Consolidated Financial Statements

Reports

111 Management's responsibility for financial reporting
111 Report of Independent Registered Chartered Accountants
112 Management's report on internal control over financial reporting
112 Report of Independent Registered Chartered Accountants

Consolidated Financial Statements

113 Consolidated Balance Sheets
114 Consolidated Statements of Income
115 Consolidated Statements of Comprehensive Income
115 Consolidated Statements of Changes in Shareholders' Equity
116 Consolidated Statements of Cash Flows

Notes to the Consolidated Financial Statements

117 Note 1 Significant accounting policies and estimates
124 Note 2 Fair value of financial instruments
127 Note 3 Securities
129 Note 4 Loans
130 Note 5 Securitizations
132 Note 6 Variable interest entities (VIEs)
133 Note 7 Derivative financial instruments and hedging activities
137 Note 8 Premises and equipment
137 Note 9 RBC Dexia Investor Services joint venture
138 Note 10 Goodwill and other intangibles
139 Note 11 Significant acquisitions and dispositions
140 Note 12 Other assets
141 Note 13 Deposits
142 Note 14 Insurance
142 Note 15 Other liabilities
143 Note 16 Subordinated debentures
144 Note 17 Trust capital securities
145 Note 18 Preferred share liabilities and share capital
147 Note 19 Non-controlling interest in subsidiaries
148 Note 20 Pensions and other post-employment benefits
150 Note 21 Stock-based compensation
153 Note 22 Trading revenue
153 Note 23 Business realignment charges
154 Note 24 Income taxes
155 Note 25 Earnings per share
156 Note 26 Concentrations of credit risk
156 Note 27 Guarantees, commitments and contingencies
159 Note 28 Contractual repricing and maturity schedule
160 Note 29 Related party transactions
161 Note 30 Results by business and geographic segment
163 Note 31 Reconciliation of the application of Canadian and United States generally accepted accounting principles
175 Note 32 Parent company information

Management's responsibility for financial reporting

The accompanying consolidated financial statements of Royal Bank of Canada (RBC) were prepared by management, which is responsible for the integrity and fairness of the information presented, including the many amounts that must of necessity be based on estimates and judgments. These consolidated financial statements were prepared in accordance with Canadian generally accepted accounting principles (GAAP) pursuant to Subsection 308 of the *Bank Act* (Canada), which states that, except as otherwise specified by the Superintendent of Financial Institutions Canada, the financial statements are to be prepared in accordance with Canadian GAAP. Financial information appearing throughout our management's discussion and analysis is consistent with these consolidated financial statements.

In discharging our responsibility for the integrity and fairness of the consolidated financial statements and for the accounting systems from which they are derived, we maintain the necessary system of internal controls designed to ensure that transactions are authorized, assets are safeguarded and proper records are maintained. These controls include quality standards in hiring and training of employees, policies and procedures manuals, a corporate code of conduct and accountability for performance within appropriate and well-defined areas of responsibility.

The system of internal controls is further supported by a compliance function, which is designed to ensure that we and our employees comply with securities legislation and conflict of interest rules, and by an internal audit staff, which conducts periodic audits of all aspects of our operations.

The Board of Directors oversees management's responsibilities for financial reporting through an Audit Committee, which is composed entirely of directors who are neither officers nor employees of RBC. This Committee reviews our consolidated financial statements and recommends them to the Board for approval. Other key responsibilities of the Audit Committee include reviewing our existing internal control procedures and planned revisions to those procedures, and advising the directors on auditing matters and financial reporting issues. Our Compliance Officer and Chief Internal Auditor have full and unrestricted access to the Audit Committee.

The Office of the Superintendent of Financial Institutions, Canada (OSFI) examines and inquires into the business and affairs of RBC as deemed necessary to determine whether the provisions of the *Bank Act* are being complied with, and that RBC is in sound financial condition. In carrying out its mandate, OSFI strives to protect the rights and interests of depositors and creditors of RBC.

Deloitte & Touche LLP, Independent Registered Chartered Accountants appointed by the shareholders of RBC upon the recommendation of the Audit Committee and Board, have performed an independent audit of the consolidated financial statements and their report follows. The auditors have full and unrestricted access to the Audit Committee to discuss their audit and related findings.

Gordon M. Nixon
President and Chief Executive Officer

Janice R. Fukakusa
Chief Financial Officer

Toronto, November 29, 2007

Report of Independent Registered Chartered Accountants

To the Shareholders of Royal Bank of Canada

We have audited the consolidated balance sheets of Royal Bank of Canada (the "Bank") as at October 31, 2007 and 2006 and the consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for each of the three years in the period ended October 31, 2007. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

With respect to the consolidated financial statements as at and for the years ended October 31, 2007 and 2006, we conducted our audits in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). With respect to the consolidated financial statements as at and for the year ended October 31, 2005, we conducted our audit in accordance with Canadian generally accepted auditing standards. These standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Bank as at October 31, 2007 and 2006 and the results of its operations and its cash flows for each of the three years in the period ended October 31, 2007 in accordance with Canadian generally accepted accounting principles.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Bank's internal control over financial reporting as of October 31, 2007 based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated November 29, 2007 expressed an unqualified opinion on the Bank's internal control over financial reporting.

Deloitte & Touche LLP
Independent Registered Chartered Accountants
Licensed Public Accountants
Toronto, Canada
November 29, 2007

Management's report on internal control over financial reporting

Management of Royal Bank of Canada (RBC) is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed by, or under the supervision of, the President and Chief Executive Officer and the Chief Financial Officer and effected by the Board of Directors, management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. It includes those policies and procedures that:

- pertain to the maintenance of records that accurately and fairly reflect, in reasonable detail, the transactions related to and dispositions of RBC's assets
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and RBC receipts and expenditures are made only in accordance with authorizations of management and RBC's directors
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of RBC assets that could have a material effect on RBC's financial statements.

Due to its inherent limitations, internal control over financial reporting may not prevent or detect misstatements on a timely basis. Also, projections of any evaluation of the effectiveness of internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of RBC's internal control over financial reporting as of October 31, 2007, based on the criteria set forth in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management concluded that, as of October 31, 2007, RBC's internal control over financial reporting is effective. Also, management determined that there were no material weaknesses in RBC's internal control over financial reporting as of October 31, 2007.

RBC's internal control over financial reporting as of October 31, 2007 has been audited by Deloitte & Touche LLP, Independent Registered Chartered Accountants, who also audited RBC's Consolidated Financial Statements for the year ended October 31, 2007, as stated in the Report of Independent Registered Chartered Accountants, which report expressed an unqualified opinion on the effectiveness of RBC's internal control over financial reporting.

Gordon M. Nixon
President and Chief Executive Officer

Janice R. Fukakusa
Chief Financial Officer

Toronto, November 29, 2007

Report of Independent Registered Chartered Accountants

To the Shareholders of Royal Bank of Canada

We have audited the internal control over financial reporting of Royal Bank of Canada (the "Bank") as of October 31, 2007 based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Bank's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Bank's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Bank maintained, in all material respects, effective internal control over financial reporting as of October 31, 2007 based on the criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as at and for the year ended October 31, 2007 of the Bank and our report dated November 29, 2007 expressed an unqualified opinion on those consolidated financial statements.

Deloitte & Touche LLP
Independent Registered Chartered Accountants
Licensed Public Accountants
Toronto, Canada
November 29, 2007

Consolidated Balance Sheets

As at October 31 (C$ millions)	2007	2006
Assets		
Cash and due from banks	$ 4,226	$ 4,401
Interest-bearing deposits with banks	11,881	10,502
Securities (Note 3)		
Trading	148,246	147,237
Available-for-sale	30,009	–
Investments	–	37,632
	178,255	184,869
Assets purchased under reverse repurchase agreements and securities borrowed	64,313	59,378
Loans (Notes 4 and 5)		
Retail	169,462	151,050
Wholesale	69,967	58,889
	239,429	209,939
Allowance for loan losses	(1,493)	(1,409)
	237,936	208,530
Other		
Customers' liability under acceptances	11,786	9,108
Derivatives (Note 7)	66,585	37,729
Premises and equipment, net (Note 8)	2,131	1,818
Goodwill (Note 10)	4,752	4,304
Other intangibles (Note 10)	628	642
Assets of operations held for sale	–	82
Other assets (Note 12)	17,853	15,417
	103,735	69,100
	$ 600,346	$ 536,780
Liabilities and shareholders' equity		
Deposits (Note 13)		
Personal	$ 116,557	$ 114,040
Business and government	219,886	189,140
Bank	28,762	40,343
	365,205	343,523
Other		
Acceptances	11,786	9,108
Obligations related to securities sold short	44,689	38,252
Obligations related to assets sold under repurchase agreements and securities loaned	37,033	41,103
Derivatives (Note 7)	72,010	42,094
Insurance claims and policy benefit liabilities (Note 14)	7,283	7,337
Liabilities of operations held for sale	–	32
Other liabilities (Note 15)	28,483	22,649
	201,284	160,575
Subordinated debentures (Note 16)	6,235	7,103
Trust capital securities (Note 17)	1,400	1,383
Preferred share liabilities (Note 18)	300	298
Non-controlling interest in subsidiaries (Note 19)	1,483	1,775
Shareholders' equity (Note 18)		
Preferred shares	2,050	1,050
Common shares (shares issued – 1,276,260,033 and 1,280,889,745)	7,300	7,196
Contributed surplus	235	292
Treasury shares – preferred (shares held – 248,800 and 93,700)	(6)	(2)
– common (shares held – 2,444,320 and 5,486,072)	(101)	(180)
Retained earnings	18,167	15,771
Accumulated other comprehensive income (loss)	(3,206)	(2,004)
	24,439	22,123
	$ 600,346	$ 536,780

Gordon M. Nixon
President and Chief Executive Officer

Robert B. Peterson
Director

Consolidated Statements of Income

For the year ended October 31 (C$ millions)	2007	2006	2005
Interest income			
Loans	$ 14,724	$ 12,708	$ 10,790
Securities	7,665	6,189	4,606
Assets purchased under reverse repurchase agreements and securities borrowed	3,450	2,827	1,354
Deposits with banks	538	480	231
	26,377	22,204	16,981
Interest expense			
Deposits	13,770	10,708	6,946
Other liabilities	4,737	4,281	2,800
Subordinated debentures	338	419	442
	18,845	15,408	10,188
Net interest income	7,532	6,796	6,793
Non-interest income			
Insurance premiums, investment and fee income	3,152	3,348	3,270
Trading revenue	2,261	2,574	1,594
Investment management and custodial fees	1,579	1,301	1,232
Mutual fund revenue	1,473	1,242	962
Securities brokerage commissions	1,353	1,243	1,163
Service charges	1,303	1,216	1,153
Underwriting and other advisory fees	1,217	1,024	1,026
Foreign exchange revenue, other than trading	533	438	407
Card service revenue	491	496	579
Credit fees	293	241	187
Securitization revenue (Note 5)	261	257	285
Net gain on sale of available-for-sale securities (Note 3)	63	–	–
Net gain on sale of investment securities	–	88	85
Other	951	373	448
Non-interest income	14,930	13,841	12,391
Total revenue	22,462	20,637	19,184
Provision for credit losses (Note 4)	791	429	455
Insurance policyholder benefits, claims and acquisition expense	2,173	2,509	2,625
Non-interest expense			
Human resources (Notes 20 and 21)	7,860	7,268	6,682
Equipment	1,009	957	960
Occupancy	839	792	749
Communications	723	687	632
Professional fees	530	546	500
Outsourced item processing	308	298	296
Amortization of other intangibles (Note 10)	96	76	50
Other	1,108	871	1,488
	12,473	11,495	11,357
Business realignment charges (Note 23)	–	–	45
Income from continuing operations before income taxes	7,025	6,204	4,702
Income taxes (Note 24)	1,392	1,403	1,278
Net income before non-controlling interest	5,633	4,801	3,424
Non-controlling interest in net income of subsidiaries	141	44	(13)
Net income from continuing operations	5,492	4,757	3,437
Net loss from discontinued operations	–	(29)	(50)
Net income	$ 5,492	$ 4,728	$ 3,387
Preferred dividends (Note 18)	(88)	(60)	(42)
Net gain on redemption of preferred shares	–	–	4
Net income available to common shareholders	$ 5,404	$ 4,668	$ 3,349
Average number of common shares (in thousands) (Note 25)	1,273,185	1,279,956	1,283,433
Basic earnings per share (in dollars)	$ 4.24	$ 3.65	$ 2.61
Basic earnings per share from continuing operations (in dollars)	$ 4.24	$ 3.67	$ 2.65
Basic earnings (loss) per share from discontinued operations (in dollars)	$ –	$ (.02)	$ (.04)
Average number of diluted common shares (in thousands) (Note 25)	1,289,314	1,299,785	1,304,680
Diluted earnings per share (in dollars)	$ 4.19	$ 3.59	$ 2.57
Diluted earnings per share from continuing operations (in dollars)	$ 4.19	$ 3.61	$ 2.61
Diluted earnings (loss) per share from discontinued operations (in dollars)	$ –	$ (.02)	$ (.04)
Dividends per share (in dollars)	$ 1.82	$ 1.44	$ 1.18

Consolidated Statements of Comprehensive Income

For the year ended October 31 (C$ millions)	2007	2006	2005
Net income	$ 5,492	$ 4,728	$ 3,387
Other comprehensive income, net of taxes			
Net unrealized gains (losses) on available-for-sale securities	(93)	–	–
Reclassification of (gains) losses on available-for-sale securities to income	28	–	–
	(65)	–	–
Unrealized foreign currency translation gains (losses)	(2,965)	(501)	(624)
Reclassification of (gains) losses on foreign currency translation to income	(42)	2	5
Net foreign currency translation gains (losses) from hedging activities	1,804	269	401
	(1,203)	(230)	(218)
Net gains (losses) on derivatives designated as cash flow hedges	80	–	–
Reclassification to income of (gains) losses on derivatives designated as cash flow hedges	31	–	–
	111	–	–
Other comprehensive income (loss)	(1,157)	(230)	(218)
Total comprehensive income	$ 4,335	$ 4,498	$ 3,169

Consolidated Statements of Changes in Shareholders' Equity

For the year ended October 31 (C$ millions)	2007	2006	2005
Preferred shares (Note 18)			
Balance at beginning of year	$ 1,050	$ 700	$ 532
Issued	1,150	600	300
Redeemed for cancellation	(150)	(250)	(132)
Balance at end of year	2,050	1,050	700
Common shares (Note 18)			
Balance at beginning of year	7,196	7,170	6,988
Issued	170	127	214
Purchased for cancellation	(66)	(101)	(32)
Balance at end of year	7,300	7,196	7,170
Contributed surplus			
Balance at beginning of year	292	265	169
Renounced stock appreciation rights	(6)	(2)	(6)
Stock-based compensation awards	(46)	(18)	26
Gain on redemption of preferred shares	–	–	7
Initial adoption of AcG-15, *Consolidation of Variable Interest Entities*	–	–	54
Other	(5)	47	15
Balance at end of year	235	292	265
Treasury shares – preferred (Note 18)			
Balance at beginning of year	(2)	(2)	–
Sales	33	51	–
Purchases	(37)	(51)	(2)
Balance at end of year	(6)	(2)	(2)
Treasury shares – common (Note 18)			
Balance at beginning of year	(180)	(216)	(294)
Sales	175	193	179
Purchases	(96)	(157)	(47)
Initial adoption of AcG-15, *Consolidation of Variable Interest Entities*	–	–	(54)
Balance at end of year	(101)	(180)	(216)
Retained earnings			
Balance at beginning of year	15,771	13,704	12,065
Transition adjustment – Financial instruments (1)	(86)	–	–
Net income	5,492	4,728	3,387
Preferred share dividends (Note 18)	(88)	(60)	(42)
Common share dividends (Note 18)	(2,321)	(1,847)	(1,512)
Premium paid on common shares purchased for cancellation	(580)	(743)	(194)
Issuance costs and other	(21)	(11)	–
Balance at end of year	18,167	15,771	13,704
Accumulated other comprehensive income (loss)			
Transition adjustment – Financial instruments (1)	(45)	–	–
Unrealized gains and losses on available-for-sale securities	(65)	–	–
Unrealized foreign currency translation gains and losses, net of hedging activities	(3,207)	(2004)	(1,774)
Gains and losses on derivatives designated as cash flow hedges	111	–	–
Balance at end of year	(3,206)	(2,004)	(1,774)
Retained earnings and Accumulated other comprehensive income	14,961	13,767	11,930
Shareholders' equity at end of year	$ 24,439	$ 22,123	$ 19,847

(1) The transition adjustment relates to the implementation of the new financial instruments accounting standards. Refer to Note 1.

Consolidated Statements of Cash Flows

For the year ended October 31 (C$ millions)	2007	2006	2005
Cash flows from operating activities			
Net income from continuing operations	$ 5,492	$ 4,757	$ 3,437
Adjustments to determine net cash from (used in) operating activities			
Provision for credit losses	791	429	455
Depreciation	434	405	414
Business realignment payments	(38)	(74)	(94)
Future income taxes	(147)	144	(482)
Amortization of other intangibles	96	76	50
(Gain) loss on sale of premises and equipment	(16)	(16)	(21)
(Gain) loss on loan securitizations	(41)	(16)	(101)
(Gain) loss on sale of available-for-sale securities	(63)	–	–
(Gain) loss on sale of investment securities	–	(88)	(85)
Changes in operating assets and liabilities			
Insurance claims and policy benefit liabilities	(54)	220	629
Net change in accrued interest receivable and payable	(28)	217	(5)
Current income taxes	1,034	(203)	(9)
Derivative assets	(28,856)	1,105	63
Derivative liabilities	29,916	(498)	391
Trading securities	9,623	(21,477)	(36,438)
Net change in brokers and dealers receivable and payable	(317)	(1,017)	1,334
Other	1,647	1,036	840
Net cash from (used in) operating activities from continuing operations	19,473	(15,000)	(29,622)
Net cash from (used in) operating activities from discontinued operations	–	4	95
Net cash from (used in) operating activities	19,473	(14,996)	(29,527)
Cash flows from investing activities			
Change in interest-bearing deposits with banks	(1,379)	(5,265)	1,030
Change in loans, net of loan securitizations	(39,569)	(33,534)	(27,670)
Proceeds from loan securitizations	8,020	8,139	5,607
Proceeds from sale of available-for-sale securities	7,565	–	–
Proceeds from sale of investment securities	–	14,709	25,628
Proceeds from maturity of available-for-sale securities	18,784	–	–
Proceeds from maturity of investment securities	–	28,222	18,431
Purchases of available-for-sale securities	(24,097)	–	–
Purchases of investment securities	–	(38,474)	(36,373)
Net acquisitions of premises and equipment	(706)	(511)	(383)
Change in assets purchased under reverse repurchase agreements and securities borrowed	(4,935)	(16,405)	3,976
Net cash from (used in) acquisitions	(373)	(256)	–
Net cash from (used in) investing activities from continuing operations	(36,690)	(43,375)	(9,754)
Net cash from (used in) investing activities from discontinued operations	–	140	2,027
Net cash from (used in) investing activities	(36,690)	(43,235)	(7,727)
Cash flows from financing activities			
Change in deposits	17,831	36,663	35,001
Issue of RBC Trust Capital Securities	–	–	1,200
Issue of subordinated debentures	87	–	800
Repayment of subordinated debentures	(989)	(953)	(786)
Issue of preferred shares	1,150	600	300
Redemption of preferred shares for cancellation	(150)	(250)	(132)
Issuance costs	(23)	(6)	(3)
Issue of common shares	155	116	198
Purchase of common shares for cancellation	(646)	(844)	(226)
Sales of treasury shares	208	244	179
Purchase of treasury shares	(133)	(208)	(49)
Dividends paid	(2,278)	(1,807)	(1,469)
Dividends/distributions paid by subsidiaries to non-controlling interests	(59)	(47)	(13)
Change in obligations related to assets sold under repurchase agreements and securities loaned	(4,070)	17,722	(3,092)
Change in obligations related to securities sold short	6,436	5,861	7,386
Change in short-term borrowings of subsidiaries	(145)	620	(628)
Net cash from (used in) financing activities from continuing operations	17,374	57,711	38,666
Net cash from (used in) financing activities	17,374	57,711	38,666
Effect of exchange rate changes on cash and due from banks	(332)	(80)	(122)
Net change in cash and due from banks	(175)	(600)	1,290
Cash and due from banks at beginning of year	4,401	5,001	3,711
Cash and due from banks at end of year	$ 4,226	$ 4,401	$ 5,001
Supplemental disclosure of cash flow information			
Amount of interest paid in year	$ 18,494	$ 14,678	$ 10,109
Amount of income taxes paid in year	$ 1,352	$ 1,682	$ 1,987

Note 1 Significant accounting policies and estimates

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

Basis of consolidation

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

Significant accounting changes

Financial Instruments

On November 1, 2006, we adopted three new financial instruments accounting standards that were issued by the Canadian Institute of Chartered Accountants (CICA): Handbook Section 1530, *Comprehensive Income* (Section 1530), Handbook Section 3855, *Financial Instruments – Recognition and Measurement* (Section 3855), and Handbook Section 3865, *Hedges* (Section 3865). Comparative amounts for prior periods have not been restated.

Comprehensive Income

Section 1530 introduces Comprehensive Income, which consists of Net income and Other comprehensive income (OCI). OCI represents changes in Shareholders' equity during a period arising from transactions and other events with non-owner sources and includes unrealized gains and losses on financial assets classified as available-for-sale, unrealized foreign currency translation gains or losses arising from self-sustaining foreign operations, net of hedging activities, and changes in the fair value of the effective portion of cash flow hedging instruments. We have included in our Consolidated Financial Statements a Consolidated Statement of Comprehensive Income for the changes in these items, net of taxes, since November 1, 2006, while the cumulative changes in OCI are included in Accumulated other comprehensive income (loss) (AOCI), which is presented as a new category of Shareholders' equity on our Consolidated Balance Sheets.

