million as compared to the prior year.

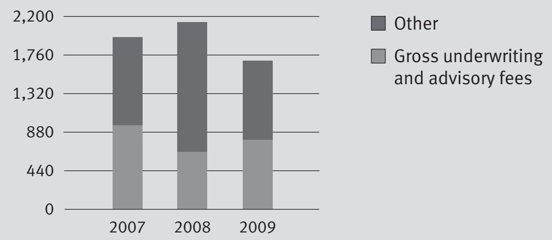
Gross underwriting and advisory fees revenue increased $139 million primarily due to improved equity origination activity largely in Canada and higher debt origination activities mainly in the U.S. resulting from improved global equity markets and easing of credit markets, during the latter half of 2009. These increases were partially offset by lower M&A fees, largely reflecting a strong fourth quarter performance in the prior year. However, M&A fees increased throughout 2009, largely resulting from improved market conditions.

Other revenue decreased by $574 million largely reflecting losses on credit default swaps recorded at fair value used to economically hedge the corporate loan portfolio, compared to gains recognized in the prior year. These factors were partially offset by higher revenue from our client securitization and core lending businesses.

Selected highlights			Table 28
(C$ millions)	2009	2008	2007
Total revenue	$ 1,676	$ 2,111	$ 1,936
Other information			
Gross underwriting and advisory fees	789	650	949
Other revenue (1)	887	1,461	987
Average assets	32,200	30,600	28,300
FTE	1,604	1,701	1,684

(1) Other includes revenue associated with our core lending portfolio and syndicated finance, private equity distributions and gains/losses on private equity investments.

Gross underwriting and advisory fees and Other revenue (C$ millions)



Corporate Support

Corporate Support comprises Operations, Technology and Functions. Our Operations and Technology teams provide the operational and technological foundation required to effectively deliver products and services to our clients, while Functions includes our corporate treasury, finance, human resources, risk management, internal audit and other functional groups. The associated costs are largely allocated to the business segments, although certain activities related to monitoring and oversight of the enterprise reside within this segment.

Reported results for Corporate Support mainly reflect activities that are undertaken for the enterprise, and which are not allocated to the business segments. For further details, refer to the How we measure and report our business segments section.

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

Corporate Support financial highlights			Table 29
(C$ millions)	2009	2008	2007
Net interest income (1)	$ (924)	$ (995)	$ (732)
Non-interest income	832	358	377
Total revenue (1)	$ (92)	$ (637)	$ (355)
Provision for (recovery of) credit losses (2)	456	47	(85)
Non-interest expense	34	(18)	36
Net loss before income taxes and non-controlling interest in subsidiaries (1)	$ (582)	$ (666)	$ (306)
Net (loss) income	$ (206)	$ (178)	$ 209
Securitization			
Total securitizations sold and outstanding (3)	$ 32,685	$ 19,316	$ 17,889
New securitization activity in the year (4)	18,689	6,482	4,264
Other information			
Number of employees (full-time equivalent)	20,876	20,794	20,349

(1) Taxable equivalent basis. For further discussion, refer to the How we measure and report our business segments section. These amounts included the elimination of the adjustments related to the gross-up of income from Canadian taxable corporate dividends recorded in Capital Markets of $366 million in 2009 (2008 – $410 million, 2007 – $332 million).
(2) PCL in Corporate Support comprises the general provision and an adjustment related to PCL on securitized credit card loans managed by Canadian Banking. For further information, refer to the How we measure and report our business segments section.
(3) Total securitizations sold and outstanding comprises credit card loans and residential mortgages.
(4) New securitization activity comprises Canadian residential mortgages and credit card loans securitized and sold in the year. For further details, refer to Note 5 to our Consolidated Financial Statements. This amount does not include Canadian residential mortgage and commercial mortgage securitization activity of Capital Markets.

2009
Net loss of $206 million included a general provision for credit losses of $589 million ($391 million after-tax), losses on certain AFS securities of $419 million ($390 million of market environment-related losses), including a loss of $144 million ($99 million after-tax) in the latter part of the year on certain Canadian bank common shares. Losses on fair value adjustments of $217 million ($151 million after-tax) on certain RBC debt designated as HFT, reflecting the tightening of our credit spreads also contributed to the loss. These factors were partially offset by securitization gains inclusive of new and re-investment related activity, net of economic hedging activities, totaling $918 million ($630 million after-tax), mainly due to a higher than historical level of securitization activity from our participation in government-sponsored funding programs. For further details on the general provision, refer to the Credit quality performance section.

2008
Net loss of $178 million included market environment-related losses of $268 million ($210 million after-tax) on certain AFS securities and $129 million ($87 million after-tax) on certain HFT securities. The net loss also reflected an increase in the general allowance of $145 million ($98 million after-tax) and a foreign currency translation adjustment related to our U.S. dollar-denominated deposits used to fund certain U.S. dollar-denominated AFS securities. These factors were partially offset by income tax amounts largely related to enterprise funding activities that were not allocated to the segments, the gain on fair value adjustments on certain RBC debt designated as HFT of $190 million ($129 million after-tax), reflecting the widening of our credit spreads, gains related to the change in fair value of certain derivatives used to economically hedge our funding activities and gains related to securitization activity.

2007
Net income of $209 million 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 decline in fair value 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 value of certain derivatives that did not qualify for hedge accounting and higher capital taxes that were not allocated to the business segments.

Results by geographic segment (1) **Table 30**

	2009				2008				2007			
(C$ millions)	Canada	U.S.	Other International	Total	Canada	U.S.	Other International	Total	Canada	U.S.	Other International	Total
Net interest income	$ 7,828	$ 2,134	$ 1,544	$ 11,506	$ 6,929	$ 1,132	$ 987	$ 9,048	$ 6,402	$ 412	$ 888	$ 7,702
Non-interest income	9,464	5,565	2,571	17,600	8,220	2,521	1,793	12,534	8,638	4,322	1,800	14,760
Total revenue	$17,292	$ 7,699	$ 4,115	$ 29,106	$ 15,149	$ 3,653	$ 2,780	$ 21,582	$ 15,040	$ 4,734	$ 2,688	$ 22,462
Provision for (recovery of) credit losses	1,479	1,821	113	3,413	924	643	28	1,595	696	90	5	791
Insurance PBCAE	2,100	1,571	938	4,609	922	30	679	1,631	1,230	474	469	2,173
Non-interest expense	7,632	4,572	2,354	14,558	7,490	2,991	1,870	12,351	7,409	3,405	1,659	12,473
Goodwill impairment charge	–	1,000	–	1,000								
Income taxes and non-controlling interest	1,799	(133)	2	1,668	1,826	(163)	(213)	1,450	1,788	(13)	(242)	1,533
Net income	$ 4,282	$ (1,132)	$ 708	$ 3,858	$ 3,987	$ 152	$ 416	$ 4,555	$ 3,917	$ 778	$ 797	$ 5,492

(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 to the location of the legal entity through which the business is conducted and the location of our clients. Transactions are recorded in the local currency and are subject to foreign exchange rate fluctuations with respect to the movement in the Canadian dollar. For further details, refer to Note 28 to our Consolidated Financial Statements.

2009 vs. 2008
Net income in Canada was $4,282 million, up $295 million, or 7%, compared to the prior year. The increase primarily reflected higher net securitization gains, strong volume growth and cost management in our banking-related businesses, and higher trading revenue, which was partially offset by higher related variable compensation. Improved equity origination activity also contributed to the increase. These factors were partially offset by higher PCL and losses on fair value adjustments on certain RBC debt designated as HFT, compared to gains in the prior year. Spread compression in our banking-related and certain wealth management businesses and higher losses on our AFS securities also partly offset the increase in net income.

U.S. net loss of $1,132 million compares to net income of $152 million last year, primarily reflecting the goodwill impairment charge, higher PCL and the prior year reduction of the Enron-related litigation provision. The impact of the weaker Canadian dollar relative to the U.S. dollar, losses on credit default swaps and spread compression also contributed to the decrease. These factors were partly offset by higher trading revenue, which was partially offset by higher related variable compensation, lower market environment-related losses on our HFT and AFS instruments, higher transaction volumes and improved debt origination activity.

Other International net income was $708 million, up $292 million, or 70%, mainly reflecting lower market environment-related losses on our HFT and AFS instruments, and higher trading revenue, which was partially offset by higher related variable compensation. A full year of results from RBTT, growth in our European life and other life retrocession businesses, and the continued expansion of our U.K. annuity reinsurance business also contributed to the increase. These factors were partly offset by losses on credit default swaps and losses on fair value adjustments on certain RBC debt designated as HFT.

2008 vs. 2007
Net income in Canada was $3,987 million, up $70 million, or 2%, from 2007. The increase primarily reflected higher gains on credit valuation adjustments on certain derivative contracts, solid volume growth and cost management in our banking business, and higher trading revenue in certain businesses. These factors were partially offset by the prior year Visa Inc. restructuring gain, weak equity origination activity, and lower M&A and debt origination activities.

U.S. net income of $152 million was down $626 million, or 80%, largely reflecting significantly higher market environment-related losses and PCL, lower equity and debt origination activities, and the impact of the stronger Canadian dollar relative to the U.S. dollar. These factors were partially offset by the reduction of the Enron-related litigation provision, lower variable compensation and higher trading revenue in certain businesses, and gains on fair value adjustments on certain RBC debt designated as HFT.

Other International net income of $416 million was down $381 million, mainly reflecting market environment-related losses. The decrease was partially offset by higher trading revenue in certain businesses, gains on fair value adjustments on certain RBC debt designated as HFT, the inclusion of our RBTT acquisition, and business growth at RBC Dexia IS.

Financial condition

Condensed balance sheets (1), (2) — **Table 31**

As at October 31 (C$ millions)	2009	2008
Assets		
Cash and due from banks	$ 8,353	$ 11,086
Interest-bearing deposits with banks	8,923	20,041
Securities	186,272	171,134
Assets purchased under reverse repurchase agreements and securities borrowed	41,580	44,818
Loans (net of allowances for loan losses)	280,963	289,540
Other – Derivatives	92,173	136,134
– Other	36,725	51,106
Total assets	$ 654,989	$ 723,859
Liabilities and shareholders' equity		
Deposits	$ 398,304	$ 438,575
Other – Derivatives	84,390	128,705
– Other	125,462	114,039
Subordinated debentures	6,461	8,131
Trust capital securities	1,395	1,400
Non-controlling interest in subsidiaries	2,071	2,371
Total liabilities	618,083	693,221
Total shareholders' equity	36,906	30,638
Total liabilities and shareholders' equity	$ 654,989	$ 723,859

(1) Foreign currency denominated assets and liabilities are translated to Canadian dollars. Refer to Note 1 to our Consolidated Financial Statements.
(2) Refer to Table 1 for period-end Canadian/U.S. dollar spot exchange rates.

2009 vs. 2008
Total assets were down $69 billion, or 10%, from a year ago, with approximately half of the decrease due to the impact of the stronger Canadian dollar on the translation of mainly U.S. dollar-denominated assets. The decrease in the fair value of derivatives also contributed to the decrease.

Interest-bearing deposits with banks decreased $11 billion, largely reflecting significantly lower levels of interbank lending as a result of economic and market conditions.

Securities were up $15 billion, or 9%, resulting from increased positions for government debt instruments, and our recent designation as a primary dealer in the U.S. These factors were partially offset by the impact of the stronger Canadian dollar on the translation of mainly U.S. dollar-denominated assets.

Loans decreased $9 billion, or 3%, from a year ago, mainly due to the stronger Canadian dollar on the translation of mainly U.S. dollar denominated assets. In addition, strong growth in Canadian home equity loans was offset by increased securitization activity as well as a decline in wholesale loans resulting from reduced utilization of lending facilities by our clients.

Derivatives were down $44 billion, or 32%, from the prior year, mainly attributable to the lower fair value of derivative-related assets. This reduction was primarily a result of the impact of the weakening U.S. dollar, both on U.S. dollar-denominated assets and on foreign exchange contract positions where we were long on the U.S. dollar. A strategic reduction in positions and the impact of the tightening of credit spreads on credit protection bought also contributed to the decrease.

Other assets were down $14 billion, or 28%, mainly due to the reclassification in the current year of certain broker-dealer receivables which are offset in wholesale loans, lower customers' liability under acceptances and the goodwill impairment charge in the year.

Total liabilities were down $75 billion, or 11%, from a year ago, with approximately half of the decrease attributable to the impact of the stronger Canadian dollar on the translation of mainly U.S. dollar-denominated liabilities.

Deposits decreased $40 billion, or 9%, largely due to lower business and government deposits as a result of lower funding requirements, the stronger Canadian dollar and decreases in personal term deposits resulting from the historically low interest rate environment. These factors were partially offset by the increase in personal demand deposits due to strong demand for our high yield savings products.

Derivatives liabilities decreased $44 billion, or 34% from the prior year, mainly attributable to lower fair value of derivative-related liabilities. This reduction was primarily a result of the impact of the weakening U.S. dollar, both on U.S. dollar-denominated liabilities and on foreign exchange contract positions where we were short on the U.S. dollar. A strategic reduction in positions and the impact of the tightening of credit spreads on credit protection sold also contributed to the decrease.

Other liabilities increased $11 billion or 10%, mainly resulting from an increase in obligations related to securities sold short as well as an increase in repurchase agreements due to increased volume from our recent designation as a primary dealer in the U.S., offset by a reduction in acceptances.

Shareholders' equity increased $6 billion, or 20%, from the prior year, largely reflecting the issuance of common and preferred shares, a reduction in net unrealized losses on our AFS portfolio and earnings, net of dividends.

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, capital and/or funding management purposes which benefit us and our clients. These include transactions with special-purpose entities (SPEs) and may include issuance of guarantees and give rise to, among other risks, varying degrees of market, credit, liquidity and funding risk, which are discussed in the Risk, capital and liquidity management section.

SPEs are typically created 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, 6 and 31 to our 2009 Annual Consolidated Financial Statements for our consolidation policy and information about the VIEs that we have consolidated (on-balance sheet) or in which we have significant variable interests, but have not consolidated (off-balance sheet). Pursuant to CICA Accounting Guideline 12, *Transfers of Receivables* (AcG-12), Qualifying SPEs (QSPEs) 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 Reputation Risk Oversight Committee; this committee is described in the Risk, capital and liquidity management section.

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. In addition, we also participate in bond securitization activities primarily to diversify our funding sources. Gains and losses on securitizations are included in Non-interest income. Refer to Note 1 to our 2009 Annual Consolidated Financial Statements for our accounting policy for securitizations, and to Note 5 for a description of our securitization activities by major product types.

Our financial asset securitizations		Table 32
As at October 31 (C$ millions)	2009	2008
Outstanding securitized assets		
Credit cards	$ 3,870	$ 4,120
Commercial and residential mortgages	39,796	24,386
Bond participation certificates	1,105	1,243
Total	$ 44,771	$ 29,749
Retained interests		
Residential mortgages		
Mortgage-backed securities retained (1)	$ 8,920	$ 12,342
Retained rights to future excess interest	1,497	699
Credit cards		
Asset-backed securities purchased (2)	981	954
Retained rights to future excess interest	33	26
Subordinated loan receivables	5	8
Commercial mortgages		
Asset-backed securities purchased (2)	2	7
Bond participation certificates retained	55	87
Total	$ 11,493	$ 14,123

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

Securitization activities during 2009

During the year, we securitized $26.7 billion of residential mortgages, of which $16.6 billion were sold and the remaining $10.1 billion (notional value) were retained. The increase in 2009 reflects that in addition to our regular participation in the traditional Canada Mortgage Bond Program, we sold Canadian government insured residential mortgage backed securities (RMBS) into the Government of Canada auction program, known as the Insured Mortgage Purchase Program. We also securitized and sold $15 million of bond participation certificates. Refer to Note 5 to our 2009 Annual Consolidated Financial Statements for further details including 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 (RBC TruCS) and RBC Trust Subordinated Notes (RBC TSNs), through three SPEs: RBC Capital Trust (Trust), RBC Capital Trust II (Trust II) and RBC Subordinated Notes Trust (Trust III). We consolidate 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, 2009 and October 31, 2008, we held residual interests of $1 million in each of Trust II and Trust III. We had loan receivables of $3 million (2008 – $3 million) and $30 million (2008 – $30 million) from Trust II and Trust III, respectively, and reported the senior deposit notes of $900 million and $999.8 million (2008 – $900 million and $999.8 million) that we issued to Trust II and Trust III, respectively, in our deposit liabilities. Under certain circumstances, RBC TruCS of Trust II will be automatically exchanged for our preferred shares and RBC TSNs exchanged for our subordinated notes without prior consent of the holders. In addition, RBC TruCS holders of Trust II have the right to exchange for our preferred shares as outlined in Note 17 to our 2009 Annual Consolidated Financial Statements.

Interest expenses on the senior deposit notes issued to Trust II and Trust III amounted to $52 million and $47 million, respectively (2008 – $52 million and $47 million), during the year. For further details on the capital trusts and the terms of the RBC TruCS and RBC TSNs issued and outstanding, refer to the Capital management section and Note 17 to our 2009 Annual Consolidated Financial Statements.

Special purpose entities

The following table provides information on our VIEs in addition to the disclosures and detailed description of VIEs provided in Notes 1, 6 and 31 to our 2009 Annual Consolidated Financial Statements.

Variable interest entities — Table 33

As at October 31 (C$ millions)	2009 Total assets (1)	2009 Maximum exposure (1), (2)	Total assets by credit ratings (3): Investment grade (4)	Non-investment grade (4)	Not rated	Total assets by average maturities: Under 1 year	1-5 years	Over 5 years	Not applicable	Total assets by geographic location of borrowers: Canada	U.S.	Other International	2008 Total assets (1)	2008 Maximum exposure (1), (2)
Unconsolidated VIEs in which we have significant variable interests:														
Multi-seller conduits (5)	$ 26,181	$ 26,550	$ 26,001	$ 180	$ –	$ 13,515	$ 10,775	$ 1,891	$ –	$ 6,097	$ 18,426	$ 1,658	$ 42,698	$ 43,448
Structured finance VIEs	9,613	2,527	5,885	–	3,728	1	–	9,612	–	–	9,613	–	10,904	3,927
Credit investment product VIEs	930	505	294	471	165	–	–	930	–	–	930	–	2,649	1,281
Third-party conduits	575	250	575	–	–	575	–	–	–	575	–	–	734	386
Investment funds	84	28	–	–	84	–	–	–	84	–	2	82	816	184
Other	340	103	–	–	340	–	–	29	311	32	272	36	155	63
	$ 37,723	$ 29,963	$ 32,755	$ 651	$ 4,317	$ 14,091	$ 10,775	$ 12,462	$ 395	$ 6,704	$ 29,243	$ 1,776	$ 57,956	$ 49,289
Consolidated VIEs:														
Structured finance VIEs	$ 2,620		$ 2,561	$ 59	$ –	$ –	$ –	$ 2,620	$ –	$ –	$ 2,620	$ –	$ 2,491	
Investment funds	588		–	–	588	–	–	–	588	202	189	197	1,268	
Compensation vehicles	64		–	–	64	–	–	–	64	64	–	–	76	
Credit investment product VIEs	–		–	–	–	–	–	–	–	–	–	–	196	
Other	3		–	–	3	–	–	3	–	–	3	–	113	
	$ 3,275		$ 2,561	$ 59	$ 655	$ –	$ –	$ 2,623	$ 652	$ 266	$ 2,812	$ 197	$ 4,144	

(1) Total assets and maximum exposure to loss correspond to disclosures provided in Note 6 to our 2009 Annual Consolidated Financial Statements.
(2) The maximum exposure to loss resulting from significant variable interests in these VIEs consists mostly of investments, loans, liquidity facilities and fair value of derivatives. The maximum exposure to loss may exceed the total assets in the multi-seller conduits, as our liquidity facilities may sometimes be extended for up to 102% of the total value of the assets in the conduits.
(3) The risk rating distribution of assets within the VIEs is indicative of the credit quality of the collateral underlying those assets. Certain assets, such as derivatives, mutual fund or hedge fund units and personal loans, or underlying collateral are not rated in the categories disclosed in the table.
(4) Our internal risk ratings for major counterparty types approximate those of public rating agencies. Ratings of AAA, AA, A and BBB represent investment grade ratings and ratings of BB or lower represent non-investment grade ratings.
(5) Represents multi-seller conduits administered by us.

Over 84% of assets in unconsolidated VIEs in which we have significant variable interests and over 77% of assets in consolidated VIEs were rated A or above. These assets are primarily originated in the U.S. with varying maturities. For multi-seller conduits and unconsolidated structured finance VIEs, over 95% and 61%, respectively, of assets were rated A or above.

Securitization of client financial assets

We administer six multi-seller asset-backed commercial paper conduit programs (multi-seller conduits or conduits) – three in Canada and three in the U.S. We are involved in these conduit markets because our clients value these transactions. The conduits offer us a favourable revenue, risk-adjusted return and cross-selling opportunities. 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 and finance the purchases by issuing highly rated asset-backed commercial paper (ABCP) on an unleveraged basis. One percent (2008 – less than 1%) of outstanding securitized assets comprised U.S. Alt-A or subprime mortgages and the securitized assets do not contain commercial mortgage loans.

We provide services such as transaction structuring, administration, backstop liquidity facilities and partial credit enhancements to the multi-seller conduits. Fee revenue for all such services has increased significantly since the prior year, $271 million during 2009 as compared to $160 million during 2008, due to increases in transaction pricing which more than offset the volume reduction during the year. These amounts are reported in Non-interest income. Commitments under the backstop liquidity and credit enhancement facilities are factored into our risk adjusted asset calculation and therefore impact our regulatory capital requirements. We do not maintain any ownership or retained interests in these multi-seller conduits and have no rights to, or control of, their assets.

Our total commitment to the conduits in the form of backstop liquidity and credit enhancement facilities is shown below. The total committed amount of these facilities exceeds the total amount of the maximum assets that may have to be purchased by the conduits under the purchase agreements. As a result, the maximum exposure to loss attributable to our backstop liquidity and credit enhancement facilities is less than the total committed amount of these facilities. Our backstop liquidity and credit enhancement facilities are explained in Notes 6 and 31 to our 2009 Annual Consolidated Financial Statements.

Liquidity and credit enhancement facilities **Table 34**

	2009				2008			
As at October 31 (C$ millions)	Notional of committed amounts (1)	Allocable notional amounts	Outstanding loans (2)	Total maximum exposure to loss	Notional of committed amounts (1)	Allocable notional amounts	Outstanding loans (2)	Total maximum exposure to loss
Backstop liquidity facilities	$ 26,669	$ 22,200	$ 1,683	$ 23,883	$ 43,452	$ 37,080	$ 1,882	$ 38,962
Credit enhancement facilities	2,667	2,667	–	2,667	4,486	4,486	–	4,486
Total	$ 29,336	$ 24,867	$ 1,683	$ 26,550	$ 47,938	$ 41,566	$ 1,882	$ 43,448

(1) Based on total committed financing limit.
(2) Net of allowance for loan losses and write-offs.

Maximum exposure to loss by client asset type **Table 35**

	2009			2008		
As at October 31 ($ millions)	(US$)	(C$)	Total (C$)	(US$)	(C$)	Total (C$)
Outstanding securitized assets						
Credit cards	$ 9,180	$ 1,494	$ 11,426	$ 12,281	$ 1,494	$ 16,286
Auto loans and leases	2,611	2,488	5,312	3,426	5,390	9,517
Student loans	2,358	–	2,551	3,670	–	4,420
Trade receivables	1,464	867	2,451	2,280	2,302	5,048
Asset-backed securities	2,087	–	2,258	2,306	–	2,778
Equipment receivables	596	986	1,631	365	1,535	1,975
Truck loans and leases	290	–	314	235	–	283
Electricity market receivables	–	255	255	–	306	306
Corporate loans receivables	206	–	223	276	–	333
Insurance premiums	–	66	66	213	203	460
Residential mortgages	–	63	63	–	110	110
Consumer loans	–	–	–	1,122	–	1,351
Dealer floor plan receivables	–	–	–	327	187	581
Total	$ 18,792	$ 6,219	$ 26,550	$ 26,501	$ 11,527	$ 43,448
Canadian equivalent	$ 20,331	$ 6,219	$ 26,550	$ 31,921	$ 11,527	$ 43,448

During the past year, we have continued to focus on selective origination resulting in a reduction in our maximum exposure to loss and concentrations while at the same time increasing pricing and first loss protection. The maximum assets that may have to be purchased by the conduits under purchase commitments outstanding as of October 31, 2009 were $26.1 billion (2008 – $42.7 billion). The changes from year to year are as follows: U.S. dollar assets decreased by U.S. $7.5 billion from the prior year, mainly in the Credit cards, Student loans and Consumer loans asset classes; Canadian dollar assets decreased $5.2 billion from the prior year, mainly in the Auto loans and leases, Trade receivables and Equipment receivables asset classes. Of the total purchase commitments outstanding, the multi-seller conduits have purchased financial assets totaling $18.9 billion as at October 31, 2009 (2008 – $33.6 billion). As 76.7% of the assets of the multi-seller conduits are U.S. denominated assets, our total maximum exposure to loss reported in Table 35 is impacted by changes to the Canadian and U.S. exchange rate. Applying the exchange rate as at October 31, 2008, our maximum exposure to loss would have decreased by approximately 33% to $29 billion from October 31, 2008 to October 31, 2009, rather than the 39% decrease highlighted above.