Financial Instruments – Recognition and Measurement

Section 3855 establishes standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. It requires that financial assets and financial liabilities, including derivatives, be recognized on our Consolidated Balance Sheets when we become a party to the contractual provisions of a financial instrument or non-financial derivative contract. Under this standard, 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 instrument has been classified as held-for-trading, available-for-sale, held-to-maturity, loans and receivables, or other financial liabilities. Transaction costs are expensed as incurred for financial instruments classified or designated as held-for-trading. For other financial instruments, transaction costs are capitalized on initial recognition.

Financial assets and financial liabilities held-for-trading are measured at fair value with changes in those fair values recognized in Non-interest income. Financial assets held-to-maturity, loans and receivables, and other financial liabilities are measured at amortized cost using the effective interest method. Available-for-sale financial assets, which include loan substitute securities, are measured at fair value with unrealized gains and losses, including changes in foreign exchange rates, being recognized in OCI. Investments in equity instruments classified as available-for-sale that do not have a quoted market price in an active market are measured at cost.

Derivative instruments are recorded on our Consolidated Balance Sheets at fair value, including those derivatives that are embedded in financial or non-financial contracts that are not closely related to the host contracts. Changes in the fair values of derivative instruments are recognized in Net income except for derivatives designated as effective cash flow hedges or hedges of foreign currency exposure of a net investment in a self-sustaining foreign operation, the changes in fair value of which are recognized in OCI.

Section 3855 also provides an entity the option to designate a financial instrument as held-for-trading (the fair value option) on its initial recognition or upon adoption of the standard, even if the financial instrument was not acquired or incurred principally for the purpose of selling or repurchasing it in the near term. An instrument that is classified as held-for-trading by way of this fair value option must have a reliable fair value and satisfy one of the following criteria established by the OSFI: (i) when doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities, or recognizing gains and losses on them on a different basis; (ii) it belongs to a group of financial assets or financial liabilities or both that are managed and evaluated on a fair value basis in accordance with our risk management or investment strategy, and are reported to senior management, on that basis; or (iii) it is an embedded derivative in a financial or non-financial host contract and the derivative is not closely related to the host contract.

The principal categories of our financial assets that we designated as held-for-trading using the fair value option include (i) investments supporting the policy benefit liabilities on life and health insurance contracts issued by our insurance operations; (ii) investments used to offset exposures under derivative contracts in relation to our sales and trading activities; (iii) certain loans to customers whose related hedging derivatives are measured at fair value; and (iv) assets purchased under reverse repurchase agreements that form part of our trading portfolio which is managed and evaluated on a fair value basis. Financial liabilities designated as held-for-trading include (i) deposits and structured notes with embedded derivatives that are not closely related to the host contracts; (ii) assets sold under repurchase agreements that form part of our trading portfolio which is managed and evaluated on a fair value basis; and (iii) certain deposits to offset the impact of related hedging derivatives measured at fair value. Fair value designation for these financial assets and financial liabilities significantly reduces the measurement inconsistencies.

Other significant accounting implications arising upon the adoption of Section 3855 include the use of the effective interest method for any transaction costs or fees, premiums or discounts earned on financial instruments measured at amortized cost, and the recognition of the inception fair value of the obligation undertaken in issuing a guarantee that meets the definition of a guarantee pursuant to CICA Accounting Guideline 14, *Disclosure of Guarantees* (AcG-14).

Subsequent remeasurement at fair value is not required unless the financial guarantee also meets the definition of a derivative. These guarantees are remeasured at fair value at each balance sheet date and reported as a derivative in Other assets or Other liabilities, as appropriate.

Hedges
Section 3865 specifies the criteria that must be satisfied in order for hedge accounting to be applied and the accounting for each of the permitted hedging strategies. We use derivatives and non-derivative financial instruments in our hedging strategies to manage our exposures to interest, currency, credit and other market risks. When derivatives are used to manage our own exposures, we determine for each derivative whether hedge accounting can be applied. Where hedge accounting can be applied, a hedging relationship is designated as a fair value hedge, a cash flow hedge or a hedge of foreign currency exposure of a net investment in a self-sustaining foreign operation. For our detailed accounting policy on hedge accounting refer to the Derivatives section below in Note 1.

Impact upon adoption of Sections 1530, 3855 and 3865
The transition adjustments attributable to the remeasurement of financial assets and financial liabilities at fair value, other than financial assets classified as available-for-sale and hedging instruments designated as cash flow hedges or hedges of foreign currency exposure of net investment in self-sustaining foreign operations, were recognized in opening Retained earnings as at November 1, 2006. Adjustments arising from remeasuring financial assets classified as available-for-sale at fair value were recognized in opening AOCI as at that date.

For hedging relationships existing prior to adopting Section 3865 that continue to qualify for hedge accounting under the new standard, the transition accounting is as follows: (i) Fair value hedges – any gain or loss on the hedging instrument was recognized in opening Retained earnings and the carrying amount of the hedged item was adjusted by the cumulative change in fair value attributable to the designated hedged risk and was also included in opening Retained earnings; (ii) Cash flow hedges and hedges of net investments in self-sustaining foreign operations – the effective portion of any gain or loss on the hedging instrument was recognized in AOCI and the cumulative ineffective portion was included in opening Retained earnings.

We recorded the following transition adjustments in our Consolidated Financial Statements: (i) a reduction of $86 million, net of taxes, to our opening Retained earnings, representing changes made to the value of certain financial instruments and the ineffective portion of qualifying hedges, in compliance with the measurement basis under the new standards including those related to the use of fair value option; and (ii) recognition in AOCI of $45 million, net of taxes, related to the net losses for available-for-sale financial assets and cumulative losses on the effective portion of our cash flow hedges that are now required to be recognized under Sections 3855 and 3865. In addition, we have reclassified to AOCI $2,004 million of net unrealized foreign currency losses on net investments in self-sustaining foreign operations that were previously presented as a separate item in Shareholders' equity.

Variable Interest Entities
On February 1, 2007, we adopted CICA Emerging Issues Committee Abstract No. 163, *Determining the Variability to be Considered in Applying AcG-15* (EIC-163). EIC-163 provides additional clarification on how to analyze and consolidate VIEs. The implementation of EIC-163 resulted in the deconsolidation of certain investment funds; however, the impact was not material to our consolidated financial position or results of operations.

Convertible and Other Debt Instruments with Embedded Derivatives
On August 1, 2007, we adopted CICA Emerging Issues Committee Abstract No. 164, *Convertible and Other Debt Instruments with Embedded Derivatives* (EIC-164). EIC-164 provides clarification regarding the accounting treatment for certain types of convertible debt instruments, their classification as liabilities or equity, and the implications on earnings per share. It also provides guidance on whether these instruments contain any embedded derivatives that are required to be accounted for separately. The adoption of EIC-164 was not material to our consolidated financial position or results of operations.

Accounting Policy Choice for Transaction Costs
On June 1, 2007, CICA Emerging Issues Committee issued Abstract No. 166, *Accounting Policy Choice for Transaction Costs* (EIC-166). This EIC addresses the accounting policy choice of expensing or adding transaction costs related to the acquisition of financial assets and financial liabilities that are classified as other than held-for-trading. Specifically, it requires the same accounting policy choice be applied to all similar financial instruments classified as other than held-for-trading, but permits a different policy choice for financial instruments that are not similar. EIC-166 became effective for us on September 30, 2007 and requires retroactive application to all transaction costs accounted for in accordance with Section 3855. Our current recognition policy for transaction costs, which was adopted on November 1, 2006, is consistent with this guidance.

The accounting policies described below have been updated to reflect the requirements under the new financial instruments accounting standards, and where applicable, include a discussion on the policies used in the prior periods for comparative purposes.

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

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

Unrealized gains or losses arising as a result of the translation of our foreign self-sustaining operations along with the effective portion of related hedges are reported as a component of OCI on an after-tax basis. Prior to November 1, 2006, these amounts were included in Shareholders' equity. Upon disposal or dilution of our interest in such investments, an appropriate portion of the accumulated net translation gains or losses is included in Non-interest income.

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

Securities
Securities are classified, based on management's intentions, as held-for-trading, available-for-sale or held-to-maturity.

Held-for-trading securities include securities purchased for sale in the near term and securities designated as held-for-trading under the fair value option are reported at fair value. Obligations to deliver Trading securities sold but not yet purchased are recorded as liabilities and carried at fair value. Realized and unrealized gains and losses on these securities are recorded as Trading revenue in Non-interest income. Dividend and interest income accruing on Trading securities is recorded in Interest income. Interest and dividends accrued on interest-bearing and equity securities sold short are recorded in Interest expense.

Available-for-sale securities include (i) securities which may be sold in response to or in anticipation of changes in interest rates and resulting prepayment risk, changes in foreign currency risk, changes in funding sources or terms, or to meet liquidity needs; and (ii) loan substitute securities which are client financings that have been structured as after-tax investments rather than conventional loans in order to provide the clients with a borrowing rate advantage. Available-for-sale securities are measured at fair value with unrealized gains and losses, including changes in foreign exchange rates, recognized in OCI net of tax. Purchase premiums or discounts on available-for-sale securities are amortized over the life of the security using the effective interest method and are recognized in Net interest income. Investments in equity instruments classified as Available-for-sale that do not have a quoted market price in an active market are measured at cost.

Held-to-maturity securities are debt securities where we have the intention and ability to hold the investment until its maturity date. These securities are carried at amortized cost using the effective interest method. Dividends, interest income and amortization of premiums and discounts on debt securities are recorded in Net interest income. We hold a nominal amount of held-to-maturity securities in our normal course of business. All held-to-maturity securities have been included with Available-for-sale securities on our Consolidated Balance Sheets.

Gains and losses realized on disposal of available-for-sale securities are included in Gain on sale of securities in Non-interest income. Both available-for-sale and held-to-maturity securities are subject to periodic impairment review.

Prior to November 1, 2006, all investment securities, other than Trading securities, were recorded on our Consolidated Balance Sheets as Investment securities at amortized cost, and loan substitute securities were accorded the accounting treatment applicable to loans and, where required, reduced by an allowance for credit losses.

We account for all our securities using settlement date accounting except that changes in fair value between the trade date and settlement date are reflected in income for securities classified or designated as held-for-trading while changes in the fair value of available-for-sale securities between the trade and settlement dates are recorded in OCI.

Assets purchased under reverse repurchase agreements and sold under repurchase agreements

We purchase securities under agreements to resell (reverse repurchase agreements) and take possession of these securities. Reverse repurchase agreements are treated as collateralized lending transactions whereby we monitor the market value of the securities purchased and additional collateral is obtained when appropriate. We also have the right to liquidate the collateral held in the event of counterparty default. We also sell securities under agreements to repurchase (repurchase agreements), which are treated as collateralized borrowing transactions.

Reverse repurchase agreements and repurchase agreements are carried on our Consolidated Balance Sheets at the amounts at which the securities were initially acquired or sold plus accrued interest, respectively, except when they are designated using the fair value option as held-for-trading and are recorded at fair value. Interest earned on reverse repurchase agreements is included in Interest income in our Consolidated Statements of Income, and interest incurred on repurchase agreements is included in Interest expenses in our Consolidated Statements of Income. Changes in fair value for reverse repurchase agreements and repurchase agreements carried at fair value under the fair value option are included in Trading revenue in Non-interest income.

Prior to November 1, 2006, all reverse repurchase agreements and repurchase agreements were carried on our Consolidated Balance Sheets at the amounts at which the securities were initially acquired or sold, respectively, plus accrued interest on interest-bearing securities. Interest earned on reverse repurchase agreements was included in Interest income, and interest incurred on repurchase agreements was included in Interest expense, in our Consolidated Statements of Income.

Loans

Loans are recorded at amortized cost unless they have been designated as held-for-trading using the fair value option. Loans recorded at amortized cost are net of an Allowance for loan losses and unearned income which comprises unearned interest and unamortized loan fees. Loans designated as held-for-trading are carried at fair value. Prior to November 1, 2006, all loans were presented at amortized cost net of an Allowance for loan losses and unearned income.

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

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

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

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

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 increased by a charge to the Provision for credit losses and decreased by the amount of write-offs, net of recoveries. The Allowance for credit losses for on-balance sheet items is included as a reduction to assets, and the allowance relating to off-balance sheet items is included in Other liabilities.

The allowance is determined based on management's identification and evaluation of problem accounts on 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.

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 including small business loans individually managed 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, including residential mortgages, and personal and small business loans managed on a pooled basis 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 heterogeneous loans (wholesale loans including small business loans individually managed), 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 homogeneous portfolios (retail loans) including residential mortgages, credit cards, as well as personal and small business loans that are managed on a pooled basis, the determination of the general allowance is based on the application of historical loss rates. In determining the general allowance level, management also considers the current portfolio credit quality trends, business and economic conditions, the impact of policy and process changes, and other supporting factors. In addition, the general allowance includes a component for the model limitations and imprecision inherent in the allowance methodologies.

Acceptances

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

Derivatives

Derivatives are primarily used in sales and trading activities. Derivatives are also used to manage our exposures to interest, currency, credit and other market risks. The most frequently used derivative products are interest rate swaps, interest rate futures, forward rate agreements, interest rate options, foreign exchange forward contracts, currency swaps, foreign currency futures, foreign currency options and credit derivatives. All derivative instruments are recorded on our Consolidated Balance Sheets at fair value, including those derivatives that are embedded in financial or non-financial contracts that are not closely related to the host contracts.

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

When derivatives are used to manage our own exposures, we determine for each derivative whether hedge accounting can be applied, as discussed below.

Hedge accounting

We use derivatives and non-derivatives in our hedging strategies to manage our exposure to interest, currency, credit and other market risks. Where hedge accounting can be applied, a hedge relationship is designated and documented at inception to detail the particular risk management objective and the strategy for undertaking the hedge transaction. The documentation identifies the specific asset, liability or anticipated cash flows being hedged, the risk that is being hedged, the type of hedging instrument used and how effectiveness will be assessed. The hedging instrument must be highly effective in accomplishing the objective of offsetting either changes in the fair value or anticipated cash flows attributable to the risk being hedged both at inception and throughout the life of the hedge. Hedge accounting is discontinued prospectively when it is determined that the hedging instrument is no longer effective as a hedge, the hedging instrument is terminated or sold, or upon the sale or early termination of the hedged item. Refer to Note 2 for the fair value of the derivatives and non-derivative financial instruments categorized by their hedging relationships, as well as derivatives that are not designated in hedging relationships.

Fair value hedges

In a fair value hedging relationship, the carrying value of the hedged item is adjusted for changes in fair value attributable to the hedged risk and recognized in Non-interest income. Changes in the fair value of the hedged item, to the extent that the hedging relationship is effective, are offset by changes in the fair value of the hedging derivative, which are also recognized in Non-interest income. When hedge accounting is discontinued, the carrying value of the hedged item is no longer adjusted and the cumulative fair value adjustments to the carrying value of the hedged items are amortized to Net income over the remaining term of the original hedging relationship.

We predominantly use interest rate swaps to hedge our exposure to the changes in a fixed interest rate instrument's fair value caused by changes in interest rates. We also use, in limited circumstances, certain cash instruments to hedge our exposure to the changes in fair value of monetary assets attributable to changes in foreign currency exchange rates.

Cash flow hedges

In a cash flow hedging relationship, the effective portion of the change in the fair value of the hedging derivative, net of taxes, is recognized in OCI while the ineffective portion is recognized in Non-interest income. When hedge accounting is discontinued, the amounts previously recognized in AOCI are reclassified to Net interest income during the periods when the variability in the cash flows of the hedged item affects Net interest income. Gains and losses on derivatives are reclassified immediately to Net income when the hedged item is sold or terminated early. We predominantly use interest rate swaps to hedge the variability in cash flows related to a variable rate asset or liability.

Prior to November 1, 2006, when a derivative was designated and qualified as an effective hedging instrument in a fair value or cash flow hedge, the income or expense of that derivative was recognized as an adjustment to Interest income or Interest expense of the hedged item in the same period. When hedge accounting was discontinued prospectively, the fair value of the derivative was recognized in Derivative assets or liabilities at that time and the gain or loss was deferred and recognized in Net interest income in the periods in which the hedged item affects income. When hedge accounting was discontinued due to the sale or early termination of the hedged item, the fair value of the derivative was recognized in Derivative assets or liabilities at that time and the unrealized gain or loss is recognized in Non-interest income.

Net investment hedges

In hedging a foreign currency exposure of a net investment in a self-sustaining foreign operation, the effective portion of foreign exchange gains and losses on the hedging instruments, net of applicable taxes, is recognized in OCI and the ineffective portion is recognized in Non-interest income. The amounts previously recognized in AOCI are recognized in Net income when there is a reduction in the hedged net investment as a result of a dilution or sale of the net investment, or reduction in equity of the foreign operation as a result of dividend distributions.

We use foreign exchange contracts and foreign currency-denominated liabilities to manage our foreign currency exposures to net investments in self-sustaining foreign operations having a functional currency other than the Canadian dollar.

Prior to November 1, 2006, foreign exchange gains and losses on these hedging instruments, net of tax, were recorded in Net foreign currency translation adjustments in our Consolidated Statements of Changes in Shareholders' Equity.

Premises and equipment

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

Business combinations, goodwill and other intangibles

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

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

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

Income taxes

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

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

Pensions and other post-employment benefits

We offer a number of benefit plans, which provide pension and other benefits to eligible employees (as described in Note 20). These plans include registered defined benefit pension plans, supplemental pension plans, defined contribution plans and health, dental, disability and life insurance plans.

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

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

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

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

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

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

Stock-based compensation

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

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

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

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

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

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

Loan securitization

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

When MBS are created, we reclassify the loans at their carrying costs into MBS and retained interests on our Consolidated Balance Sheets. The retained interest represents the excess spread of loan interest over the MBS rate of return. The initial carrying value of the MBS and the related retained interests are determined based on their relative fair value on the date of securitization. MBS are classified as trading account securities or available-for-sale securities, based on management's intent. Retained interests are classified as available-for-sale. Both MBS and the retained interests are subject to periodic impairment review.

Prior to November 1, 2006, retained interests in securitizations that could be contractually prepaid or otherwise settled in such a way that we would not recover substantially all of our recorded investment were classified as Investment account securities at amortized cost.

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

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

Insurance

Premiums from long-duration contracts, primarily life insurance, are recognized when due in Non-interest income – Insurance premiums, investment and fee income. Premiums from short-duration contracts, primarily property and casualty, and fees for administrative services are recognized in Insurance premiums, investment and fee income over the related contract period. Unearned premiums of the short-duration contracts, representing the unexpired portion of premiums, are reported in Other liabilities. Investments made by our insurance operations are classified as available-for-sale or loans and receivables, except for investments supporting the policy benefit liabilities on life and health insurance contracts which are designated as held-for-trading under the fair value option with changes in fair value reported in Insurance premiums, investment and fee income.

Insurance claims and policy benefit liabilities represent current claims and estimates for future insurance policy benefits. Liabilities for life insurance contracts are determined using the Canadian Asset Liability Method (CALM), which incorporates assumptions for mortality,

morbidity, policy lapses and surrenders, investment yields, policy dividends, operating and policy maintenance expenses, and provisions for adverse deviation. These assumptions are reviewed at least annually and updated in response to actual experience and market conditions. Liabilities for property and casualty insurance represent estimated provisions for reported and unreported claims. Liabilities for life and property and casualty insurance are included in Insurance claims and policy benefit liabilities.

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

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

Prior to November 1, 2006, investments made by our insurance operations were included in Investment account securities. Realized gains and losses on disposal of fixed income investments that support life insurance liabilities were deferred and amortized to Insurance premiums, investment and fee income over the remaining term to maturity of the investments sold, up to a maximum period of 20 years. For equities that were held to support non-universal life insurance products, the realized gains and losses were deferred and amortized into Insurance premiums, investment and fee income at the quarterly rate of 5% of unamortized deferred gains and losses. The differences between the market value and adjusted carrying cost of these equities were reduced quarterly by 5%. Equities held to support universal life insurance products were carried at market value. Realized and unrealized gains or losses on these equities were included in Insurance premiums, investment and fee income. Specific investments were written down to market value or the net realizable value if it was determined that any impairment in value was other-than-temporary. The writedown was recorded against Insurance premiums, investment and fee income in the period the impairment is recognized.

Liabilities and equity

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

Earnings per share

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

Use of estimates and assumptions

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

Change in accounting estimate

During the year, we adjusted the liability associated with our credit card customer loyalty reward program by $121 million in order to reflect higher program costs. This change in estimate is reflected as an increase in Other – Other liabilities on our Consolidated Balance Sheets and as a decrease in Non-interest income – Card service revenue in our Consolidated Statements of Income.

Change in financial statement presentation

On November 1, 2007, we implemented the International Convergence of Capital Measurement and Capital Standards: A Revised Framework, known as Basel II. In preparation for this implementation, we reclassified our loans and credit quality information as either Retail or Wholesale. During the year, we revisited our presentation of certain assets, liabilities, revenues and expenses for previous periods to better reflect the nature of these items. Accordingly, certain comparative amounts have been reclassified to conform with the current year's presentation. These reclassifications did not materially impact our consolidated financial position or results of operations.