As of August 31, 2009, the weighted averaged first loss credit protection provided by the sellers of the financial assets was 41% of total assets, providing a coverage multiple of 8.3 times the weighted average annual expected loss rate on the client asset portfolio of 4.9%. Our fee structure also reduces our risk exposure on the portfolio. For 93% of the securitized assets as at October 31, 2009 (2008 – 90%), funding is provided on a cost of funds plus basis, such that the cost to our clients is the sum of the conduit cost of funds plus a fee that includes the cost of allocable credit facilities and ancillary costs provided by us and other third parties. As a result, we are not exposed to the funding or spread risk on these assets that would arise in volatile markets. Furthermore, 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 before us and the multi-seller conduit's debt holders.

Multiple independent debt rating agencies review all of the transactions in the multi-seller conduits. Transactions financed in our U.S. multi-seller conduits are reviewed by three rating agencies Moody's Investors Service (Moody's), Standard & Poor's (S&P) and Fitch Ratings (Fitch). Transactions in our Canadian multi-seller conduits are also reviewed by Dominion Bond Rating Services (DBRS). Each applicable rating agency also reviews ongoing transaction performance on a monthly basis and may publish reports detailing portfolio and program information related to the conduits.

Of total ABCP issued by the multi-seller conduits of $18.9 billion (2008 – $33.6 billion), 70% (2008 – 74%) is generally rated within the top ratings category of those rating agencies that rate the ABCP; the remaining amount is rated in the second highest ratings category of those agencies. The weighted average maturities (U.S. conduits 45.3 and 37.9 days and Canadian conduits 31.3 and 29.4 days as at October 31, 2009 and October 31, 2008, respectively) remain longer than historical averages, providing well balanced maturity profiles and assisting in mitigating funding risks associated with market disruptions. We sometimes purchase the ABCP issued by the multi-seller conduits in our capacity as a placement agent in order to facilitate overall program liquidity. As at October 31, 2009, the fair value of our inventory was $3.7 million (2008 – $598 million), classified as Securities – Trading. Inventory continues to remain below historical levels.

The U.S. multi-seller conduits include $2.4 billion of asset-backed securities. There are no asset-backed securities in the Canadian multi-seller conduits. In 2008 and 2009, certain U.S. multi-seller conduits drew down some of our backstop liquidity facilities to fund a portion of the asset-backed securities. These loans, net of write-offs and allowances, amounted to $1.7 billion (2008 – $1.9 billion), and are included in Loans – Wholesale. Of the $1.7 billion, $65 million (2008 – $203 million) and a related $2 million of allowance for loan losses (2008 – $65 million), pertain to a single asset-backed collateralized debt obligation which is classified as impaired. In 2009, we wrote off $126 million (2008 – $nil) against the allowance for loan losses. All other asset-backed securities remain performing.

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. These SPEs issue funded and unfunded notes. In some instances, we invest in these notes. The funded notes may be rated by external rating agencies, as well as listed on a stock exchange. While the majority of the funded notes are expected to be sold on a "buy and hold" basis, we may occasionally act as market maker. For information on unfunded notes, refer to Notes 6 and 31 to our 2009 Annual Consolidated Financial Statements.

As with all our derivatives, the derivatives with these SPEs are carried at fair value in derivative-related assets and liabilities. Our exposure to these SPEs has decreased from the prior year due to certain entities winding down. The assets in these SPEs amounted to $2.9 billion as at October 31, 2009 (2008 – $5.3 billion), of which $nil were consolidated as at October 31, 2009 (2008 – $.2 billion). As at October 31, 2009, our investments in the funded notes, the derivative-related receivables, and the notional amounts of the unfunded notes related to the unconsolidated SPEs were $18 million (2008 – $34 million), $317 million (2008 – $599 million) and $170 million (2008 – $648 million), respectively.

Structured finance

In 2008, we purchased U.S. auction rate securities (ARS) from entities which funded their long-term investments in student loans by issuing short-term senior and subordinated notes. As at October 31, 2009, the total assets of the unconsolidated ARS VIEs in which we have significant investments and the fair value of these significant investments were $4.7 billion (2008 – $4.9 billion) and $1.3 billion (2008 – $2.0 billion), respectively. As at October 31, 2009, approximately 89% of these investments were AAA rated. Interest income from the ARS investments, which is reported in Net-interest income, amounted to $77.5 million during the year (2008 – $93 million, 2007 – $2 million).

We also sell ARS into Tender Option Bond (ARS TOB) programs. We are the remarketing agent for the floating-rate certificates issued by the ARS TOB programs and we provide liquidity facilities and letters of credit to each of the ARS TOB programs. The liquidity facilities and letters of credit are included in our disclosure on guarantees in Note 25 to our 2009 Annual Consolidated Financial Statements. As at October 31, 2009, the total assets of unconsolidated ARS TOB programs were $791 million (2008 – $1.4 billion). We did not hold any floating-rate certificates as market maker for the ARS TOB programs as at October 31, 2009 or October 31, 2008. Fee revenue for the remarketing services and the provision for the letters of credit and liquidity facilities, which is reported in Non-interest income, amounted to $3 million during the year (2008 – $3 million, 2007 – $nil).

In 2008, we also sold ARS to an unaffiliated and unconsolidated entity at fair market value. The purchase of the ARS by this entity was financed by a loan from us, and the loan is secured by various assets of the entity. As at October 31, 2009, total assets of this entity and our maximum exposure to loss were $4.2 billion (2008 – $4.7 billion) and $449 million (2008 – $500 million), respectively. Fee revenue from this entity, resulting from the credit facility, administrative services and guarantees that we provide to the entity, as well as our role as remarketing agent for the ARS held by the entity, amounted to $3.7 million during the year (2008 – $4.0 million, 2007 – $.3 million). This amount is reported in Non-interest income. The interest income from the loan and the credit facility, which is reported in Net interest income, totalled $7.2 million for the year (2008 – $6.7 million, 2007 – $1.1 million).

Investment funds

We enter into fee-based equity derivative transactions with investment funds. These transactions provide their investors with the desired exposure. We hedge our exposure from these derivatives by investing in other funds. Due to higher redemptions during the year, the total assets held in the unconsolidated funds where we have significant exposure decreased by $732 million to $84 million as at October 31, 2009. We have also chosen to reduce our interest to certain funds during the year. As a result, our total exposure, which is primarily related to the investments in the funds, decreased by $156 million to $28 million as at October 31, 2009.

Trusts, mutual and pooled funds

Our joint venture, RBC Dexia IS, offers global custody, fund and pension administration, shareholder services, foreign exchange, securities lending, analytics and other related services to institutional investors. Where RBC Dexia IS acts as trustee, it has a fiduciary responsibility to act in the best interests of the beneficiaries of the trusts. 50% of the fees earned by RBC Dexia IS are included in our revenue, representing our share of interest in the joint venture. Refer to Note 9 to our 2009 Annual 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, retail and commercial commitments

We issue guarantee products, as described in Note 25 to our 2009 Annual Consolidated Financial Statements, in return for fees which are recorded in Non-interest income. Our maximum potential amount of future payments in relation to our guarantee products as at October 31, 2009, amounted to $89 billion (2008 – $137 billion). In addition, as at October 31, 2009, RBC Dexia IS securities lending indemnifications totalled $34.7 billion (2008 – $45.7 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, 2009, we had $22.6 billion (2008 – $37.9 billion) in backstop liquidity facilities related to ABCP programs, of which 98% (2008 – 98%) was committed to RBC-administered multi-seller conduits.

We also provide commitments to our clients to help them meet their financing needs. These guarantees and commitments exposed us to liquidity and funding risks. The following is a summary of our off-balance sheet commitments. Refer to Note 25 to our 2009 Annual Consolidated Financial Statements for details regarding our guarantees and commitments.

Retail and commercial commitments (1) **Table 36**

(C$ millions)	Within 1 year	1 to 3 years	Over 3 to 5 years	Over 5 years	Total
Documentary and commercial letters of credit	$ 481	$ –	$ –	$ –	$ 481
Commitments to extend credit and liquidity facilities	10,531	61,528	5,217	4,188	81,464
Uncommitted amounts (2)	–	181,172	–	–	181,172
	$ 11,012	$ 242,700	$ 5,217	$ 4,188	$ 263,117

(1) Based on remaining term to maturity.

(2) Uncommitted amounts represent amounts for which we retain the option to extend credit to a borrower.

Risk, capital and liquidity management

Overview

Risk environment

Our business activities expose us to a wide variety of risks in virtually all aspects of our operations. Our ability to manage these risks is a key competency within the organization, and is supported by a strong risk culture and an effective risk management approach.

We manage our 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, which is collectively managed throughout the organization, through adherence to our Enterprise Risk Management Framework.

The global economy remained in recession early in 2009. However, during the latter part of 2009, the pace of economic decline slowed largely reflecting stabilizing financial market and economic conditions. Credit risk has increased while credit quality deteriorated from the prior year consistent with the global economic cycle. The extent of credit deterioration throughout 2010 will be driven by economic conditions and will continue to impact our consolidated results as credit losses generally come off the peak one year after the trough of the economic cycle.

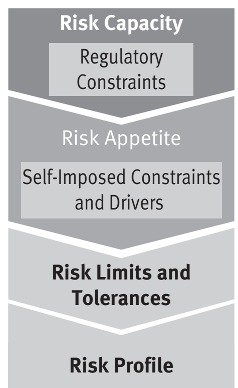
Global capital markets remained under pressure and exhibited significant volatility during early 2009. The total market environment-related net losses continued into 2009 at a similar pace to the end of 2008, though moderating in the latter part of the year, as global capital markets improved and volatility moderated due to increasing signs of stabilization in capital markets. However, there is still significant risk as the sustainability of this trend remains uncertain.

We continued to take steps to mitigate the impact of the current risk environment on our risk profile and enhanced our capital and liquidity positions through additional capital issuances and participating in certain securitization activities throughout 2009.

During the year, as a result of current economic and market conditions, we evaluated potential stress events to ensure that we are well positioned to manage through these conditions. Also as a result of the previous market disruption global regulators have committed to strengthening capital and liquidity requirements which may likely lead to higher capital levels.

Risk Appetite

Our Risk Appetite is the amount and type of risk we are willing to accept in the pursuit of our business objectives. Our Risk Appetite Framework provides a structured approach to:



1. Define our **Risk Capacity** by identifying regulatory constraints that restrict our ability to accept risk.
2. Establish and regularly confirm our Risk Appetite, defined by **Self-Imposed Constraints and Drivers** in which we have chosen to limit or otherwise influence the amount of risk undertaken. They include:
   - maintaining an "AA" rating or better
   - ensuring capital adequacy
   - maintaining low exposure to "stress events"
   - maintaining stability of earnings
   - ensuring sound management of liquidity and funding risk
   - meeting regulatory requirements and expectations, and
   - maintaining a Risk Profile that is no riskier than that of our average peer.
3. Translate our Risk Appetite into **Risk Limits and Tolerances** that guide businesses in their risk taking activities.
4. Regularly measure and evaluate our **Risk Profile** against Risk Limits and Tolerances ensuring appropriate action is taken in advance of Risk Profile surpassing Risk Appetite.

Our Risk Appetite Framework is consistent with current industry best practices and regulatory expectations. Going forward, it will be adapted and applied at the business segment, line of business and legal entity levels. It will evolve as regulators and markets continue to focus on management's review and discussion of Risk Appetite.

Risk management principles
The following principles guide our enterprise-wide management of risk:

1. **Effective balancing of risk and reward** by aligning risk appetite with business strategy, diversifying risk, pricing appropriately for risk, mitigating risk through preventive and detective controls and transferring risk to third parties.
2. **Shared responsibility for risk management** as business segments are responsible for active management of their risks, with direction and oversight provided by Group Risk Management and other corporate support groups.
3. **Business decisions are based on an understanding of risk** as we perform rigorous assessment of risks in relationships, products, transactions and other business activities.
4. **Avoid activities that are not consistent with our Values, Code of Conduct or Policies,** which contributes to the protection of our reputation.
5. **Proper focus on clients reduces our risks** by knowing our clients and ensuring that the services we provide are suitable for and understood by our clients.
6. **Use of judgment and common sense** in order to manage risk throughout the organization.

Risk governance
Our overall risk governance structure shown below illustrates the roles and responsibilities of the various stakeholders in our enterprise risk management program. Our risk governance structure is reviewed regularly against best practices as set out in industry and regulatory guidance. Over the past year, enhancements made to our governance structure included a newly established oversight committee for investment portfolios, confirmation of the role of the Human Resources Committee of the Board of Directors in providing oversight of our compensation systems, and the introduction of more formalized mechanisms via which risk and governance issues can be escalated by legal entity boards and committees to senior management and the Board of Directors as necessary. A further enhancement included the establishment of a new compensation risk management oversight committee to formalize processes for governance, oversight and management of compensation programs.

The components of our Risk Governance are as follows:

Board of Directors
- Provides oversight and carries out its risk management mandate primarily through its Committees, including Conduct Review and Risk Policy Committee, Audit Committee, Corporate Governance and Public Policy Committee and Human Resources Committee.

Conduct Review and Risk Policy Committee (CR&RPC)
- Approves the risk appetite of the organization.
- Approves risk management frameworks, principles and policies recommended by Group Executive.
- Reviews the effectiveness of our stress testing program.
- Reviews comprehensive reporting on risk profile measured against approved risk appetite.
- Reviews significant exposures to single name credits.

Audit Committee
- Reviews and approves our internal capital adequacy assessment process (ICAAP).
- Ensures policies related to liquidity, funding and capital management, are in place, regularly reviewed and approved.
- Reviews adequacy and effectiveness of internal controls.
- Provides oversight over integrity of our financial statements.

Human Resources Committee (HRC)
- Responsible jointly with the CR&RPC for our Code of Conduct.
- Actively oversees the design and operation of our compensation systems.

Corporate Governance and Public Policy Committee (CG&PPC)
- Reviews policies and programs related to our image and reputation.
- Ensures appropriate processes are in place for communicating to clients, employees, shareholders, the investment community and the public.

Group Executive (GE)
- Senior management team led by the President and Chief Executive Officer (CEO).
- Responsible for our strategy and its execution by establishing the "tone at the top".
- GE's risk oversight role is executed primarily through the mandate of the Group Risk Committee and its supporting risk committees.

Group Risk Committee (GRC)
- Responsible for ensuring that our overall risk profile is consistent with strategic objectives and that there is an ongoing, appropriate and effective risk management process to identify, measure and manage our risks on an aggregate basis.

Chief Risk Officer (CRO) and Group Risk Management (GRM)
- Primarily responsible for the promotion of our risk culture.
- Defines and communicates our risk appetite.
- Maintains our enterprise-wide program for identifying, measuring, controlling and reporting the significant risks that face the organization.
- Establishes risk controls and limits to ensure appropriate risk diversification and optimizations of risk/return on both a portfolio and transaction basis.
- Monitors risk levels including our risk profile against our risk appetite and reports to senior management and the Board of Directors on major risks being assumed by or facing the organization.

Chief Compliance Officer and Global Compliance
- Responsible for providing active oversight of compliance policies and processes designed to mitigate and manage regulatory risk and compliance in all jurisdictions where we conduct business.

Corporate Treasury
- Manages and oversees our capital position, structural interest rate risk, liquidity and funding risks.

Supporting risk committees
- **Asset and Liability Committee (ALCO)** – reviews, recommends and approves broad policy frameworks and regular compliance reports related to capital management, liquidity and funding, and structural interest rate risk management.

- **Capital Markets Risk Committee** – oversees the management of risks across Capital Markets and is the primary risk approval authority for Capital Markets products and initiatives, policies, and limits.
- **Investment Portfolio Committee** – provides oversight of our investment portfolios outside of Capital Markets, approves investment policies and framework.
- **Policy Review Committee (PRC)** – the senior risk approval authority for policies, products and services.
- **Reputation Risk Oversight Committee** – provides oversight through the review of structured transactions, complex credits, products, business activities or client relationships with potentially significant reputational, legal, regulatory, accounting or tax risks.
- **Compensation Risk Management Oversight Committee** – reviews and monitors compensation program design and payouts of major incentive programs to ensure alignment with the principles for sound compensation practices issued by the Financial Stability Board. This committee is comprised of the CRO, Chief Human Resources Officer, and the Chief Administrative Officer and Chief Financial Officer.
- **Ethics and Compliance Committee** – directly supports our management of regulatory, compliance and reputation risks.
- **Local/Legal Entity Governance and Oversight** – ensures controls are in place at legal entity boards to escalate risk and governance issues to senior management. For example, U.S. Corporate Governance Committee escalates risk and governance issues affecting our U.S. operations to senior management.

Business segments

- Responsible for specific risks, alignment of business strategy with risk appetite, and 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 for appropriateness and reliability. For those risk types that are difficult to quantify, we place greater emphasis on qualitative risk factors and assessment of activities to gauge the overall level of risk to ensure that they are within our risk appetite.

Expected loss

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

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. For further information, refer to the Capital management section.

Sensitivity analysis and stress testing

Sensitivity analysis and stress testing are risk measurement techniques that help us ensure that risks we take remain within our risk appetite and our level of capital remains adequate.

Sensitivity analysis involves varying a single factor (e.g., a model input or specific assumption) to assess the impact on various risk measures.

Stress testing generally involves consideration of the simultaneous movements in a number of risk factors. It is used to measure the level of potential unexpected losses for Credit, Market (both trading and non-trading), Operational and Liquidity and Funding risks under potential adverse conditions. Stress testing plays an important role in supporting overall capital management and adequacy assessment processes. Our enterprise-wide stress testing program utilizes stress scenarios featuring a range of severities based on unlikely but possible adverse market and economic events. These common stress scenarios are evaluated across the organization, and results are integrated to develop an enterprise-wide view of the impacts on our financial results and capital requirements. This program uses macroeconomic projections that are then transformed into stress impacts on various types of risk across the organization. Macroeconomic scenarios evaluated this year include prolonged recession, real estate weakness, persistent deflation and a crisis in emerging markets. The current economic environment is favourable to these projected scenarios.

Model validation

We use models to measure and manage different types of risk. We employ a holistic process whereby a model, its inputs and outputs are reviewed. This includes the data used, the logic and theoretical underpinnings of the model, the processing component, the interpretation of the output and the strategic use of the model results. Our model validation process is designed to ensure that all underlying model risk factors are identified and successfully mitigated. 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. In cases where independent validation is not internally possible (e.g., exceptionally specialized models) outside experts are hired to validate the model.

Risk control

Our enterprise-wide risk management approach is supported by a comprehensive set of risk controls. The controls are anchored by our Enterprise Risk Management, Risk Specific, Capital, Liquidity and Compliance Management Frameworks. These frameworks lay the foundation for 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.

Our enterprise risk management framework provides an overview of our enterprise-wide program for identifying, measuring, controlling and reporting on the significant risks we face.

Our risk management frameworks and policies are organized into the following five levels:

Level 1: Enterprise Risk Management Framework is the foundation for all matters related to risk management within the organization.

Level 2: Risk-Specific Frameworks elaborate on each specific risk type and the mechanisms for identifying, measuring, monitoring and reporting of risks, key policies and responsibilities.

Level 3: Enterprise Risk Policies articulate minimum requirements within which businesses and employees must operate.

Level 4: "Multi-risk" Enterprise Risk Policies govern activities such as product risk review and approval, stress testing, risk approval authorities and model risk management.

Level 5: Business Segments Specific Policies & Procedures are established to manage the risks that are unique to their operations.

Risk review and approval processes

Risk review and approval processes are established by GRM based on the nature, size, and complexity of 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 categories: transactions, structured credit, projects and initiatives, and new products and services.

Authorities and limits

The CR&RPC delegates Credit, Market, and Insurance risk authorities to the President and CEO and CRO. These delegated authorities allow these officers to approve single name, geographic (country and region) and industry sector exposures within defined parameters, establish underwriting and inventory limits for trading and investment banking activities and set market risk restrictions.

Reporting

Enterprise level risk monitoring and reporting are critical components of our enterprise risk management program and support the ability of senior management and the Board of Directors to effectively perform their risk management and oversight responsibilities. On a quarterly basis, the Enterprise Risk Report which includes a range of risks facing the organization along with analysis of related issues and trends is provided to senior management and the Board of Directors. Annually, the CRO provides the Board of Directors with a review of the risks facing the organization including a comprehensive review of our current and projected risk profile relative to our risk appetite and the identification of emerging risks. In addition to regular risk monitoring, ad-hoc risk reporting is provided to senior management and the Board of Directors as warranted for new or emerging risk issues or significant changes in our level of risk.

Unique monitoring and reporting requirements are specified in each risk-specific framework and include risk-specific limit usage developed to align with governance best practices and relevant laws and regulations.

The shaded text along with the tables specifically marked with an asterisk(*) in the following sections of the MD&A represent our disclosures on credit, market and liquidity and funding risks in accordance with CICA Handbook Section 3862, *Financial Instruments – Disclosures,* and includes discussion on how we measure our risk and the objectives, policies and methodologies for managing these risks. Therefore, these shaded text and tables represent an integral part of our audited 2009 Annual Consolidated Financial Statements for the years ended October 31, 2009 and October 31, 2008.

Credit risk

Credit risk is the risk of loss associated with a counterparty's inability or unwillingness to fulfill its payment obligations and also includes counterparty credit risk in our trading operations. Credit risk may be direct (e.g. issuer, debtor, borrower or policyholder), or indirect to a secondary obligor (e.g. guarantor, reinsurance), off-balance sheet or contingent on the default of the primary party.

The majority of our businesses offer credit products and services and these 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. All business activities that are not consistent with our Values, Code of Conduct or policies are avoided.

We balance our risk and return by:

- 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.

Risk measurement

We quantify credit risk, at both the individual obligor and portfolio levels to estimate expected credit losses and minimize unexpected losses in order to limit earnings volatility.

We employ different risk measurement processes for our wholesale and retail credit portfolios. 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. Credit risk rating systems are designed to assess and quantify the risk inherent in credit activities in an accurate and consistent manner.

In measuring credit risk under Basel II, two principal approaches are available: Advanced Internal Ratings Based (AIRB) and Standardized. Most of our credit risk exposure is measured under the AIRB Approach.

Under the AIRB approach, the key parameters used to measure our expected loss are the probability of default (PD), loss given default (LGD) and exposure at default (EAD), which are defined as follows:

- PD: An estimated percentage that represents the probability those 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.

These parameters are determined based on historical experience from internal credit risk rating systems in accordance with supervisory standards, supplemented by benchmarking and updated on a regular basis.

Under the Standardized Approach, used primarily for RBC Dexia IS, RBC Bank (USA) and our Caribbean banking operations, risk weights prescribed by OSFI are used to calculate risk-weighted assets for credit risk exposure. To determine the appropriate risk weight, credit assessments by OSFI-recognized external credit rating agencies of S&P, Moody's, Fitch and DBRS are used. For rated exposure primarily in sovereign and bank, we assign the corresponding risk weight according to OSFI's standard mapping. For unrated exposure mainly in business and retail, we generally apply OSFI prescribed risk weights in accordance with OSFI's standards and guidelines taking into consideration certain exposure specific factors including counterparty type, exposure type and credit risk mitigation technique employed.