Future accounting changes

Capital Disclosures and Financial Instruments – Disclosures and Presentation

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

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

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

Note 2 Fair value of financial instruments

The fair value of a financial instrument is the amount at which the financial instrument could be exchanged in an arm's-length transaction between knowledgeable and willing parties under no compulsion to act. Fair values are determined by reference to quoted bid or ask prices, as appropriate, in the most advantageous active market for that instrument to which we have immediate access. Where bid and ask prices are unavailable, we use the closing price of the most recent transaction of that instrument subject to the liquidation adjustments referred to below. In the absence of an active market, we determine fair values based on prevailing market rates (bid and ask prices, as appropriate) for instruments with similar characteristics and risk profiles or internal or external valuation models, such as option pricing models and discounted cash flow analysis, using observable market-based inputs.

Fair values determined using valuation models require the use of assumptions concerning the amount and timing of estimated future cash flows and discount rates. In determining those assumptions, we look primarily to external readily observable market inputs including factors such as interest rate yield curves, currency rates, and price and rate volatilities, as applicable. In limited circumstances, we use input parameters that are not based on observable market data with an adjustment to reflect the uncertainty and to ensure that financial instruments are reported at fair values. Based on our assessment we believe that using possible alternative assumptions to fair value such financial instruments will not result in significantly different fair values.

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

All of our derivatives transactions are accounted for on a fair value basis. We record valuation adjustments that represent the fair value of the credit risk of our derivative portfolios. These adjustments take into account the creditworthiness of our counterparties, the current and potential future mark-to-market of the transactions, and the effects of credit mitigants such as master netting agreements and collateral agreements. Credit valuation adjustments are recalculated regularly for all of our derivative portfolios. Changes to credit valuation adjustments are recorded in current period income.

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

Carrying value and fair value of selected financial instruments

As a result of adopting the new financial instruments accounting standards, certain financial instruments are now measured at fair value which were previously reported at cost or amortized cost. This is primarily due to the reclassification of certain securities as Trading securities, which includes securities designated as held-for-trading using the fair value option. The following table provides a comparison of carrying and fair values as at October 31, 2007 and October 31, 2006, for selected financial instruments:

	October 31, 2007								October 31, 2006
	Carrying value and fair value of			Carrying value	Fair value				
	Financial instruments required to be classified as held-for-trading	Financial instruments designated as held-for-trading	Available-for-sale instruments measured at fair value	Loans and receivables and non-trading liabilities	Loans and receivables and non-trading liabilities	Available-for-sale instruments measured at cost	Total carrying amount	Total fair value	Total fair value
Financial assets									
Securities									
Trading	$ 129,408	$ 18,838	$ –	$ –	$ –	$ –	$ 148,246	$ 148,246	
Available-for-sale (1)	–	–	28,811	–	–	1,198	30,009	30,009	
Total securities	$ 129,408	$ 18,838	$ 28,811	$ –	$ –	$ 1,198	$ 178,255	$ 178,255	$ 185,239
Assets purchased under reverse repurchase agreements and securities borrowed	$ –	$ 25,522	$ –	$ 38,791	$ 38,791	$ –	$ 64,313	$ 64,313	$ 59,378
Loans									
Retail	$ –	$ –	$ –	$ 168,782	$ 168,375	$ –	$ 168,782	$ 168,375	
Wholesale	–	3,235	–	65,919	65,910	–	69,154	69,145	
Total loans	$ –	$ 3,235	$ –	$ 234,701	$ 234,285	$ –	$ 237,936	$ 237,520	$ 208,638
Other									
Derivatives	$ 66,585	$ –	$ –	$ –	$ –	$ –	$ 66,585	$ 66,585	$ 37,682
Other assets	–	164	–	24,653	24,653	–	24,817	24,817	22,660
Financial liabilities									
Deposits									
Personal	$ –	$ 851	$ –	$ 115,706	$ 115,609	$ –	$ 116,557	$ 116,460	
Business and government	1,639	56,751	–	161,496	161,217	–	219,886	219,607	
Bank	–	5,668	–	23,094	23,095	–	28,762	28,763	
Total deposits	$ 1,639	$ 63,270	$ –	$ 300,296	$ 299,921	$ –	$ 365,205	$ 364,830	$ 343,312
Other									
Obligations related to securities sold short	$ 44,689	$ –	$ –	$ –	$ –	$ –	$ 44,689	$ 44,689	$ 38,252
Obligations related to assets sold under repurchase agreements and securities loaned	–	24,086	–	12,947	12,947	–	37,033	37,033	41,103
Derivatives	72,010	–	–	–	–	–	72,010	72,010	42,108
Other liabilities	–	–	–	36,232	36,262	–	36,232	36,262	28,736
Subordinated debentures	–	77	–	6,158	6,427	–	6,235	6,504	7,384
Trust capital securities	–	–	–	1,400	1,476	–	1,400	1,476	1,532
Preferred share liabilities	–	–	–	300	300	–	300	300	304

(1) Available-for-sale securities, including loan substitutes, are carried at fair value and held-to-maturity securities are carried at amortized cost. Prior to November 1, 2006, both available-for-sale and held-to-maturity securities were classified as Investment securities and were carried at amortized cost. The prior period comparative amounts have not been restated.

The purpose of the table below is to present the carrying value of those financial instruments that were classified upon adoption as held-for-trading or available-for-sale or designated as held-for-trading using the fair value option.

	October 31, 2006		
	Carrying value		
	Required to be classified as held-for-trading	Designated as held-for-trading	Classified as available-for-sale
Financial assets			
Securities			
Trading	$ 139,491	$ 18,412	$ –
Investments (1)	–	–	26,966
Total securities	$ 139,491	$ 18,412	$ 26,966
Assets purchased under reverse repurchase agreements and securities borrowed	$ –	$ 40,535	$ –
Loans	–	2,686	–
Other			
Derivatives	37,733	–	–
Other assets	–	527	–
Financial liabilities			
Deposits	$ 1,651	$ 60,859	$ –
Other			
Obligations related to securities sold short	38,252	–	–
Obligations related to assets sold under repurchase agreements and securities loaned	–	27,494	–
Derivatives	42,340	–	–

(1) Includes the value of loan substitutes, which is nominal.

During the year, the fair value of our net financial assets classified as held-for-trading increased by $2,115 million. The fair value of our net financial assets designated as held-for-trading increased by $80 million; substantially all of this increase was economically hedged. The fair value of financial liabilities that we designated as held-for-trading decreased by $88 million due to changes in our own credit risk.

The following table presents the carrying values of the derivative and non-derivative financial instruments designated as hedging instruments categorized by their hedging relationships, as well as derivatives that are not designated in hedging relationships.

	As at October 31, 2007			
	Designated as hedging instruments in hedging relationships			
Derivatives and non-derivative financial instruments	Cash flow hedges	Fair value hedges	Net investment hedges	Not designated in a hedging relationship
Financial assets				
Derivative financial instruments (1)	$ 390	$ 268	$ 856	$ 65,071
Financial liabilities				
Derivative financial instruments (1)	$ 206	$ 166	$ 5	$ 71,633
Non-derivative financial instruments (2)	–	472	4,307	n.a.

(1) All derivative instruments are carried at fair value.
(2) Non-derivative financial instruments are carried at amortized cost.
n.a. not applicable

The following table presents the changes in fair value of the financial liabilities designated as held-for-trading using the fair value option as well as their contractual maturity and carrying amounts.

Liabilities designated as held-for-trading	October 31, 2007 Contractual maturity amount	Carrying amount	Difference between carrying amount and contractual maturity amount	Change in fair value since November 1, 2006 attributable to changes in RBC's credit spread
Term deposits				
Personal	$ 890	$ 851	$ (39)	$ (6)
Business and government	56,741	56,751	10	(74)
Bank	5,668	5,668	–	(1)
Total term deposits	$ 63,299	$ 63,270	$ (29)	$ (81)
Obligations related to assets sold under repurchase agreements and securities loaned	$ 24,087	$ 24,086	$ (1)	$ –
Subordinated debentures	82	77	(5)	(7)
Total	$ 87,468	$ 87,433	$ (35)	$ (88)

The following table presents information on loans and receivables designated as held-for-trading using the fair value option, the maximum exposure to credit risk, the extent to which the risk is mitigated by credit derivatives and similar instruments, and changes in the fair value of these assets as at October 31, 2007:

Loans and receivables designated as held-for-trading	Carrying amount of loans and receivables designated as held-for-trading	Maximum exposure to credit risk	Change in fair value since November 1, 2006 attributable to changes in credit risk	Cumulative change in fair value since initial recognition attributable to changes in credit risk	Extent to which credit derivatives or similar instruments mitigate credit risk	Change in fair value of credit derivatives or similar instruments since November 1, 2006	Cumulative change in fair value of credit derivatives or similar instruments since designation of asset at fair value
Interest-bearing deposits with banks	$ 4,821	$ 4,821	$ –	$ –	$ –	$ –	$ –
Assets purchased under reverse repurchase agreements and securities borrowed	25,522	25,522	–	–	–	–	–
Loans	3,235	3,164	(42)	(21)	1,106	18	–
Total	$ 33,578	$ 33,507	$ (42)	$ (21)	$ 1,106	$ 18	$ –

Note 3 Securities (1)

	Term to maturity (2)						2007	2006	2005
	Within 3 months	3 months to 1 year	1 to 5 years	Over 5 years to 10 years	Over 10 years	With no specific maturity	Total	Total	Total
Trading account									
Canadian government debt	$ 1,683	$ 3,046	$ 5,106	$ 1,383	$ 2,853	$ –	$ 14,071	$ 13,900	$ 11,814
U.S. government debt	384	1,066	2,084	377	5,106	–	9,017	7,793	7,281
Other OECD government debt (3)	–	1,429	2,699	26	82	–	4,236	4,658	6,476
Mortgage-backed securities	110	59	1,200	1,176	3,099	–	5,644	3,841	2,281
Asset-backed securities	231	47	6,612	53	691	–	7,634	9,064	8,781
Corporate debt and other debt									
Bankers' acceptances	373	1	–	–	–	–	374	766	998
Certificates of deposit	704	3,525	344	125	14	–	4,712	5,245	8,705
Other	5,189	4,011	24,468	2,220	4,986	1,564	42,438	44,139	33,714
Equities	–	–	–	–	–	60,120	60,120	57,831	45,710
	8,674	13,184	42,513	5,360	16,831	61,684	148,246	147,237	125,760
Available-for-sale securities (1)									
Canadian government debt									
Federal									
Amortized cost	195	57	2,031	382	–	–	2,665	3,649	6,214
Fair value	195	57	2,040	384	–	–	2,676	3,677	6,205
Yield (4)	3.5%	4.7%	4.4%	4.5%	–	–	4.4%	4.2%	3.6%
Provincial and municipal									
Amortized cost	–	–	201	78	–	–	279	1,687	2,035
Fair value	–	–	201	77	–	–	278	1,935	2,229
Yield (4)	–	–	4.0%	4.5%	–	–	4.2%	5.4%	4.9%
U.S. government debt									
Federal									
Amortized cost	–	–	–	–	–	–	–	536	633
Fair value	–	–	–	–	–	–	–	508	628
Yield (4)	–	–	–	–	–	–	–	4.5%	2.2%
State, municipal and agencies									
Amortized cost	307	517	1,194	21	–	–	2,039	1,678	2,199
Fair value	307	518	1,155	21	–	–	2,001	1,648	2,139
Yield (4)	5.3%	5.1%	5.0%	5.6%	–	–	5.1%	3.6%	2.5%
Other OECD government debt (3)									
Amortized cost	1	622	107	84	5	–	819	758	1,595
Fair value	1	622	107	83	5	–	818	761	1,599
Yield (4)	3.6%	.5%	4.2%	4.6%	4.9%	–	1.4%	2.6%	1.9%
Mortgage-backed securities									
Amortized cost	80	90	4,854	405	3,573	–	9,002	11,805	8,254
Fair value	80	90	4,872	408	3,522	–	8,972	11,692	8,183
Yield (4)	5.2%	4.7%	4.6%	5.2%	5.0%	–	4.8%	4.5%	4.4%
Asset-backed securities									
Amortized cost	399	5	245	357	998	–	2,004	3,164	1,442
Fair value	399	5	239	357	939	–	1,939	3,171	1,445
Yield (4)	6.0%	4.2%	4.7%	5.2%	5.3%	–	5.4%	5.0%	4.2%
Corporate debt and other debt									
Amortized cost	2,563	2,779	3,229	774	505	–	9,850	11,162	10,676
Fair value	2,554	2,850	3,135	760	495	–	9,794	11,360	10,839
Yield (4)	4.8%	5.2%	4.5%	5.2%	4.4%	–	4.8%	4.8%	3.7%
Equities (5)									
Cost	–	–	–	–	–	2,715	2,715	2,537	1,012
Fair value	–	–	–	–	–	2,874	2,874	2,592	974
Loan substitute									
Cost	–	–	–	–	400	256	656	656	675
Fair value	–	–	–	–	400	252	652	658	683
Yield (4)	–	–	–	–	4.6%	5.3%	4.9%	4.8%	3.7%
Amortized cost	3,545	4,070	11,861	2,101	5,481	2,971	30,029	37,632	34,735
Fair value	3,536	4,142	11,749	2,090	5,361	3,126	30,004	38,002	34,924
Held-to-maturity securities (1)									
Amortized cost	–	3	–	–	2	–	5	–	–
Fair value	–	3	–	–	2	–	5	–	–
Total carrying value of securities (1)	$ 12,210	$ 17,329	$ 54,262	$ 7,450	$ 22,194	$ 64,810	$178,255	$184,869	$160,495

(1) Available-for-sale securities, including loan substitutes, are carried at fair value and held-to-maturity securities are carried at amortized cost. Prior to November 1, 2006, both available-for-sale and held-to-maturity securities were classified as Investment securities and were carried at amortized cost. The prior period comparative amounts have not been restated.
(2) Actual maturities may differ from contractual maturities shown above, since borrowers may have the right to prepay obligations with or without prepayment penalties.
(3) OECD stands for Organisation for Economic Co-operation and Development.
(4) The weighted average yield is based on the carrying value at the end of the year for the respective securities.
(5) Includes the value of the shares received upon the restructuring of Visa Inc. Refer to Note 30.

Unrealized gains and losses on Available-for-sale securities (1), (2)

	2007				2006			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Canadian government debt								
Federal	$ 2,665	$ 12	$ (1)	$ 2,676	$ 3,649	$ 29	$ (1)	$ 3,677
Provincial and municipal	279	–	(1)	278	1,687	248	–	1,935
U.S. government debt								
Federal	–	–	–	–	536	–	(28)	508
State, municipal and agencies	2,039	10	(48)	2,001	1,678	5	(35)	1,648
Other OECD government debt	819	1	(2)	818	758	4	(1)	761
Mortgage-backed securities	9,002	30	(60)	8,972	11,805	17	(130)	11,692
Asset-backed securities	2,004	2	(67)	1,939	3,164	11	(4)	3,171
Corporate debt and other debt	9,855	45	(101)	9,799	11,162	238	(40)	11,360
Equities	2,715	191	(32)	2,874	2,537	110	(55)	2,592
Loan substitute securities	656	–	(4)	652	656	2	–	658
	$ 30,034	$ 291	$ (316)	$ 30,009	$ 37,632	$ 664	$ (294)	$ 38,002

(1) Available-for-sale securities, including loan substitutes, are carried at fair value and held-to-maturity securities are carried at amortized cost. Prior to November 1, 2006, both available-for-sale and held-to-maturity securities were classified as Investment securities and were carried at amortized cost. The prior period comparative amounts have not been restated.
(2) Includes $5 million held-to-maturity securities.

Realized gains and losses on sale of Available-for-sale securities (1)

	2007	2006	2005
Realized gains	$ 187	$ 177	$ 141
Realized losses and writedowns	(124)	(89)	(56)
Net gain on sale of Available-for-sale securities	$ 63	$ 88	$ 85

(1) Available-for-sale securities, including loan substitutes, are carried at fair value and held-to-maturity securities are carried at amortized cost. Prior to November 1, 2006, both available-for-sale and held-to-maturity securities were classified as Investment securities and were carried at amortized cost. The prior period comparative amounts have not been restated.

Fair value and unrealized losses position for Available-for-sale securities as at October 31, 2007

	Less than 12 months		12 months or more		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Canadian government debt						
Federal	$ 1,231	$ 1	$ –	$ –	$ 1,231	$ 1
Provincial and municipal	210	1	–	–	210	1
U.S. government debt						
Federal	–	–	–	–	–	–
State, municipal and agencies	–	–	265	48	265	48
Other OECD government debt	47	2	–	–	47	2
Mortgage-backed securities	941	14	994	46	1,935	60
Asset-backed securities	853	5	501	62	1,354	67
Corporate debt and other debt	2,162	57	434	48	2,596	105
Equities	432	30	3	2	435	32
Total temporarily impaired securities	$ 5,876	$ 110	$ 2,197	$ 206	$ 8,073	$ 316

The unrealized losses for Canadian government debt and U.S. government debt were caused by increases in interest rates and appreciation of the Canadian dollar against the U.S. dollar. The contractual terms of some of these investments either do not permit the issuer to settle the securities at a price less than the amortized cost of the investment, or permit prepayment of contractual amounts owing only with prepayment penalties assessed to recover interest foregone. As a result, it is not expected that these investments would be settled at a price less than the amortized cost. Further, a substantial amount of the U.S. dollar-denominated debt is hedged against the foreign currency risk and, accordingly, the unrealized losses are not considered to be other-than-temporarily impaired as at October 31, 2007.

Unrealized losses for mortgage-backed securities, asset-backed securities, corporate debt and other debt were due to interest rate changes and widening credit spreads caused by the recent disruption in the financial markets, the weakening of the U.S. housing market, credit rating downgrades of certain securities in the marketplace, and appreciation of the Canadian dollar against the U.S. dollar. However, given that a substantial portion of these securities are investment-grade securities and we have the ability and intent to hold these investments until there is a recovery of fair value, which may be at maturity, we believe it is probable that we will be able to collect the principal amount of these securities according to the contractual terms of the investments. Accordingly, we do not consider these investments to be other-than-temporarily impaired as at October 31, 2007.

Unrealized losses on equity securities are primarily due to the timing of the market prices, foreign exchange movements, or the early years in the business cycle of the investees for certain investments. We do not consider these investments to be other-than-temporarily impaired as at October 31, 2007, as we have the ability and intent to hold them for a reasonable period of time until they recover their fair value.

The following table presents interest and dividends on Available-for-sale and Held-to-maturity securities:

Interest and dividends on Available-for-sale and Held-to-maturity securities (1)

	2007	2006	2005
Taxable interest income	$ 968	$ 1,087	$ 862
Non-taxable interest income	2	2	2
Dividends	74	44	31
	$ 1,044	$ 1,133	$ 895

(1) Available-for-sale securities, including loan substitutes, are carried at fair value and held-to-maturity securities are carried at amortized cost. Prior to November 1, 2006, both available-for-sale and held-to-maturity securities were classified as Investment securities and were carried at amortized cost. The prior period comparative amounts have not been restated.

Note 4 Loans

	2007				2006			
	Canada	United States	Other International	Total	Canada	United States	Other International	Total
Retail (1)								
Residential mortgages	$ 107,453	$ 1,402	$ 890	$ 109,745	$ 94,272	$ 1,518	$ 885	$ 96,675
Personal	42,506	5,283	954	48,743	37,946	6,011	945	44,902
Credit cards	8,142	119	61	8,322	6,966	123	66	7,155
Small business (2)	2,652	–	–	2,652	2,318	–	–	2,318
	160,753	6,804	1,905	169,462	141,502	7,652	1,896	151,050
Wholesale (1)								
Business (3), (4)	39,877	17,741	6,239	63,857	35,245	13,611	5,894	54,750
Bank	3,114	686	1,547	5,347	2,031	236	985	3,252
Sovereign (5)	416	–	347	763	553	–	334	887
	43,407	18,427	8,133	69,967	37,829	13,847	7,213	58,889
Total loans (6)	204,160	25,231	10,038	239,429	179,331	21,499	9,109	209,939
Allowance for loan losses	(1,101)	(321)	(71)	(1,493)	(1,086)	(266)	(57)	(1,409)
Total loans net of allowance for loan losses	$ 203,059	$ 24,910	$ 9,967	$ 237,936	$ 178,245	$ 21,233	$ 9,052	$ 208,530

(1) Geographic information is based on residence of borrower.
(2) Includes small business exposure managed on a pooled basis.
(3) Includes small business exposure managed on an individual client basis.
(4) Included under Canada for 2007 are loans totalling $1,202 million to a variable interest entity administered by us.
(5) Sovereign refers to all central governments and agencies, central banks, as well as other qualifying public sector entities and multilateral development banks.
(6) Loans are net of unearned income of $113 million (2006 – $62 million).

Loan maturities and rate sensitivity

	Maturity term (1)				Rate sensitivity			
As at October 31, 2007	Under 1 year	1 to 5 years	Over 5 years (2)	Total	Floating	Fixed rate	Non-rate-sensitive	Total
Retail	$ 63,737	$ 92,337	$ 13,388	$ 169,462	$ 66,256	$ 101,496	$ 1,710	$ 169,462
Wholesale	39,908	22,269	7,790	69,967	48,625	21,342	–	69,967
Total loans	$ 103,645	$ 114,606	$ 21,178	$ 239,429	$ 114,881	$ 122,838	$ 1,710	$ 239,429
Allowance for loan losses	–	–	–	(1,493)	–	–	–	(1,493)
Total loans net of allowance for loan losses	$ 103,645	$ 114,606	$ 21,178	$ 237,936	$ 114,881	$ 122,838	$ 1,710	$ 237,936

(1) Based on the earlier of contractual repricing or maturity date.
(2) Included in Wholesale are loans totalling $1,202 million to a variable interest entity administered by us, with maturity terms exceeding five years.

Impaired loans (1), (2)

	2007			2006
	Gross	Specific allowances	Net	Net
Retail				
Residential mortgages	$ 210	$ (23)	$ 187	$ 152
Personal	189	(96)	93	104
Small business (3)	19	(9)	10	4
	$ 418	$ (128)	$ 290	$ 260
Wholesale				
Business (4)	$ 722	$ (223)	$ 499	$ 311
Bank	–	–	–	–
Sovereign (5)	–	–	–	–
	$ 722	$ (223)	$ 499	$ 311
Total	$ 1,140	$ (351)	$ 789	$ 571

(1) There are $353 million (2006 – $305 million) of loans that are contractually 90 days past due but are not considered impaired.
(2) Average balance of gross impaired loans was $959 million (2006 – $805 million).
(3) Includes small business exposure managed on a pooled basis.
(4) Includes small business exposure managed on an individual client basis.
(5) Sovereign refers to all central governments and agencies, central banks, as well as other qualifying public sector entities and multilateral development banks.

Note 4 Loans (continued)

Allowance for loan losses

	2007						2006
	Balance at beginning of year	Write-offs	Recoveries	Provision for credit losses	Other adjustments (1)	Balance at end of year	Balance at end of year
Retail							
Residential mortgages	$ 13	$ (5)	$ 1	$ 13	$ 1	$ 23	$ 13
Personal	101	(444)	74	364	1	96	101
Credit cards	–	(268)	46	223	(1)	–	–
Small business (2)	9	(42)	7	34	1	9	9
	123	(759)	128	634	2	128	$ 123
Wholesale							
Business (3)	$ 140	$ (109)	$ 42	$ 148	$ 2	$ 223	$ 140
Bank	–	–	–	–	–	–	–
Sovereign (4)	–	–	–	–	–	–	–
Specific allowances	$ 263	$ (868)	$ 170	$ 782	$ 4	$ 351	$ 263
General allowance (5)	1,223	–	–	9	(11)	1,221	1,223
Total allowance for credit losses	$ 1,486	$ (868)	$ 170	$ 791	$ (7)	$ 1,572	$ 1,486
Allowance for off-balance sheet and other items (6)	(77)	–	–	(2)	–	(79)	–
Total allowance for loan losses	$ 1,409	$ (868)	$ 170	$ 789	$ (7)	$ 1,493	$ 1,486

(1) Primarily represent the translation impact of foreign currency-denominated allowance for loan losses.
(2) Includes small business exposure managed on a pooled basis.
(3) Includes small business exposure managed on an individual client basis.
(4) Sovereign refers to all central governments and agencies, central banks, as well as other qualifying public sector entities and multilateral development banks.
(5) Includes $79 million (2006 – $77 million) related to off-balance sheet and other items.
(6) The allowance for off-balance sheet and other items is reported separately under Other liabilities.

During the year ended October 31, 2007, assets acquired in respect of problem loans amounted to $36 million (2006 – $9 million).

Net interest income after provision for credit losses

	2007	2006	2005
Net interest income	$ 7,532	$ 6,796	$ 6,793
Provision for credit losses	791	429	455
Net interest income after provision for credit losses	$ 6,741	$ 6,367	$ 6,338

Note 5 Securitizations

The following table summarizes our securitization activities for 2007, 2006 and 2005:

	2007 (1)		2006			2005		
	Canadian residential mortgage loans (2), (3)	Commercial mortgage loans (4)	Credit card loans (5)	Canadian residential mortgage loans (2), (3)	Commercial mortgage loans	Credit card loans (5)	Canadian residential mortgage loans (2), (3)	Commercial mortgage loans
Securitized and sold	$ 6,188	$ 1,937	$ 1,200	$ 6,329	$ 718	$ 1,200	$ 3,752	$ 655
Net cash proceeds received	6,097	1,876	400	6,210	729	600	3,739	667
Asset-backed securities purchased	–	47	794	–	–	596	–	–
Retained rights to future excess interest	146	–	9	121	–	8	100	–
Pre-tax gain (loss) on sale	55	(14)	3	2	11	4	87	12

(1) We did not securitize any credit card loans during the year.
(2) All Canadian residential mortgage loans securitized are insured.
(3) Canadian insured residential mortgage loans securitized during the year through the creation of mortgage-backed securities and retained as at October 31, 2007 were $3,110 million (2006 – $4,869 million, 2005 – $1,050 million). These securities are carried at fair value; prior to November 1, 2006, these securities were carried at amortized cost.
(4) The net cash proceeds received represent gross proceeds of $1,923 million less funds used to purchase notes of $47 million (principal value of $48 million). We did not purchase any notes as part of our securitization activities in 2006 or 2005.
(5) The net cash proceeds received represent gross proceeds of $1,200 million in 2006 (2005 – $1,200 million) less funds used to purchase notes issued by Golden Credit Card Trust with a principal value of $800 million in 2006 (2005 – $600 million).

In addition to the above securitization transactions, we sold $815 million of residential mortgage loans in 2006, resulting in a pre-tax loss of $3 million. None were sold in 2007.

Cash flows from securitizations (1)

	2007			2006			2005		
		Canadian residential mortgage loans			Canadian residential mortgage loans			Canadian residential mortgage loans	
	Credit card loans	Variable rate	Fixed rate	Credit card loans	Variable rate	Fixed rate	Credit card loans	Variable rate	Fixed rate
Proceeds reinvested in revolving securitizations	$ 15,684	$ 1,043	$ 3,559	$ 17,107	$ 466	$ 2,251	$ 12,076	$ 419	$ 1,520
Cash flows from excess spread (2)	256	66	168	263	11	134	242	3	100

(1) This analysis is not applicable for commercial mortgage loans securitizations as we have not retained rights to future excess spread in these transactions.
(2) Includes servicing fees received.

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

Key assumptions (1), (2)

	2007 (3)		2006			2005		
	Canadian residential mortgage loans			Canadian residential mortgage loans			Canadian residential mortgage loans	
	Variable rate	Fixed rate	Credit card loans	Variable rate	Fixed rate	Credit card loans	Variable rate	Fixed rate
Expected weighted average life of prepayable receivables (in years)	2.63	3.69	.16	2.61	3.60	.15	3.48	3.59
Payment rate	29.20%	14.38%	40.02%	30.00%	15.39%	40.06%	13.52%	13.36%
Excess spread, net of credit losses	.88	.83	5.13	1.18	.99	6.88	.20	1.06
Expected credit losses	–	–	2.15	–	–	1.75	–	–
Discount rate	4.71%	4.80%	10.00	4.32	4.36	10.00	3.64	3.59

(1) All rates are annualized except the payment rate for credit card loans which is monthly.
(2) This analysis is not applicable for commercial mortgage loans securitizations as we have not retained rights to future excess spread in these transactions.
(3) We did not securitize any credit card loans during the year.

Static pool credit losses include actual incurred and projected credit losses divided by the original balance of the loans securitized. The expected static pool credit loss ratio for securitized credit card loans at October 31, 2007 was .52%. Static credit pool losses are not applicable to residential mortgages as substantially all the mortgages are government guaranteed.

The following table summarizes the loan principal, past due and net write-offs for total loans reported on our Consolidated Balance Sheets and securitized loans that we manage as at October 31, 2007 and 2006:

Loans managed

	2007			2006		
	Loan principal	Past due (1)	Net write-offs	Loan principal	Past due (1)	Net write-offs
Retail	$ 192,633	$ 754	$ 718	$ 172,118	$ 654	$ 597
Wholesale	69,967	739	66	58,889	485	(4)
Total loans managed (2)	262,600	1,493	784	231,007	1,139	593
Less: Loans securitized and managed						
Credit card loans	3,650	–	86	3,650	–	85
Canadian residential mortgage-backed securities created and sold	14,239	–	–	12,186	–	–
Canadian residential mortgage-backed securities created and retained	5,282	–	–	5,232	–	–
Total loans reported on the Consolidated Balance Sheets	$ 239,429	$ 1,493	$ 698	$ 209,939	$ 1,139	$ 508

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

Sensitivity of key assumptions

Key assumptions are used to determine the fair value of our retained interests. The following table is a summary of the key assumptions used as at October 31, 2007 and the sensitivity of the current fair value of our retained interests to immediate 10% and 20% adverse changes in these key assumptions.

Increase (decrease) in fair value of retained interests due to adverse changes in key assumptions (1), (2)

	2007		
	Credit card loans	Canadian residential mortgage loans	
		Variable rate	Fixed rate
Fair value of retained interests	$ 27.5	$ 27.9	$ 386.7
Weighted average remaining service life (in years)	.25	2.63–3.27	3.05–3.97
Payment rate	37.39%	29.20–40.00%	9.25–18.00%
Impact on fair value of 10% adverse change	$ (1.6)	$ (.8)	$ (9.4)
Impact on fair value of 20% adverse change	(3.2)	(1.5)	(18.6)
Excess spread, net of credit losses	5.72%	.68–.88%	.84–.89%
Impact on fair value of 10% adverse change	$ (5.0)	$ (14.0)	$ (37.1)
Impact on fair value of 20% adverse change	(10.0)	(28.0)	74.3
Expected credit losses	2.18%	–%	–%
Impact on fair value of 10% adverse change	$ (1.2)	$ –	$ –
Impact on fair value of 20% adverse change	(2.3)	–	–
Discount rate	10.00%	4.71–6.81%	4.69–4.71%
Impact on fair value of 10% adverse change	$ –	$ (.2)	$ (2.3)
Impact on fair value of 20% adverse change	(.1)	(.3)	(4.5)

(1) All rates are annualized except for the credit card loans payment rate which is monthly.
(2) This analysis is not applicable for commercial mortgage loans securitizations as we have not retained rights to future excess spread in these transactions.

These sensitivities are hypothetical and should be used with caution. Changes in fair value based on a variation in assumptions generally cannot be extrapolated because the relationship of the change in assumptions to the change in fair value may not be linear. The effect of a variation in a particular assumption on the fair value of the retained interests is calculated without changing any other assumptions. Generally, the changes in one factor may result in changes in another, which may magnify or counteract the sensitivity.

Note 6 Variable interest entities (VIEs)

The following table provides information about VIEs as at October 31, 2007 and 2006, in which we have significant variable interests, and those we consolidate under CICA Accounting Guideline 15, *Consolidation of Variable Interest Entities* (AcG-15), because we are the Primary Beneficiary.

	Total assets as at October 31, 2007	Maximum exposure to loss as at October 31, 2007	Total assets as at October 31, 2006	Maximum exposure to loss as at October 31, 2006
Unconsolidated VIEs in which we have significant variable interests (1):				
Multi-seller conduits (2)	$ 41,785	$ 42,912	$ 34,258	$ 35,031
Third-party conduits	4,264	1,625	2,697	1,018
Credit investment product VIEs	2,676	1,733	–	–
Investment funds	1,517	324	3,390	303
Structured finance VIEs	407	407	2,592	1,465
Other	60	80	128	84
	$ 50,709	$ 47,081	$ 43,065	$ 37,901
Consolidated VIEs (3), (4):				
Investment funds (5)	$ 995		$ 1,851	
Structured finance VIEs	560		409	
Credit investment product VIEs	276		689	
Compensation vehicles	83		355	
Other	144		151	
	$ 2,058		$ 3,455	

(1) The maximum exposure to loss resulting from our significant variable interests in these VIEs consists mostly of investments, loans, liquidity facilities and fair value of derivatives. We have recognized $2,165 million (2006 – $2,130 million) of this exposure on our Consolidated Balance Sheets.
(2) Total assets represent maximum assets that may have to be purchased by the conduits under purchase commitments outstanding as at October 31, 2007. Actual assets held by these conduits as at October 31, 2007, were $29,290 million (2006 – $24,811 million).
(3) The assets that support the obligations of the consolidated VIEs are reported on our Consolidated Balance Sheets primarily as follows: Interest-bearing deposits with banks of $75 million (2006 – $120 million), Trading securities of $1,185 million (2006 – $2,483 million), Available-for-sale securities of $315 million (2006 – $409 million) and Other assets of $401 million (2006 – $287 million). The compensation vehicles hold $83 million (2006 – $156 million) of our common shares, which are reported as Treasury shares. The obligation to provide common shares to employees is recorded as an increase to Contributed surplus as the expense for the corresponding stock-based compensation plan is recognized.
(4) Investors have recourse only to the assets of the related VIEs and do not have recourse to our general assets unless we breach our contractual obligations relating to those VIEs, provide liquidity facilities or credit enhancement facilities to, or enter into derivative transactions with, the VIEs.
(5) The implementation of EIC-163 (refer to Note 1) resulted in the deconsolidation of certain investment funds during 2007. As at October 31, 2006, the total assets and maximum exposure to loss of these deconsolidated funds were $363 million and $36 million, respectively.

Multi-seller and third-party conduits

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

The multi-seller conduits also finance assets that are either in the form of securities including collateralized debt obligations or instruments that closely resemble securities such as credit-linked notes. In these situations, the multi-seller conduit is often one of many investors in the securities or security-like instruments.

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

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

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

Investment funds

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

Structured finance VIEs

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

Creation of credit investment products

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

Compensation vehicles

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

Capital trusts

RBC Subordinated Notes Trust (Trust III) was created in 2007 to issue $1 billion of innovative subordinated debentures and RBC Capital Trust II (Trust II) was created in 2003 to issue $900 million of innovative capital instruments. We issued senior deposit notes of the same amounts to Trust II, and a senior deposit note of $999.8 million to Trust III. Although we own the common equity and voting control of these trusts, 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. For details on our innovative capital instruments, refer to Note 17.

Securitization of our financial assets

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

Note 7 Derivative financial instruments and hedging activities

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

Types of derivatives

Forwards and futures

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

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

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

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

Swaps

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

Interest rate swaps are agreements where two counterparties exchange a series of payments based on different interest rates applied to a notional amount in a single currency. Cross currency swaps involve the exchange of fixed payments in one currency for the receipt of fixed payments in another currency. Cross currency interest rate swaps involve the exchange of both interest and principal amounts in two different currencies.

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

Options

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

Credit derivatives

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

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

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

Other derivative products

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

Derivatives issued for trading purposes

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

Derivatives issued for other than trading purposes

We also use derivatives for purposes other than trading, primarily for hedging, in conjunction with the management of interest rate, credit and foreign exchange risk related to our own asset/liability management, funding and investment activities.

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

Certain derivatives and cash instruments are specifically designated and qualify for hedge accounting. We apply hedge accounting to minimize significant unplanned fluctuations in earnings caused by changes in interest rates or foreign exchange rates. Interest rate and currency fluctuations will either cause assets and liabilities to appreciate or depreciate in market value or cause variability in anticipated cash flows. When a hedging instrument functions effectively, gains, losses, revenue and expenses of the hedging instrument will offset the gains, losses, revenue and expenses of the hedged item. When derivatives are designated as the hedging instrument, all components of each derivative's change in fair value are included in the assessment and measurement of hedge effectiveness. When cash instruments are designated for hedges of currency risks, only changes in their value due to currency risk are included in the assessment and measurement of hedge effectiveness.

We did not apply hedge accounting to any anticipated transactions or firm commitments during the year. As at October 31, 2007, after-tax net unrealized gains of $24 million were recognized in AOCI, representing the cumulative effective portions of our cash flow hedges. The net amount of gains and losses reported in AOCI that is expected to be reclassified to Net interest income within the next 12 months is not estimated to be material.

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

Hedge activities

	2007		
	Net gains (losses) included in Non-interest income	Net gains (losses) included in Net interest income	After-tax unrealized gains (losses) included in OCI
Fair value hedges			
Ineffective portion	$ (14)	$ n.a.	$ n.a.
Cash flow hedges			
Ineffective portion	(9)	n.a.	n.a.
Effective portion	n.a.	n.a.	80
Reclassified to income during the year (1)	n.a.	(47)	n.a.
Net investment hedges			
Foreign currency losses	n.a.	n.a.	(2,965)
Gains from hedges	n.a.	n.a.	1,804

(1) An after-tax equivalent amount of $31 million was reclassified from AOCI.
n.a. not applicable

Notional amount of derivatives by term to maturity

	Term to maturity				2007		2006	
	Within 1 year	1 to 5 years	Over 5 years (1)	Total	Trading	Other than trading	Trading	Other than trading
Over-the-counter contracts								
Interest rate contracts								
Forward rate agreements	$ 197,733	$ 4,120	$ –	$ 201,853	$ 201,853	$ –	$ 315,378	$ –
Swaps	896,816	907,875	449,855	2,254,546	2,096,153	158,393	1,874,206	140,232
Options purchased	22,986	35,405	32,197	90,588	89,585	1,003	99,172	86
Options written	38,403	39,854	71,485	149,742	149,169	573	73,566	–
Foreign exchange contracts								
Forward contracts	706,342	21,149	14,285	741,776	710,961	30,815	626,484	33,033
Cross currency swaps	2,648	7,978	7,521	18,147	17,748	399	18,553	1,072
Cross currency interest rate swaps	53,818	141,584	82,936	278,338	242,319	36,019	228,090	20,707
Options purchased	28,961	7,472	330	36,763	36,756	7	65,572	71
Options written	30,500	7,559	296	38,355	38,355	–	68,337	51
Credit derivatives (2)	18,548	183,650	197,026	399,224	393,247	5,977	219,054	2,722
Other contracts (3)	22,614	20,129	31,203	73,946	73,804	142	86,548	573
Exchange-traded contracts								
Interest rate contracts								
Futures – long positions	68,553	8,806	5	77,364	77,086	278	146,886	524
Futures – short positions	112,912	19,278	2	132,192	132,008	184	211,131	901
Options purchased	14,945	19	–	14,964	14,964	–	71,926	–
Options written	4,656	–	–	4,656	4,656	–	119,194	–
Foreign exchange contracts								
Futures – long positions	100	227	–	327	327	–	6,070	–
Futures – short positions	9,521	168	–	9,689	9,689	–	26,088	–
Other contracts (3)	252,784	1,396	26	254,206	254,206	–	257,154	–
	$ 2,482,840	$ 1,406,669	$ 887,167	$ 4,776,676	$ 4,542,886	$ 233,790	$4,513,409	$ 199,972

(1) Includes contracts maturing in over 10 years with a notional value of $205,976 million (2006 – $135,951 million). The related gross positive replacement cost is $10,910 million (2006 – $3,857 million).
(2) Comprises credit default swaps, total return swaps and credit default baskets, including credit derivatives given guarantee treatment for the OSFI regulatory reporting purposes. Credit derivatives with a notional value of $5,530 million (2006 – $2,116 million) are economic hedges.
(3) Comprises precious metal, commodity and equity-linked derivative contracts other than embedded equity-linked contracts.

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

Fair value of derivative instruments

	2007				2006			
	Average fair value for year ended (1)		Year-end fair value		Average fair value for year ended (1)		Year-end fair value	
	Positive	Negative	Positive	Negative	Positive	Negative	Positive	Negative
Held or issued for trading purposes								
Interest rate contracts								
Forward rate agreements	$ 44	$ 49	$ 72	$ 25	$ 52	$ 50	$ 44	$ 60
Swaps	13,938	14,241	14,250	14,446	12,150	12,003	12,258	11,969
Options purchased	621	–	488	–	795	–	602	–
Options written	–	786	–	625	–	888	–	698
	14,603	15,076	14,810	15,096	12,997	12,941	12,904	12,727
Foreign exchange contracts								
Forward contracts	8,342	8,508	14,503	14,410	6,740	6,969	5,493	5,758
Cross currency swaps	2,231	1,522	3,066	2,141	2,041	1,522	2,151	1,522
Cross currency interest rate swaps	8,987	9,419	13,634	14,250	7,010	8,275	6,703	8,319
Options purchased	1,044	–	1,221	–	1,571	–	1,055	–
Options written	–	1,028	–	1,302	–	1,582	–	994
	20,604	20,477	32,424	32,103	17,362	18,348	15,402	16,593
Credit derivatives (2)	3,964	3,508	10,416	9,375	1,139	975	1,795	1,580
Other contracts (3)	6,096	9,537	4,925	10,317	5,623	8,803	5,798	9,221
	$ 45,267	$ 48,598	$ 62,575	$ 66,891	$ 37,121	$ 41,067	$ 35,899	$ 40,121
Held or issued for other than trading purposes								
Interest rate contracts								
Swaps			$ 1,110	$ 760			$ 1,100	$ 940
Options purchased			6	–			–	–
Options written			–	25			–	–
			1,116	785			1,100	940
Foreign exchange contracts								
Forward contracts			921	503			102	236
Cross currency swaps			2	9			5	5
Cross currency interest rate swaps			1,371	3,635			607	631
Options purchased			–	–			1	–
Options written			–	–			–	1
			2,294	4,147			715	873
Credit derivatives (2)			36	30			20	30
Other contracts (3)			20	42			85	281
			3,466	5,004			1,920	2,124
Total gross fair values before netting (4)			66,041	71,895			37,819	42,245
Impact of master netting agreements								
With intent to settle net or simultaneously (5)			(473)	(473)			(137)	(137)
Without intent to settle net or simultaneously (6)			(38,256)	(38,256)			(18,952)	(18,952)
Total			$ 27,312	$ 33,166			$ 18,730	$ 23,156

(1) Average fair value amounts are calculated based on monthly balances.
(2) Comprises credit default swaps, total return swaps and credit default baskets, including credit derivatives given guarantee treatment for the OSFI regulatory reporting purposes.
(3) Comprises precious metal, commodity and equity-linked derivative contracts. Certain warrants and loan commitments that meet the definition of derivatives are also included.
(4) The positive year-end fair value excludes margin requirements of $1,017 million (2006 – $721 million) and the negative year-end fair value excludes market and credit valuation adjustments of $588 million (2006 – $366 million).
(5) Impact of offsetting credit exposures on contracts where we have both a legally enforceable master netting agreement in place and we intend to settle the contracts on either a net basis or simultaneously.
(6) Additional impact of offsetting credit exposures on contracts where we have a legally enforceable master netting agreement in place but do not intend to settle the contracts on a net basis or simultaneously.