Wholesale credit portfolio

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

In the first dimension, each obligor is assigned a borrower risk rating (BRR), reflecting an assessment of the credit quality of the obligor. Each BRR has a PD assigned to it which 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 risk and financial risk based on fundamental credit analysis supplemented by quantitative models.

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

Internal ratings map — **Table 37**

Ratings	Standard & Poor's (S&P)	Moody's Investor Service (Moody's)	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

LGD rates are largely driven by factors such as seniority of debt, collateral security, product 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.

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 and unexpected losses as well as economic and regulatory capital, 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 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, sources of data are used and include information obtained from the client such as employment status, data from our internal systems such as loan information and information from external sources such as 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 with similar homogeneous characteristics. We believe pooling allows for more precise, accurate and consistent estimates of default and loss characteristics at the pool level.

Criteria used to pool exposures for risk quantification include behavioural score, product type (mortgage, credit cards, lines of credit and instalment loans), collateral type (chattel, liquid assets and real estate), the length of time that the account has been on our books, 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. Migration between the pools is considered when assessing credit quality.

The pools are also assessed based on PD, EAD and LGD which considers borrower and transaction characteristics, including behavioural credit score, product type and delinquency status. The LGD is estimated based on transaction specific factors, including product, loan to value and collateral types. Our risk ratings are reviewed and updated on a regular basis.

The following table maps PD bands to various risk levels:

Internal ratings map **Table 38**

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. This provides support for assuring that our systems properly identify factors that help differentiate 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. Validation activities are performed independently from the groups whose methodologies and processes are subject to validation. Validation activities, results and conclusions are also reviewed by Internal Audit Services on a regular basis.

Risk control

The Board of Directors and the following committees are involved in the management of credit risks: CR&RPC, GRC, PRC and Reputation Risk Oversight Committee. Working in combination, these committees approve credit risk limits and ensure that management has in place frameworks, policies, processes and procedures to manage credit risk. Reports are distributed to the Board of Directors, GRC, and senior executives to keep them informed of our risk profile, including trending information and significant credit risk issues and shifts in exposures to ensure appropriate actions can be taken where necessary. Our enterprise-wide credit risk policies, which are developed, communicated and maintained by GRM, set out the minimum requirements for the management of credit risk in a variety of borrower, transactional and portfolio management contexts. Our policies form an integral component of our Credit Risk Management Framework.

These policies set out the minimum requirements for the management of credit risk as follows:

Credit Risk Assessment

- Mandatory use of credit risk rating and scoring systems.
- Consistent credit risk assessment criteria.
- Standard content requirements in credit application documents.

Credit Risk Mitigation

Structuring of transactions

- Includes the use of guarantees, security, seniority and covenants. Product-specific guidelines set out appropriate product structuring as well as client and guarantor criteria. The third- party guarantors that we deal with are primarily sovereign-sponsored agencies.

Collateral

- We generally require obligors to pledge collateral as security when we advance credit. 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 related to collateral valuation and management are documented in our credit risk management policies.

Credit derivatives

- Used as a tool to mitigate industry sector concentration and single-name exposure. The counterparties that we transact with are typically investment-grade banks and broker/dealers. As with other derivatives, we use collateral and master netting agreements for managing counterparty credit risk and these contracts are subject to the same credit approval, limit and monitoring standards used for managing credit risk. For a more detailed description of the types of credit derivatives we enter into and how we manage related credit risk, refer to Note 7 to our Consolidated Financial Statements.

Credit Risk Approval

- Proposals for new and amended credit products and services are comprehensively reviewed and approved under a risk assessment framework and for those with significant risk implications. Approval by the PRC is required.

Credit Portfolio Management

- Limits are used to ensure: our portfolio is well diversified, reduce concentration risk and remains within our risk appetite. Our credit limits are established at the following levels: single-name limits (notional and economic capital), underwriting risk limits, geographic (country and region) limits, industry sector limits (notional and economic capital), and product and portfolio limits.

Credit Risk Administration

- Portfolio management
- Collateral management
- Management of delinquency and default
- Credit risk data management

Gross credit risk exposure

Gross credit risk exposure is categorized into Lending-related and other, and Trading-related. In the table below, Other exposure, under Lending-related and other credit exposure, includes contingent liabilities such as letters of credit and guarantees, and available-for-sale debt securities. For undrawn commitments and contingent liabilities, gross exposure represents an estimated portion of the contractual amount that is expected to be drawn upon at the time of default of an obligor.

Repo-style transactions include repurchase and reverse repurchase agreements and securities lending and borrowing transactions. For repurchase and reverse repurchase agreements, gross exposure represents the amount at which securities were initially sold or acquired. For securities lending and borrowing transactions, gross exposure is the amount at which securities were initially loaned or borrowed. For over-the-counter derivatives (OTC), the gross exposure amount represents the credit equivalent amount after factoring in master netting agreements, which is defined by OSFI as the replacement cost plus an add-on amount for potential future credit exposure.

Our credit risk objectives, policies, and methodologies have not changed materially from 2008.

Credit risk exposure by portfolio and sector* **Table 39**

	2009						2008					
	Lending-related and other			Trading-related			Lending-related and other			Trading-related		
	Loans and acceptances						Loans and acceptances					
As at October 31 (C$ millions)	Outstanding	Undrawn commitments	Other	Repo-style transactions	Over-the-counter derivatives (1)	Total exposure (2)	Outstanding	Undrawn commitments	Other	Repo-style transactions	Over-the-counter derivatives (1)	Total exposure (2)
Residential mortgages (3)	$ 122,130	$ 11	$ –	$ –	$ –	$ 122,141	$ 122,991	$ 2	$ –	$ –	$ –	$ 122,993
Personal	71,542	51,132	47	–	–	122,721	60,727	42,462	67	–	–	103,256
Credit cards	8,701	20,113	–	–	–	28,814	8,933	19,933	–	–	–	28,866
Small business (4)	2,851	2,382	48	–	–	5,281	2,804	2,265	49	–	–	5,118
Retail	$ 205,224	$ 73,638	$ 95	$ –	$ –	$ 278,957	$ 195,455	$ 64,662	$ 116	$ –	$ –	$ 260,233
Business (4)												
Agriculture	$ 5,090	$ 396	$ 23	$ –	$ 8	$ 5,517	$ 5,305	$ 409	$ 18	$ –	$ 54	$ 5,786
Automotive	3,657	1,608	144	12	248	5,669	3,999	1,856	137	20	507	6,519
Consumer goods	6,141	2,284	435	–	234	9,094	7,389	2,085	396	–	502	10,372
Energy	7,055	8,302	2,241	18	1,411	19,027	8,146	8,371	2,443	1	1,801	20,762
Non-bank financial services	3,541	6,738	6,569	49,837	7,771	74,456	8,788	5,212	4,589	49,463	18,241	86,293
Forest products	830	453	89	–	15	1,387	1,152	523	101	7	122	1,905
Industrial products	3,972	2,307	340	–	198	6,817	5,033	2,177	323	–	306	7,839
Mining and metals	1,774	1,275	543	2	335	3,929	3,947	1,206	542	69	962	6,726
Real estate and related	21,049	2,853	1,259	–	320	25,481	22,978	3,406	1,428	7	397	28,216
Technology and media	2,562	2,730	293	–	768	6,353	3,206	3,026	296	–	490	7,018
Transportation and environment	4,413	1,791	419	–	459	7,082	4,239	2,026	569	–	865	7,699
Other	22,572	4,962	6,884	9,835	6,686	50,939	25,623	6,357	10,100	1,661	10,710	54,451
Sovereign (4)	2,779	2,145	20,937	2,830	8,178	36,869	2,496	2,548	10,749	2,784	17,824	36,401
Bank (4)	2,516	763	37,316	63,514	27,678	131,787	5,284	4,308	57,793	61,675	34,171	163,231
Wholesale	$ 87,951	$ 38,607	$ 77,492	$ 126,048	$ 54,309	$ 384,407	$ 107,585	$ 43,510	$ 89,484	$ 115,687	$ 86,952	$ 443,218
Total exposure	$ 293,175	$ 112,245	$ 77,587	$ 126,048	$ 54,309	$ 663,364	$ 303,040	$ 108,172	$ 89,600	$ 115,687	$ 86,952	$ 703,451

* This table represents an integral part of our 2009 Annual Consolidated Financial Statements.
(1) Credit equivalent amount after factoring in master netting agreements.
(2) Exposure under Basel II asset classes of qualifying revolving retail and other retail are largely included within Personal and Credit cards, while home equity lines of credit are included in Personal.
(3) Includes certain synthetic mortgage securitizations.
(4) Refer to Note 4 to our Consolidated Financial Statements for the definition of these terms.

2009 vs. 2008

Total gross credit risk exposure decreased $40 billion, or 6%, from the prior year, largely reflecting decreases in our wholesale portfolio generally across most exposure and sector types, which more than offset the increase in the retail portfolio.

Retail exposure increased $19 billion, or 7%, mainly driven by strong volume growth in our Canadian home equity loans partially offset by increased securitization of Canadian residential mortgages. The use of guarantees and collateral represents an integral part of our credit risk mitigation in the retail portfolio as insured mortgages account for approximately 24% of our residential mortgage portfolio in 2009 as compared to 30% in 2008, largely related to the increased securitization mentioned above. Secured personal lending represents 54% of personal loans outstanding in 2009 as compared to 50% in 2008, mainly due to the growth in Canadian home equity loans.

Wholesale exposure decreased $59 billion, or 13%, from the prior year mainly reflecting general decreases across most exposure and sector types. OTC derivatives exposure decreased $33 billion, predominately in non-bank financial services, sovereign and bank sectors. These decreases mainly reflected the impact of the weakening of the U.S. dollar both on U.S. dollar-denominated exposures and on foreign exchange contracts. A strategic reduction in positions and the impact of the tightening of credit spreads on credit protection bought also contributed to the decrease. Loans and acceptances outstanding decreased $20 billion, mainly reflecting reduced loan utilization rates across most sector groups, and to a lesser extent, the impact of the stronger Canadian dollar relative to the U.S. dollar, which drove broad-based decreases across most sector groups.

The majority of our exposure was in Canada, followed by U.S. and Other international. Our credit portfolio remained well diversified across all geographic regions.

Loans and acceptances

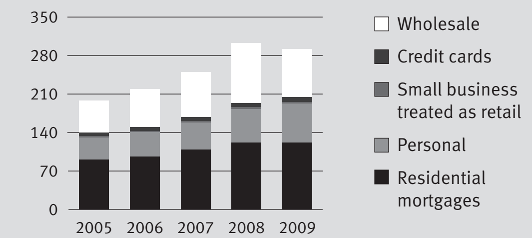
Five-year trend
Total loans and acceptances have increased by $94 billion, or 47%, across all geographic regions from 2005 to 2009.

Retail loans increased $65 billion, or 46%, largely reflecting solid volume growth in Canada across all portfolios, partially offset by securitization of Canadian residential mortgages and credit cards. This growth reflected our continued focus on expanding our retail portfolios in Canada and consumers capitalizing on the low interest rate environment. U.S. and Other international retail portfolios have increased since 2008, largely due to our acquisition of ANB and RBTT.

Wholesale loans and acceptances increased $29 billion, or 50% since 2005. While there was growth generally across most sector groups, the largest growth was in real estate and related, financing products, other services, and transportation and environment. Our exposures to real estate and related across all geographies and financing products in the U.S. increased over the period, mainly reflecting organic growth and acquisitions over the period.

The overall mix of the portfolio has not changed significantly since 2005, as retail and wholesale loans comprised approximately 70% and 30% of total loans outstanding respectively, reflecting our efforts to maintain a lower risk profile. The portfolio remained well diversified with residential mortgages comprising 42%, wholesale 30%, personal 24%, credit cards 3% and small business 1% of total loans outstanding.

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



Loans and acceptances by portfolio and sector (1)		**Table 40**
(C$ millions)	2009	2008
Residential mortgages	$ 122,130	$ 122,991
Personal	71,542	60,727
Credit cards	8,701	8,933
Small business	2,851	2,804
Retail	**$ 205,224**	$ 195,455
Business		
Agriculture	5,090	5,305
Automotive	3,657	3,999
Consumer goods	6,141	7,389
Energy	7,055	8,146
Non-bank financial services	3,541	8,788
Forest products	830	1,152
Industrial products	3,972	5,033
Mining & metals	1,774	3,947
Real estate & related	21,049	22,978
Technology & media	2,562	3,206
Transportation & environment	4,413	4,239
Other (2)	22,572	25,623
Sovereign	2,779	2,496
Bank	2,516	5,284
Wholesale	**$ 87,951**	$ 107,585
Total loans and acceptances	**$ 293,175**	$ 303,040
Total allowance for loan losses	**$ (3,188)**	$ (2,215)
Total loans and acceptances, net of allowance for loan losses	**$ 289,987**	$ 300,825

(1) Total loans and acceptances do not reflect the impact of credit risk mitigation.
(2) 2009 relates to Other services – $10 billion, Financing products – $5.7 billion, Holding and investments – $3.9 billion, Health – $2.4 billion and Other – $.6 billion. Other in 2008 relates to Other services – $10.9 billion, Financing products – $4.9 billion, Holding and investments – $4.6 billion, Health – $2.5 billion, and Other – $2.7 billion.

2009 vs. 2008
Loans and acceptances decreased $10 billion, or 3%, from the prior year, mainly reflecting decreases in our wholesale portfolio, partially offset by solid retail growth in Canada.

Solid retail growth of $10 billion mainly reflected solid volume growth in Canadian home equity loans, partially offset by increased securitization of Canadian residential mortgages.

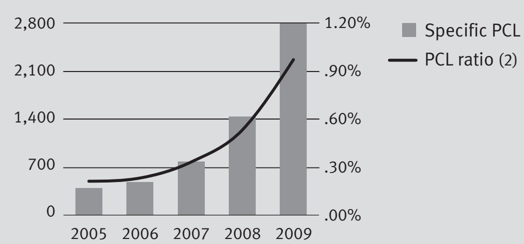
Wholesale loans and acceptances decreased by $20 billion, mainly reflecting lower loan utilization and the stronger Canadian dollar relative to the U.S. dollar. Overall wholesale loan utilization decreased modestly to 40% from 43%. There were broad-based decreases in most sector groups with the largest decreases in Non-bank financial services, in the U.S. and Other international, largely in the brokers and dealers and funds and trusts sectors. Our exposure to bank, largely in Other International, decreased mainly reflecting lower loan utilization as mentioned above. Mining and metals exposures in Canada and Other international declined, mainly related to the base metals and other mined commodities sectors. Our real estate and related exposures decreased mainly in the U.S., as a result of the general reduction in our residential builder finance portfolio.

Credit quality performance

Provision for credit losses

Five-year trend
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. Beginning in 2006, specific provisions began to increase and continued into 2009, largely reflecting the impact of deterioration in the U.S. housing market and related economic impacts and the impact of higher specific provisions in our Canadian retail portfolio in 2008 and 2009, as compared to the previously benign credit environment prior to 2007. The general provision has increased since 2007, as a result of deterioration across our credit portfolio due to the deteriorated global economic conditions.

Specific provision for credit losses (1) (C$ millions)



(1) For further information on reclassifications in 2009, refer to the CICA section 3855 – reclassification of securities to loans section.
(2) PCL ratio: Specific PCL as a percentage of average net loans and acceptances.

Provision for (recovery of) credit losses		Table 41
(C$ millions, except percentage amounts)	2009	2008
Canadian Banking (1)	$ 1,275	$ 867
International Banking (1)	980	497
Capital Markets (1)	702	183
Corporate Support (1), (2)	456	47
Canada (3)		
Residential mortgages	$ 18	$ 8
Personal	467	352
Credit cards	393	266
Small business	55	46
Retail	933	672
Wholesale	436	152
Specific PCL	1,369	824
United States (3)		
Retail	267	84
Wholesale	1,096	494
Specific PCL	1,363	578
Other International (3)		
Retail	31	21
Wholesale	61	7
Specific PCL	92	28
Total specific PCL	2,824	1,430
General provision (2)	589	165
Total PCL (3)	$ 3,413	$ 1,595

(1) Segments with significant total PCL have been presented in the table above. Effective the fourth quarter of 2008, changes in Allowance for credit losses – general allowance were included in Corporate Support results prospectively. For the nine months ended July 31, 2008, the general provision was largely comprised of International Banking ($20 million).
(2) PCL in Corporate Support is comprised of the general provision, an adjustment related to PCL on securitized credit card loans managed by Canadian Banking and an amount related to the reclassification of certain AFS securities to loans.
(3) Geographic information is based on residence of borrower.

2009 vs. 2008
Total PCL of $3.4 billion increased $1.8 billion from a year ago, mainly driven by increased specific PCL of $1.4 billion, as well as a higher general provision.

Specific PCL in Canadian Banking increased $408 million or 47%, mainly reflecting higher loss rates in credit cards and unsecured personal portfolios and higher impaired loans in our business lending portfolio primarily as a result of recessionary conditions.

Specific PCL in International Banking increased $503 million, mainly attributable to U.S. banking reflecting impaired loans in our commercial, residential builder finance, lot loan, home equity and residential mortgage portfolios primarily as a result of deteriorated economic and housing market conditions. In the latter half of the year, asset quality started stabilizing, largely in our residential builder finance portfolio, resulting from early signs of the U.S. economic recovery and lower new impaired loans reflecting the general reduction in this portfolio as compared to the first half of the year and the prior year. The impact of the weaker Canadian dollar on the translation of U.S. specific PCL, higher provisions of $59 million resulting from our adoption of the amendments to CICA section 3855 as certain impaired AFS securities were reclassified to loans, and the full year of results from RBTT also contributed to the increase. For further details on the reclassification, refer to the CICA section 3855 – reclassification of securities to loans section.

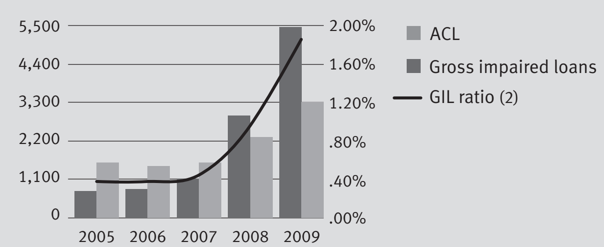
Specific PCL in Capital Markets increased $519 million, due to a number of impaired loans in our corporate lending portfolio related to specific clients specializing in non-bank financial services, financing products and technology & media sectors.

The general provision was up $424 million from the prior year largely related to U.S. banking driven by deterioration in our commercial portfolio and higher loss rates in our retail portfolio. To a lesser extent, higher provisions related to our U.S. corporate lending and Canadian unsecured retail and business lending portfolios, also contributed to the increase. Refer to Table 70 for further details.

Gross impaired loans

Five-year trend
Since 2005, gross impaired loans have increased and continued throughout 2009, largely reflecting the impact of deterioration in the U.S. housing market and related global economic impact as compared to the previously benign credit environment prior to 2007. The increases in 2009 and 2008, as compared to prior years, mainly reflects higher impaired loans in U.S. banking, and in our corporate lending portfolio also contributed to the increase.

Gross impaired loans and allowance for credit losses (1) (C$ millions)



(1) For further information on reclassifications in 2009, refer to the CICA section 3855 – reclassification of securities to loans section.
(2) GIL ratio: GIL as a percentage of loans and acceptances.

Gross impaired loans		Table 42
(C$ millions, except percentage amounts)	2009	2008
Canadian Banking (1)	$ 1,253	$ 811
International Banking (1)	3,149	1,612
Capital Markets (1)	915	499
Corporate Support (1)	140	–
Canada		
Retail	$ 673	$ 428
Wholesale	839	529
United States		
Retail	227	133
Wholesale	3,194	1,526
Other International		
Retail	209	167
Wholesale	315	140
Total GIL	$ 5,457	$ 2,923

(1) Segments with significant GIL have been presented in the table above.

2009 vs. 2008
Total gross impaired loans (GIL) increased $2.5 billion from a year ago.

GIL in Canadian Banking increased $442 million or 55%, due to higher impaired loans in our residential, business lending and unsecured personal portfolios.

GIL in International Banking increased $1.5 billion, mainly attributable to U.S. banking reflecting increased impaired loans of $998 million resulting from our adoption of the amendments to CICA section 3855, and our residential builder finance and commercial portfolios. Higher GIL in our residential mortgage, home equity and lot loan portfolios and Caribbean legacy and RBTT portfolios, also contributed to the increase. These factors were partially offset by write-offs and repayments in U.S. banking largely related to our residential builder finance, retail and commercial portfolios.

GIL in Capital Markets increased $416 million, reflecting a number of impaired loans in our corporate portfolio related to clients specializing in non-bank financial services, real estate and related, other services and bank sectors. These factors were partially offset by lower GIL in financing products.

GIL in Corporate Support increased $140 million, reflecting our adoption of the amendments to CICA section 3855.

Refer to Table 69 for further details.

Allowance for credit losses

Five-year trend
Specific and General allowances have increased since 2006 as a result of the same conditions previously discussed.

Allowance for credit losses		Table 43
(C$ millions, except percentage amounts)	2009	2008
Canadian Banking	$ 295	$ 207
International Banking	577	375
Capital Markets	340	186
Corporate Support	2,090	1,531
Specific ACL		
Canada	$ 417	$ 257
United States	667	396
Other International	195	114
Total specific ACL	1,279	767
General allowance		
Retail	1,095	798
Wholesale	928	734
Total general allowance	2,023	1,532
Total ACL	**$ 3,302**	**$ 2,299**

2009 vs. 2008
Total allowance for credit losses (ACL) increased $1 billion, or 44%, from a year ago, reflecting a $512 million increase in the specific allowance reflecting the same factors as previously discussed, and $491 million increase in the general allowance, mainly due to our U.S. banking and, to a lesser extent, our U.S. corporate lending and Canadian retail and business lending portfolios. Refer to Table 71 for further details.

Market risk

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 to which we are exposed varies depending on market conditions, expectations of future price and yield movements and the composition of our trading portfolio.

Market risk increased as global capital markets volatility increased from the prior year, particularly during the first half of 2009. However, this volatility dissipated throughout the remainder of 2009. The higher volatility levels from the first half of 2009 were fully incorporated into the historical data set used for the global value-at-risk (VaR) scenario model during the year which resulted in increased VaR levels from the previous year.

Trading market risk

Trading market risks associated with securities and related derivatives trading activities are a result of market-making, proprietary, and sales and arbitrage activities in the interest rate, foreign exchange, equity, commodities, and credit markets. GRM provides independent oversight of trading market risk. Trading market risk reflects the potential adverse impact on our earnings and economic value and is comprised of the following components:

- Interest rate risk arises from the changes in interest rates and is composed of directional risk, yield curve risk, basis risk and option risk. Interest rate risk also captures credit spread risk arising from the changes in issuer spreads.
- Foreign exchange rate risk arises from the change in currency rates and precious metals price movements and volatilities. In our proprietary positions, we are exposed to the spot, forward and derivative markets.
- Equity risk arises from the movements in individual equity prices or movements in the level of stock market indices.
- Commodities risk arises from commodities price movements and volatilities.
- Credit specific risk arises from the change in the creditworthiness and default of issuers of our holdings in fixed income products.
- Market illiquidity risk arises from the inability to liquidate our positions or acquire hedges to neutralize our trading positions.

We conduct trading activities over-the-counter and on exchanges in the spot, forward, futures and options markets, and we offer structured derivative transactions. Our trading operations primarily act 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 determined by the Board of Directors. The trading book, as defined by OSFI, 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. The breadth of our trading activities is designed to diversify market risk to any particular strategy, and to reduce trading revenue volatility.

Risk measurement

GRM employs risk measurement tools such as Value-at-Risk (VaR), sensitivity analysis and stress testing to assess 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 requirements calculated under an Internal Models Approach (VaR based), while some structured credit derivatives, structured rate products, mortgage-backed securities, and equity derivatives have capital requirements calculated under the Standardized Approach prescribed by OSFI. Also calculated under the Standardized Approach for credit specific risk are a limited set of interest rate products. These products and risks are not included in our VaR, as discussed below.

Value-at-Risk
VaR is a statistical technique that measures the worst-case loss expected over a one-day 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.

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 specific risk, 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 VaR table.