Derivative-related credit risk

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

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

Netting is a technique that can reduce credit exposure from derivatives and is generally facilitated through the use of master netting agreements. The master netting agreement provides for a single net settlement of all financial instruments covered by the agreement in the event of default. However, credit risk is reduced only to the extent that our financial obligations to the same counterparty can be set off against obligations of the counterparty to us. The two main categories of netting are close-out netting and settlement netting. Under the close-out netting provision, if the counterparty defaults, we have the right to terminate all transactions covered by the master netting agreement at the then-prevailing market values and to sum the resulting market values, offsetting negative against positive values, to arrive at a single net amount owed by either the counterparty or us. Under the settlement netting provision, all payments and receipts in the same currency and due on the same day between specified branches are netted, generating a single payment in each currency, due either by us or the counterparty. We maximize the use of master netting agreements to reduce derivative-related credit exposure. Our overall exposure to credit risk that is reduced through master netting agreements may change substantially following the reporting date as the exposure is affected by each transaction subject to the agreement as well as by changes in underlying market rates. Measurement of our credit exposure arising out of derivative transactions is reduced to reflect the effects of netting in cases where the enforceability of that netting is supported by appropriate legal analysis as documented in our trading credit risk policies.

The use of collateral is another significant credit mitigation technique for managing derivative-related counterparty credit risk. Marked-to-market provisions in our agreements with some counterparties, typically in the form of a Credit Support Annex, provide RBC with the right to request that the counterparty pay down or collateralize the current market value of its derivatives positions when the value passes a specified threshold amount.

During 2007, 2006 and 2005, neither our actual credit losses arising from derivative transactions nor the level of impaired derivative contracts were significant. The tables below show replacement cost, credit equivalent and risk-adjusted amounts of our derivatives both before and after the impact of netting.

Replacement cost represents the total fair value of all outstanding contracts in a gain position, before factoring in the master netting agreements. The amounts in the table below exclude fair value of $955 million (2006 – $734 million) relating to exchange-traded instruments as they are subject to daily margining and are deemed to have no credit risk.

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

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

Derivative-related credit risk

	2007			2006		
	Replacement cost	Credit equivalent amount	Risk-adjusted balance	Replacement cost	Credit equivalent amount	Risk-adjusted balance
Interest rate contracts						
Forward rate agreements	$ 72	$ 92	$ 22	$ 44	$ 109	$ 22
Swaps	15,360	23,484	5,213	13,358	21,031	4,452
Options purchased	364	1,032	248	591	1,164	260
	15,796	24,608	5,483	13,993	22,304	4,734
Foreign exchange contracts						
Forward contracts	15,424	22,222	5,674	5,595	12,413	3,310
Swaps	18,073	32,901	6,138	9,466	22,697	4,305
Options purchased	1,221	1,832	466	1,056	2,244	502
	34,718	56,955	12,278	16,117	37,354	8,117
Credit derivatives (1)	10,416	35,026	8,465	1,795	6,975	2,009
Other contracts (2)	4,120	6,723	2,251	5,160	8,696	2,760
Derivatives before master netting agreements	$ 65,050	$ 123,312	$ 28,477	$ 37,065	$ 75,329	$ 17,620
Impact of master netting agreements	(38,729)	(65,339)	(14,020)	(19,089)	(31,831)	(7,188)
Total derivatives after master netting agreement (3)	$ 26,321	$ 57,973	$ 14,457	$ 17,976	$ 43,498	$ 10,432

(1) Comprises credit default swaps, total return swaps and credit default baskets. The above excludes credit derivatives issued for other than trading purposes related to bought and sold protection with a replacement cost of $36 million (2006 – $20 million). Credit derivatives issued for other than trading purposes related to sold protection with a replacement cost of $.4 million (2006 – $20 million) had a credit equivalent amount of $447 million (2006 – $283 million) and risk-adjusted asset amount of $447 million (2006 – $283 million) which were given guarantee treatment per the OSFI guidance.

(2) Comprises precious metal, commodity and equity-linked derivative contracts.

(3) The total credit equivalent amount after netting includes collateral applied of $2,228 million (2006 – $1,310 million).

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

As at October 31, 2007	Risk rating (1)					Counterparty type (2)			
	AAA, AA	A	BBB	BB or lower	Total	Banks	OECD governments	Other	Total
Gross positive replacement cost	$ 42,142	$ 14,731	$ 6,149	$ 2,064	$ 65,086	$ 38,250	$ 8,188	$ 18,648	$ 65,086
Impact of master netting agreements	(28,042)	(8,047)	(2,367)	(273)	(38,729)	(31,193)	–	(7,536)	(38,729)
Replacement cost (after netting agreements) (3)	$ 14,100	$ 6,684	$ 3,782	$ 1,791	$ 26,357	$ 7,057	$ 8,188	$ 11,112	$ 26,357
Replacement cost (after netting agreements) – 2006 (3)	$ 8,573	$ 5,393	$ 2,270	$ 1,760	$ 17,996	$ 5,678	$ 5,891	$ 6,427	$ 17,996

(1) Our internal risk ratings for major counterparty types approximate those of public rating agencies. Ratings of AAA, AA, A and BBB represent investment grade ratings and ratings of BB or lower represent non-investment grade ratings.
(2) Counterparty type is defined in accordance with the capital adequacy requirements of the OSFI.
(3) Includes credit derivatives issued for other than trading purposes with a total replacement cost of $36 million (2006 – $20 million).

Note 8 Premises and equipment

	2007			2006		
	Cost	Accumulated depreciation	Net book value	Cost	Accumulated depreciation	Net book value
Land	$ 133	$ –	$ 133	$ 134	$ –	$ 134
Buildings	553	333	220	511	321	190
Computer equipment	3,049	1,986	1,063	2,462	1,698	764
Furniture, fixtures and other equipment	1,059	764	295	1,012	736	276
Leasehold improvements	1,147	727	420	1,127	673	454
	$ 5,941	$ 3,810	$ 2,131	$ 5,246	$ 3,428	$ 1,818

The depreciation expense for premises and equipment for 2007 was $434 million (2006 – $405 million; 2005 – $414 million).

Note 9 RBC Dexia Investor Services joint venture

RBC Dexia Investor Services

We operate our institutional and investor services business (IIS) through our joint venture, RBC Dexia Investor Services (RBC Dexia IS). During the year, RBC Dexia IS finalized the net assets contribution requirement outlined in the joint venture agreement. As a result, it was determined that we had contributed €27 million ($41 million) of net assets in excess of the amount required. This excess was settled by RBC Dexia IS in cash and recognized by us as a reduction in our investment in the joint venture.

Assets and liabilities representing our interest in RBC Dexia IS and our proportionate share of its financial results before adjusting for related party transactions are presented in the following tables:

	As at	
	October 31, 2007	October 31, 2006
Consolidated Balance Sheets		
Assets (1)	$ 15,544	$ 12,354
Liabilities	14,533	11,396

(1) Includes $69 million (2006 – $69 million) of goodwill and $179 million (2006 – $208 million) of intangible assets.

	For the year ended October 31, 2007	For the nine months ended October 31, 2006 (1)
Consolidated Statements of Income		
Net interest income	$ 116	$ 75
Non-interest income	600	363
Non-interest expense	529	315
Net income	125	73
Consolidated Statements of Cash Flows		
Cash flows from (used in) operating activities	$ (546)	$ (71)
Cash flows from (used in) investing activities	(2,299)	(97)
Cash flows from (used in) financing activities	2,856	165

(1) For the year ended October 31, 2006, we did not report our proportionate share of RBC Dexia IS results for our quarter ended January 31, 2006 as the joint venture was formed on January 2, 2006, and we report its results on a one-month lag basis.

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

	For the year ended October 31, 2007	For the nine months ended October 31, 2006 (1)
Net interest income	$ 157	$ 99
Non-interest income	26	16
Non-interest expense	34	28

(1) For the year ended October 31, 2006, we did not report the amounts of income earned and expenses incurred by RBC Dexia IS related to transactions with RBC for our quarter ended January 31, 2006 as the joint venture was formed on January 2, 2006, and we report its results on a one-month lag basis.

Note 10 Goodwill and other intangibles

Effective February 7, 2007, as discussed in Note 30, our previous three business segments were reorganized into four business segments. This reorganization resulted in the realignment of certain reporting units. Accordingly, we have reallocated our goodwill to the new reporting units using the relative fair value approach. The following table discloses the changes in goodwill during 2006 and 2007, including the reallocation of goodwill to the new reporting units:

Goodwill

	RBC Canadian Personal and Business	RBC U.S. and International Personal and Business	RBC Capital Markets	Total
Balance at October 31, 2005	$ 2,419	$ 831	$ 953	$ 4,203
Goodwill acquired during the year	–	86	–	86
Other adjustments (1), (2)	72	(17)	(40)	15
Balance at October 31, 2006	$ 2,491	$ 900	$ 913	$ 4,304
Goodwill acquired between November 1, 2006 and January 31, 2007	–	406	121	527
Other adjustments (3)	9	58	34	101
Balance at January 31, 2007	$ 2,500	$ 1,364	$ 1,068	$ 4,932

(1) Other adjustments in 2006 primarily include the impact of foreign exchange translations on foreign currency-denominated goodwill, changes in goodwill related to our IIS business with RBC Dexia IS (refer to Note 9), and the transfer of $6 million of housing tax credit syndication business goodwill from RBC U.S. and International Personal and Business to RBC Capital Markets. Refer to Note 30.
(2) During 2006, we adjusted the foreign exchange translation of certain foreign currency-denominated goodwill of RBC Canadian Personal and Business to better align with the nature of the net assets supporting the segment. This resulted in an increase of $182 million of goodwill for RBC Canadian Personal and Business. A corresponding increase was made to Unrealized foreign currency translation adjustments on our Consolidated Statements of Changes in Shareholders' Equity.
(3) Other adjustments in the first quarter of 2007 primarily include the impact of foreign exchange translations on foreign currency-denominated goodwill.

As a result of the application of the relative fair value approach for the business reorganization, goodwill as at January 31, 2007 has been reallocated as follows:

Reallocation of goodwill

	Goodwill balance before business reorganization	Canadian Banking	Wealth Management	U.S. & International Banking	Capital Markets	Goodwill balance after business reorganization
RBC Canadian Personal and Business	$ 2,500	$ 2,069	$ 431	$ –	$ –	$ 2,500
RBC U.S. and International Personal and Business	1,364	–	583	781	–	1,364
RBC Capital Markets	1,068	–	–	109	959	1,068
Balance at January 31, 2007	$ 4,932	$ 2,069	$ 1,014	$ 890	$ 959	$ 4,932
Goodwill acquired between February 1 and October 31, 2007	372	–	31	323	18	372
Other adjustments (1)	(552)	(19)	(163)	(217)	(153)	(552)
Balance at October 31, 2007	$ 4,752	$ 2,050	$ 882	$ 996	$ 824	$ 4,752

(1) Other adjustments in the last three quarters of 2007 primarily include the impact of foreign exchange translations on foreign currency-denominated goodwill.

We have also completed the annual assessment for goodwill impairment in all reporting units and have determined that there was no goodwill impairment for the year ended October 31, 2007 (2006 – nil; 2005 – nil).

Other intangibles

	2007			2006		
	Gross carrying amount	Accumulated amortization (1)	Net carrying amount	Gross carrying amount	Accumulated amortization (1)	Net carrying amount
Core deposit intangibles	$ 376	$ (170)	$ 206	$ 324	$ (163)	$ 161
Customer lists and relationships	605	(200)	405	625	(156)	469
Mortgage servicing rights	47	(30)	17	44	(32)	12
	$ 1,028	$ (400)	$ 628	$ 993	$ (351)	$ 642

(1) Total amortization expense for 2007 was $96 million (2006 – $76 million; 2005 – $50 million).

The projected amortization of Other intangibles for each of the years ending October 31, 2008 to October 31, 2012 is approximately $86 million. There were no writedowns of intangible assets due to impairment for the year ended October 31, 2007 (2006 – nil; 2005 – nil).

Note 11 Significant acquisitions and dispositions

2007

In December 2006, we completed the acquisition of Atlanta, Georgia-based Flag Financial Corporation (Flag) and its subsidiary, Flag Bank, and in March 2007, we completed the acquisition of 39 branches of AmSouth Bank in Alabama (AmSouth branches). Details of these acquisitions are as follows:

	Flag	AmSouth branches (1)
Acquisition date	December 8, 2006	March 9, 2007
Business segment	U.S. & International Banking	U.S. & International Banking
Percentage of shares acquired	100%	n.a.
Purchase consideration in the currency of the transaction	Cash payment of US$435	Cash payment of US$343
Purchase consideration in Canadian dollar equivalent	$ 498	$ 405
Fair value of tangible assets acquired	$ 1,912	$ 2,368
Fair value of liabilities assumed	(1,870)	(2,369)
Fair value of identifiable net assets acquired (net liabilities assumed)	42	(1)
Core deposit intangibles and other intangibles (2), (3)	50	83
Goodwill	406	323
Total purchase consideration	$ 498	$ 405

(1) The purchase price allocation for the AmSouth branches is preliminary; it will be finalized once the valuations of certain assets and liabilities are completed.
(2) Core deposit intangibles are amortized on a straight-line basis over an estimated average useful life of seven years.
(3) Included in the acquisition of Flag was $7 million of Other intangibles ($nil for AmSouth branches) which relates to non-compete agreements and are amortized over the term of the agreements for a maximum of three years.
n.a. not applicable

Other acquisitions

Capital Markets

During 2007, we completed three acquisitions for a total cost of US$150 million (C$170 million), which were paid in cash: (i) Ohio-based Seasongood & Mayer, LLC, a public finance firm and leading underwriter of municipal debt, and its wholly owned subsidiary, Seasongood Asset Management, an investment advisor to public funds clients, (ii) the broker-dealer business and certain other assets of the Carlin Financial Group, a New York-based broker-dealer, and (iii) Colorado-based Daniels & Associates, L.P., an M&A advisory firm specializing in the communications, media and entertainment, and technology sectors. These acquisitions are not material to Capital Markets and resulted in goodwill of $160 million.

Wealth Management

On May 18, 2007, we completed the acquisition of New Jersey-based J.B. Hanauer & Co., a privately held financial services firm which specializes in retail fixed income and wealth management services, for US$42 million (C$45 million) in cash. The acquisition is not material to Wealth Management and resulted in goodwill of $18 million.

Pending acquisitions

U.S. & International Banking

On April 17, 2007, we announced our intention to acquire a 50% interest in Fidelity Merchant Bank & Trust Limited, the Bahamas-based wholly owned subsidiary of Fidelity Bank & Trust International Limited to form a joint venture to be called Royal Fidelity Merchant Bank & Trust Limited which will provide certain corporate finance and advisory, investment management, stock brokerage, share registrar and transfer agency, pension and mutual fund administration services. This transaction is expected to close in the first quarter of 2008.

On September 6, 2007, RBC Centura Banks, Inc. announced the signing of a definitive merger agreement pursuant to which RBC Centura Banks, Inc. agreed to acquire Birmingham-based Alabama National BanCorporation (ANB), parent of 10 subsidiary banks and other affiliated businesses in Alabama, Florida and Georgia. Under the agreement, shareholders of ANB will receive US$80 per share payable in cash, RBC common shares or a combination of each, valuing the deal at approximately US$1.6 billion (C$1.5 billion as at October 31, 2007), with the total transaction consideration consisting of one-half cash and one-half RBC common shares. The acquisition is subject to customary closing conditions, including approval by U.S. and Canadian regulators and by ANB shareholders. The transaction is expected to close in early calendar year 2008.

On October 2, 2007, we and the RBTT Financial Group (RBTT) announced an agreement to combine our Caribbean retail banking operations with RBTT's through the acquisition of RBTT for a total purchase price of TT$13.8 billion (C$2 billion as at October 31, 2007). RBTT is a Caribbean-owned banking and financial services group which offers a complete range of banking and financial intermediate services to customers in Trinidad and Tobago and the Caribbean. Under the agreement, RBTT shareholders will receive per share consideration of TT$40 payable 60% in cash and 40% in RBC common shares. The number of RBC common shares to be received by RBTT shareholders is subject to a plus/minus 10% "collar" based on our share price of US$54.42. The acquisition is subject to customary closing conditions, including approval by the Trinidad and Tobago and Canadian and other regulators and RBTT shareholders. This transaction is expected to close by the middle of calendar year 2008.

Note 11 Significant acquisitions and dispositions (continued)

2006

Acquisitions

Wealth Management

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

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

The details of these acquisitions are as follows:

	Abacus	AG&T
Acquisition date	November 30, 2005	October 3, 2006
Business segment	Wealth Management (1)	Wealth Management (1)
Percentage of shares acquired	100%	100%
Purchase consideration in the currency of the transaction	Cash payment of £$105 (2)	Cash payment of US$12.5
Purchase consideration in Canadian dollar equivalent	$ 213	$ 14
Fair value of tangible assets acquired	$ 43	$ 3
Fair value of liabilities assumed	(23)	–
Fair value of identifiable net tangible assets acquired	20	3
Customer lists and relationships (3)	116	2
Goodwill	77	9
Total purchase consideration	$ 213	$ 14

(1) These acquisitions, which were previously included in the operations of RBC U.S. and International Personal and Business segment, are included in the Wealth Management business segment effective February 2, 2007 upon reorganization of our business segments. Refer to Note 30.

(2) Includes £20 million placed in an escrow account for future payments of claims as agreed to in the purchase agreement. Amounts remaining in the escrow account will be released to the vendors over a three-year period after completion of the acquisition.

(3) Customer lists and relationships are amortized on a straight-line basis over an estimated average useful life of 15 years.

Dispositions

On September 2, 2005, we completed the sale of RBC Mortgage Company (RBC Mortgage) to New Century Mortgage Corporation and Home123 Corporation (Home123), pursuant to which Home123 acquired certain assets of RBC Mortgage including its branches, and hired substantially all of its employees. RBC Mortgage disposed of substantially all of its remaining assets and obligations by the end of 2006 and the residual balances of RBC Mortgage in 2007 are immaterial. These residual balances are no longer recorded separately in our Consolidated Financial Statements for 2007 and changes in the amounts are now reported in Corporate Support. Prior to 2007, the results of RBC Mortgage are presented separately as discontinued operations.

Note 12 Other assets

	2007	2006
Receivable from brokers, dealers and clients	$ 4,048	$ 3,172
Accrued interest receivable	2,608	2,229
Investment in associated corporations and limited partnerships	1,420	1,614
Insurance-related assets (1)	827	702
Net future income tax asset (refer to Note 24)	1,251	1,104
Prepaid pension benefit cost (2) (refer to Note 20)	590	761
Cheques and other items in transit	–	489
Other	7,109	5,346
	$ 17,853	$ 15,417

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

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

Note 13 Deposits

The following table details our deposit liabilities:

	2007				2006
	Demand (1)	Notice (2)	Term (3)	Total	Total
Personal	$ 14,022	$ 36,537	$ 65,998	$ 116,557	$ 114,040
Business and government (4), (5)	64,934	16,930	138,022	219,886	189,140
Bank	4,135	221	24,406	28,762	40,343
	$ 83,091	$ 53,688	$ 228,426	$ 365,205	$ 343,523
Non-interest-bearing					
Canada				$ 28,254	$ 19,088
United States				2,285	2,293
Other International				1,693	1,241
Interest-bearing					
Canada (4), (5)				155,190	174,170
United States				41,514	50,123
Other International				136,269	96,608
				$ 365,205	$ 343,523

(1) Deposits payable on demand include all deposits for which we do not have the right to notice of withdrawal. These deposits are primarily chequing accounts.
(2) Deposits payable after notice include all deposits for which we can legally require notice of withdrawal. These deposits are primarily savings accounts.
(3) Term deposits include deposits payable on a fixed date. These deposits include term deposits, guaranteed investment certificates and similar instruments. At October 31, 2007, the balance of term deposits also includes senior deposit notes we have issued to provide long-term funding of $51.5 billion (2006 – $33.4 billion).
(4) The senior deposit note of $900 million issued to Trust II (refer to Note 17) is included in Business and government deposits. This senior deposit note bears interest at an annual rate of 5.812% and will mature on December 31, 2053. The note is redeemable at our option, in whole or in part, on and after December 31, 2008, subject to the approval of the OSFI. It may be redeemed earlier, at our option in certain specified circumstances, subject to the approval of the OSFI. Each $1,000 of the note principal is convertible at any time into 40 of our Non-cumulative redeemable First Preferred Shares Series U at the option of Trust II. Trust II will exercise this conversion right in circumstances in which holders of RBC Trust Capital Securities Series 2013 (RBC TruCS 2013) exercise their holder exchange right. Refer to Note 17 for more information on RBC TruCS 2013.
(5) Business and government deposits also include a senior deposit note of $999.8 million issued to RBC Subordinated Notes Trust (Trust III) (refer to Note 17). This senior deposit note bears interest at an annual rate of 4.72% and will mature on April 30, 2017. Subject to the OSFI's approval, the note is redeemable at our option, in whole or in part, on or after April 30, 2012, at the Redemption Price and may also be redeemed earlier at our option at the Early Redemption Price. The Redemption Price is an amount equal to $1,000 plus the unpaid distributions to the redemption date. The Early Redemption Price is an amount equal to the greater of (i) the Redemption Price, and (ii) the price calculated to provide an annual yield, equal to the yield on Government of Canada bonds from the redemption date to April 30, 2012, plus 11 basis points.

The contractual maturities of the term deposits are as follows:

Term deposits (1)

	2007
Within 1 year	$ 171,929
1 to 2 years	17,484
2 to 3 years	15,290
3 to 4 years	9,501
4 to 5 years	8,552
Over 5 years	5,670
Total	$ 228,426

(1) The aggregate amount of term deposits in denominations of $100,000 or more as at October 31, 2007 was $186 billion.

The following table presents the average deposit balances and average rates of interest paid during 2007 and 2006:

Average deposit balances and rates

	Average balances		Average rates	
	2007	2006	2007	2006
Canada	$ 190,754	$ 183,085	2.97%	2.74%
United States	54,812	48,272	4.68	4.18
Other International	122,910	91,942	4.50	3.99
	$ 368,476	$ 323,299	3.74%	3.31%

Note 14 Insurance

Insurance claims and policy benefit liabilities

	2007	2006
Life and health	$ 6,664	$ 6,655
Property and casualty	417	386
Reinsurance	202	296
Total	$ 7,283	$ 7,337
Future policy benefit liabilities	$ 6,610	$ 6,605
Claims liabilities	673	732
Total	$ 7,283	$ 7,337

The net decrease in Insurance claims and policy benefit liabilities over the prior year comprised: (i) the favourable impact of the stronger Canadian dollar on U.S. dollar-denominated liabilities, (ii) a net decrease in reinsurance liabilities reflecting claim payments related to hurricanes Katrina, Rita and Wilma, and (iii) the net increase in life and health and property and casualty liabilities attributable to business growth and market movements on assets backing life and health liabilities.

Furthermore, the review of various actuarial assumptions and completion of certain actuarial experience studies resulted in a net decrease of $57 million life and $32 million health insurance liabilities. This was predominantly driven by the impact of ongoing experience studies, refinements to cash flow models and methods, investment portfolio changes and updated interest rate assumptions, and includes a cumulative valuation adjustment of $92 million relating to prior periods.

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

Reinsurance

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

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

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

Net premiums

	2007	2006	2005
Gross premiums	$ 3,445	$ 3,405	$ 3,329
Ceded premiums	(852)	(810)	(765)
	$ 2,593	$ 2,595	$ 2,564

Note 15 Other liabilities

	2007	2006
Short-term borrowings of subsidiaries	$ 3,784	$ 3,929
Payable to brokers, dealers and clients	3,941	3,382
Accrued interest payable	2,908	2,556
Accrued pension and other post-employment benefit expense (1) (refer to Note 20)	1,266	1,250
Insurance-related liabilities	408	491
Dividends payable	661	526
Payroll and related compensation	3,960	3,551
Trade payables and related accounts	1,854	709
Taxes payable	1,078	78
Other	8,623	6,177
	$ 28,483	$ 22,649

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

Note 16 Subordinated debentures

The debentures are unsecured obligations and are subordinated in right of payment to the claims of depositors and certain other creditors. All redemptions, cancellations and exchanges of subordinated debentures are subject to the consent and approval of the OSFI. All subordinated debentures are redeemable at our option. As a result of adopting the new financial instruments accounting standards effective November 1, 2006, Subordinated debentures are now presented on our Consolidated Balance Sheets net of deferred financing costs. Prior to November 1, 2006, deferred financing costs were recognized in Other assets. The prior period comparative amounts have not been restated. The amounts presented below are net of our holdings in these securities which have not been cancelled and are still outstanding.

Maturity	Earliest par value redemption date	Interest rate	Denominated in foreign currency	2007	2006
March 15, 2009		6.50%	US$125	$ 118	$ 140
November 8, 2011	November 8, 2006 (1)		US$400	–	449
June 4, 2012	June 4, 2007 (1)	6.75%		–	483
January 22, 2013	January 22, 2008 (2)	6.10% (3)		483	497
January 27, 2014	January 27, 2009 (4)	3.96% (3)		495	493
June 1, 2014	June 1, 2009 (5)	4.18% (3)		976	997
November 14, 2014		10.00%		257	200
January 25, 2015	January 25, 2010 (6)	7.10% (3)		515	495
June 24, 2015	June 24, 2010 (4)	3.70% (3)		775	791
April 12, 2016	April 12, 2011 (7)	6.30% (3)		389	400
November 4, 2018	November 4, 2013 (8)	5.45% (3)		1,021	985
June 8, 2023		9.30%		110	110
June 26, 2037	June 26, 2017 (9)	2.86% (10)	JPY 10,000	77	–
October 1, 2083	(11)	(12)		224	224
June 6, 2085	(11)	(13)	US$189	179	239
June 18, 2103	June 18, 2009 (14)	5.95% (15)		622	600
				$ 6,241	$ 7,103
Deferred financing costs				(6)	–
				$ 6,235	$ 7,103

The terms and conditions of the debentures are as follows:

(1) Redeemed on the earliest par value redemption date at par value.
(2) Redeemable at any time prior to the earliest par value redemption date at the greater of (i) the fair value of the subordinated debentures based on the yield on Government of Canada bonds plus 18 basis points and (ii) par value, and thereafter at any time at par value.
(3) Interest at stated interest rate until earliest par value redemption date, and thereafter at a rate of 1.00% above the 90-day Bankers' Acceptance rate.
(4) Redeemable at any time prior to the earliest par value redemption date at the greater of (i) the fair value of the subordinated debentures based on the yield on Government of Canada bonds plus 8 basis points and (ii) par value, and thereafter at any time at par value.
(5) Redeemable at any time prior to the earliest par value redemption date at the greater of (i) the fair value of the subordinated debentures based on the yield on Government of Canada bonds plus 9 basis points and (ii) par value, and thereafter at any time at par value.
(6) Redeemable at any time prior to the earliest par value redemption date at the greater of (i) the fair value of the subordinated debentures based on the yield on Government of Canada bonds plus 12.5 basis points and (ii) par value, and thereafter at any time at par value.
(7) Redeemable at any time prior to the earliest par value redemption date at the greater of (i) the fair value of the subordinated debentures based on the yield on Government of Canada bonds plus 22 basis points and (ii) par value, and thereafter at any time at par value.
(8) Redeemable at any time prior to the earliest par value redemption date at the greater of (i) the fair value of the subordinated debentures based on the yield on Government of Canada bonds plus 14 basis points and (ii) par value, and thereafter at any time at par value.
(9) Redeemable on or after June 26, 2017, at par value.
(10) Fixed interest rate at 2.86% per annum, payable semi-annually.
(11) Redeemable on any interest payment date at par value.
(12) Interest at a rate of 40 basis points above the 30-day Bankers' Acceptance rate.
(13) Interest at a rate of 25 basis points above the U.S. dollar 3-month LIMEAN. In the event of a reduction of the annual dividend we declare on our common shares, the interest payable on the debentures is reduced pro rata to the dividend reduction and the interest reduction is payable with the proceeds from the sale of newly issued common shares.
(14) Redeemable on June 18, 2009, or every fifth anniversary of such date at par value. Redeemable on any other date at the greater of par and the yield on a non-callable Government of Canada bond plus 21 basis points if redeemed prior to June 18, 2014, or 43 basis points if redeemed at any time after June 18, 2014.
(15) Interest at a rate of 5.95% until earliest par value redemption date and every 5 years thereafter at the 5-year Government of Canada yield plus 172 basis points.

Maturity schedule

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

At October 31, 2007	Total
Within 1 year	$ –
1 to 5 years	118
5 to 10 years	3,890
Thereafter	2,233
	$ 6,241

Note 17 Trust capital securities

We issue innovative capital instruments, RBC Trust Capital Securities (TruCS) and RBC Trust Subordinated Notes (TSNs), through three SPEs: RBC Capital Trust (Trust), RBC Capital Trust II (Trust II) and RBC Subordinated Notes Trust (Trust III).

On April 30, 2007, we issued $1 billion innovative subordinated debentures, TSNs – Series A, through Trust III. Trust III is a closed-end trust established under the laws of the Province of Ontario. The issue was priced at $99.982 with a yield to April 30, 2012 of 4.584%. The proceeds were used to purchase a senior deposit note from us. Trust III is a VIE under AcG-15. We do not consolidate Trust III as we are not its Primary Beneficiary (refer to Note 6); therefore, the TSNs – Series A issued by Trust III are not reported on our Consolidated Balance Sheet but the senior deposit note issued by us to Trust III is reported as a Business and government deposit liability (refer to Note 13).

In prior years, we issued non-voting RBC Trust Capital Securities Series 2010, 2011 and 2015 (RBC TruCS 2010, 2011 and 2015) through our consolidated subsidiary RBC Capital Trust, a closed-end trust established under the laws of the Province of Ontario. RBC TruCS 2010 and 2011 are classified as Trust capital securities. The proceeds of the RBC TruCS 2010 and 2011 were used to fund the Trust's acquisition of trust assets. Holders of RBC TruCS 2010 and 2011 are eligible to receive semi-annual non-cumulative fixed cash distributions.

Unlike the RBC TruCS 2010 and 2011, the holders of RBC TruCS 2015 do not have any conversion rights or any other redemption rights. As a result, upon consolidation of the Trust, RBC TruCS 2015 are classified as Non-controlling interest in subsidiaries (refer to Note 19). Holders of RBC TruCS 2015 are eligible to receive semi-annual non-cumulative fixed cash distributions until December 31, 2015 and a floating-rate cash distribution thereafter.

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

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

The table below presents the significant terms and conditions of TruCS and TSNs as at October 31, 2007 and 2006:

Issuer	Issuance date	Distribution dates	Annual yield	Redemption date – At the option of the issuer	Conversion date – At the option of the holder	2007 Principal amount	2006 Principal amount
RBC Capital Trust (1), (2), (3), (4), (5), (6), (7)							
Included in Trust capital securities							
650,000 Trust Capital Securities – Series 2010	July 24, 2000	June 30, December 31	7.288%	December 31, 2005	December 31, 2010	$ 650	$ 650
750,000 Trust Capital Securities – Series 2011	December 6, 2000	June 30, December 31	7.183%	December 31, 2005	December 31, 2011	$ 750	$ 750
						$ 1,400	$ 1,400
Included in Non-controlling interest in subsidiaries							
1,200,000 Trust Capital Securities – Series 2015	October 28, 2005	June 30, December 31	4.87% (8)	December 31, 2010	Holder does not have conversion option	$ 1,200	$ 1,200
						$ 2,600	$ 2,600
RBC Capital Trust II (2), (3), (4), (6), (7), (9)							
900,000 Trust Capital Securities – Series 2013	July 23, 2003	June 30, December 31	5.812%	December 31, 2008	Any time	$ 900	$ 900
RBC Subordinated Notes Trust (3), (4), (6), (7), (10), (11)							
$1 billion 4.58% Trust Subordinated Notes – Series A	April 30, 2007	April 30, October 30	4.584%	Any time	Holder does not have conversion option	$ 1,000	$ –

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

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

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

(3) Issuer Redemption Price: The RBC TruCS 2010 and 2011 may be redeemed for cash equivalent to (i) the Early Redemption Price if the redemption occurs earlier than six months prior to the conversion date specified above or (ii) the Redemption Price if the redemption occurs on or after the date that is six months prior to the conversion date as indicated above. The RBC TruCS 2013 and 2015 may be redeemed for cash equivalent to (i) the Early Redemption Price if the redemption occurs prior to December 31, 2013 and 2015, respectively, or (ii) the Redemption Price if the redemption occurs on or after December 31, 2013 and 2015, respectively. The TSNs – Series A may be redeemed, in whole or in part, subject to the approval of the OSFI, for cash equivalent to (i) the Early Redemption Price if the notes are redeemed prior to April 30, 2012, or (ii) the Redemption Price if the notes are redeemed on or after April 30, 2012. Redemption Price refers to an amount equal to $1,000 plus the unpaid distributions to the Redemption date. Early Redemption Price refers to an amount equal to the greater of (i) the Redemption Price and (ii) the price calculated to provide an annual yield, equal to the yield on a Government of Canada bond issued on the Redemption date with a maturity date of June 30, 2010 and 2011, plus 33 basis points and 40 basis points, for RBC TruCS 2010 and 2011, respectively, and a maturity date of December 31, 2013 and 2015, plus 23 basis points and 19.5 basis points, for RBC TruCS 2013 and 2015, respectively; and a maturity date of April 30, 2012, plus 11 basis points for TSNs – Series A.

(4) Automatic Exchange Event: Without the consent of the holders, each RBC TruCS 2010, 2011, 2013 and 2015 will be exchanged automatically for 40 of our non-cumulative redeemable First Preferred Shares Series Q, R, T and Z, respectively, and each TSN – Series A will be exchanged automatically for an equal principal amount of Bank Series 10 Subordinated Notes upon occurrence of any one of the following events: (i) proceedings are commenced for our winding-up; (ii) the OSFI takes control of us; (iii) we have Tier 1 capital ratio of less than 5% or Total capital ratio of less than 8%; or (iv) the OSFI has directed us to increase our capital or provide additional liquidity and we elect such automatic exchange or we fail to comply with such direction. The First Preferred Shares Series T and Z pay semi-annual non-cumulative cash dividends and Series T is convertible at the option of the holder into a variable number of common shares.

(5) From time to time, we purchase some of the innovative capital instruments and hold them on a temporary basis. As at October 31, 2007, we held $nil of RBC TruCS 2011 (2006 – $17 million) and $6 million of RBC TruCS 2015 (2006 – $12 million) as treasury holdings which were deducted from regulatory capital.

(6) Regulatory capital: According to the OSFI guidelines, innovative capital instruments can comprise up to 15% of net Tier 1 capital with an additional 5% eligible for Tier 2B capital. Any amount in excess of the 20% limitation is not recognized for regulatory capital purposes. TSN – Series A qualifies as Tier 2B capital. As at October 31, 2007, $3,494 million (2006 – $3,222 million) represents Tier 1 capital, $1,027 million (2006 – $249 million) represents Tier 2B capital and $6 million (2006 – $29 million) of our treasury holdings of innovative capital is deducted for regulatory capital purposes. As at October 31, 2007, none of our innovative capital instruments exceeds the OSFI's limit of 20% (2006 – nil).

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

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

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

(10) The cash distribution on the TSNs – Series A will be 4.58% paid semi-annually until April 30, 2012, and at 90-day Bankers' Acceptance rate plus 1% thereafter paid quarterly until their maturity on April 30, 2017.

(11) We will guarantee the payment of principal, interest, the redemption price, if any, and any other amounts of the TSNs – Series A when they become due and payable, whether at stated maturity, call for redemption, Automatic Exchange or otherwise according to the terms of the Bank Subordinated Guarantee and the Trust Indenture.

Note 18 Preferred share liabilities and share capital

Authorized share capital

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

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

Issued and outstanding shares

	2007			2006			2005		
	Number of shares (000s)	Amount	Dividends declared per share	Number of shares (000s)	Amount	Dividends declared per share	Number of shares (000s)	Amount	Dividends declared per share
Preferred share liabilities									
First preferred									
Non-cumulative Series N	11,916	$ 298	$ 1.18	12,000	$ 300	$ 1.18	12,000	$ 300	$ 1.18
Treasury shares – sales	152	4		–	–		–	–	
Treasury shares – purchases	(68)	(2)		(84)	(2)		–	–	
Preferred share liabilities, net of treasury holdings	12,000	$ 300		11,916	$ 298		12,000	$ 300	
Preferred shares									
First preferred									
Non-cumulative Series O (1)	–	$ –	$ –	6,000	$ 150	$ 1.38	6,000	$ 150	$ 1.38
Non-cumulative Series S (2)	–	–	–	–	–	1.33	10,000	250	1.53
Non-cumulative Series W (3)	12,000	300	1.23	12,000	300	1.23	12,000	300	.99
Non-cumulative Series AA (4)	12,000	300	1.11	12,000	300	.71	–	–	–
Non-cumulative Series AB (5)	12,000	300	1.18	12,000	300	.41	–	–	–
Non-cumulative Series AC (6)	8,000	200	1.22	–	–	–	–	–	–
Non-cumulative Series AD (7)	10,000	250	1.06	–	–	–	–	–	–
Non-cumulative Series AE (8)	10,000	250	.95	–	–	–	–	–	–
Non-cumulative Series AF (9)	8,000	200	.77	–	–	–	–	–	–
Non-cumulative Series AG (10)	10,000	250	.65	–	–	–	–	–	–
		$ 2,050			$ 1,050			$ 700	
Common shares									
Balance at beginning of year	1,280,890	$ 7,196		1,293,502	$ 7,170		1,289,496	$ 6,988	
Issued under the stock option plan (11)	7,215	170		5,617	127		9,917	214	
Purchased for cancellation	(11,845)	(66)		(18,229)	(101)		(5,911)	(32)	
Balance at end of year	1,276,260	$ 7,300	$ 1.82	1,280,890	$ 7,196	$ 1.44	1,293,502	$ 7,170	$ 1.18
Treasury shares – Preferred shares									
Balance at beginning of year	(94)	$ (2)		(91)	$ (2)		–	$ –	
Sales	1,345	33		2,082	51		–	–	
Purchases	(1,500)	(37)		(2,085)	(51)		(91)	(2)	
Balance at end of year	(249)	$ (6)		(94)	$ (2)		(91)	$ (2)	
Treasury shares – Common shares									
Balance at beginning of year	(5,486)	$ (180)		(7,053)	$ (216)		(9,726)	$ (294)	
Sales	4,756	175		5,097	193		5,904	179	
Purchases	(1,714)	(96)		(3,530)	(157)		(1,326)	(47)	
Initial adoption of AcG-15	–	–		–	–		(1,905)	(54)	
Balance at end of year	(2,444)	$ (101)		(5,486)	$ (180)		(7,053)	$ (216)	

(1) On November 24, 2006, we redeemed Non-cumulative First Preferred Shares Series O. The excess of the redemption price over carrying value of $3 million was charged to retained earnings in preferred share dividends.
(2) On October 6, 2006, we redeemed Non-cumulative First Preferred Shares Series S. The excess of the redemption price over carrying value of $10 million was charged to retained earnings in preferred share dividends.
(3) On January 31, 2005, we issued 12 million Non-cumulative First Preferred Shares Series W at $25 per share.
(4) On April 4, 2006, we issued 12 million Non-cumulative First Preferred Shares Series AA at $25 per share.
(5) On July 20, 2006, we issued 12 million Non-cumulative First Preferred Shares Series AB at $25 per share.
(6) On November 1, 2006, we issued 8 million Non-cumulative First Preferred Shares Series AC at $25 per share.
(7) On December 13, 2006, we issued 10 million Non-cumulative First Preferred Shares Series AD at $25 per share.
(8) On January 19, 2007, we issued 10 million Non-cumulative First Preferred Shares Series AE at $25 per share.
(9) On March 14, 2007, we issued 8 million Non-cumulative First Preferred Shares Series AF at $25 per share.
(10) On April 26, 2007, we issued 10 million Non-cumulative First Preferred Shares Series AG at $25 per share.
(11) Includes the exercise of stock options from tandem stock appreciation rights (SARs) awards, resulting in a reversal of the accrued liability, net of related income taxes, of $10 million (2006 – $8 million), and from renounced tandem SARs, net of related income taxes, of $6 million (2006 – $2 million).

Terms of preferred share liabilities and preferred shares

	Dividend per share (1)	Redemption date (2)	Redemption price (2), (3)	Conversion date At the option of the bank (2), (4)	Conversion date At the option of the holder (5)
Preferred share liabilities					
First preferred					
Non-cumulative Series N	$ .293750	August 24, 2003	$ 25.00	August 24, 2003	August 24, 2008
Preferred shares					
First preferred					
Non-cumulative Series W	$ .306250	February 24, 2010	$ 26.00	February 24, 2010	Not convertible
Non-cumulative Series AA	.278125	May 24, 2011	26.00	Not convertible	Not convertible
Non-cumulative Series AB	.293750	August 24, 2011	26.00	Not convertible	Not convertible
Non-cumulative Series AC	.287500	November 24, 2011	26.00	Not convertible	Not convertible
Non-cumulative Series AD	.281250	February 24, 2012	26.00	Not convertible	Not convertible
Non-cumulative Series AE	.281250	February 24, 2012	26.00	Not convertible	Not convertible
Non-cumulative Series AF	.278125	May 24, 2012	26.00	Not convertible	Not convertible
Non-cumulative Series AG	.281250	May 24, 2012	26.00	Not convertible	Not convertible

(1) Non-cumulative preferential dividends on Series N, W, AA, AB, AC, AD, AE, AF and AG are payable quarterly, as and when declared by the Board of Directors, on or about the 24th day of February, May, August and November.
(2) The redemption price represents the price as at October 31, 2007 or the contractual redemption price, whichever is applicable. Subject to the consent of the OSFI and the requirements of the Act, we may, on or after the dates specified above, redeem First Preferred Shares. These may be redeemed for cash, in the case of Series N at a price per share of $26, if redeemed during the 12 months commencing August 24, 2003, and decreasing by $.25 each 12-month period thereafter to a price per share of $25 if redeemed on or after August 24, 2007; and in the case of Series W, at a price per share of $26, if redeemed during the 12 months commencing February 24, 2010, and decreasing by $.25 each 12-month period thereafter to a price per share of $25 if redeemed on or after February 24, 2014; and in the case of Series AA, at a price per share of $26, if redeemed during the 12 months commencing May 24, 2011, and decreasing by $.25 each 12-month period thereafter to a price per share of $25 if redeemed on or after May 24, 2015; and in the case of Series AB, at a price per share of $26, if redeemed during the 12 months commencing August 24, 2011, and decreasing by $.25 each 12-month period thereafter to a price per share of $25 if redeemed on or after August 24, 2015; and in the case of Series AC, at a price per share of $26, if redeemed during the 12 months commencing November 24, 2011, and decreasing by $.25 each 12-month period thereafter to a price per share of $25 if redeemed on or after November 24, 2015; and in the case of Series AD, at a price per share of $26, if redeemed during the 12 months commencing February 24, 2012, and decreasing by $.25 each 12-month period thereafter to a price per share of $25 if redeemed on or after February 24, 2016; and in the case of Series AE, at a price per share of $26, if redeemed during the 12 months commencing February 24, 2012, and decreasing by $.25 each 12-month period thereafter to a price per share of $25 if redeemed on or after February 24, 2016; and in the case of Series AF, at a price per share of $26, if redeemed during the 12 months commencing May 24, 2012, and decreasing by $.25 each 12-month period thereafter to a price per share of $25 if redeemed on or after May 24, 2016; and in the case of Series AG, at a price per share of $26, if redeemed during the 12 months commencing May 24, 2012, and decreasing by $.25 each 12-month period thereafter to a price per share of $25 if redeemed on or after May 24, 2016.
(3) Subject to the consent of the OSFI and the requirements of the Act, we may purchase the First Preferred Shares Series N, W, AA, AB, AC, AD, AE, AF and AG for cancellation at the lowest price or prices at which, in the opinion of the Board of Directors, such shares are obtainable.
(4) Subject to the approval of the Toronto Stock Exchange, we may, on or after the dates specified above, convert First Preferred Shares Series N and W into our common shares. First Preferred Shares may be converted into that number of common shares determined by dividing the then-applicable redemption price by the greater of $2.50 and 95% of the weighted average trading price of common shares at such time.
(5) Subject to our right to redeem or to find substitute purchasers, the holder may, on or after the dates specified above, convert First Preferred Shares into our common shares. Series N may be converted, quarterly, into that number of common shares determined by dividing the then-applicable redemption price by the greater of $2.50 and 95% of the weighted average trading price of common shares at such time.