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. The historical scenarios used to calculate VaR may not capture extreme market volatility. As a result, historical scenarios may not reflect the next market cycle. Furthermore, the use of a one-day horizon VaR for risk measurement implies that positions could be unwound or hedged within a day but this may not be a realistic assumption if the market becomes largely or completely illiquid.

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 2009, there was 1 occurrence of a back-test loss exceeding total risk VaR. This

occurred during the period when markets were particularly volatile. When the historical window used in the VaR calculation is less volatile than current markets this can lead to back-testing breaches. When these types of back-testing breaches occur, we frequently update our scenarios to keep pace with 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.

In order 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 tests, including historical stress events such as the 1987 stock market crash, and the unprecedented market volatility in 2008 and early 2009, as well as hypothetical "what-if" stress events that represent potential future events that are plausible but have a very low probability of occurring. In light of the current market environment, we supplemented existing market risk measures by frequent updates to the historical scenario window used in VaR and risk factors were refined to accurately reflect the current market conditions in the calculations. 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

A comprehensive market risk framework governs trading-related risks and activities and provides guidance to 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. Our market risk management framework is designed to ensure that our risks are appropriately diversified on a global basis. Market risk limit approval authorities are established by the Board of Directors, upon recommendation of the CR&RPC, and delegated to senior management. GRM – Market and Trading Credit Risk provides independent oversight of trading market risk management activities through establishing market risk policies and limits and developing, vetting and maintaining our various quantitative techniques and systems. Enterprise-wide reports are provided to the Chief Risk Officer (CRO) and senior management to monitor compliance against VaR and stress limits approved by the Board of Directors. Limits on measures such as notional size, term and overall risk are monitored at the trading desk and at the portfolio and business levels.

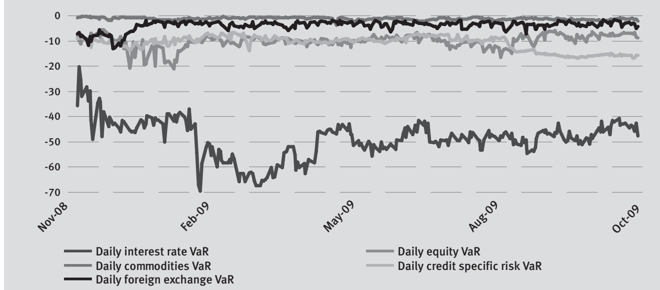
The following table shows our VaR for total trading activities under our models based approach for capital by major risk category and also shows the diversification effect, which is calculated as the difference between the VaR and the sum of the separate risk factor VaRs.

VaR by major risk category* **Table 44**

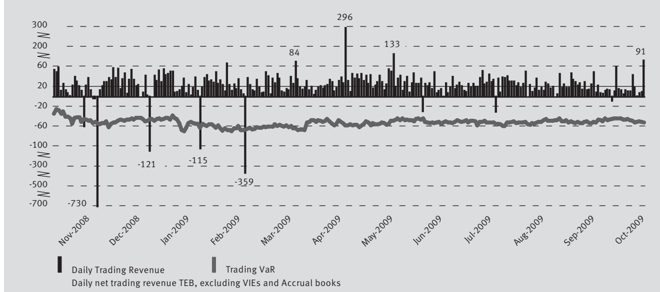
	2009				2008			
		For the year ended October 31				For the year ended October 31		
(C$ millions)	As at Oct. 31	Average	High	Low	As at Oct. 31	Average	High	Low
Equity	$ 9	$ 10	$ 21	$ 6	$ 8	$ 13	$ 28	$ 6
Foreign exchange	4	4	13	2	8	3	9	1
Commodities	2	1	4	–	1	2	6	–
Interest rate	48	49	69	20	34	26	44	17
Credit specific	16	11	17	7	8	7	11	4
Diversification	(26)	(22)	(33)	(7)	(19)	(23)	(38)	(13)
VaR	$ 53	$ 53	$ 70	$ 26	$ 40	$ 28	$ 50	$ 18

* This table represents an integral part of our 2009 Annual Consolidated Financial Statements.

VaR by major risk category
Year ended October 31, 2009
(C$ millions)

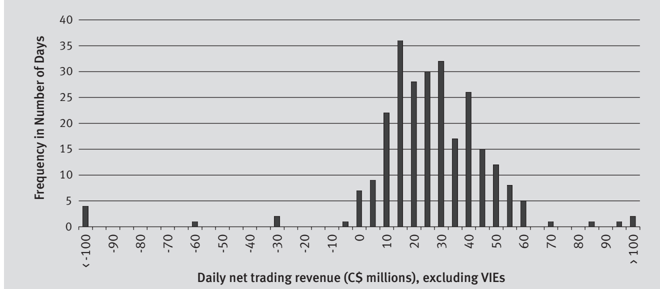


Trading revenue and VaR (1), (2) (C$ millions)



(1) Trading revenue on a taxable equivalent basis excluding revenue related to consolidated VIEs.
(2) Market losses below $2 million were not reflected on the above graph.

Trading revenue for the year ended October 31, 2009 (teb)



VaR

2009 vs. 2008

Average VaR for the year of $53 million was up compared to $28 million a year ago. This increase largely reflected the higher market volatility in the interest rate and credit markets during 2009.

Trading revenue

2009 vs. 2008

During the year, we experienced 13 days of net trading losses compared to 44 days in 2008. For the five net trading loss days in early 2009, which exceeded VaR estimated for those respective days, three of the largest net trading loss days were primarily due to market environment-related losses. The remaining two net trading loss days were largely attributable to the significant volatility in the equity and credit markets.

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. The key sources of interest rate risk include exposures on the maturity and re-pricing structures of certain bank loans, investments, liabilities, derivatives, off-balance sheet items, products with embedded options such as prepayment options and interest rate caps or floors. For additional information regarding interest rate risk and the use of derivatives in asset and liability management, refer to the Off-balance sheet arrangements section and Notes 7 and 26 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.

Risk measurement

We continually seek opportunities to identify and adopt best practices in instrument valuation, econometric modeling and hedging techniques. Assessment of our practices 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.

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 process, the effectiveness of our interest rate risk mitigation activity is assessed on a value and earnings basis, and model assumptions are validated against actual client behaviour.

Risk control

ALCO provides oversight over non-trading market risk limits, policies developed by Corporate Treasury, and operating standards. Interest rate risk reports are reviewed regularly by ALCO, GRC and the Board of Directors. The structural interest rate risk policy defines 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 points (bp) 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 limits are reviewed and approved annually by the Board of Directors.

The following 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 2009, our interest rate risk exposure was well within our target level.

Market risk measures – Non-trading banking activities* **Table 45**

	2009						2008		2007	
	Economic value of equity risk			Net interest income risk						
(C$ millions)	Canadian dollar impact	U.S. dollar impact (1)	Total	Canadian dollar impact	U.S. dollar impact (1)	Total	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	$ (256)	$ 26	$(230)	$ 336	$ 3	$ 339	$ (508)	$ 45	$ (440)	$ 54
100bp decrease in rates	256	(42)	214	(109)	(3)	(112)	448	(90)	309	(111)
Before-tax impact of:										
200bp increase in rates	(513)	26	(487)	594	25	619	(1,050)	62	(930)	97
200bp decrease in rates	396	(73)	323	(149)	(20)	(169)	838	(279)	553	(231)

* This table represents an integral part of our 2009 Annual Consolidated Financial Statements.
(1) Represents the impact on the non-trading portfolios held in our U.S. banking operations.

Non-trading foreign exchange rate risk

Foreign exchange rate risk is the potential adverse impact on earnings and economic value due to changes in foreign currency rates. Our revenue, expenses and income denominated in currencies other than the Canadian dollar are subject to fluctuations as a result of changes in the value of the average Canadian dollar relative to the average value of those currencies. 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. We are also exposed to the British pound and the Euro due to our activities conducted internationally in these currencies. A strengthening or weakening of the Canadian dollar compared to the U.S. dollar, British Pound and the Euro could reduce or increase, as applicable, the translated value of our foreign currency denominated revenue, expenses and earnings and could have a significant effect on our results of operations.

We are also exposed to foreign exchange rate risk arising from our investments in foreign operations. For un-hedged equity investments, when the Canadian dollar appreciates against other currencies, the unrealized translation losses on net foreign investments decreases our shareholders' equity through the cumulative translation account and decreases the translated value of the risk-adjusted assets of the foreign currency-denominated operations. The reverse is true when the Canadian dollar depreciates against other currencies. Consequently, we consider these impacts in selecting an appropriate level of our investments in foreign operations to be hedged.

Our overall market risk objectives, policies and methodologies have not changed materially from 2008.

Operational risk

Operational risk is the risk of loss or harm 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.

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. The two options available to us under Basel II are the Advanced Measurement Approach (AMA) and the Standardized Approach. We continued to adopt the Standardized Approach for operational risk.

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

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

Specific programs, policies, standards and methodologies have been developed to support the management of Operational risk. These programs are:

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

Operational event data collection and analysis
Operational risk events are reported in a central database. Comprehensive information about these events is collected, and includes information regarding amount, occurrence, discovery date, business area and product involved, root causes and risk drivers. Events gathered and analyzed include losses, incidents with non-monetary impacts and near-miss events. 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.

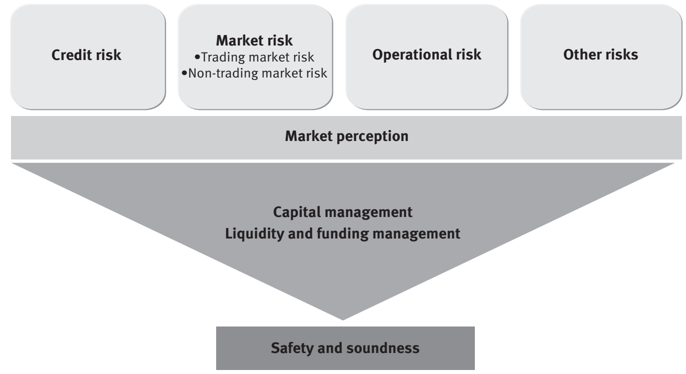
Industry loss analysis
We review and analyze information on operational losses that have occurred at other financial institutions, using published information and information we acquire through our membership in the Operational Riskdata eXchange Association, a private data-sharing consortium. Both sources 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 whether 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.

Key risk indicators
Business segments 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, as well as potential changes in, our operational risk exposure.

Capital management

Strong capital and liquidity positions facilitate opportunistic business expansion and help maintain safety and soundness, particularly in times of stress.

Risks, including credit, market and operational, influence overall capital management, and liquidity and funding management. The linkages between these risks and our stress absorption capability to ensure safety and soundness of the organization are illustrated below:



Capital management framework
We actively manage our capital to maintain strong capital ratios and high ratings while providing high returns to our shareholders. We consider the requirements of regulators, rating agencies, depositors and shareholders, our business plans, peer comparisons and our internal capital ratio targets. Our goal is to optimize our capital usage and structure, and provide support for our business segments and clients and better returns for our shareholders, while protecting depositors and senior creditors.

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

- Regulatory capital: capital required for regulatory compliance defined in accordance with OSFI criteria.
- Economic capital: an internal assessment of the amount of capital required to underpin our risks.
- Subsidiary capital: the amount of capital invested in subsidiaries.

Within our capital management framework, we have an internal capital adequacy assessment process (ICAAP) that sets internal capital targets and defines strategies for achieving those targets consistent with our risk appetite, business plans and operating environment.

As part of this process, we have implemented a program of enterprise-wide stress testing to evaluate the income and capital (economic and regulatory) impacts of several potential stress events. This exercise involves various teams, including GRM, Corporate Treasury, Finance and Economics. Results are a key input into our capital planning process and are used in setting appropriate internal capital targets.

Basel II
With OSFI's adoption of capital guidelines based on "International Convergence of Capital Measurement and Capital Standards: A Revised Framework – Comprehensive Version (June 2006)," known as Basel II, effective November 1, 2007, major Canadian banks are required to calculate and report their regulatory capital ratios in accordance with prescribed measurement standards.

The top corporate entity to which Basel II applies at the consolidated level is Royal Bank of Canada.

Under Basel II, banks select from among alternative approaches to calculate their minimum regulatory capital required to underpin credit, market and operational risks.

Effective November 1, 2007, we adopted the Basel II Advanced Internal Ratings Based (AIRB) approach to calculate credit risk capital for consolidated regulatory reporting purposes.

While the majority of our exposures are reported under the AIRB Approach, certain portfolios considered non-material from a consolidated perspective continue to use the Basel II Standardized Approach for credit risk (for example, our Caribbean Banking operations). In addition, the Standardized Approach will continue to be used for specific portfolios until fiscal 2012 for RBC Bank (USA), and RBC Dexia IS, of which we have a 50% ownership interest.

We continue to use the Standardized Approach for consolidated regulatory reporting of capital for operational risk.

For consolidated regulatory reporting of market risk capital, we use both Internal Model and Standardized Approaches.

Regulatory capital and capital ratios (1) — **Table 46**

As at October 31 (C$ millions; except percentage amounts)	2009	2008
Capital		
Tier 1 capital	$ 31,774	$ 25,031
Total capital	34,881	30,710
Risk-adjusted assets		
Credit risk	$ 185,051	$ 229,537
Market risk	23,321	17,220
Operational risk	36,465	31,822
Total risk-adjusted assets	$ 244,837	$ 278,579
Capital ratios		
Tier 1 capital	13.0%	9.0%
Total capital	14.2%	11.0%
Assets-to-capital multiple	16.3X	20.1X

(1) Capital ratios for 2008 have been updated to reflect a restatement of retained earnings. For more information, refer to the changes in accounting policies section.

Regulatory capital and capital ratios

Capital levels for Canadian banks are regulated pursuant to guidelines issued by OSFI, based on standards issued by the Bank for International Settlements, Basel Committee of Banking Supervisors. Regulatory capital is allocated to two tiers: Tier 1 and Tier 2. Tier 1 capital comprises the highest quality capital and is a core measure of a bank's financial strength. 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. 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 is defined as the sum of Tier 1 and Tier 2 capital. The components of Tier 1 and Tier 2 capital are listed in Table 47. For further details on the terms and conditions of the various capital components, refer to the Selected share data section and Notes 17 and 18 to our Consolidated Financial Statements.

Regulatory capital ratios are calculated by dividing Tier 1 and Total capital by Risk-adjusted assets (RAA). OSFI formally establishes risk-based capital targets for deposit-taking institutions in Canada. These targets are currently a Tier 1 capital ratio greater than or equal to 7% and a Total capital ratio of greater than or equal to 10%. Canadian banks are also 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 OSFI.

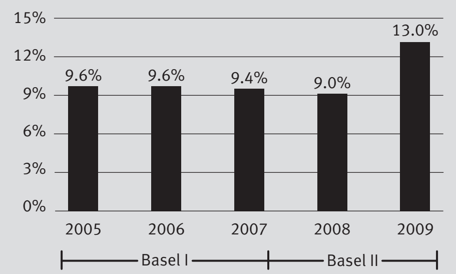
Capital (1) — **Table 47**

As at October 31 (C$ millions)	2009	2008
Tier 1 regulatory capital		
Common shares	$ 12,959	$ 10,266
Contributed surplus	246	242
Retained earnings	20,585	19,816
Net after tax fair value losses arising from changes in institutions' own credit risk	(9)	(316)
Foreign currency translation adjustments	(1,374)	(802)
Net after tax unrealized holding loss on available-for-sale equity securities	(68)	(380)
Non-cumulative preferred shares	4,811	2,657
Innovative capital instruments	3,991	3,857
Other non-controlling interests in subsidiaries	353	357
Goodwill	(8,368)	(9,977)
Substantial investments	(148)	(37)
Securitization-related deductions	(1,172)	(329)
Investment in insurance subsidiaries	(13)	–
Expected loss in excess of allowances – AIRB Approach	(19)	(315)
Other	–	(8)
Total Tier 1 capital	$ 31,774	$ 25,031
Tier 2 regulatory capital		
Permanent subordinated debentures	$ 878	$ 900
Non-permanent subordinated debentures (2)	5,583	7,223
Innovative capital instruments (excess over 15% of Tier 1)	–	142
Excess of non-cumulative preferred shares	–	–
Trust subordinated notes	1,017	1,027
General allowance	575	488
Substantial investments	(147)	(277)
Investment in insurance subsidiaries	(3,628)	(3,198)
Securitization-related deductions	(1,150)	(305)
Expected loss in excess of allowances – AIRB Approach	(20)	(315)
Other	(1)	(6)
Total Tier 2 capital	$ 3,107	$ 5,679
Total regulatory capital	$ 34,881	$ 30,710

(1) Opening retained earnings as at November 1, 2006 has been restated. Refer to Note 1 to our Consolidated Financial Statements.

(2) 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 at their amortized value.

Tier 1 capital ratio (1)



(1) Basel I and Basel II Tier 1 capital ratios are not directly comparable.

Our capital position strengthened in 2009 as we issued additional regulatory capital for general business purposes and through internal capital generation from earnings. The issuance proceeds supplemented our capital position and provided us flexibility to continue to invest in our existing businesses. Our capital ratios remain well above OSFI regulatory targets.

As at October 31, 2009, our Tier 1 capital ratio was 13.0% and our Total capital ratio was 14.2%.

Our Tier 1 capital ratio was up 400 bps from a year ago, largely due to the issuance of $4.8 billion of common and preferred shares, lower RAA and internal capital generation, partially offset by higher capital deductions.

Our Total capital ratio was up 320 bps, primarily due to the same factors noted above, partially offset by the redemption and maturity of certain subordinated debentures.

As at October 31, 2009, our assets-to-capital multiple was 16.3 times compared to 20.1 times a year ago. Our assets-to-capital multiple remains below the maximum prescribed by OSFI.

Risk-adjusted assets (RAA)

Under Basel II, OSFI requires banks to meet minimum risk-based capital requirements for exposures to credit risk, operational risk, and, where they have significant trading activity, market risk. RAA is calculated for each of these risk types and added together to determine total RAA.

During the year, RAA decreased by $33.7 billion, primarily due to a decrease in wholesale credit exposures, refinements in our asset risk classifications and the favourable impact of a stronger Canadian dollar on the translation of our foreign currency denominated assets, partially offset by corporate credit deterioration and higher capital requirements for market and operational risks.

Risk-adjusted assets – Basel II **Table 48**

	2009						2008
		Average of risk weights	Risk-adjusted assets				
As at October 31 (C$ millions)	Exposure (1)	(2)	Standardized approach	Advanced approach	Other	Total	Total
Credit risk							
Lending-related and other							
Residential mortgages	$ 106,625	6%	$ 1,396	$ 4,954		$ 6,350	$ 7,442
Other retail	162,692	20%	7,461	25,360		32,821	31,928
Business	140,422	60%	32,517	51,567		84,084	97,326
Sovereign	25,861	9%	315	1,957		2,272	1,826
Bank	40,595	6%	1,584	791		2,375	9,000
Total lending-related and other	$ 476,195	27%	$ 43,273	$ 84,629	$ –	$127,902	$ 147,522
Trading-related							
Repo-style transactions	$ 126,048	1%	$ 289	$ 824		$ 1,113	$ 3,115
Over-the-counter derivatives	54,309	32%	1,941	15,232		17,173	25,896
Total trading-related	$ 180,357	10%	$ 2,230	$ 16,056	$ –	$ 18,286	$ 29,011
Total lending-related and other and trading-related	$ 656,552	22%	$ 45,503	$100,685		$146,188	$ 176,533
Bank book equities	2,125	89%	–	1,896		1,896	2,826
Securitization exposures	52,211	17%	895	7,733		8,628	7,294
Regulatory scaling factor	n.a.	n.a.	n.a.	6,619		6,619	7,491
Other assets	35,686	61%	n.a.	n.a.	$21,720	21,720	35,393
Total credit risk	$ 746,574	25%	$ 46,398	$116,933	$21,720	$185,051	$ 229,537
Market risk							
Interest rate			$ 4,194	$ 3,942		$ 8,136	$ 4,829
Equity			381	1,037		1,418	2,573
Foreign exchange			449	21		470	348
Commodities			427	3		430	347
Specific risk			6,813	6,054		12,867	9,123
Total market risk			$ 12,264	$ 11,057		$ 23,321	$ 17,220
Operational risk			$ 36,465	n.a.	n.a.	$ 36,465	$ 31,822
Total risk-adjusted assets	$ 746,574		$ 95,127	$127,990	$21,720	$244,837	$ 278,579

(1) Total exposure represents exposure at default which is the expected gross exposure upon the default of an obligor. This amount is before any specific allowances or partial write-offs and does not reflect the impact of credit risk mitigation and collateral held.

(2) Represents the average of counterparty risk weights within a particular category.

Selected capital management activity **Table 49**

	2009		
(C$ millions)	Issuance or redemption date	Number of shares (000s)	Amount
Tier 1			
Common shares issued			
General purpose		65,263	$ 2,301
Dividend reinvestment plan (DRIP) (1)		5,279	232
Stock option exercised (2)		5,808	158
Preferred shares issued			
Non-cumulative Series AX	April 29, 2009	13,000	325
Non-cumulative Series AV	April 1, 2009	16,000	400
Non-cumulative Series AT	March 9, 2009	11,000	275
Non-cumulative Series AR	January 29, 2009	14,000	350
Non-cumulative Series AP	January 14, 2009	11,000	275
Non-cumulative Series AN	December 8, 2009	9,000	225
Non-cumulative Series AL	November 3, 2009	12,000	300
Redemption of Innovative capital instruments			
RBC Bank (USA)			
Series A Capital Securities (US$94 million)	October 13, 2009		98
Triangle Capital Securities (US$20 million)	October 13, 2009		21
Tier 2			
Redemption of subordinated debentures (3)			
June 1, 2009			1,000
March 15, 2009 (US$125 million)			159
January 27, 2009			500

(1) Effective May 1, 2009, with the first dividend payable on May 22, 2009, common shares were issued under the DRIP at a 3% discount from the average closing price of the five trading days preceding the dividend payment date.

(2) Amount included cash received for stock options exercised during the year, the fair value adjustment to stock options and the exercise of stock options from tandem stock appreciation rights (SAR) awards and from renounced tandem SARS.

(3) For further details, refer to Note 16 to our 2009 Annual Consolidated Financial Statements.

During 2009, we did not repurchase any common shares under our normal course issuer bid (NCIB), which expired on October 31, 2009. Effective November 1, 2009, we renewed our NCIB to re-purchase up to $20 million common shares and it will expire on October 31, 2010.

During 2009, we did not issue any shares from treasury under our Umbrella Savings and Securities Plan, which includes our employee savings and share ownership plans.

Dividends

Our common share dividend policy reflects our earnings outlook, payout ratio objective and the need to maintain adequate levels of capital to fund business opportunities. Our medium-term objective for our common share dividend payout ratio is 40% to 50%. In 2009, the dividend payout ratio was 78%, up from 59% in 2008 reflecting lower earnings which were impacted by the goodwill impairment charge and a higher level of credit losses and the Board of Directors declaring a consistent level of dividends throughout the year. Common share dividends paid during the year were $2.8 billion, up 7% from a year ago.