Restrictions on the payment of dividends

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

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

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

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

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

Regulatory capital

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

The OSFI requires Canadian banks to maintain a minimum Tier 1 and Total capital ratio of 4% and 8%, respectively. However, the OSFI has also formally established risk-based capital targets for deposit-taking institutions in Canada. These targets are a Tier 1 capital ratio of

7% and a Total capital ratio of 10%. At October 31, 2007, our Tier 1 and Total capital ratios were 9.4% and 11.5%, respectively (2006 – 9.6% and 11.9%, respectively).

As at October 31, 2007, our assets-to-capital multiple was 19.9 (2006 – 19.7), which remains below the maximum ratio of 23 permitted by the OSFI.

Dividend reinvestment plan

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

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

Shares available for future issuances

As at October 31, 2007, 36.6 million common shares are available for future issue relating to our plan and potential exercise of stock options outstanding.

Normal Course Issuer Bid

Details of common shares repurchased under Normal Course Issuer Bids (NCIB) during 2007, 2006 and 2005 are given below.

	2007			
NCIB period	Number of shares eligible for repurchase (000s)	Number of shares repurchased (000s)	Average cost per share	Amount
November 1, 2006 – October 31, 2007	40,000	11,845	$ 54.59	$ 646

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

	2005 (1)			
NCIB period	Number of shares eligible for repurchase (000s)	Number of shares repurchased (000s)	Average cost per share	Amount
June 24, 2005 – June 23, 2006	10,000	1,950	$ 83.50	$ 163
June 24, 2004 – June 23, 2005	25,000	1,005	63.24	63
		2,955	$ 76.61	$ 226

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

Note 19 Non-controlling interest in subsidiaries

	2007	2006
RBC Trust Capital Securities (TruCS) Series 2015	$ 1,214	$ 1,207
Consolidated VIEs	188	506
Others	81	62
	$ 1,483	$ 1,775

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

We issued RBC TruCS 2015 in 2005 which are reported as Non-controlling interest in subsidiaries upon consolidation as discussed in Note 17. As at October 31, 2007, $20 million (2006 – $19 million) of accrued interest net of $6 million (2006 – $12 million) of treasury holdings was included in RBC Trust Capital Securities Series 2015.

Note 20 Pensions and other post-employment benefits

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

During 2006, we changed our post-retirement benefit program in Canada. The changes reduced our benefit obligations by $505 million.

We fund our registered defined benefit pension plans in accordance with actuarially determined amounts required to satisfy employee benefit obligations under current pension regulations. For our principal pension plans, the most recent actuarial valuation performed for funding purposes was completed on January 1, 2007. The next actuarial valuation for funding purposes will be completed on January 1, 2008.

For 2007, total contributions to our pension and other post-employment benefit plans were $208 million and $57 million (2006 – $594 million and $58 million), respectively. For 2008, total contributions to defined benefit pension plans and other post-employment benefit plans are expected to be approximately $128 million and $55 million, respectively.

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

The following tables present financial information related to all of our material pension and other post-employment plans worldwide, including executive retirement arrangements:

Plan assets, benefit obligation and funded status

	Pension plans (1)		Other post-employment plans (2)	
	2007	2006	**2007**	2006
Change in fair value of plan assets				
Opening fair value of plan assets	$ 6,407	$ 5,719	$ 41	$ 29
Actual return on plan assets	638	445	4	3
Company contributions	146	518	56	59
Plan participant contributions	25	24	5	6
Benefits paid	(333)	(323)	(54)	(56)
Business acquisitions	–	21	–	–
Other	(34)	2	–	–
Change in foreign currency exchange rate	(65)	1	–	–
Closing fair value of plan assets	$ 6,784	$ 6,407	$ 52	$ 41
Change in benefit obligation				
Opening benefit obligation	$ 6,838	$ 6,524	$ 1,468	$ 1,891
Service cost	178	173	19	26
Interest cost	362	345	75	77
Plan participant contributions	25	24	5	6
Actuarial (gain) loss	(115)	38	3	38
Benefits paid	(333)	(323)	(54)	(56)
Plan amendments and curtailments	(9)	24	–	(515)
Business acquisitions	5	31	–	5
Other	(27)	5	–	–
Change in foreign currency exchange rate	(78)	(3)	(12)	(4)
Closing benefit obligation	$ 6,846	$ 6,838	$ 1,504	$ 1,468
Funded status				
Excess of benefit obligation over plan assets	$ (62)	$ (431)	$ (1,452)	$ (1,427)
Unrecognized net actuarial loss	488	963	564	598
Unrecognized transitional (asset) obligation	(10)	(12)	1	1
Unrecognized prior service cost	95	131	(307)	(330)
Contributions between September 30 and October 31	2	14	5	4
Prepaid asset (accrued liability) as at October 31	$ 513	$ 665	$ (1,189)	$ (1,154)
Amounts recognized in our Consolidated Balance Sheets consist of:				
Other assets	$ 590	$ 761	$ –	$ –
Other liabilities	(77)	(96)	(1,189)	(1,154)
Net amount recognized as at October 31	$ 513	$ 665	$ (1,189)	$ (1,154)
Weighted average assumptions to calculate benefit obligation				
Discount rate	5.60%	5.25%	5.62%	5.26%
Rate of increase in future compensation (3)	3.30%	3.30%	3.30%	3.30%

(1) For pension plans with funding deficits, the benefit obligations and fair values of plan assets totalled $5,850 million (2006 – $6,156 million) and $5,687 million (2006 – $5,665 million), respectively.

(2) For our other post-employment plans, the assumed health care cost trend rates for the next year used to measure the expected cost of benefits covered by the post-employment health and life plans were 7.2% for medical decreasing to an ultimate rate of 5.0% in 2016 and 4.5% for dental.

(3) The actual assumption for rate of increase in future compensation is an age-related scale. Although the underlying assumption has not been changed, we have revised our presentation of the disclosed equivalent single rate to be more consistent with the methodology used by other Canadian financial institutions.

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

Benefits payment projection

	Pension plans	Other post-employment plans
2008	$ 318	$ 61
2009	349	69
2010	357	74
2011	365	77
2012	373	81
2013–2017	2,086	458

Composition of defined benefit pension plan assets

The defined benefit pension plan assets are primarily composed of equity and fixed income securities. The equity securities include 1.5 million (2006 – 1.9 million) of our common shares having a fair value of $84 million (2006 – $94 million). Dividends amounting to $2.6 million (2006 – $2.5 million) were received on our common shares held in the plan assets during the year.

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

Asset category

	Actual	
	2007	2006
Equity securities	60%	60%
Debt securities	40%	40%
Total	100%	100%

Investment policy and strategies

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

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

Pension and other post-employment benefit expense

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

Pension benefit expense

	2007	2006	2005
Service cost	$ 178	$ 173	$ 138
Interest cost	362	345	344
Expected return on plan assets	(411)	(364)	(328)
Amortization of transitional asset	(2)	(2)	(2)
Amortization of prior service cost	29	32	32
Amortization of actuarial loss (gain)	129	138	90
Other	7	3	3
Defined benefit pension expense	$ 292	$ 325	$ 277
Defined contribution pension expense	74	65	63
Pension benefit expense	$ 366	$ 390	$ 340
Weighted average assumptions to calculate pension benefit expense			
Discount rate	5.25%	5.25%	6.25%
Assumed long-term rate of return on plan assets	7.00%	7.00%	7.00%
Rate of increase in future compensation	3.30%	3.30%	3.30%

Other post-employment benefit expense

	2007	2006	2005
Service cost	$ 19	$ 26	$ 49
Interest cost	75	77	101
Expected return on plan assets	(3)	(2)	(2)
Amortization of transitional obligation	–	3	17
Amortization of actuarial loss (gain)	36	31	30
Amortization of prior service cost	(23)	(20)	1
Curtailment gain	–	(8)	(1)
Other post-employment benefit expense	$ 104	$ 107	$ 195
Weighted average assumptions to calculate other post-employment benefit expense			
Discount rate	5.26%	5.41%	6.35%
Rate of increase in future compensation (1)	3.30%	3.30%	3.30%

(1) The actual assumption for rate of increase in future compensation is an age-related scale. Although the underlying assumption has not changed, we have revised our presentation of the disclosed equivalent single rate to be more consistent with the methodology used by other Canadian financial institutions.

Significant assumptions

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

Overall expected long-term rate of return on assets

The assumed expected rate of return on assets is determined by considering long-term expected returns on government bonds and a reasonable assumption for an equity risk premium. The expected long-term return for each asset class is then weighted based on the target asset allocation to develop the expected long-term rate of return on assets assumption for the portfolio. This resulted in the selection of an assumed expected rate of return of 7% for 2008 (7% for 2004 to 2007).

Discount rate

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

Note 20 Pensions and other post-employment benefits (continued)

Sensitivity analysis

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

2007 Sensitivity of key assumptions

Pension	Change in obligation	Change in expense
Impact of .25% change in discount rate assumption	$ 229	$ 29
Impact of .25% change in rate of increase in future compensation assumption	23	6
Impact of .25% change in the long-term rate of return on plan assets assumption	–	15
Other post-employment	Change in obligation	Change in expense
Impact of .25% change in discount rate assumption	$ 55	$ 10
Impact of .25% change in rate of increase in future compensation assumption	–	–
Impact of 1.00% increase in health care cost trend rates	157	9
Impact of 1.00% decrease in health care cost trend rates	(129)	(7)

Reconciliation of defined benefit expense recognized with defined benefit expense incurred

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

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

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

Defined benefit pension expense incurred

	2007	2006	2005
Defined benefit pension expense recognized	$ 292	$ 325	$ 277
Difference between expected and actual return on plan assets	(227)	(81)	(423)
Difference between actuarial losses (gains) amortized and actuarial losses (gains) arising	(246)	(100)	708
Difference between prior service costs amortized and prior service costs arising	(38)	(2)	(31)
Amortization of transitional asset	2	2	2
Defined benefit pension expense incurred	$ (217)	$ 144	$ 533

Other post-employment benefit expense incurred

	2007	2006	2005
Other post-employment benefit expense recognized	$ 104	$ 107	$ 195
Difference between expected and actual return on plan assets	(1)	(1)	(2)
Difference between actuarial losses (gains) amortized and actuarial losses (gains) arising	(33)	7	150
Difference between prior service costs amortized and prior service costs arising	23	(485)	(1)
Amortization of transitional obligation	–	(3)	(17)
Other post-employment benefit expense incurred	$ 93	$ (375)	$ 325

Note 21 Stock-based compensation

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

Stock option plans

We have stock option plans for certain key employees and for non-employee directors. On November 19, 2002, the Board of Directors discontinued all further grants of options under the non-employee directors plan. Under the employee stock option plan, options are periodically granted to purchase common shares. The exercise price for each grant is determined as the higher of the volume-weighted average of the trading prices per board lot (100 shares) of our common shares on the Toronto Stock Exchange (i) on the day preceding the day of grant; and (ii) the five consecutive trading days immediately preceding the day of grant. Stock options are normally granted at the end of the year, with the exercise price determined at least five business days after the release of the year-end financial results. The options vest over a four-year period for employees and are exercisable for a period not exceeding 10 years from the grant date.

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

Between November 29, 1999 and June 5, 2001, grants of options under the employee stock option plan were accompanied by tandem SARs. With tandem SARs, participants could choose to exercise a SAR instead of the corresponding option. In such cases, the participants received a cash payment equal to the difference between the closing price of common shares on the day immediately preceding the day of exercise and the exercise price of the option. During the last quarter of

2002 and first quarter of 2003, certain executive participants voluntarily renounced their SARs while retaining the corresponding options. SARs obligations are now fully vested and give rise to compensation expense as a result of changes in the market price of our common shares. The compensation expense for these grants, which are accompanied by tandem SARs, was $19 million for the year ended October 31, 2007 (2006 – $27 million; 2005 – $42 million).

A summary of our stock option activity and related information

	2007		2006		2005	
	Number of options (000s)	Weighted average exercise price	Number of options (000s)	Weighted average exercise price	Number of options (000s)	Weighted average exercise price
Outstanding at beginning of year	32,243	$ 24.66	36,481	$ 23.15	44,744	$ 22.02
Granted	1,835	55.06	1,756	44.13	2,054	31.70
Exercised – Common shares (1), (2)	(7,215)	21.10	(5,617)	20.40	(9,917)	19.85
– SARs	(204)	21.50	(143)	21.60	(320)	21.01
Cancelled	(36)	36.42	(234)	24.36	(80)	30.44
Outstanding at end of year	26,623	$ 27.71	32,243	$ 24.66	36,481	$ 23.15
Exercisable at end of year	21,924	$ 24.17	26,918	$ 22.57	28,863	$ 21.56
Available for grant	21,527		23,121		24,500	

(1) Cash received for options exercised during the year was $152 million (2006 – $115 million; 2005 – $197 million).
(2) New shares were issued for all options exercised in 2007, 2006 and 2005. Refer to Note 18.

Options outstanding and options exercisable as at October 31, 2007 by range of exercise price

	Options outstanding			Options exercisable	
	Number outstanding (000s)	Weighted average exercise price	Weighted average remaining contractual life	Number exercisable (000s)	Weighted average exercise price
$8.47 – $8.91 (1)	393	$ 8.76	2.0	393	$ 8.76
$15.00 – $19.82	6,071	17.75	1.5	6,071	17.75
$21.79 – $25.00	9,533	24.58	3.4	9,533	24.58
$26.10 – $31.70	7,062	30.42	5.6	5,501	30.09
$44.13 – $57.90	3,564	49.75	8.6	426	44.13
Total	26,623	$ 27.71	4.2	21,924	$ 24.17

(1) The weighted average exercise prices have been revised to reflect the conversion of foreign currency-denominated options at the exchange rate as at our Consolidated Balance Sheet date.

Fair value method

CICA 3870 requires recognition of an expense for option awards using the fair value method of accounting. Under this method, the fair value of an award at the grant date is amortized over the applicable vesting period and recognized as compensation expense. We adopted the fair value method of accounting prospectively for new awards granted after November 1, 2002. The fair value compensation expense recorded for the year ended October 31, 2007, in respect of these plans was $13 million (2006 – $13 million; 2005 – $14 million). The compensation expenses related to non-vested awards were $14 million at October 31, 2007 (2006 – $13 million; 2005 – $16 million), to be recognized over the weighted average period of 2.2 years (2006 – 2.0 years; 2005 – 1.7 years).

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

	As reported			Pro forma (1), (2)
	2007	2006	2005	2005
Net income from continuing operations	$ 5,492	$ 4,757	$ 3,437	$ 3,424
Net loss from discontinued operations (3)	–	(29)	(50)	(50)
Net income	$ 5,492	$ 4,728	$ 3,387	$ 3,374
Basic earnings (loss) per share				
From continuing operations	$ 4.24	$ 3.67	$ 2.65	$ 2.64
From discontinued operations	–	(.02)	(.04)	(.04)
Total	$ 4.24	$ 3.65	$ 2.61	$ 2.60
Diluted earnings (loss) per share				
From continuing operations	$ 4.19	$ 3.61	$ 2.61	$ 2.60
From discontinued operations	–	(.02)	(.04)	(.04)
Total	$ 4.19	$ 3.59	$ 2.57	$ 2.56

(1) Compensation expense under the fair value method is recognized over the vesting period of the related stock options. Accordingly, the pro forma results of applying this method may not be indicative of future amounts.
(2) During the first quarter of 2006, all awards granted prior to adopting the fair value method of accounting were fully vested and their fair values at the grant dates had been fully amortized; therefore, there are no pro forma results to disclose for the year ended October 31, 2007 and 2006.
(3) Refer to Note 11.

The weighted average fair value of options granted during 2007 was estimated at $7.84 (2006 – $6.80; 2005 – $4.66) using an option pricing model on the date of grant. The following assumptions were used:

For the year ended October 31	2007	2006	2005
Weighted average assumptions			
Risk-free interest rate	3.82%	3.98%	3.75%
Expected dividend yield	3.06%	3.16%	3.25%
Expected share price volatility	16%	17%	17%
Expected life of option	6 years	6 years	6 years

Employee savings and share ownership plans

We offer many employees an opportunity to own our shares through savings and share ownership plans. Under these plans, the employees can generally contribute between 1% and 10% of their annual salary or benefit base for commissioned employees. For each contribution between 1% and 6%, we will match 50% of the employee contributions in our common shares. For the RBC Dominion Securities Savings Plan our maximum annual contribution is $4,500 per employee. For the RBC U.K. Share Incentive Plan our maximum annual contribution is £1,500 per employee. In 2007, we contributed $64 million (2006 – $60 million; 2005 – $56 million), under the terms of these plans, towards the purchase of our common shares. As at October 31, 2007, an aggregate of 34.4 million common shares were held under these plans.

Deferred share and other plans

We offer deferred share unit plans to executives, non-employee directors and to certain key employees. Under these plans, the executives or directors may choose to receive all or a percentage of their annual variable short-term incentive bonus or directors' fee in the form of deferred share units (DSUs). The executives or directors must elect to participate in the plan prior to the beginning of the year. DSUs earn dividend equivalents in the form of additional DSUs at the same rate as dividends on common shares. The participant is not allowed to convert the DSUs until retirement, permanent disability or termination of employment/directorship. The cash value of the DSUs is equivalent to the market value of common shares when conversion takes place. The value of the DSUs liability as at October 31, 2007, was $285 million (2006 – $232 million; 2005 – $172 million). The share price fluctuations and dividend equivalents compensation expense recorded for the year ended October 31, 2007, in respect of these plans was $37 million (2006 – $45 million; 2005 – $42 million).

We have a deferred bonus plan for certain key employees within Capital Markets. Under this plan, a percentage of each employee's annual incentive bonus is deferred and accumulates dividend equivalents at the same rate as dividends on common shares. The employee will receive the deferred bonus in equal amounts paid within 90 days of the three following year-end dates. The value of the deferred bonus paid will be equivalent to the original deferred bonus adjusted for dividends and changes in the market value of common shares at the time the bonus is paid. The value of the deferred bonus liability as at October 31, 2007, was $490 million (2006 – $401 million; 2005 – $320 million). The share price fluctuations and dividend equivalents compensation expense for the year ended October 31, 2007, in respect of this plan was $62 million (2006 – $51 million; 2005 – $57 million).

We offer performance deferred share award plans to certain key employees, all of which vest at the end of three years. Awards under the plans are deferred in the form of common shares which are held in trust until they fully vest or in the form of DSUs. A portion of the award under some plans can be increased or decreased up to 50%, depending on our total shareholder return compared to a defined peer group of North American financial institutions. The value of the award paid will be equivalent to the original award adjusted for dividends and changes in the market value of common shares at the time the award vests. The number of our common shares held in trust as at October 31, 2007, was 2.3 million (2006 – 5.3 million; 2005 – 7.3 million). The value of the DSUs liability as at October 31, 2007 was $250 million (2006 – $153 million; 2005 – $38 million). The compensation expense recorded for the year ended October 31, 2007, in respect of these plans was $168 million (2006 – $148 million; 2005 – $109 million).

We maintain a non-qualified deferred compensation plan for key employees in the United States under an arrangement called the RBC U.S. Wealth Accumulation Plan. This plan allows eligible employees to make deferrals of a portion of their annual income and allocate the deferrals among various fund choices, which include a share unit fund that tracks the value of our common shares. Certain deferrals may also be eligible for matching contributions, all of which are allocated to the RBC share unit fund. Our liability for the RBC share units held under the plan as at October 31, 2007, was $285 million (2006 – $289 million; 2005 – $236 million). The compensation expense recorded for the year ended October 31, 2007, was $157 million (2006 – $110 million; 2005 – $90 million).

For other stock-based plans, compensation expense of $9 million was recognized for the year ended October 31, 2007 (2006 – $10 million; 2005 – $8 million). The liability for the share units held under these plans as at October 31, 2007, was $21 million (2006 – $4 million; 2005 – $19 million). The number of our common shares held under these plans was .3 million (2006 – .3 million; 2005 – .3 million).

Note 22 Trading revenue

Total trading revenue includes both trading-related Net interest income and trading revenue reported in Non-interest income. Net interest income arises from interest and dividends related to trading assets and liabilities and amortization of premiums and discounts arising on their acquisition or issuance. Non-interest income includes realized and unrealized gains and losses on trading securities and trading derivative financial instruments.