Selected share data (1) **Table 50**

(C$ millions, except number of shares and per share amounts)	2009 Number of shares (000s)	2009 Amount	2009 Dividends declared per share	2008 Number of shares (000s)	2008 Amount	2008 Dividends declared per share	2007 Number of shares (000s)	2007 Amount	2007 Dividends declared per share
Common shares outstanding	1,417,610	$13,075	$ 2.00	1,341,260	$ 10,384	$ 2.00	1,276,260	$ 7,300	$ 1.82
First preferred shares outstanding									
Non-cumulative Series N	–	$ –	$ –	–	$ –	$ .88	12,000	$ 300	$ 1.18
Non-cumulative Series W (2)	12,000	300	1.23	12,000	300	1.23	12,000	300	1.23
Non-cumulative Series AA	12,000	300	1.11	12,000	300	1.11	12,000	300	1.11
Non-cumulative Series AB	12,000	300	1.18	12,000	300	1.18	12,000	300	1.18
Non-cumulative Series AC	8,000	200	1.15	8,000	200	1.15	8,000	200	1.22
Non-cumulative Series AD	10,000	250	1.13	10,000	250	1.13	10,000	250	1.06
Non-cumulative Series AE	10,000	250	1.13	10,000	250	1.13	10,000	250	.95
Non-cumulative Series AF	8,000	200	1.11	8,000	200	1.11	8,000	200	.77
Non-cumulative Series AG	10,000	250	1.13	10,000	250	1.13	10,000	250	.65
Non-cumulative Series AH	8,500	213	1.41	8,500	213	.81	–	–	–
Non-cumulative Series AJ (3)	16,000	400	1.49	16,000	400	–	–	–	–
Non-cumulative Series AL (3)	12,000	300	1.48						
Non-cumulative Series AN (3)	9,000	225	1.50						
Non-cumulative Series AP (3)	11,000	275	1.34						
Non-cumulative Series AR (3)	14,000	350	1.27						
Non-cumulative Series AT (3)	11,000	275	1.11						
Non-cumulative Series AV (3)	16,000	400	1.01						
Non-cumulative Series AX (3)	13,000	325	.87						
Treasury shares – preferred	(65)	(2)		(260)	(5)		(249)	(6)	
Treasury shares – common	(2,127)	(95)		(2,258)	(104)		(2,444)	(101)	
Exchangeable shares of RBC PH&N Holdings Inc.	6,413	324		6,750	324				
Stock options									
Outstanding	17,877			21,773			26,623		
Exercisable	12,806			17,247			21,924		
Dividends									
Common	2,819				2,624			2,321	
Preferred	233				101			88	

(1) For further details about our capital management activity, refer to Note 18 to our Consolidated Financial Statements.
(2) The First Preferred Shares Series W has a conversion option which, as at October 31, 2009, was not yet convertible.
(3) Dividend rate will reset every five years.

As at November 30, 2009, the number of outstanding common shares and stock options were 1,420,680,000 and 17,611,000, respectively. As at November 30, 2009, the number of Treasury shares – preferred and Treasury shares – common were 13,000 and 2,697,000, respectively. For further information about our share capital, refer to Notes 18 and 21 to our Consolidated Financial Statements.

Economic Capital

Economic Capital is our internal quantification of risks associated with business activities which is the capital required to remain solvent under extreme market conditions, reflecting our objective 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 ROE and RORC as described in the Key performance and non-GAAP measures section and also aids senior management in determining resource allocation in conjunction with other factors.

Economic Capital is also used to assess the adequacy of our capital base. Our policy is to maintain a level of available capital, defined as common equity and other capital instruments with equity-like permanence and loss absorption features such as preferred shares and Innovative Tier 1 instruments, that exceeds Economic Capital with a comfortable cushion.

Economic Capital is calculated and attributed on a wider array of risks than is Basel II Pillar I regulatory capital, which is calibrated predominantly to target credit, market (trading) and operational risk measures. Economic Capital is calculated based on credit, market (trading and non-trading), operational, business and fixed asset, and insurance risks and includes capital attribution for goodwill and other intangibles.

- Business risk is the risk of loss or harm 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.

For further discussion on credit, market, operational and insurance risks, refer to the relevant Risk, capital and liquidity management sections.

The calculation and attribution of Economic Capital involves a number of assumptions and judgments by management which are monitored to ensure that the Economic Capital framework remains comprehensive and consistent. The models are benchmarked to leading industry practices via participation in surveys, reviews of methodologies and ongoing interaction with external risk management industry professionals.

Economic Capital		Table 51
(C$ millions average balances)	2009	2008
Credit risk	$ 10,100	$ 8,100
Market risk (trading and non-trading)	2,450	1,750
Operational risk	3,550	2,850
Business and fixed asset risk	2,350	2,200
Insurance risk	150	150
Risk capital	$ 18,600	$ 15,050
Goodwill and intangibles	11,250	7,700
Economic Capital	$ 29,850	$ 22,750
Under attribution of capital	600	1,900
Average common equity	$ 30,450	$ 24,650

Economic Capital increased $7.1 billion from a year ago, largely due to increases in goodwill and intangibles. Credit risk, market risk and operational risk also contributed to the increase. Goodwill and intangibles increased primarily due to higher goodwill from the prior year acquisitions, partially offset by the goodwill impairment charge in our International Banking segment. Credit risk increased mainly due to lower credit quality and business growth. Market risk increased largely reflecting portfolio growth and market volatility, while the increase in operational risk was attributable to higher revenue.

We remain well capitalized with current levels of available capital exceeding the Economic Capital required to underpin all of our material risks.

Subsidiary capital
Our capital management framework includes the management of our subsidiary capital. We invest capital across the enterprise to meet local regulators' capital adequacy requirements and maximize returns to our shareholders. We invest in our subsidiaries as appropriate during the year, including RBC Bank (USA) in light of regulatory expectations and the continued extremely challenging economic and market conditions in the U.S. We set guidelines for defining capital investments in our subsidiaries and manage the relationship between capital invested in subsidiaries and our consolidated capital base to ensure that we can access capital recognized in our consolidated regulatory capital measurements.

Each of our subsidiaries has responsibility for maintaining its compliance with local regulatory capital adequacy requirements, which may include restrictions on the transfer of assets in the form of cash, dividends, loans or advances. Concurrently, Corporate Treasury provides centralized oversight and consolidated capital management across all entities.

Other considerations affecting capital
Capital treatment for equity investments in other entities is determined by a combination of accounting and regulatory 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 are fully consolidated on our Consolidated Balance Sheets, and Joint ventures are consolidated on a pro rata basis.
- Deduction: certain holdings are deducted in full from our regulatory capital. These include all unconsolidated "substantial investments," as defined by the *Bank Act* (Canada), 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.

We monitor developments in both the domestic and international regulatory environments to assess the impact on our current and future capital position. In response to the recent financial market disruption, global banking regulators and other bodies such as the Basel Committee on Banking Supervision have committed to strengthening the regulation, supervision and risk management of financial institutions. Proposed areas of focus include, but are not limited to, increased capital quantity, enhanced capital quality, the introduction of an internationally harmonized leverage ratio and a framework for the determination of countercyclical capital buffers. As the details of the proposals remain undefined, the impact on capital levels is not yet clear. In addition, changes to Basel II effective in fiscal 2011, including revisions to the market risk framework, are expected to lead to higher capital requirements. We will continue to monitor the environment and revise our capital management strategies and activities to reflect the changes.

Liquidity and funding management

Liquidity and funding risk (liquidity risk) is the risk that we may be unable to generate or obtain sufficient cash or its equivalent in a timely and cost-effective manner to meet our commitments as they come due.

Our liquidity management framework is established to satisfy our current and prospective commitments while also contributing, in conjunction with our capital position, to our safety and soundness in times of stress. To achieve these goals, we are dedicated to the preservation of the following key liquidity risk mitigation strategies:

- an appropriate balance between the level of risk we undertake and the cost of its mitigation that takes into account the potential impact of extreme but plausible events
- broad funding access, including preserving and promoting a reliable base of core client deposits, continual access to diversified sources of wholesale funding and demonstrated capacities to monetize specific asset classes
- a comprehensive enterprise-wide liquidity contingency plan that is supported by an earmarked pool of unencumbered marketable securities that provide assured access to cash in a crisis
- appropriate and transparent liquidity transfer pricing and cost allocation.

Our liquidity management policies, practices and processes reinforce these risk mitigation strategies. In managing liquidity risk, we favour a centralized management approach to maximize funding and operational efficiencies. However, market, regulatory, tax and organizational considerations influence the extent to which we can be fully centralized.

Risk measurement
A variety of limit-based measures and metrics have been established to monitor and control risk within appropriate tolerances using normal course of business and stressed assumptions. Risk methodologies and underlying assumptions are periodically reviewed and validated to ensure alignment with our operating environment, expected economic and market conditions, rating agency preferences, regulatory requirements and accepted practices. We measure and manage our liquidity position from three risk perspectives as follows:

Structural (longer-term) liquidity risk
We use both the cash capital and survival horizon methodologies, which focus on mismatches in effective maturity between all assets and liabilities, to measure and control balance sheet risk and to assist in the determination of our term funding strategy. Stressed conditions are considered, including a protracted loss of unsecured wholesale deposits that fund illiquid assets.

Tactical (shorter-term) liquidity risk
We apply net cash outflow limits in Canadian dollar and foreign currencies for key short-term time horizons (overnight to nine weeks) and assign a risk-adjusted limit to our aggregate pledging exposure and individual limits by types of pledging activities to measure our shorter-term liquidity exposures. Net cash flow positions reflect known and anticipated cash flows for all material unencumbered assets, liabilities and off-balance sheet activities. Pledged assets are not considered a source of available liquidity.

Contingent liquidity risk
Contingent liquidity risk management assesses the impact of and our intended responses to sudden stressful events. Our liquidity contingency plan, maintained and administered by Corporate Treasury, guides our actions and responses to liquidity crises. The Liquidity Crisis Team, consisting of senior representatives with relevant subject matter expertise from key business segments and Corporate Support, contributes to the development of stress tests and funding plans and meets regularly to conduct stress tests and review 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. 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. The risk of more prolonged crises is addressed through the frequency with which our key tests are updated as well as through our measures of structural liquidity risk that assume a stressed environment. Key tests are run monthly, while others are only run quarterly. Frequency is determined by considering a combination of likelihood and impact. After reviewing test results, the liquidity contingency plan and other liquidity and funding risk management practices and limits may be modified.

Our liquid assets are primarily a diversified pool of highly rated and liquid 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, including their eligibility for central bank advances.

Risk control

The Board of Directors is responsible for oversight of our liquidity and funding management framework, which is developed and implemented by senior management. We monitor and manage our liquidity position on a consolidated basis and for key units and consider legal, regulatory, tax, operational and any other applicable restrictions. This includes analyzing our ability to lend or borrow funds between branches, branches and subsidiaries, and subsidiaries, and converting funds between currencies. GRC and ALCO share management oversight responsibility for liquidity and funding policies and receive regular reports detailing compliance with key limits and guidelines. The Board of Directors is informed on a periodic basis about our current and prospective liquidity condition.

Policies

Our principal liquidity and funding policies define risk tolerance parameters. They authorize senior management committees or Corporate Treasury to approve more detailed policies and limits related to specific businesses and products that govern management, measurement and reporting requirements.

Authorities and limits

Limits for our structural liquidity risk positions are approved at least annually and measured and monitored weekly, monthly or quarterly. Net cash flow limits are approved at least annually. Depending on the materiality of each reporting entity, net cash flow limits are monitored daily or weekly by major currency, branches, subsidiaries and geographic locations. Any potential exceptions to established limits are reported immediately to Corporate Treasury, which provides or arranges for approval after reviewing a remedial action plan.

The prescribed treatments for cash flow assets and liabilities under varying conditions are reviewed periodically by Corporate Treasury in concert with GRM and the business segments to determine if they remain valid or changes to assumptions and limits are required. Through this process, we ensure that a close link is maintained between the management of liquidity and funding risk, market liquidity risk and credit risk, including GRM approval of credit lines between entities. In response to our experience during the volatile markets of the past two years, we have modified the liquidity treatment of certain asset classes to reflect our expectations that market liquidity for these products will remain impaired for some time. Where required, limits have been reduced in consideration of the results of updated stress tests.

Funding

Funding strategy

Core funding, comprising capital, longer-term liabilities and a diversified pool of personal and, to a lesser extent, commercial and institutional deposits, is the foundation of our structural liquidity position. Our wholesale funding activities are well diversified by geographic origin, investor segment, instrument, currency, structure and maturity. We maintain an ongoing presence in different funding markets, which allows us to constantly monitor market developments and trends, identify opportunities and risks and take appropriate and timely actions. We operate longer-term debt issuance programs in Canada, the U.S., Europe, Australia and Japan. Expansion into new markets and untapped investor segments is constantly evaluated against relative issuance costs since diversification expands our wholesale funding flexibility and minimizes funding concentration and dependency, and generally reduces financing costs. Maintaining competitive credit ratings is also critical to cost-effective funding.

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. There can be no assurance that our credit ratings and rating outlooks will not be lowered or that ratings agencies will not issue adverse commentaries about us, potentially resulting in adverse consequences for our funding capacity or 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 and may require us to post additional collateral under certain contracts. However, 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.

The following table presents our major credit ratings as at December 3, 2009. 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.

Credit ratings* **Table 52**

As at December 3, 2009 (1)	Short-term debt	Senior long-term debt	Outlook
Moody's Investors Service (Moody's)	P-1	Aaa	negative
Standard & Poor's (S&P)	A-1+	AA-	stable
Fitch Ratings (Fitch)	F1+	AA	stable
DBRS	R-1(high)	AA	stable

* This table represents an integral part of our 2009 Annual Consolidated Financial Statements.

(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.

Deposit profile

Our personal deposit franchise constitutes the principal source of reliable 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 6% to 63% of our total deposits.

Term funding sources* **Table 53**

(C$ millions)	2009	2008	2007
Long-term funding outstanding	$ 58,831	$ 70,906	$ 51,540
Total mortgage-backed securities sold	28,815	15,196	14,239
Commercial mortgage-backed securities sold	1,916	2,159	2,405
Credit card receivables financed through notes issued by a securitization special purpose entity	2,913	3,163	2,759

* This table represents an integral part of our 2009 Annual Consolidated Financial Statements.

During 2009, we continued to expand our long-term funding base by selectively issuing, either directly or through our subsidiaries, $5.5 billion of senior deposit notes in various currencies and markets. However, total long-term funding outstanding decreased $12.1 billion as we relied more heavily on securitizations. 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 residential mortgage, commercial 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 MBS sold increased year over year by $13,619 million. Our credit card receivables, which are financed through notes issued by a securitization special purposes entity, decreased year over year by $250 million. For further details, refer to the Off-balance sheet arrangements section and Note 5 to our Consolidated Financial Statements.

Impact of global market developments on liquidity management

Despite challenging financial market conditions during much of the past two years, we believe our liquidity and funding position remains sufficient to execute our strategy. Public sector initiatives introduced over this period have contributed to gradually improving global market circumstances and a less vulnerable financial system. Although we continued to experience comparatively favourable wholesale funding access and pricing during the year, we selectively participated in some of the government and central bank lending programs to supplement our established financing resources. The MBS auctions introduced by the Government of Canada in October 2008 helped us strengthen our liquidity position in 2009 by providing an additional channel for securitized residential mortgages during a period when the term funding markets registered a material reduction in liquidity. We further bolstered our liquidity position during the year by more aggressively gathering core deposits, reducing collateral requirements and issuing capital. More recently, the non-government guaranteed bank term funding market has witnessed a broad-based revival with credit spreads compressing meaningfully across the credit quality spectrum. Our new issue spreads for senior term debt in Canada are now at their lowest levels since late 2007 and provide us with renewed opportunities for further strengthening our liquidity position going forward as circumstances warrant. We do not foresee any material impact from the reduction or cancellation of public sector funding or liquidity programs.

We maintained a liquidity and funding position that we continue to believe is appropriate to execute our strategy, and levels of liquidity and funding risk remain well within our risk appetite. Except for concerns about the sustainability of the economic recovery and related implications for financial market resiliency, there are no other known trends, demands, commitments or events that are presently expected to materially change this position.

Our liquidity and funding risk objectives, policies and methodologies have not changed materially from 2008. However, certain limits and strategies have been revised as a result of the market conditions.

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 54**

As at October 31 (C$ millions) (1)	2009 Within 1 year	2009 1 to 3 years	2009 3 to 5 years	2009 Over 5 years	2009 Total	2008 Total	2007 Total
Unsecured long-term funding	$ 33,684	$ 24,057	$ 9,595	$ 2,436	$ 69,772	$ 58,615	$ 49,131
Covered bonds	204	–	3,407	2,129	5,740	5,248	–
Subordinated debentures	103	–	–	6,461	6,564	8,258	6,343
Obligations under leases (2)	566	926	668	1,202	3,362	3,196	3,161
	$ 34,557	$ 24,983	$ 13,670	$12,228	$ 85,438	$ 75,317	$ 58,635

* This table represents an integral part of our 2009 Annual Consolidated Financial Statements.

(1) The amounts presented above exclude accrued interest except for the category "Within 1 year."

(2) Substantially all of our lease commitments are operating.

Overview of other risks

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.

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.

Risk control

Policies and procedures support the management of reputation risk across the organization. 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.

While our Code of Conduct and policies support the prevention of reputation risk, we recognize that issues that could affect our reputation may still occur. To mitigate potential risk to our reputation stemming from such events, we have detailed and disciplined escalation, reporting and resolution protocols.

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 has developed a comprehensive enterprise compliance management (ECM) framework that is consistent with regulatory guidance from OSFI and other regulators. The framework is designed to promote the proactive, risk-based management of compliance and regulatory risk. It applies to all of our businesses and operations, legal entities and employees globally, and confirms the shared accountability of all our employees for ensuring we maintain robust and effective regulatory risk and compliance controls. Within the ECM framework there are five elements that drive the management of regulatory risk. The first element sets the cycle in motion by defining the nature of our business activities and operations. The second element ensures compliance programs are designed in a manner to most effectively meet regulatory requirements. The third and fourth elements relate to the design and implementation of specific controls and the associated monitoring and oversight of the effectiveness of those controls. This approach allows us to take an enterprise-wide and holistic view of all compliance programs. The fifth element ensures the timely escalation and resolution of issues, and clear and transparent reporting. This is a critical step in enabling senior management and the Board of Directors to effectively perform their management and oversight responsibilities.

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 refining and developing new qualitative and quantitative measures. Meanwhile, we use what measures are available to identify issues and trends.

Risk control
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, must do so annually.

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

Insurance risk

Insurance risk is the exposure to potential financial loss arising from payments that are different than anticipated (e.g., number, amount, and timing) under an insurance policy or reinsurance treaty. Insurance risk is primarily associated with adverse experience with respect to mortality, morbidity, longevity, claim frequency, claim severity, policyholder behaviour and expense. Insurance risk arises from all our Insurance businesses, which include life and health, creditor, home and auto, travel insurance, and reinsurance. Insurance risk is further categorized into the following sub-risks:

- Claims risk: The risk that the actual severity, frequency or timing of claims differs from the levels assumed in pricing calculations or reserves. Claims risk may be realized in two ways: 1) mis-estimation of expected claims activities to actual activities or, 2) the criteria for underwriting the risk are not aligned with the estimate for the amount, frequency, and/or timing of claims. Types of claims risk include mortality risk, longevity risk, morbidity risk, home and auto risk, and travel risk.
- Policyholder behaviour risk: The risk that the actual behaviour of policyholders relating to premium payments, policy withdrawals or loans, policy lapses, surrenders, and the exercise of other policy options differ from the behaviour assumed in pricing calculations or reserves.
- Expense risk: The risk that the expense of acquiring or administering policies, or of processing claims, exceeds the costs assumed in pricing calculations.

Risk measurement
Insurance risk is measured 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-Insurance 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 and procedures support the management of insurance risk by articulating our strategies to identify, prioritize, and manage insurance risk. Insurance risk policies 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-Insurance provides independent oversight over our insurance business activities including: product development, product pricing, underwriting, and claims management. GRM-Insurance is also the approval authority for activities that exceed business unit authorities and limits, as well as certain business activities which are deemed to be of significant risk.

Risk mitigation
Key elements for identifying, assessing and managing insurance risk include a risk review and approval process for product development and pricing, effective guidelines and practices for underwriting and claims management, and reinsurance, which involves transactions that transfer insurance risk to independent insurance companies, is also used to diversify our portfolio of insurance risks, limit loss exposure to large risks, and provide additional capacity for future growth.

Actuarial provisions
Actuarial liabilities include explicit provisions for adverse deviations to ensure their adequacy and are independently validated.

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. Operational and legal risks may arise from environmental issues at our branches, offices or data processing centres.

Corporate Environmental Affairs (CEA) sets enterprise-wide policy requirements for the identification, assessment, control, monitoring and reporting of environmental risk. Oversight is provided by GE and by the CG&PPC. Business segments and Corporate Support groups are responsible for incorporating environmental risk management requirements and controls within their operations. The CEA Group also provides advisory services and support to business segments on the management of specific environmental risks in business transactions.

Risk measurement
The magnitude of environmental risk associated with business activities is a function of several factors including: the industry sector, the type and size of the transaction, the ability of the borrower to manage environmental matters, and whether real property is taken as collateral. Some environmental risks, such as the potential cost of cleaning up environmental contamination of properties used as security for loans, can be easily quantified while others, including exposure of a particular industry to the physical effects of climate change or water scarcity, are assessed on a qualitative basis.

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

Our Corporate Environmental Policy articulates our overarching environmental commitments. We maintain a suite of environmental credit risk management policies including sector-specific and business-segment-specific policies and guidelines. We have a separate Policy on Social and Environmental Review in Project Finance to reflect our commitment to the Equator Principles (EPs).

The key components of environmental risk management and mitigation include:

- Monitor relevant environmental laws and regulations, as well as other requirements to which the bank adheres.
- Track loan losses resulting from environment issues.
- Train employees to identify and manage environmental risks.
- Measure our performance and compare it to our objectives, enabling us to identify enhancement opportunities.
- Periodically verify that our environmental risk management policies and processes are operating as intended.

On an annual basis, and more frequently as required, environmental risk management activities, issues, and trends are reported to GE and to the Corporate Governance and Public Policy Committee of the Board of Directors.

CEA maintains ongoing communication on environmental risk management issues with stakeholders, both internal and external to the organization. We report on the full extent of environmental management annually in the Corporate Responsibility Report and Public Accountability Statement.

Additional risk factors that may affect future results

In addition to the risks described in the Risk, capital and liquidity management, and Overview of other risks sections, there are numerous other risk factors that could cause our results to differ significantly from our plans, objectives and estimates. Forward-looking statements in this document include, but are not limited to, statements relating to our medium-term objectives, our vision and strategic goals, the 2010 economic and market outlook for the Canadian, U.S. and global economies, the outlook and priorities for each of our business segments and in our Liquidity and funding management section, and are presented for the purpose of assisting the holders of our securities and financial analysts in understanding our financial position and results of operations as at and for the periods ended on the dates presented and our vision and strategic goals and objectives, and may not be appropriate for other purposes. We caution readers not to place undue reliance on these statements as a number of risk factors could cause actual results to differ materially from the expectations expressed in such forward-looking statements. These factors- many of which are beyond our control and the effects of which can be difficult to predict- include: credit, market, operational and liquidity and funding risks, and other risks discussed earlier and those discussed below.

General business and economic conditions in Canada, the United States and other countries in which we conduct business

The impact from the market environment, the lack of liquidity in certain markets, the level of activity and volatility in capital markets and the stability of various financial markets could materially impact our financial condition and results of operations. Interest rates, foreign exchange rates, and consumer saving and spending habits as well as consumer borrowing and repayment patterns, business investment, government spending, and inflation also 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, many countries are currently experiencing a recession, resulting in high unemployment and lower family incomes, corporate earnings, business investment and consumer spending, any or all of which could adversely affect the demand for our loan and other products and services. These recessionary factors have resulted in significant increases in provision for credit losses due to higher credit losses, the amount of which could be significant, resulting in lower earnings. Similarly, a further downturn in a particular equity or debt market could cause additional reductions in new issue and investor trading activity or assets under management and assets under administration, resulting in lower fee, commission and other revenue.

Changes in accounting standards and accounting policies and estimates

From time to time, the Accounting Standards Board (AcSB) 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, including estimates of provisions, allowances and valuations, 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 eight accounting policies as being "critical" to the presentation of our financial condition and results of operations as: (i) they require management to make particularly subjective and/or complex judgments about matters that are inherently uncertain; and (ii) it is likely that materially different amounts could be reported using different assumptions and estimates.

We are required to adopt IFRS commencing November 1, 2011. The adoption of IFRS could impact: (i) our current accounting policies; and (ii) our capital and capital ratios due to significant recognition and measurement differences between IFRS and current Canadian GAAP which could in turn materially impact our financial condition and results of operations.

Government fiscal, monetary and other policies

Our businesses and earnings are affected by the fiscal, monetary or other policies that are adopted by the Bank of Canada and various other Canadian regulatory authorities, the Board of Governors of the Federal Reserve System in the United States and other U.S. government authorities, as well as those adopted by international regulatory authorities and agencies, in jurisdictions in which we operate. 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.

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. Benefits received by our U.S. and international competitors under laws and regulations enacted by their governments in response to the credit environment may continue to impact our ability to compete. Other financial services companies, such as insurance companies and non-financial companies, are increasingly offering services traditionally provided by banks. Such competition could also reduce net interest income, 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, as well as the 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 or injunctions or loss of licences or registrations 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. We operate in an increasingly regulated and litigious environment, potentially exposing us to liability and other costs, the amounts of which may be difficult to estimate. 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.

Execution of our strategy
Our ability to execute on our objectives and strategic goals will influence our financial performance. If we are unable to successfully implement selected strategies or related plans and decisions, if we make inappropriate strategic choices or if we make a change to 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 successful integration of acquisitions and joint ventures, and 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.

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, receptive 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, our ability to cross-sell more products to customers, technological changes and our reliance on third parties to provide components of our business infrastructure, the failure of third parties to comply with their obligations to us and our affiliates as such obligations relate to the handling of personal information, fraud by internal or external parties, 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

Total RBC available-for-sale portfolio

As at October 31, 2009, all AFS securities that had unrealized losses were assessed for other-than-temporary impairment. For those debt instruments that, based on management's judgment, it was not probable that all principal and interest would be recovered, the securities were deemed to be other-than-temporarily impaired and written down to their fair value. For equity securities, where management believes that the fair value will not recover prior to their disposition or where there has been unrealized losses for a protracted period of time, these securities were deemed to be other-than-temporarily impaired and were written down to their fair value. Management has determined that the unrealized losses on the remaining securities were temporary in nature and will continue to hold them until their value recovers, which may be at maturity. For further details regarding the assessment of other-than-temporary impairment, refer to Note 3 to our Consolidated Financial Statements.

Total RBC available-for-sale portfolio **Table 55**

	2009				2008			
(C$ millions)	Amortized cost	Fair value	Net unrealized gains (losses)	Net gains (losses) recognized in income	Amortized cost	Fair value	Net unrealized gains (losses)	Net gains (losses) recognized in income
Government and agency	$ 22,166	$ 22,622	$ 456	$ (17)	$ 24,297	$ 24,386	$ 89	$ 7
Mortgage-backed securities	2,057	1,852	(205)	(173)	4,280	3,550	(730)	(363)
Asset-backed securities	4,516	4,427	(89)	(45)	5,193	4,796	(397)	(25)
Corporate debt and other debt	14,718	14,711	(7)	(198)	13,301	12,984	(317)	(162)
Equities	2,437	2,412	(25)	(207)	3,057	2,683	(374)	(88)
Loan substitute	256	186	(70)	–	256	227	(29)	(1)
Total (1)	$ 46,150	$ 46,210	$ 60	$ (640)	$ 50,384	$ 48,626	$ (1,758)	$ (632)

(1) Includes held-to-maturity of $156 million (2008 – $205 million) that is grouped with AFS on the balance sheet.

The total amortized cost of the AFS portfolio was $46.1 billion as at October 31, 2009, down $4.2 billion from the prior year. The reduction largely reflected the impact of the stronger Canadian dollar relative to the U.S. dollar, as well as the sale of certain U.S. agency and Government of Canada securities, Canadian bank common shares and Non agency U.S. mortgage-backed securities (MBS). The reduction also reflected the reclassification of certain Non-agency U.S. MBS securities to loans during the year in accordance with the amendments to CICA section 3855. The decrease was partially offset by the purchase of certificate of deposits issued by Global financial institutions (FIs) and U.S. Treasury bills. For further details on the reclassification, refer to the CICA section 3855 – reclassification of securities to loans section.

We recognized $640 million of net losses in income this year, of which $485 million ($320 million after-tax and compensation adjustments) were market environment-related, see Table 59. These losses were largely attributable to Canadian bank common shares, Non-agency U.S. MBS and corporate debt and other debt. Net losses of $207 million on equities primarily reflected the prolonged decline in value of Canadian bank shares held to economically hedge stock-based compensation programs. The net losses of $198 million on corporate and other debt largely reflected losses on securities that were deemed to be impaired and that we intend to sell in order to effectively manage our exposures to certain names and reposition our portfolios. The $173 million in losses on Non-agency U.S. MBS related to losses on securities that we have sold or expect to sell in order to reduce our exposure to certain vintages and asset classes. The prior year losses of $632 million was largely attributable to $565 million of losses due to market environment related factors including write downs on Non-agency U.S. MBS and losses on the sale of U.S. Agency preferred shares of Federal National Mortgage Association (Fannie Mae) and Federal Home Loan Mortgage Corporation (Freddie Mac).

As at October 31, 2009, the portfolio had net unrealized gains of $60 million compared to net unrealized losses of $1,758 million a year ago. This largely reflected an improvement in the values of most Non-agency and agency U.S. MBS, U.S. auction rate securities (ARS) and debt related to Global FIs due to the tightening of credit spreads and lower interest rates.

The net unrealized gains of $456 million on government and agency securities were largely attributable to gains on Canadian instruments which were partially offset by unrealized losses related to U.S. ARS and U.S. Agency MBS. Net unrealized losses on MBS of $205 million were significantly lower than last year, reflecting price improvements driven by improved U.S. housing and financial markets. The MBS portfolio mainly consists of high quality super-senior tranches of U.S. Alt-A and U.S. prime securities. The remaining net unrealized losses were largely on asset-backed securities (ABS) and loan substitute securities. The ABS securities are highly rated with significant credit support and have experienced significant price improvements during the year. The Loan substitute securities are predominantly perpetual preferred shares of highly rated Canadian entities.

CICA section 3855 – reclassification of securities to loans

During 2009, we reclassified certain AFS and HFT debt securities to loans in accordance with the amendments to CICA section 3855, which permit reclassification of debt securities that are not quoted in active markets and which management does not intend to sell in the foreseeable future. AFS debt securities held at October 31, 2009 that are not quoted in active markets have an estimated fair value of $11 billion and include certain Auction rate securities, U.S. Non-Agency MBS, and Government and Corporate Debt. The fair value of securities selected for reclassification to loans, primarily U.S. Non-Agency MBS, was $871 million as at October 31, 2009. These securities were selected for reclassification as they are not quoted in active markets and had previously incurred significant non credit related losses. The net income impact after tax was $64 million net of the provision for credit losses of $67 million for the year 2009 as per the table below and Table 59. The remainder of the debt securities that are not quoted in active markets remain in AFS debt securities, and fair value exceeds book value or we intend to hold until their fair values recover to book value.

Reclassification of securities to loans – Net income impact — Table 56

(C$ millions)	2009 Increased (decreased) International Banking	Corporate Support	Total
Net interest income	$ (54)	$ (2)	$ (56)
Non-interest income	180	27	207
Total revenue	$ 126	$ 25	$151
PCL	59	8	67
Net income before income taxes	$ 67	$ 17	$ 84
Income taxes	19	1	20
Net income	$ 48	$ 16	$ 64

The amendment to CICA section 3855 also requires loans and receivables that are intended to be sold immediately or in the near term be classified as held-for-trading debt. We also reclassified $179 million fair value of mortgages held-for-sale from loans to HFT debt securities as we intend to sell these mortgages in the near term. The reclassification had minimal impact on net income.

Refer to Note 1 to our Consolidated Financial Statements for further details on the reclassification and transition adjustment made on November 1, 2008.

Reclassification of securities to loans – Balance sheet impact — Table 57

(C$ millions)	2009 Increased (decreased)
Assets	
Securities	$(871)
Loans, net of allowance for loan losses	1,132
Other assets	(79)
	$ 182
Liabilities and Shareholders' equity	
Retained earnings	$ 130
Accumulated other comprehensive income	52
	$ 182

Reclassification of securities to loans – Credit quality impact — Table 58

(C$ millions)	2009 Increased (decreased) International Banking	Consolidated
Credit quality information		
GIL	$ 998	$ 1,138
ACL	121	189

	2009 Impact of reclassification Pre-reclassification	Post-reclassification	Increase (decrease)
GIL (C$ millions)	$ 4,319	$ 5,457	$ 1,138
ACL	3,113	3,302	189
GIL as a % of loans and acceptances	148 bps	186 bps	38 bps
Total coverage ratio (1)	72%	61%	(11)%
Specific PCL as a % of average net loans and acceptances	95 bps	97 bps	2 bps

(1) Total ACL as a percentage of GIL.

Market environment impacts

The market environment-related losses continued into 2009, at a similar pace to the end of 2008, though moderating primarily in the latter half of the year as market conditions improved. Total market environment-related net losses increased $99 million from the prior year, largely reflecting losses on fair value adjustments on certain RBC debt designated as HFT and losses on credit default swaps economically hedging the corporate loan portfolio. These factors were partially offset by lower market environment-related losses on HFT and AFS portfolios and gains on credit valuation adjustments on certain derivative contracts. These losses reduced revenue in 2009 by $2.1 billion, largely during the first half of the year and were comprised of losses of $1.4 billion of market environment-related losses on HFT and AFS, and $.7 billion related to changes in credit spreads as noted in Table 59. Net income was reduced in 2009 by losses of $1.1 billion.

Capital Markets, Corporate Support and International Banking revenue was negatively impacted by market environment- related losses of $1,489 million, $607 million and $18 million, respectively, in 2009. PCL increased $67 million as a result of our adoption of the amendments of CICA section 3855. This increase was comprised of $59 million in International Banking and $8 million in Corporate Support. Capital Markets, Corporate Support and International Banking segment net income was reduced by market environment-related losses of $648 million, $431 million and $61 million in the current year.

Summary of market environment impacts – gains (losses) — **Table 59**

(C$ millions)	2009	2008	2007
Gains (losses) on impacted portfolios			
Held-for-trading (HFT) (1)	$ (889)	$ (2,220)	$ (393)
Available-for-sale (AFS) (2)	(485)	(565)	–
Revenue impacts	$ (1,374)	$ (2,785)	$ (393)
Compensation adjustments	317	613	131
Income tax recoveries	343	754	89
Total after-tax and related compensation adjustments	$ (714)	$ (1,418)	$ (173)
Gains (losses) related to credit spreads			
Credit valuation adjustments on certain derivatives other than monolines	$ 46	$ (118)	$ –
Fair value adjustments on RBC debt designated as HFT	(586)	533	88
Credit default swaps (CDS)	(200)	393	–
Revenue impacts	$ (740)	$ 808	$ 88
Compensation adjustments	174	(204)	(20)
Income tax recoveries	190	(227)	(25)
Total after-tax and related compensation adjustments	$ (376)	$ 377	$ 43
Credit losses related to AFS securities reclassified to loans			
PCL (2)	(67)	–	–
Income tax recoveries	17	–	–
Total after-tax	$ (50)	$ –	$ –
Total market environment net income impact	$ (1,140)	$ (1,041)	$ (130)

(1) U.S. subprime – CDOs of ABS, RMBS, and other gains of $23 million incurred for the period of February 1, 2009 to October 31, 2009 were not included in the table above. Losses of $358 million were incurred during the first quarter of 2009 and are included in the table above. U.S. commercial mortgage-backed securities (CMBS) and U.S. Municipal guaranteed investment contracts (GIC) and other U.S. MBS have not been included in the above table. If included gains of $23 million would have been reported for all of these portfolios for 2009. The gains are not included in the table above as these gains are no longer considered a result of the market environment, since our current exposure is not significant.

(2) In accordance with the amendments to CICA section 3855 we reclassified certain impaired AFS securities not quoted in an active market to loans. As a result the impairment losses recognized in net income during 2008 on these securities of $229 million were reversed as a transitional adjustment on November 1, 2008 and an allowance for credit losses of $139 million was established. For further information refer to the CICA section 3855 – reclassification of securities to loans and Total RBC available-for-sale portfolio sections.

Held-for-trading losses

We recognized losses of $889 million on HFT instruments during the current year.

We recognized a loss of $420 million during the current year resulting from an increase in the credit valuation adjustment resulting from increases in fair value of credit default swaps (CDS) with monoline insurer MBIA Inc. that represent credit protection purchased to hedge our credit risk exposure to super-senior tranches of structured credit transactions, the fair value of the underlying assets and other parameter inputs. The credit protection with MBIA covers both subprime- and non-subprime-related assets.

We also incurred losses of $358 million primarily related to a trading portfolio in Capital Markets containing CDOs of corporate CDS. The business was discontinued and a series of risk reduction trades and assignment of trades to a third party AA-rated financial institution was executed.

Our U.S. Insurance and Pension solutions business in Capital Markets provides stable value contracts on bank-owned life insurance (BOLI) policies purchased by banks on groups of eligible employees. We no longer originate BOLI policies. As of October 31, 2009, we incurred losses of $111 million for the year, almost all of which were related to one contract that is invested in both leveraged and unleveraged strategies. This contract, with a Notional value of $2,024 million ($987 million of fair value) at October 31, 2009, was restructured to remove the economic consequences of an early surrender of the BOLI policy by establishing a fixed maturity date and Notional value. The restructured contract also allows for a reduction of investments in leveraged strategies. The fair value of our estimated payment under the restructured contract at maturity is $250 million, which has been recognized as a loss in 2008 and 2009. The remainder of the BOLI contracts, with $6,276 million Notional value ($5,855 million of fair value) are invested in unleveraged strategies that are mainly comprised of U.S. Agency MBS and government securities. Notional value represents the total amount of investment value protected under stable value contracts and is reported under stable value products in Note 25 to our Consolidated Financial Statements. Fair value represents the current estimate of the investments referenced under the stable value contracts.

Capital Markets recognized a gain of $46 million in credit valuation adjustments on certain derivative contracts other than monolines, reflecting the change in the fair value of all derivatives that are attributable to the credit quality of our derivative counterparts. These credit valuation adjustments are calculated using internal models, and our methodology considers the impact of both the counterparty's and our credit spreads on the present and potential future asset and liability position of the derivative counterparty. Counterparty credit spreads tightened and our net derivative-related credit exposure to our counterparties decreased during the year.

Exposures to selected financial instruments

Exposure to U.S. subprime and Alt-A RMBS, CDOs and mortgages
Certain activities and transactions we enter into expose us to the risk of default of U.S. subprime and Alt-A residential mortgages. Our net exposures to U.S. subprime and Alt-A represent .4% of our total assets as at October 31, 2009, compared to .5% the prior year.

Of our total holdings of RMBS, holdings with a fair value of $86 million, net of MBIA hedging of $249 million, may be exposed to U.S. subprime risk. U.S. subprime RMBS exposures decreased $176 million from last year, primarily reflecting our adoption of the amendments to CICA section 3855 as certain U.S. subprime securities were reclassified to loans and the stronger Canadian dollar relative to the U.S. dollar. Of this potential exposure, over 66% of our related holdings are rated A and above, compared to 96% in the prior year. As at October 31, 2009, U.S. subprime RMBS holdings rated AAA, on a net basis comprised 37% of total U.S. subprime RMBS holdings, compared to 48% in 2008. Exposure to U.S. subprime loans was $489 million as at October 31, 2009, representing .07% of total assets, $196 million higher than last year largely resulting from the reclassification noted above and the stronger Canadian dollar relative to the U.S. dollar.

Of our total holdings of RMBS, holdings with a fair value of $988 million, net of hedging, may be exposed to U.S. Alt-A risk. U.S. Alt-A exposures decreased $761 million from the prior year mainly reflecting the reclassification of certain U.S. Alt-A securities to loans and the stronger Canadian dollar relative to the U.S. dollar. Less than 50% of these RMBS were issued within 2006 and 2007. Our exposure to U.S. Alt-A loans was $1,287 million as at October 31, 2009, representing .20% of total assets and increased $335 million from the prior year, primarily reflecting the reclassification discussed above and the stronger Canadian dollar relative to the U.S. dollar.

Of our total holdings of CDOs, holdings of $22 million, net of MBIA hedging of $4 million may be exposed to U.S. subprime or Alt-A risk, decreased $71 million from 2008. This represents less than 8% of our total net unhedged positions in CDOs in which we had direct holdings, which totalled $300 million in 2009. The fair value of our Corporate CDOs, net of hedging of $278 million as at October 31, 2009 and decreased $215 million from 2008 primarily reflecting the sale and losses on certain positions and the stronger Canadian dollar relative to the U.S. dollar.

Net exposure to U.S. subprime and Alt-A through RMBS, CDOs and mortgages — Table 60

As at October 31 (C$ millions)	2009 Subprime RMBS	2009 Alt-A RMBS	2009 CDOs that may contain subprime or Alt-A	2009 Total
Fair value of securities before hedging	$ 335	$ 988	$ 26	$ 1,349
Fair value of securities net of hedging by rating				
AAA	$ 32	$ 116	$ –	
AA	24	86	–	
A	1	44	–	
BBB	–	55	–	
Below BBB- (1)	29	687	22	
Total	$ 86	$ 988	$ 22	$ 1,096
Fair value of securities net of hedging by vintage				
2003 (or before)	$ 19	$ 49	$ –	
2004	8	97	–	
2005	54	351	17	
2006	2	323	5	
2007	3	168	–	
Total	$ 86	$ 988	$ 22	$ 1,096
Amortized cost of subprime/Alt-A mortgages (whole loans)	$ 228	$ 837	$ –	$ 1,065
Amortized cost of subprime/Alt-A RMBS securities transferred to loans under Section 3855	$ 261	$ 450	$ –	$ 711
Total subprime and Alt-A exposures, net of hedging	$ 575	$2,275	$ 22	$ 2,872
Sensitivities of fair value of securities, net of hedging, to changes in assumptions:				
100bp increase in credit spread	$ (4)	$ (23)	$ (1)	
100bp increase in interest rates	–	(7)	1	
20% increase in default rates	(2)	(32)	(1)	
25% decrease in pre-payment rates	(2)	(50)	(1)	

(1) The subprime RMBS exposures rated below BBB- represents our net bought protection position.

Off-balance sheet arrangements

For our off-balance sheet arrangements including multi-seller conduits, structured investment vehicles and other variable interest entities as at October 31, 2009, refer to the Off-balance sheet arrangements section.

Leveraged finance

Our exposure to leveraged finance as at October 31, 2009 was nominal.

Direct and indirect monoline insurance

In addition to the monoline insurance previously described, we have direct and indirect monoline insurance on non-subprime assets. The table below shows our direct monoline insurance.

Direct monoline insurance — Table 61

(C$ millions)	As at October 31, 2009 Principal/ notional	As at October 31, 2009 Fair value
Financial Security Assurance Holdings Ltd. (FSA)	$ 286	$ 26
Syncora Holdings Ltd. (Formerly XL Capital Ltd)	259	15
AMBAC Financial Group (AMBAC)	108	6
Total	$ 653	$ 47

As at October 31, 2009, we held monoline insurance protection of $653 million against default of the issuer or counterparty on non-subprime trading assets comprising CDOs and CLOs of corporate names and interest rate swaps. The recorded fair value as at October 31, 2009 on these monoline insurance contracts was $47 million.

We also have indirect monoline insurance exposure through assets that we hold and liquidity facilities that we provide. Monoline insurers provide bond insurance for third-party originated assets that we hold, such as U.S. municipal bonds, ARS and GICs, interest rate swaps, public infrastructure bonds and collateralized GICs. In these cases, we obtain a benefit from the insurance protection. The principal/notional value of these assets as at October 31, 2009 is $1,458 million. The majority of these assets are held in our trading book, with changes in fair value reflected in Non-interest income – Trading revenue, and the implied value of the insurance is reflected in the fair value of the asset. In addition, we provide liquidity facilities of $336 million to certain of our customers in respect of their bond issuance programs where monoline insurance was purchased as part of that program of which $nil was drawn as of October 31, 2009.

Commercial mortgage-backed securities disclosure

The fair value of our total direct holdings of CMBS was $398 million as at October 31, 2009.

Performance measures

Tangible common equity (Tier 1 common capital) ratio
We use the Tangible common equity (Tier 1 common capital) ratio in conjunction with regulatory capital ratios to evaluate our capital adequacy specifically related to common equity. This ratio is calculated consistent with a stress testing measure used by the U.S. Federal Reserve for U.S. banks in determining capital adequacy under certain adverse scenarios except that our calculation of Tangible common equity (Tier 1 common capital) is based on the Basel II methodology as detailed in the Capital management section. We believe that the Tangible common equity (Tier 1 common capital) ratio is a useful supplemental measure of capital adequacy. The Tangible common equity (Tier 1 common capital) ratio does not have a standardized meaning under GAAP and may not be comparable to similar measures disclosed by other financial institutions.

The following table provides a calculation of our Tangible common equity (Tier 1 common capital) ratio.

Tangible common equity (Tier 1 common capital) ratio — Table 62

(C$ millions, except percentage amounts)	2009	2008
Tier 1 capital	$ 31,774	$ 25,031
Less: Qualifying other non-controlling interest in subsidiaries	353	357
Innovative Tier 1 capital instruments (1)	3,991	3,857
Non-cumulative First Preferred shares (1)	4,811	2,657
Tier 1 common capital	$ 22,619	$ 18,160
Risk-adjusted assets	$ 244,837	$ 278,579
Tangible common equity (Tier 1 common capital) ratio	9.2%	6.5%

(1) Net of treasury shares.

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 equity (ROE) and return on risk capital (RORC). We use ROE and RORC, at both the consolidated and business segment levels, as measures of return on total capital invested in our businesses. The business segment ROE and RORC measures are viewed as useful measures for supporting investment and resource allocation decisions because they adjust for certain items that may affect comparability between business segments and certain competitors. RORC does not have standardized meaning under GAAP and may not be comparable to similar measures disclosed 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 net income available to common shareholders divided by average attributed capital for the period. For each segment, average attributed capital, or Economic Capital, includes attributed risk capital required to underpin various risks as described in the Capital Management section and amounts invested in goodwill and intangibles (1).

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 attribution of capital and risk capital involves the use of assumptions, judgments and methodologies that are regularly reviewed and revised by management as necessary. 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.

The following table provides a summary of our 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). The difference between total average common equity and average attributed capital is classified as Unattributed capital, which is reported in Corporate Support for segment reporting purposes.

Calculation of Return on equity and Return on risk capital — Table 63

	2009							2008	2007
(C$ millions, except percentage amounts) (1)	Canadian Banking	Wealth Management	Insurance	International Banking	Capital Markets	Corporate Support	Total	Total	Total
Net income (loss) available to common shareholders	$ 2,607	$ 553	$ 486	$ (1,504)	$ 1,706	$ (223)	$ 3,625	$ 4,454	$ 5,404
Average risk capital (2)	$ 5,400	$ 1,100	$ 1,150	$ 3,050	$ 7,000	$ 900	$ 18,600	$ 15,050	$ 14,450
add: Under attribution of capital	–	–	–	–	–	600	600	1,900	1,850
Goodwill and intangible capital (3)	1,850	2,800	150	4,700	1,100	650	11,250	7,700	5,550
Average equity (4)	$ 7,250	$ 3,900	$ 1,300	$ 7,750	$ 8,100	$ 2,150	$ 30,450	$ 24,650	$ 21,850
add: Impact of goodwill impairment charge	–	–	–	550	–	–	550	–	–
Adjusted average equity	$ 7,250	$ 3,900	$ 1,300	$ 8,300	$ 8,100	$ 2,150	$ 31,000	$ 24,650	$ 21,850
ROE	35.9%	14.2%	37.0%	(19.4)%	21.0%	n.m.	11.9%	18.1%	24.7%
add: Impact of goodwill impairment charge	–	–	–	13.3%	–	–	3.0%	–	–
Adjusted ROE	35.9%	14.2%	37.0%	(6.1)%	21.0%	n.m.	14.9%	18.1%	24.7%
RORC	48.4%	49.2%	42.9%	(49.1)%	24.3%	n.m.	19.5%	29.6%	37.4%

(1) Average risk capital, Goodwill and intangible capital, and Average equity represent rounded figures. ROE and RORC are based on actual balances before rounding. These are calculated using methods intended to approximate the average of the daily balances for the period.
(2) Average risk capital includes Credit, Market (trading and non-trading), Operational and Business and fixed assets, and Insurance risk capital. For further details, refer to the Capital management section.
(3) Corporate Support includes average software intangible assets as certain software was reclassified to intangible assets, with the adoption of CICA handbook Section 3064 effective 2009. For further details, refer to the changes in accounting policies section.
(4) The amounts for the segments are referred to as attributed capital or Economic Capital.
n.m. not meaningful

Embedded value
Embedded value is a measure of shareholder value embedded in the balance sheet of our Insurance segment, excluding any value associated from future new sales. We use the change in embedded value between reporting periods as a measure of the value created by the insurance operations during the period.

We define embedded value as the value of equity held in our Insurance segment and the value of in-force business (existing policies). The value of in-force business is calculated as the present value of future expected earnings on in-force business less the present value of capital required to support in-force business. We use discount rates that are consistent with other insurance companies. Required capital uses the capital frameworks in the jurisdictions in which we operate.

Key drivers affecting the change in embedded value from period to period are new sales, investment performance, claims and policyholder experience, change in actuarial assumptions, changes in foreign exchange rates and changes in shareholder equity arising from transfers in capital.

Embedded value does not have a standardized meaning under GAAP and may not be directly comparable to similar measures disclosed by other companies. Given this measure is specifically used for our Insurance segment and involves the use of discount rates to present value the future expected earnings and capital required for the in-force business, reconciliation to financial statements information is not applicable.

Non-GAAP measures

Adjusted measures
Adjusted measures are adjusted net income, adjusted EPS, adjusted ROE and adjusted effective tax rate. We use and report adjusted measures consistent with our management framework. We believe that excluding the goodwill impairment charge which we recorded in 2009 from these measures is more reflective of ongoing operating results and will provide readers with a better understanding of management's perspective on our performance. These adjusted measures should also enhance the comparability of our financial performance for 2009 to prior years. Adjusted measures are non-GAAP measures which do not have standardized meanings under GAAP and may not be comparable to similar measures disclosed by other financial institutions.

The following table provides a calculation of our adjusted measures.

Adjusted measures — **Table 64**

(C$ millions, except percentage and per share amounts)	2009 As reported	2009 Goodwill impairment charge	2009 Adjusted	2008 As reported
Income before income taxes	$ 5,526	$ 1,000	$ 6,526	$ 6,005
Income taxes	1,568	–	1,568	1,369
Net income before non-controlling interest	$ 3,958	$ 1,000	$ 4,958	$ 4,636
Non-controlling interest in net income of subsidiaries	100	–	100	81
Net income	$ 3,858	$ 1,000	$ 4,858	$ 4,555
Preferred dividends	(233)	–	(233)	(101)
Net income available to common shareholders	$ 3,625	$ 1,000	$ 4,625	$ 4,454
Average number of common shares (thousands)	1,398,675		1,398,675	1,305,706
Basic earnings per share (in dollars)	$ 2.59	$ .71	$ 3.31	$ 3.41
Average number of diluted common shares (thousands)	1,412,126		1,412,126	1,319,744
Diluted earnings per share (in dollars)	$ 2.57	$ .71	$ 3.28	$ 3.38
Average common equity	$ 30,450		$ 31,000	$ 24,650
ROE (1)	11.9%		14.9%	18.1%
Effective tax rate	28.4%		24.0%	22.8%

(1) Based on actual balances before rounding

2009 Defined operating leverage
We use and report defined operating leverage consistent with our management framework.

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. Insurance results are excluded as certain changes in revenue can be largely offset in Insurance policyholder benefits, claims and acquisition expense, which expense is not captured in our defined operating leverage calculation. Defined operating leverage does not have a standardized meaning under GAAP and is not necessarily comparable with similar information reported by other financial institutions.

The following table shows our defined operating leverage ratio calculation.

2009 Defined operating leverage — **Table 65**

(C$ millions, except percentage amounts)	2009	2008	Change
Total revenue	$ 29,106	$ 21,582	
Add: teb adjustment	366	410	
Less: Revenue related to variable interest entities (VIEs)	(22)	(48)	
Insurance revenue	5,715	2,610	
Total revenue (adjusted)	$ 23,779	$ 19,430	22.4%
Non-interest expense	$ 14,558	$ 12,351	
Less: Insurance-related non-interest expense	559	576	
Non-interest expense (adjusted)	$ 13,999	$ 11,775	18.9%
Defined operating leverage			3.5%

Critical accounting policies and estimates

Application of critical accounting policies and estimates

Our significant accounting policies are described in Note 1 to our 2009 Annual 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 fair value of financial instruments, other-than-temporary impairment of available-for-sale (AFS) and held-to-maturity (HTM) securities, securitization, allowance for credit losses, variable interest entities, goodwill and other intangible assets, 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.

Financial instruments – recognition and measurement

Fair value of financial instruments

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 (HFT), AFS, HTM, loans and receivables or other financial liabilities. A financial instrument can be designated as HFT (the fair value option (FVO)) on its initial recognition, provided it meets certain criteria, even if it was not acquired or incurred principally for the purpose of selling or repurchasing in the near term.

Financial assets and financial liabilities HFT, 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). AFS 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 AFS that do not have a quoted market price in an active market, which are measured at cost. Financial assets HTM, loans and receivables, and other financial liabilities are measured at amortized cost using the effective interest method.

As at October 31, 2009, approximately $302 billion, or 46%, of our financial assets and $202 billion, or 33%, of our financial liabilities were carried at fair value ($340 billion, or 47%, of financial assets and $252 billion, or 36%, of financial liabilities as at October 31, 2008).

CICA Section 3862, *Financial Instruments – Disclosures*, establishes a three-level hierarchy for disclosure of financial instruments measured at fair value, which is essentially the same as the hierarchy under U.S. GAAP. The classification of assets and liabilities within the hierarchy is based on whether the inputs to the measurement valuation methodology are observable or unobservable. Observable inputs reflect market-derived or market-based information obtained from independent sources, while unobservable inputs reflect our estimates about market data. The following three-level fair value hierarchy is based on the transparency of the inputs used to measure the fair value of the financial instruments:

- Level 1 – inputs are unadjusted quoted prices of identical instruments in active markets.
- Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 – one or more significant inputs used in a valuation technique are unobservable in determining fair values of the instruments.

Note 2 to our 2009 Annual Consolidated Financial Statements discloses the fair values of our financial instruments as at October 31, 2009.

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. Where quoted prices are not available for a particular financial instrument, we use the quoted price of a financial instrument with similar characteristics and risk profile or internal or external valuation models 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 that would be required to determine the fair values. These include valuation adjustments for liquidity for financial instruments that are not quoted in an active market, 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. They also include valuation 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.

The majority of our financial instruments classified as HFT, other than derivatives and financial assets classified as AFS, 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 HFT using the FVO are actively quoted, we rely primarily on internally developed pricing models and established industry standard pricing models, such as Black-Schöles, to determine their 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 G7 interest-rate-yield curves, currency rates and volatility of certain prices or rates. 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 significant 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 2009 Annual Consolidated Financial Statements.

To determine the fair value adjustments on RBC debt designated as HFT, we calculate the present value of the instruments based on the contractual cash flows over the term of the arrangement by using the RBC effective funding rates at the beginning and end of the period, with the unrealized change in the present value recorded in net income.

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. Group Risk Management 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. Group 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. Refer to the Risk, capital and liquidity management section for further details on the sensitivity of financial instruments used in trading and non-trading activities.

Controls over valuations of financial instruments
An independent control infrastructure is critical to ensure that our financial instruments fair value measurements are reliable, consistently determined and appropriately valued at market exit price levels. Our valuation control infrastructure has senior management oversight and is independent of business functions that trade or invest in financial instruments. Valuations are governed by policies and controls, including independent price verification, review of daily profit and loss, and determination of valuation adjustments for non-readily observable market prices or parameters, by staff with appropriate knowledge and expertise of the instruments and markets in which we transact. These policies and controls include a review of all new business initiatives to ensure minimum standards are met prior to approval.

Other-than-temporary impairment of available-for-sale and held-to-maturity securities
AFS and HTM securities with unrealized losses are assessed for impairment at each reporting date and more frequently when conditions warrant. 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 for AFS securities, we consider several factors including: (i) the length of time and extent to which the fair value has been less than its amortized cost; (ii) the severity of the impairment; (iii) the cause of the impairment and the financial condition and near-term prospects of the issuer; and (iv) our intent and ability to hold the investment for a period of time sufficient to allow for any anticipated recovery of fair value. The decision to record a writedown, its amount and the period in which it is recorded could change based on management's judgment. If the decline in value based on management's judgment is considered to be other-than- temporary, the cumulative changes in the fair values of AFS securities previously recognized in accumulated other comprehensive income (AOCI) are reclassified to net income during that period. We assess our HTM securities for impairment using the same impairment model for Loans. For further details, refer to Notes 1 and 3 to our 2009 Annual 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 2009 Annual 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 2009 Annual 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 2009 Annual Consolidated Financial Statements, we concluded that none of the SPEs used to securitize our financial assets should be consolidated.

Allowance for credit losses
The allowance for credit losses is maintained at levels that management considers appropriate to cover estimated identified credit related losses in the portfolio as well as losses that have been incurred, but are not yet identifiable as at the balance sheet date. The allowance relates to on-balance sheet exposures, such as loans and acceptances, and off-balance sheet items such as letters of credit, guarantees and unfunded commitments.

The allowance is determined based on management's identification and evaluation of problem accounts for estimated losses that exist on the remaining portfolio, and on other factors including the composition and credit quality of the portfolio, and changes in economic and business conditions. The allowance for credit losses consists of specific allowances and the general allowance.

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

General allowance
A general allowance is established to cover estimated credit losses incurred in the lending portfolio that have not yet been specifically identified as impaired. For wholesale portfolios the determination of 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. For retail portfolios the determination of the general allowance is based on the application of historical loss rates. 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.

Total allowance for credit losses
Based on the procedures discussed above, management believes that the total allowance for credit losses of $3,302 million is adequate to absorb estimated credit losses incurred in the lending portfolio as at October 31, 2009. This amount includes $114 million classified in other liabilities, which relates to letters of credit and guarantees and unfunded commitments.

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 cash flows 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 that 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 2009 Annual Consolidated Financial Statements.

Goodwill and other intangible assets

Under GAAP, goodwill is not amortized and is generally allocated to reporting units which are one level below our operating segments. Goodwill is tested for impairment on an annual basis or more frequently if an event occurs or circumstances change such that the fair value of a reporting unit may be reduced to less than its book value.

Testing goodwill begins with determining the fair value of each reporting unit and comparing it to its carrying amount, including goodwill. If the carrying value of a reporting unit exceeds its fair value, the fair value of the reporting unit's goodwill must be determined and compared to its carrying value. The fair value of the goodwill is imputed by determining the fair value of the assets and liabilities of the reporting unit. Goodwill is deemed to be impaired if its carrying value exceeds the fair value. That excess is the quantum of the impairment which must be charged to income in the period it is identified. Subsequent reversals of impairment are prohibited.

Management applies significant judgment in estimating the fair value of our reporting units which is accomplished primarily using an earnings-based approach which incorporates each reporting unit's internal forecasts of revenues and expenses. The use of this model and, more generally, our impairment assessment process require the use of estimates and assumptions, including discount rates, growth rates, and terminal growth rates. Changes in one or more of the estimates or assumptions could have an impact on the determination of the fair value of our reporting units and thus, the results of the impairment test. In addition to the earnings-based approach, where possible, we use a market-based approach to assess what the appropriate fair value of each reporting unit may be in the current market based on actual market events and comparable companies.

Other intangibles with a finite life are amortized on a straight-line basis over their estimated useful lives, generally not exceeding 20 years. These are also tested for impairment when an event occurs or a condition arises that indicates that the estimated future net cash flows from the asset may be insufficient to recover its carrying amount. The identification of such events or conditions may be subject to management's judgment. Estimating the fair value of a finite-life intangible for purposes of determining whether it is impaired also requires management to make estimates and assumptions, changes in which could have an impact on the determination of the fair value of the intangible and thus, the results of the impairment test. We do not have any intangibles with indefinite lives.

For further details, refer to Notes 1 and 10 to our 2009 Annual Consolidated Financial Statements.

Pensions and other post-employment benefits

We sponsor a number of defined benefit and defined contribution plans that provide 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, healthcare cost trend rates, projected salary increases, retirement age, and mortality and termination rates. 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 2009 Annual 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 us 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 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. We review both positive and negative evidence in assessing whether future income tax assets are more likely than not to be realized.

Changes in accounting policies

Significant changes in accounting policies and disclosures during 2009

Canadian GAAP

Goodwill and Intangible Assets

On November 1, 2008, we adopted CICA Handbook Section 3064, *Goodwill and Intangible Assets* (Section 3064) which provides clarifying guidance on the criteria that must be satisfied in order for an intangible asset to be recognized, including internally developed intangible assets. It replaces Section 3062, *Goodwill and Other Intangible Assets,* and Section 3450, *Research and Development Costs.*

As a result of adopting Section 3064, we reclassified $789 million of software from Premises and equipment to Other intangibles on our Consolidated Balance Sheets as of November 1, 2008 and corresponding depreciation of $221 million from Non-interest expense – Equipment to Non-interest expense – Amortization of other intangibles on our Consolidated Statements of Income for the year ended October 31, 2008.

Impairment of Financial Assets

In August 2009, the CICA issued various amendments to Section 3855 including: non-derivative financial assets with fixed or determinable payments that are not quoted in an active market may be classified as loans and receivables; loan and receivables for which we may not recover substantially all of our initial investment, other than because of credit deterioration, must be classified as AFS; and loans and receivables that we intend to sell immediately or in the near term must be classified as HFT. The amendments also permit certain financial assets to be reclassified from the HFT and AFS categories into the loans and receivables category. Impairment losses on AFS debt instruments may be reversed under certain circumstances and impairment for debt instruments classified as loans and receivables will be assessed using the impairment model for loans.

We adopted these amendments with retrospective application to November 1, 2008, as required by the standard. Accordingly, we have reclassified $179 million of HFT and $929 million of AFS securities to loans. The impact on adoption was: (i) an increase of $66 million, net of taxes of $30 million, to our Retained earnings as of November 1, 2008, representing an adjustment to the impairment amount calculated as a result of using the impairment model for loans; and (ii) an increase of $104 million, net of taxes of $57 million, to our Accumulated other comprehensive income (AOCI) as of November 1, 2008, representing the cumulative marked-to-market adjustments previously recorded. Refer to Note 1 to our 2009 Annual Consolidated Financial Statements for additional information.

Fair Value and Liquidity Risk Disclosure
In June 2009, the CICA issued *Fair Value and Liquidity Risk Disclosure – Amendments to: Financial Instruments – Disclosures, Section 3862* to improve fair value and liquidity risk disclosures by requiring all financial instruments measured at fair value to be categorized into one of three fair value hierarchy levels for disclosure purposes. This hierarchy is essentially the same as the hierarchy under U.S. GAAP (Topic 820). We adopted these amendments for our fiscal year ended October 31, 2009.

U.S. GAAP
Framework on fair value measurement
Topic 820, *Fair Value Measurements and Disclosures* (Topic 820) (FASB Statement No. 157, Fair Value Measurements (FAS 157) and related pronouncements) was effective for us on November 1, 2008 except for certain non-financial assets and non-financial liabilities for which the amendments will be effective on November 1, 2009. Topic 820 requires that all financial instruments measured at fair value be categorized into the fair value hierarchy levels and measured based on the guidance for those levels.

Fair value option for financial assets and liabilities
Financial Accounting Standards Board (FASB) guidance under Topic 825-10, Financial Instruments (Topic 825-10) (Statement No. 159 *The Fair Value Option for Financial Assets and Liabilities* (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. We adopted this guidance on November 1, 2008. The impact on adoption was an increase to opening retained earnings of $81 million after taxes, representing the difference between the carrying amount and the fair value of the eligible items for which the fair value option was elected as at November 1, 2008.

Other-than-temporary impairment of securities
Guidance under Topic 320, *Investments – Debt and Equity Securities* (FSP FAS 115-2 and FAS 124-2 *Recognition and Presentation of Other-than-Temporary Impairments)* became effective for us on May 1, 2009. It amends the impairment assessment guidance and recognition principles of other-than-temporary impairment for debt securities and enhances the presentation and disclosure requirements for debt as well as equity securities. The impact on adoption was an increase in retained earnings of $225 million and a corresponding decrease to AOCI.

Offsetting of amounts related to certain contracts
We adopted FASB guidance (*Staff Position FIN 39-1, Amendment of FASB Interpretation* No. 39) which amends certain aspects of Topic 210-20, Balance Sheet – Offsetting and Topic 815 (FIN 39, Offsetting of Amounts Related to Certain Contracts) on November 1, 2008. This guidance permits the fair value of derivative instruments and the right to reclaim cash collateral (a receivable) or the obligation to return cash collateral (a payable) to be offset against the fair value of derivative instruments executed with the same counterparty under the same master netting agreement, regardless of whether there is an intention to settle on a net basis. We have offset fair value amounts on our U.S. GAAP Consolidated Balance Sheets pursuant to this guidance, including the comparative periods presented, as follows: as at October 31, 2009, the fair value amounts of derivative instruments that we netted against derivative assets and derivative liabilities was $62.9 billion (October 31, 2008 – $76.2 billion); as at October 31, 2009, and the cash collateral applied against derivative assets and derivative liabilities was $7.9 billion and $3.5 billion, respectively (October 31, 2008 – $5.0 billion and $7.5 billion, respectively). Refer to Note 31 to our 2009 Annual Consolidated Financial Statements for additional information.

Accounting adjustments
During the first quarter of 2009, we corrected certain errors pertaining to prior periods which are described in Note 1 to our 2009 Annual Consolidated Financial Statements. These errors were not material to the periods to which they relate; however, as correcting the errors in the first quarter of 2009 would have materially distorted net income for the quarter, we corrected them by decreasing opening retained earnings for the quarter ended January 31, 2007 by $120 million.

Future changes in accounting policies and disclosure
Canadian GAAP
Business combinations
In January 2009, the CICA issued three new accounting standards: Handbook Section 1582, *Business Combinations,* Section 1601, *Consolidated Financial Statements* and Section 1602, *Non-controlling interests*. Section 1582 provides clarification as to what an acquirer must measure when it obtains control of a business, the basis of valuation and the date at which valuation should be determined. Acquisition-related costs must be accounted for as expenses in the periods they are incurred, except for costs incurred to issue debt or share capital. This new standard will be applicable for acquisitions we complete on or after November 1, 2011 although adoption in 2010 is permitted to facilitate the transition to IFRS in 2011.

Section 1601 establishes standards for preparing consolidated financial statements after the acquisition date; Section 1602 establishes standards for the accounting and presentation of non-controlling interest. These two standards must be adopted concurrently with Section 1582.

U.S. GAAP
Business combinations
In December 2007, the FASB issued guidance under Topic 805, Business Combinations (Statement No. 141 (revised 2007), *Business Combinations*), which replaces previous guidance under Topic 805 (Statement No. 141, *Business Combinations*). The new guidance, which will be effective for us on November 1, 2009, includes the following requirements: more assets acquired and liabilities assumed must be measured at fair value at the acquisition date, liabilities related to contingent consideration must be remeasured at fair value and each subsequent reporting period, and all acquisition related costs must be expensed.

Amendments to Guidance on Accounting for Transfers of Financial Assets
In June 2009, the FASB issued Statement No. 166, *Accounting for Transfers of Financial Assets – an amendment of FASB Statement No. 140* (FAS 166), which will be effective for us on November 1, 2010. FAS 166 eliminates the exception for qualifying special purpose entities from consolidation guidance. It also eliminates the exception that permitted sale accounting for certain mortgage securitizations when control has not been completely surrendered by the transferor.

Amendments to Consolidation Guidance
In June 2009, the FASB issued Statement No. 167, *Amendments to FASB Interpretation No. 46(R)* (FAS167) which will be effective for us on November 1, 2010. FAS167 modifies the characteristics that identify a variable interest entity, provides new criteria for determining the primary beneficiary and increases the frequency of required assessments to determine whether an entity is the primary beneficiary of a variable interest entity.

Future adoption of International Financial Reporting Standards
Pursuant to the decision made by the CICA, we will begin reporting our financial statements in accordance with IFRS on November 1, 2011, including 2010 comparative results. To manage our transition to IFRS, we have implemented a comprehensive enterprise-wide program that focuses on the key areas of impact including financial reporting, systems and processes, as well as communications and training.

In 2008, we completed a thorough organization diagnostic to assess the scope and complexity of the IFRS conversion to us which identified the areas with significant differences between IFRS and existing Canadian GAAP. Generally, the areas that are expected to have the greatest financial and capital impacts on us include balance sheet de-recognition and consolidation, business combinations, and cumulative foreign exchange translation differences.

However, as IFRS evolves, we continue to monitor and frequently revisit our preliminary conclusions to determine further financial, capital and business implications.

Throughout 2009, we continued to manage the transition to IFRS through the completion of activities and deliverables to support the key areas of impact noted above. To date, we have:

- Conducted preliminary assessments of the various accounting policy elections for first-time IFRS adoption;
- Initiated multiple projects within a program framework which are in progress conducting more thorough GAAP analysis, assessing financial and economic impacts, and identifying process and systems requirements to ensure a successful transition;
- Established frequent and recurring communications with the Board of Directors, Audit Committee, executive and senior management to ensure timely decisions on key issues and risks;
- Provided frequent updates to our internal and external auditors and OSFI on key elements of program status, program structure and preliminary assessment of accounting impacts;
- Developed a resourcing model to ensure sufficient program resources are available to meet key deliverables;
- Identified preliminary external communication requirements for the investor and analyst community; and
- Conducted internal education seminars for key stakeholders across RBC in the various business platforms and functional groups.

As we prepare for our transition, we continue to monitor ongoing changes to IFRS and adjust our transition and implementation plans accordingly. Our transition remains aligned to our implementation schedule and we are on track to meet the timelines essential to our changeover.

For additional information regarding changes to our current and future accounting policies, refer to Notes 1 and 31 to our 2009 Annual Consolidated Financial Statements.

Pension obligations

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

We fund our registered defined benefit pension plans in accordance with actuarially determined amounts required to satisfy employee benefit obligations under current pension regulations. We continue to fund our pension plans in accordance with federal and provincial regulations.

We measured our benefit obligations and pension plan assets as at September 30, 2009. During 2009, corporate bond yields, which impact the selection of a discount rate we use to measure our benefit obligations and pension plan assets, have decreased in the short and mid ranges of the curve as a result of improving market conditions. This has resulted in an actuarial loss of $389 million in our benefit obligation, which offsets our pension plan asset gains of $272 million and increased our overall pension liability. Gains and losses on our pension plan assets are amortized over the estimated average remaining service life of the plan, which decreases the volatility to our expenses recognized every year. The strengthening of the Canadian dollar at year-end resulted in a decrease of our pension liability for our U.S. and international plans. Based on our recent funding valuation at January 1, 2009, we were required to make plan contributions of $610 million during the year. For further information, refer to Note 20 to our 2009 Annual Consolidated Financial Statements.

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 in reports filed or submitted under Canadian and U.S. securities laws is recorded, processed, summarized and reported within the time periods specified under those 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 the Chief Administrative Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

As of October 31, 2009, management evaluated, under the supervision of and with the participation of the President and Chief Executive Officer and the Chief Administrative Officer and Chief Financial Officer, the effectiveness of our disclosure controls and procedures as defined under rules adopted by the Canadian securities regulatory authorities and the United States Securities and Exchange Commission. Based on that evaluation, the President and Chief Executive Officer and the Chief Administrative Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of October 31, 2009.

Internal control over financial reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. However, because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements on a timely basis.

Management evaluated, under the supervision of and with the participation of the President and Chief Executive Officer and the Chief Administrative Officer and Chief Financial Officer, the effectiveness of our internal control over financial reporting based on the criteria set forth in the *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and, based on that evaluation, concluded that our internal control over financial reporting was effective as of October 31, 2009 and that there were no material weaknesses that have been identified in our internal control over financial reporting as of October 31, 2009. See 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, 2009, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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 27 to our Consolidated Financial Statements.

Net interest income on average assets and liabilities **Table 66**

(C$ millions, except percentage amounts)	Average balances 2009	2008	2007	Interest (1) 2009	2008	2007	Average rate 2009	2008	2007
Assets									
Deposits with other banks									
Canada	$ 2,692	$ 1,837	$ 1,570	$ 37	$ 45	$ 43	1.37%	2.45%	2.74%
United States	4,674	4,168	2,904	11	137	176	.24	3.29	6.06
Other International	3,976	7,802	5,436	114	316	319	2.87	4.05	5.87
	11,342	13,807	9,910	162	498	538	1.43	3.61	5.43
Securities									
Trading	136,963	149,098	162,828	4,041	4,862	6,621	2.95	3.26	4.07
Available-for-sale	50,686	39,626	31,516	1,905	1,800	1,044	3.76	4.54	3.31
	187,649	188,724	194,344	5,946	6,662	7,665	3.17	3.53	3.94
Asset purchased under reverse repurchase agreements and securities borrowed	44,476	68,356	71,759	931	2,889	3,620	2.09	4.23	5.04
Loans									
Canada									
Retail	185,318	170,300	152,588	8,625	7,440	9,376	4.65	4.37	6.14
Wholesale	35,074	38,558	31,541	1,179	2,443	1,047	3.36	6.34	3.32
	220,392	208,858	184,129	9,804	9,883	10,423	4.45	4.73	5.66
United States	42,227	35,096	25,718	1,777	2,161	2,240	4.21	6.16	8.71
Other International	17,559	15,623	13,388	1,923	2,939	2,061	10.95	18.81	15.39
	280,178	259,577	223,235	13,504	14,983	14,724	4.82	5.77	6.60
Total interest-earning assets	523,645	530,464	499,248	20,543	25,032	26,547	3.92	4.72	5.32
Non-interest-bearing deposits with other banks	5,895	3,702	2,137	–	–	–	–	–	–
Customers' liability under acceptances	10,247	11,274	10,270	–	–	–	–	–	–
Other assets	155,513	104,860	69,345	–	–	–	–	–	–
Total assets	$ 695,300	$ 650,300	$ 581,000	$ 20,543	$ 25,032	$ 26,547	2.95%	3.85%	4.57%
Liabilities and shareholders' equity									
Deposits (2)									
Canada	$ 183,563	$ 174,441	$ 166,983	$ 2,946	$ 4,423	$ 5,669	1.60%	2.54%	3.39%
United States	61,990	56,329	53,817	778	1,758	2,563	1.26	3.12	4.76
Other International	147,441	163,487	121,924	3,038	5,977	5,538	2.06	3.66	4.54
	392,994	394,257	342,724	6,762	12,158	13,770	1.72	3.08	4.02
Obligations related to securities sold short	37,597	45,367	46,654	1,286	1,525	1,997	3.42	3.36	4.28
Obligations related to assets sold under repurchase agreements and securities loaned	36,647	36,558	42,503	409	1,613	2,364	1.12	4.41	5.56
Subordinated debentures	7,377	7,183	6,704	350	354	338	4.74	4.93	5.04
Other interest-bearing liabilities	3,943	3,962	3,569	230	334	376	5.83	8.43	10.54
Total interest-bearing liabilities	478,558	487,327	442,154	9,037	15,984	18,845	1.89	3.28	4.26
Non-interest-bearing deposits	28,964	16,784	25,752	–	–	–	–	–	–
Acceptances	10,247	11,274	10,270	–	–	–	–	–	–
Other liabilities	142,964	108,116	79,087	–	–	–	–	–	–
Total liabilities	$ 660,733	$ 623,501	$ 557,263	$ 9,037	$ 15,984	$ 18,845	1.37%	2.56%	3.38%
Shareholders' Equity									
Preferred	4,130	1,795	1,553	–	–	–	–	–	–
Common	30,437	25,004	22,184	–	–	–	–	–	–
Total liabilities and shareholders' equity	$ 695,300	$ 650,300	$ 581,000	$ 9,037	$ 15,984	$ 18,845	1.30%	2.46%	3.24%
Net interest income and margin	$ 695,300	$ 650,300	$ 581,000	$ 11,506	$ 9,048	$ 7,702	1.65%	1.39%	1.33%
Net interest income and margin (average earning assets)									
Canada	$ 311,715	$ 308,574	$ 280,385	$ 7,828	$ 6,929	$ 6,402	2.51%	2.25%	2.28%
United States	107,131	108,733	106,044	2,134	1,132	412	1.99	1.04	.39
Other International	104,799	113,157	112,819	1,544	987	888	1.47	.87	.79
Total	$ 523,645	$ 530,464	$ 499,248	$ 11,506	$ 9,048	$ 7,702	2.20%	1.71%	1.54%

(1) Interest income includes loan fees of $398 million (2008 – $343 million; 2007 – $331 million).

(2) Deposits include savings deposits with average balances of $64 billion (2008 – $48 billion; 2007 – $46 billion), interest expense of $.3 billion (2008 – $.5 billion; 2007 – $.4 billion) and average rates of .5% (2008 – 1.0%; 2007 – .9%). Deposits also include term deposits with average balances of $193 billion (2008 – $227 billion; 2007 – $240 billion), interest expense of $3.8 billion (2008 – $8.0 billion; 2007 – $10.7 billion) and average rates of 1.98% (2008 – 3.50%; 2007 – 4.43%).

Loans and acceptances by geography					Table 67
As at October 31 (C$ millions)	2009	2008	2007	2006	2005
Canada					
Residential mortgages	$ 117,292	$ 117,690	$ 107,453	$ 94,272	$ 88,808
Personal	60,493	48,780	42,506	37,946	33,986
Credit cards	8,285	8,538	8,142	6,966	6,024
Small business	2,851	2,804	2,652	2,318	1,951
Retail	188,921	177,812	160,753	141,502	130,769
Business	47,110	53,775	51,237	44,353	42,383
Sovereign	1,394	1,544	585	553	521
Bank	1,096	978	521	160	74
Wholesale	$ 49,600	$ 56,297	$ 52,343	$ 45,066	$ 42,978
	$ 238,521	$ 234,109	$ 213,096	$ 186,568	$ 173,747
United States					
Retail	11,678	12,931	6,804	7,652	7,741
Wholesale	25,387	30,943	18,548	13,847	12,317
	37,065	43,874	25,352	21,499	20,058
Other International					
Retail	4,625	4,712	1,905	1,896	1,729
Wholesale	12,964	20,345	10,862	9,084	3,454
	17,589	25,057	12,767	10,980	5,183
Total loans and acceptances	$ 293,175	$ 303,040	$ 251,215	$ 219,047	$ 198,988
Total allowance for loan losses	(3,188)	(2,215)	(1,493)	(1,409)	(1,498)
Total loans and acceptances, net of allowance for loan losses	$ 289,987	$ 300,825	$ 249,722	$ 217,638	$ 197,490

Loans and acceptances by portfolio and sector					Table 68
As at October 31 (C$ millions)	2009	2008	2007	2006	2005
Residential mortgages	$ 122,130	$ 122,991	$ 109,745	$ 96,675	$ 91,043
Personal	71,542	60,727	48,743	44,902	41,045
Credit cards	8,701	8,933	8,322	7,155	6,200
Small business	2,851	2,804	2,652	2,318	1,951
Retail	$ 205,224	$ 195,455	$ 169,462	$ 151,050	$ 140,239
Business					
Agriculture	5,090	5,305	5,367	5,435	5,238
Automotive	3,657	3,999	3,285	2,958	2,545
Consumer goods	6,141	7,389	5,206	4,553	4,437
Energy	7,055	8,146	7,632	6,010	5,628
Non-bank financial services	3,541	8,788	6,959	4,459	1,892
Forest products	830	1,152	1,349	1,126	1,210
Industrial products	3,972	5,033	4,119	3,659	3,157
Mining & metals	1,774	3,947	2,301	1,072	543
Real estate & related	21,049	22,978	19,187	16,145	13,730
Technology & media	2,562	3,206	2,423	2,326	2,244
Transportation & environment	4,413	4,239	2,656	2,400	1,900
Other (1)	22,572	25,623	17,583	15,586	14,772
Sovereign	2,779	2,496	932	887	550
Bank	2,516	5,284	2,754	1,381	903
Wholesale	$ 87,951	$ 107,585	$ 81,753	$ 67,997	$ 58,749
Total loans and acceptances	$ 293,175	$ 303,040	$ 251,215	$ 219,047	$ 198,988
Total allowance for loan losses	(3,188)	(2,215)	(1,493)	(1,409)	(1,498)
Total loans and acceptances, net of allowance for loan losses	$ 289,987	$ 300,825	$ 249,722	$ 217,638	$ 197,490

(1) Other in 2009 related to other services, $10.0 billion; financing products, $5.7 billion; holding and investments, $3.9 billion; health, $2.4 billion; and other, $.6 billion.

Impaired loans by portfolio and geography — Table 69

As at October 31 (C$ millions except percentage amounts)	2009	2008	2007	2006	2005
Residential mortgages	$ 641	$ 340	$ 180	$ 165	$ 146
Personal	409	348	189	205	183
Small business	59	40	19	13	11
Retail	$ 1,109	$ 728	$ 388	$ 383	$ 340
Business					
Agriculture	82	95	65	45	48
Automotive	41	20	5	8	4
Consumer goods	145	57	83	85	73
Energy	107	80	3	6	47
Non-bank financial services	227	25	14	15	15
Forest products	53	25	29	12	16
Industrial products	172	194	29	17	12
Mining & metals	22	7	4	5	4
Real estate & related	1,625	1,137	353	74	58
Technology & media	115	45	10	49	52
Transportation & environment	29	10	19	19	14
Other (1)	1,658	500	116	108	75
Sovereign	10	–	–	–	–
Bank	62	–	–	–	–
Wholesale	$ 4,348	$ 2,195	$ 730	$ 443	$ 418
Total impaired loans (2)	$ 5,457	$ 2,923	$ 1,118	$ 826	$ 758
Canada					
Residential mortgages	$ 441	$ 238	$ 149	$ 127	$ 106
Personal	173	150	152	183	161
Small business	59	40	19	13	11
Retail	$ 673	$ 428	$ 320	$ 323	$ 278
Business					
Agriculture	$ 77	$ 95	$ 64	$ 45	$ 44
Automotive	27	17	4	5	2
Consumer goods	53	43	81	73	69
Energy	5	5	1	4	1
Non-bank financial services	1	3	3	2	2
Forest products	20	22	28	11	16
Industrial products	140	174	28	14	11
Mining & metals	6	6	4	5	4
Real estate & related	232	50	53	26	33
Technology & media	88	10	10	9	6
Transportation & environment	17	10	19	6	7
Other	173	94	82	66	30
Sovereign	–	–	–	–	–
Bank	–	–	–	–	–
Wholesale	$ 839	$ 529	377	266	225
United States					
Residential mortgages	108	52	6	8	8
Personal	119	81	21	7	8
Retail	227	133	27	15	16
Business					
Agriculture	$ 3	$ –	$ 1	$ –	$ 4
Automotive	14	3	1	3	2
Consumer goods	34	14	2	12	4
Energy	100	73	–	–	43
Non-bank financial services	213	8	–	–	–
Forest products	33	3	1	1	–
Industrial products	32	20	1	3	1
Mining & metals	16	1	–	–	–
Real estate & related	1,365	1,087	300	48	25
Technology & media	20	35	–	40	46
Transportation & environment	9	–	–	13	7
Other	1,355	282	16	23	25
Sovereign	–	–	–	–	–
Bank	–	–	–	–	–
Wholesale	3,194	1,526	322	143	157
	$ 3,421	$ 1,659	$ 349	$ 158	$ 173
Other International					
Retail	209	167	41	45	46
Wholesale	315	140	31	34	36
	$ 524	$ 307	$ 72	$ 79	$ 82
Total impaired loans	$ 5,457	$ 2,923	$ 1,118	$ 826	$ 758
Specific allowance for loan losses	(1,279)	(767)	(351)	(263)	(282)
Net impaired loans	$ 4,178	$ 2,156	$ 767	$ 563	$ 476
Gross impaired loans as a % of loans and acceptances					
Residential mortgages	0.52%	0.28%	0.16%	0.17%	0.16%
Personal	0.57%	0.57%	0.39%	0.46%	0.45%
Small business	2.07%	1.43%	0.72%	0.56%	0.56%
Retail	0.54%	0.37%	0.23%	0.25%	0.24%
Wholesale	4.94%	2.04%	0.89%	0.65%	0.71%
Total	1.86%	0.96%	0.45%	0.38%	0.38%
Specific allowance for loan losses as a % of gross impaired loans	23.44%	26.24%	31.40%	31.84%	37.20%

(1) Other in 2009 is related to other, $148 million; financing products, $1,203 million; other services, $230 million; holding and investments, $50 million; and health, $27 million.
(2) Past due loans greater than 90 days not included in impaired loans were $359 million in 2009 (2008 – $347 million; 2007 – $280 million; 2006 – $305 million; 2005 – $304 million).

Provision for (recovery of) credit losses by portfolio and geography Table 70

(C$ millions, except percentage amounts)	2009	2008	2007	2006	2005
Residential mortgages	$ 73	$ 16	$ 5	$ 6	$ 2
Personal	701	445	364	306	259
Credit cards	402	270	223	163	194
Small business	55	46	34	29	27
Retail	$ 1,231	$ 777	$ 626	$ 504	$ 482
Business					
Agriculture	$ 20	$ 5	$ 2	$ (1)	$ (12)
Automotive	21	10	2	4	–
Consumer goods	61	19	27	7	24
Energy	16	21	(7)	(53)	(20)
Non-bank financial services	266	–	–	4	10
Forest products	13	2	10	2	(52)
Industrial products	67	95	10	4	(7)
Mining & metals	7	2	1	–	(1)
Real estate & related	587	345	78	1	(11)
Technology & media	96	21	(2)	(5)	(6)
Transportation & environment	11	3	7	1	8
Other	408	130	28	14	(26)
Sovereign	–	–	–	–	–
Bank	20	–	–	–	–
Wholesale	$ 1,593	$ 653	$ 156	$ (22)	$ (93)
Total specific provision	$ 2,824	$ 1,430	$ 782	$ 482	$ 389
Canada					
Residential mortgages	$ 18	$ 8	$ 5	$ 6	$ 1
Personal	467	352	334	296	247
Credit cards	393	266	220	161	192
Small business	55	46	34	29	27
Retail	$ 933	$ 672	$ 593	$ 492	$ 467
Business					
Agriculture	$ 18	$ 5	$ 2	$ (1)	$ (12)
Automotive	17	10	2	4	–
Consumer goods	26	13	26	6	25
Energy	(4)	(3)	(4)	(10)	1
Non-bank financial services	36	–	–	–	10
Forest products	9	2	10	1	(52)
Industrial products	36	78	10	4	(5)
Mining & metals	2	1	1	–	–
Real estate & related	52	12	15	2	(1)
Technology & media	33	4	4	1	(3)
Transportation & environment	7	3	8	2	10
Other (1)	204	27	28	6	(5)
Sovereign	–	–	–	–	–
Bank	–	–	–	–	–
Wholesale	$ 436	$ 152	$ 102	$ 15	$ (32)
Total	$ 1,369	$ 824	$ 695	$ 507	$ 435
United States					
Residential mortgages	$ 51	$ 6	$ 1	$ –	$ 1
Personal	207	74	22	10	12
Credit cards	9	4	3	2	2
Small business	–	–	–	–	–
Retail	$ 267	$ 84	$ 26	$ 12	$ 15
Business					
Agriculture	$ 2	$ –	$ –	$ –	$ –
Automotive	4	–	–	–	–
Consumer goods	23	6	1	1	(1)
Energy	20	24	(3)	(43)	(20)
Non-bank financial services	230	–	–	4	–
Forest products	4	–	–	1	–
Industrial products	31	17	–	–	(2)
Mining & metals	5	1	–	–	–
Real estate & related	527	333	63	–	(10)
Technology & media	60	17	(6)	(6)	(3)
Transportation & environment	3	–	–	(1)	(2)
Other	187	96	3	6	(22)
Sovereign	–	–	–	–	–
Bank	–	–	–	–	–
Wholesale	$ 1,096	$ 494	$ 58	$ (38)	$ (60)
Total	$ 1,363	$ 578	$ 84	$ (26)	$ (45)
Other International					
Retail	$ 31	$ 21	$ 7	$ –	$ –
Wholesale	61	7	(4)	1	(1)
Total	$ 92	$ 28	$ 3	$ 1	$ (1)
Total specific provision	$ 2,824	$ 1,430	$ 782	$ 482	$ 389
Total general provision	589	165	9	(53)	66
Total provision for credit losses	$ 3,413	$ 1,595	$ 791	$ 429	$ 455
Specific provision as a % of average net loans and acceptances	.97%	.53%	.33%	.23%	.21%

(1) Other in 2009 is related to financing products, $244 million; other services, $94 million; health, $18 million; holdings and investments, $14 million; and other, $38 million.

Allowance for credit losses by portfolio and geography — Table 71

(C$ millions, except percentage amounts)	2009	2008	2007	2006	2005
Allowance at beginning of year (1)	$ 2,438	$ 1,572	$ 1,486	$ 1,568	$ 1,714
Provision for credit losses	3,413	1,595	791	429	455
Write-offs by portfolio					
Residential mortgages	(52)	(9)	(5)	(5)	(5)
Personal	(732)	(504)	(446)	(379)	(353)
Credit cards	(455)	(319)	(268)	(204)	(237)
Small business	(54)	(44)	(42)	(36)	(34)
Retail	$ (1,293)	$ (876)	$ (761)	$ (624)	$ (629)
Business	$ (1,373)	$ (435)	$ (107)	$ (89)	$ (141)
Sovereign	–	–	–	–	–
Bank	–	–	–	–	–
Wholesale	$ (1,373)	$ (435)	$ (107)	$ (89)	$ (141)
Less developed countries exposures	$ –	$ –	$ –	$ –	$ –
Total write-offs by portfolio	$ (2,666)	$ (1,311)	$ (868)	$ (713)	$ (770)
Recoveries by portfolio					
Residential mortgages	$ 1	$ 1	$ 1	$ –	$ –
Personal	74	76	75	64	69
Credit cards	53	49	46	41	43
Small business	5	7	7	7	9
Retail	$ 133	$ 133	$ 129	$ 112	$ 121
Business	$ 140	$ 29	$ 41	$ 93	$ 53
Sovereign	–	–	–	–	–
Bank	–	–	–	–	–
Wholesale	$ 140	$ 29	$ 41	$ 93	$ 53
Total recoveries by portfolio	$ 273	$ 162	$ 170	$ 205	$ 174
Net write-offs	$ (2,393)	$ (1,149)	$ (698)	$ (508)	$ (596)
Adjustments (2)	(156)	281	(7)	(3)	(5)
Total allowance for credit losses at end of year	$ 3,302	$ 2,299	$ 1,572	$ 1,486	$ 1,568
Specific allowance for loan losses					
Canada					
Residential mortgages	$ 39	$ 23	$ 13	$ 11	$ 9
Personal	94	79	79	88	101
Small business	22	17	9	9	8
Retail	$ 155	$ 119	$ 101	$ 108	$ 118
Business					
Agriculture	$ 10	$ 13	$ 9	$ 8	$ 14
Automotive	6	5	2	3	1
Consumer goods	18	12	45	32	31
Energy	1	2	–	2	5
Non-bank financial services	–	9	9	10	10
Forest products	8	4	10	2	6
Industrial products	63	49	9	8	7
Mining & metals	1	1	1	1	–
Real estate & related	44	9	18	10	15
Technology & media	32	6	5	5	3
Transportation & environment	7	5	7	7	4
Other	72	23	38	24	16
Sovereign	–	–	–	–	–
Bank	–	–	–	–	–
Wholesale	$ 262	$ 138	$ 153	$ 112	$ 112
	$ 417	$ 257	$ 254	$ 220	$ 230
United States					
Residential mortgages	$ 10	$ 5	$ 1	$ 1	$ 1
Personal	34	16	5	2	2
Small business	–	–	–	–	–
Retail	$ 44	$ 21	$ 6	$ 3	$ 3
Business					
Agriculture	$ 1	$ –	$ –	$ 1	$ 1
Automotive	5	–	–	2	2
Consumer goods	9	6	–	3	3
Energy	42	27	–	–	1
Non-bank financial services	62	–	–	1	–
Forest products	2	–	–	–	–
Industrial products	17	8	–	–	–
Mining & metals	5	1	–	–	–
Real estate & related	241	241	56	1	1
Technology & media	3	13	–	–	5
Transportation & environment	3	–	–	–	1
Other	233	79	6	4	4
Sovereign	–	–	–	–	–
Bank	–	–	–	–	–
Wholesale	$ 623	$ 375	$ 62	$ 12	$ 18
	$ 667	$ 396	$ 68	$ 15	$ 21
Other International					
Retail	$ 74	$ 68	$ 13	$ 12	$ 12
Wholesale	121	46	16	16	19
	$ 195	$ 114	$ 29	$ 28	$ 31
Total specific allowance for loan losses	$ 1,279	$ 767	$ 351	$ 263	$ 282
General allowance					
Residential mortgages	$ 50	$ 20	$ 16	$ 19	$ 19
Personal	671	461	349	365	343
Credit cards	327	270	193	195	195
Small business	47	47	37	37	37
Retail	$ 1,095	$ 798	$ 595	$ 616	$ 594
Wholesale	$ 814	$ 650	$ 370	$ 349	$ 425
General allowance for off-balance sheet items and other items	$ 114	$ 84	$ 256	$ 258	$ 267
Total general allowance	$ 2,023	$ 1,532	$ 1,221	$ 1,223	$ 1,286
Total allowance for credit losses	$ 3,302	$ 2,299	$ 1,572	$ 1,486	$ 1,568
Key ratios					
Allowance for credit losses as a % of loans and acceptances	1.13%	.76%	.63%	.68%	.79%
Net write-offs as a % of average net loans and acceptances	.82%	.42%	.30%	.25%	.32%

(1) Opening allowance for credit losses as at November 1, 2008 has been restated due to the implementation of amendments to CICA section 3855.
(2) Other adjustments include primarily foreign exchange translations on non-Canadian dollar-denominated allowance for credit losses and acquisition adjustments for RBTT $25 million in 2008; ANB $50 million in 2008; and Flag Bank $21 million in 2007.

Credit quality information by Canadian province — Table 72

As at October 31 (C$ millions)	2009	2008	2007	2006	2005
Loans and acceptances					
Atlantic provinces (1)	$ 11,831	$ 11,446	$ 11,556	$ 10,256	$ 10,255
Quebec	26,666	32,908	35,168	32,723	26,646
Ontario	121,394	105,410	90,242	81,968	78,283
Prairie provinces (2)	44,144	43,884	40,956	32,598	31,190
B.C. and territories (3)	41,158	40,461	35,174	29,023	27,373
Total loans and acceptances in Canada	$ 245,193	$ 234,109	$ 213,096	$ 186,568	$ 173,747
Gross impaired loans					
Atlantic provinces (1)	$ 57	$ 66	$ 53	$ 53	$ 47
Quebec	190	122	118	68	44
Ontario	647	504	322	286	269
Prairie provinces (2)	300	158	112	107	78
B.C. and territories (3)	318	107	92	75	65
Total gross impaired loans in Canada	$ 1,512	$ 957	$ 697	$ 589	$ 503
Specific provision					
Atlantic provinces (1)	$ 56	$ 43	$ 40	$ 33	$ 30
Quebec	90	63	66	47	7
Ontario	942	610	490	344	368
Prairie provinces (2)	138	60	51	38	44
B.C. and territories (3)	143	48	48	45	(14)
Total specific provision for credit losses in Canada	$ 1,369	$ 824	$ 695	$ 507	$ 435

(1) Comprises Newfoundland and Labrador, Prince Edward Island, Nova Scotia and New Brunswick.
(2) Comprises Manitoba, Saskatchewan and Alberta.
(3) Comprises British Columbia, Nunavut, Northwest Territories and Yukon.

Small business loans and acceptances in Canada by sector — Table 73

As at October 31 (C$ millions)	2009	2008	2007	2006	2005
Agriculture	$ 304	$ 261	$ 271	$ 248	$ 715
Automotive	666	636	650	601	490
Consumer goods	2,261	2,234	2,350	2,043	1,728
Energy	367	384	370	284	182
Non-bank financial services	66	84	88	73	78
Forest products	316	346	351	366	311
Industrial products	1,696	1,672	1,543	1,377	1,057
Mining & metals	102	100	98	88	57
Real estate & related	3,053	3,052	2,822	2,565	1,982
Technology & media	318	316	314	300	243
Transportation & environment	961	940	901	774	549
Other (1)	5,013	4,687	4,488	4,098	3,365
Total small business loans	$ 15,123	$ 14,712	$ 14,246	$ 12,817	$ 10,757

(1) Other sector in 2009 related primarily to other services, $3,144 million; health, $1,290 million; holding and investment, $452 million; and financing products, $82 million.