Trading revenue

	2007	2006	2005
Net interest income	$ (390)	$ (539)	$ 21
Non-interest income	2,261	2,574	1,594
Total	$ 1,871	$ 2,035	$ 1,615
By product line			
Interest rate and credit	$ 693	$ 1,174	$ 1,025
Equities	823	561	355
Foreign exchange and commodities (1)	355	300	235
Total	$ 1,871	$ 2,035	$ 1,615

(1) Includes precious metals.

Note 23 Business realignment charges

The following table sets out the changes in our business realignment charges since November 1, 2004. These charges are recorded in Other liabilities and include the income-protection payments for the 2,015 employees who have been terminated as of October 31, 2007. Although the majority of the initiatives were substantially completed during 2006, the associated income-protection payments to severed employees and certain lease obligations continue. Prior to 2007, the charges pertaining to RBC Mortgage were recorded in Liabilities of operations held for sale. These charges include the remaining lease obligations in connection with its former Chicago headquarters and 40 of its branches which we vacated but remain the lessee.

Business realignment charges

	2007	2006	2005
Continuing operations			
Balance at beginning of year	$ 43	$ 118	$ 177
Employee-related charges	–	(3)	40
Premises-related charges	–	3	–
Other adjustments including foreign exchange	–	(1)	(5)
Cash payments	(35)	(74)	(94)
Balance at end of year	$ 8	$ 43	$ 118
Discontinued operations			
Balance at beginning of year	$ 14	$ 13	$ 15
Employee-related charges	–	–	1
Premises-related charges	(4)	6	12
Cash payments	(3)	(5)	(15)
Balance at end of year	$ 7	$ 14	$ 13
Employee-related	$ 7		
Premises-related	8		
Total	$ 15		

Note 24 Income taxes

	2007	2006	2005
Income taxes in Consolidated Statements of Income			
Continuing operations			
Current			
Canada – Federal	$ 696	$ 506	$ 739
– Provincial	416	331	431
International	322	435	478
	1,434	1,272	1,648
Future			
Canada – Federal	14	104	(206)
– Provincial	3	31	(96)
International	(59)	(4)	(68)
	(42)	131	(370)
Subtotal	1,392	1,403	1,278
Discontinued operations			
Current			
International	–	(20)	(35)
Future			
International	–	2	3
Subtotal	1,392	1,385	1,246
Income taxes (recoveries) in Consolidated Statements of Comprehensive Income and Changes in Shareholders' Equity			
Continuing operations			
Other comprehensive income (1)			
Net unrealized gains (losses) on available-for-sale securities	(26)	n.a.	n.a.
Reclassification of (gains) losses on available-for-sale securities to income	15	n.a.	n.a.
Net foreign currency translation gains (losses), net of hedging activities	911	130	204
Net unrealized gains (losses) on derivatives designated as cash flow hedges	43	n.a.	n.a.
Reclassification to income of (gains) losses on derivatives designated as cash flow hedges	16	n.a.	n.a.
Issuance costs	(12)	(4)	2
Stock appreciation rights	5	4	5
Wealth accumulation plan gains	–	–	7
Other	(6)	6	2
Subtotal	946	136	220
Total income taxes	$ 2,338	$ 1,521	$ 1,466

(1) Other comprehensive income was introduced under GAAP upon the adoption of Section 1530 on November 1, 2006 (refer to Note 1). Accordingly, there are no comparative figures for prior periods, other than the figures related to foreign currency translation gains (losses), which are now included as part of OCI.
n.a. not applicable

Sources of future income taxes

	2007	2006
Future income tax asset		
Allowance for credit losses	$ 460	$ 439
Deferred compensation	642	616
Pension related	188	101
Business realignment charges	10	27
Tax loss carryforwards	91	68
Deferred income	115	151
Enron litigation provision	204	253
Other (1)	460	335
	2,170	1,990
Valuation allowance	(10)	(10)
	2,160	1,980
Future income tax liability		
Premises and equipment	(245)	(214)
Deferred expense	(138)	(225)
Other (1)	(526)	(437)
	(909)	(876)
Net future income tax asset	$ 1,251	$ 1,104

(1) Includes deferred taxes from the transition adjustment and other comprehensive income as a result of the adoption of the new financial instruments accounting standards on November 1, 2006.

Net future income tax assets are included in Other assets (refer to Note 12) and result from temporary differences between the tax basis of assets and liabilities and their carrying amounts on our Consolidated Balance Sheets. Included in the tax loss carryforwards amount is $91 million of future income tax assets related to losses in our Canadian, U.K. and U.S. operations (2006 – $31 million) which expire starting in 2008. There is no tax asset related to capital losses in 2007 (2006 – $27 million).

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

Reconciliation to statutory tax rate

	2007		2006		2005	
Income taxes at Canadian statutory tax rate	$ 2,431	34.6%	$ 2,152	34.7%	$ 1,632	34.7%
(Decrease) increase in income taxes resulting from						
Lower average tax rate applicable to subsidiaries	(734)	(10.4)	(599)	(9.6)	(251)	(5.3)
Tax-exempt income from securities	(272)	(3.9)	(184)	(3.0)	(85)	(1.8)
Tax rate change	30	.4	13	.2	–	–
Other	(63)	(.9)	21	.3	(18)	(.4)
Income taxes reported in Consolidated Statements of Income before discontinued operations and effective tax rate	$ 1,392	19.8%	$ 1,403	22.6%	$ 1,278	27.2%

International earnings of certain subsidiaries would be taxed only upon their repatriation to Canada. We have not recognized a future income tax liability for these undistributed earnings as we do not currently expect them to be repatriated. Taxes that would be payable if all foreign subsidiaries' accumulated unremitted earnings were repatriated are estimated at $843 million as at October 31, 2007 (2006 – $822 million; 2005 – $745 million).

Note 25 Earnings per share

	2007	2006	2005
Basic earnings per share			
Net income from continuing operations	$ 5,492	$ 4,757	$ 3,437
Net loss from discontinued operations (1)	–	(29)	(50)
Net income	5,492	4,728	3,387
Preferred share dividends	(88)	(60)	(42)
Net gain on redemption of preferred shares	–	–	4
Net income available to common shareholders	$ 5,404	$ 4,668	$ 3,349
Average number of common shares (in thousands)	1,273,185	1,279,956	1,283,433
Basic earnings (loss) per share			
Continuing operations	$ 4.24	$ 3.67	$ 2.65
Discontinued operations	–	(.02)	(.04)
Total	$ 4.24	$ 3.65	$ 2.61
Diluted earnings per share			
Net income available to common shareholders	$ 5,404	$ 4,668	$ 3,349
Average number of common shares (in thousands)	1,273,185	1,279,956	1,283,433
Stock options (2)	13,254	14,573	13,686
Issuable under other stock-based compensation plans	2,875	5,256	7,561
Average number of diluted common shares (in thousands)	1,289,314	1,299,785	1,304,680
Diluted earnings (loss) per share			
Continuing operations	$ 4.19	$ 3.61	$ 2.61
Discontinued operations	–	(.02)	(.04)
Total	$ 4.19	$ 3.59	$ 2.57

(1) Refer to Note 11.
(2) The dilutive effect of stock options was calculated using the treasury stock method. For 2007, we excluded from the calculation of diluted earnings per share 16,224 average options outstanding with an exercise price of $57.90 as the exercise price of these options was greater than the average market price of our common shares. During 2006 and 2005, no option was outstanding with an exercise price exceeding the average market price of our common shares.

Note 26 Concentrations of credit risk

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

	2007										2006									
	Canada	%	United States	%	Europe	%	Other International	%	Total		Canada	%	United States	%	Europe	%	Other International	%	Total
On-balance sheet assets																			
other than derivatives (1)	$227,206	72%	$ 41,518	13%	$ 40,658	13%	$ 6,146	2%	$315,528		$204,488	73%	$ 41,467	15%	$ 27,358	10%	$ 5,112	2%	$278,425
Derivatives before master netting agreement (2), (3)	14,690	23	15,096	23	29,501	45	5,763	9	65,050		9,855	27	9,171	25	15,891	42	2,148	6	37,065
	$241,896	64%	$ 56,614	15%	$ 70,159	18%	$ 11,909	3%	$380,578		$214,343	68%	$ 50,368	16%	$ 43,249	14%	$ 7,260	2%	$315,490
Off-balance sheet credit instruments (4)																			
Committed and uncommitted (5)	$ 81,251	55%	$ 52,393	35%	$ 12,725	9%	$ 2,329	1%	$148,698		$ 78,851	55%	$ 51,224	35%	$ 12,997	9%	$ 1,802	1%	$144,874
Other	31,194	53	13,418	23	14,226	24	87	–	58,925		28,563	47	11,563	19	19,776	33	738	1	60,640
	$112,445	54%	$ 65,811	32%	$ 26,951	13%	$ 2,416	1%	$207,623		$107,414	52%	$ 62,787	31%	$ 32,773	16%	$ 2,540	1%	$205,514

(1) Includes assets purchased under reverse repurchase agreements and securities borrowed, loans and customers' liability under acceptances. The largest concentrations in Canada are Ontario at 51% (2006 – 52%), the Prairies at 16% (2006 – 14%), British Columbia at 15% (2006 – 14%) and Quebec at 14% (2006 – 15%). No industry accounts for more than 10% of total on-balance sheet credit instruments.
(2) The largest concentration of credit exposure by counterparty type is banks at 60% (2006 – 59%).
(3) Excludes credit derivatives classified as other than trading with a replacement cost of $36 million (2006 – $20 million).
(4) Represents financial instruments with contractual amounts representing credit risk.
(5) Of the commitments to extend credit, the largest industry concentration relates to financial services of 40% (2006 – 38%), mining and energy of 12% (2006 – 13%), commercial real estate of 7% (2006 – 6%), government of 4% (2006 – 5%), wholesale of 4% (2006 – 5%), manufacturing of 4% (2006 – 4%) and transportation of 3% (2006 – 3%).

Note 27 Guarantees, commitments and contingencies

Guarantees

In the normal course of our business, we enter into numerous agreements that may contain features that meet the definition of a guarantee pursuant to AcG-14. AcG-14 defines a guarantee to be a contract (including an indemnity) that contingently requires us to make payments (in cash, other assets, our own shares or provision of services) to a third party based on: (i) changes in an underlying interest rate, foreign exchange rate, equity or commodity instrument, index or other variable, that is related to an asset, a liability or an equity security of the counterparty; (ii) failure of another party to perform under an obligating agreement; or (iii) failure of another third party to pay its indebtedness when due. Effective November 1, 2006, a liability is now recognized on our Consolidated Balance Sheets at the inception of a guarantee for the fair value of the obligation undertaken in issuing the guarantee. No subsequent remeasurement at fair value is required unless the financial guarantee qualifies as a derivative. If the financial guarantee meets the definition of a derivative, it is remeasured at fair value at each balance sheet date and reported as a derivative in Other assets or Other liabilities as appropriate.

As the carrying value of these financial guarantees is not indicative of the maximum potential amount of future payments, we continue to consider financial guarantees as off-balance sheet credit instruments. 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 from collateral held or pledged.

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

	2007		2006	
	Maximum potential amount of future payments	Carrying amount	Maximum potential amount of future payments	Carrying amount (1)
Credit derivatives and written put options (2), (3)	$ 70,242	$ 2,657	$ 54,723	$ 352
Backstop liquidity facilities	43,066	41	34,342	–
Stable value products (3)	17,369	–	16,098	–
Financial standby letters of credit and performance guarantees (4)	16,661	57	15,902	17
Credit enhancements	4,814	30	4,155	–
Mortgage loans sold with recourse	230	–	204	–

(1) For credit derivatives and written put options, the prior period comparatives represent the fair values of the derivatives; for financial standby letters of credit and performance guarantees, they represent unamortized premiums received.
(2) The carrying amount is included in Other – Derivatives on our Consolidated Balance Sheets.
(3) The notional amount of these contracts approximates the maximum potential amount of future payments.
(4) The carrying amount is included in Other – Other liabilities on our Consolidated Balance Sheets.

In addition to the above guarantees, we transact substantially all of our securities lending activities in which we act as an agent for the owners of securities through our joint venture, RBC Dexia IS. As at October 31, 2007, RBC Dexia IS securities lending indemnifications totalled $63,462 million (2006 – $45,614 million); we are exposed to 50% of this amount.

Credit derivatives and written put options

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

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

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

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

Backstop liquidity facilities

Backstop liquidity facilities are provided to asset-backed commercial paper conduit programs (programs) administered by us and third parties, as an alternative source of financing in the event that such programs are unable to access commercial paper markets, or in limited circumstances, when predetermined performance measures of the financial assets owned by these programs are not met. We generally provide liquidity facilities for a term of one year.

Backstop liquidity facilities are also provided to non-asset-backed programs such as variable rate demand notes issued by third parties. These standby facilities provide liquidity support to the issuer to buy the notes if the issuer is unable to remarket the notes, as long as the instrument and/or the issuer maintains the investment grade rating.

The terms of the backstop liquidity facilities do not require us to advance money to these programs in the event of bankruptcy or to purchase non-performing or defaulted assets. None of the backstop liquidity facilities that we have provided have been drawn upon.

Stable value products

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

Financial standby letters of credit and performance guarantees

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

Credit enhancements

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

Mortgage loans sold with recourse

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

Securities lending indemnifications

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

Indemnifications

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

Other off-balance sheet credit instruments

In addition to financial guarantees, we utilize other off-balance sheet credit instruments to meet the financing needs of our clients. The contractual amounts of these credit instruments represent the maximum possible credit risk without taking into account the fair value of any collateral, in the event other parties fail to perform their obligations under these instruments. Our credit review process, our policy for requiring collateral security and the types of collateral security held

are generally the same as for loans. Many of these instruments expire without being drawn upon. As a result, the contractual amounts may not necessarily represent our actual future credit risk exposure or cash flow requirements.

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

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

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

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

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

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

Other off-balance sheet credit instruments

	2007	2006
Commitments to extend credit (1)		
Original term to maturity of 1 year or less	$ 55,281	$ 57,154
Original term to maturity of more than 1 year	46,307	42,222
Securities lending	36,187	38,185
Uncommitted amounts (2)	47,110	45,498
Documentary and commercial letters of credit	501	713
Note issuances and revolving underwriting facilities	–	8
	$ 185,386	$ 183,780

(1) Includes liquidity facilities.
(2) Includes uncommitted liquidity loan facilities of $42.2 billion (2006 – $34.6 billion) provided to RBC-administered multi-seller conduits. As at October 31, 2007, $758 million (2006 – $nil) was drawn upon on these facilities and is included in Loans.

Pledged assets

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

Pledged assets

	2007	2006
Cash and due from banks	$ 305	$ 100
Interest-bearing deposits with banks	3,443	1,936
Loans	1,733	187
Securities	51,695	56,580
Assets purchased under reverse repurchase agreements	40,698	36,788
Other assets	1,132	941
	$ 99,006	$ 96,532

	2007	2006
Assets pledged to:		
Foreign governments and central banks	$ 1,981	$ 1,794
Clearing systems, payment systems and depositories	1,772	2,309
Assets pledged in relation to:		
Securities borrowing and lending	34,881	38,118
Obligations related to securities sold under repurchase agreements	48,479	44,651
Derivative transactions	8,502	6,547
Other	3,391	3,113
	$ 99,006	$ 96,532

Collateral

As at October 31, 2007, the approximate market value of collateral accepted that may be sold or repledged by us was $122.4 billion (2006 – $109.1 billion). This collateral was received in connection with reverse repurchase agreements, securities borrowings and loans, and derivative transactions. Of this amount, $56.5 billion (2006 – $48.0 billion) has been sold or repledged, generally as collateral under repurchase agreements or to cover short sales.

Lease commitments

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

Lease commitments (1)

2008	$ 494
2009	453
2010	382
2011	329
2012	279
Thereafter	1,224
	$ 3,161

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

Litigation

Enron Corp. (Enron) litigation

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

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

Other

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

Note 28 Contractual repricing and maturity schedule

The following table details our exposure to interest rate risk as defined and prescribed by CICA Handbook Section 3861, *Financial Instruments – Disclosure and Presentation*. On- and off-balance sheet financial instruments are reported based on the earlier of their contractual repricing date or maturity date. Effective interest rates have been disclosed where applicable. The effective rates shown represent historical rates for fixed-rate instruments carried at amortized cost and current market rates for floating-rate instruments or instruments carried at fair value. The following table does not incorporate management's expectation of future events where expected repricing or maturity dates differ significantly from the contractual dates. We incorporate these assumptions in the management of interest rate risk exposure. These assumptions include expected repricing of trading instruments and certain loans and deposits. Taking into account these assumptions on the consolidated contractual repricing and maturity schedule at October 31, 2007, would result in a change in the under-one-year gap from $(74.4) billion to $(53.3) billion (2006 – $(79.8) billion to $(40.2) billion).

Note 28 Contractual repricing and maturity schedule (continued)

Carrying amount by earlier of contractual repricing or maturity date

	Immediately interest rate-sensitive	Under 3 months	3 to 6 months	Over 6 to 12 months	Over 1 to 5 years	Over 5 years	Non-rate-sensitive	Total
Assets								
Cash and deposits with banks	$ –	$ 14,317	$ –	$ –	$ –	$ –	$ 1,790	$ 16,107
Effective interest rate	–	4.71%	–	–	–	–	–	
Securities								
Trading	–	27,559	4,856	5,208	22,790	26,149	61,684	148,246
Effective interest rate	–	4.66%	4.74%	4.63%	4.71%	4.97%	–	
Available-for-sale	–	8,263	1,958	2,096	12,240	2,326	3,126	30,009
Effective interest rate	–	4.68%	4.84%	4.77%	4.78%	4.92%	–	
Assets purchased under reverse repurchase agreements and securities borrowed	–	62,393	1,920	–	–	–	–	64,313
Effective interest rate	–	4.81%	4.67%	–	–	–	–	
Loans (net of allowance for loan losses) (1)	101,692	25,664	8,079	14,071	80,795	7,418	217	237,936
Effective interest rate	–	5.46%	5.54%	5.31%	5.38%	6.04%	–	
Derivatives	28,591	2,480	–	–	6	–	35,508	66,585
Effective interest rate	–	4.79%	–	–	4.62%	–	–	
Other assets	–	–	–	–	–	–	37,150	37,150
	$130,283	$140,676	$ 16,813	$ 21,375	$115,831	$ 35,893	$139,475	$600,346
Liabilities								
Deposits	$148,072	$112,388	$ 23,461	$ 24,779	$ 49,219	$ 5,915	$ 1,371	$365,205
Effective interest rate	–	4.45%	4.42%	4.36%	4.18%	4.81%	–	
Obligations related to assets sold under repurchase agreements and securities loaned	–	34,748	1,838	396	–	–	51	37,033
Effective interest rate	–	4.77%	4.76%	4.79%	–	–	–	
Obligations related to securities sold short	–	1,402	316	596	10,892	11,097	20,386	44,689
Effective interest rate	–	4.72%	4.71%	4.59%	4.54%	4.87%	–	
Derivatives	29,346	4,404	–	–	4	13	38,243	72,010
Effective interest rate	–	4.80%	–	–	4.60%	4.96%	–	
Other liabilities	–	250	106	273	649	214	46,060	47,552
Effective interest rate	–	4.82%	4.85%	4.64%	4.65%	5.10%	–	
Subordinated debentures	–	886	–	–	3,892	1,465	(8)	6,235
Effective interest rate	–	5.64%	–	–	5.01%	6.40%	–	
Trust capital securities	–	–	–	–	1,400	–	–	1,400
Effective interest rate	–	–	–	–	7.23%	–	–	
Preferred share liabilities	–	–	–	300	–	–	–	300
Effective interest rate	–	–	–	4.72%	–	–	–	
Non-controlling interest in subsidiaries	–	–	–	–	1,200	–	283	1,483
Effective interest rate	–	–	–	–	4.87%	–	–	
Shareholders' equity	–	–	–	–	–	2,050	22,389	24,439
Effective interest rate	–	–	–	–	–	4.14%	–	
	$177,418	$154,078	$ 25,721	$ 26,344	$ 67,256	$ 20,754	$128,775	$600,346
Total gap based on contractual repricing	$ (47,135)	$ (13,402)	$ (8,908)	$ (4,969)	$ 48,575	$ 15,139	$ 10,700	$ –
Canadian dollar	(23,067)	9,417	11,450	(6,183)	22,680	(6,296)	(8,000)	1
Foreign currency	(24,068)	(22,819)	(20,358)	1,214	25,895	21,435	18,700	(1)
Total gap	$ (47,135)	$ (13,402)	$ (8,908)	$ (4,969)	$ 48,575	$ 15,139	$ 10,700	$ –
Canadian dollar – 2006	$ (26,367)	$ (24,559)	$ 5,204	$ (1,764)	$ 52,937	$ 11,628	$ (17,083)	$ (4)
Foreign currency – 2006	(18,902)	8,856	(19,898)	(2,372)	14,282	21,917	(3,879)	4
Total gap – 2006	$ (45,269)	$ (15,703)	$ (14,694)	$ (4,136)	$ 67,219	$ 33,545	$ (20,962)	$ –

(1) Includes loans totalling $1,202 million to a variable interest entity administered by us, with maturity terms exceeding five years.

Note 29 Related party transactions

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

We grant loans to directors, officers and other employees at rates normally accorded to preferred clients. As at October 31, 2007, the aggregate indebtedness, excluding routine indebtedness, to RBC or its subsidiaries of current directors and executive officers was approximately $3.2 million. Routine indebtedness includes (i) loans made on terms no more favourable than loans to employees generally, but not exceeding $50,000 to any director or executive officer; (ii) loans to employees, fully secured against their residence and not exceeding their annual salary; (iii) loans, other than to employees, on substantially the same terms available to other customers with comparable credit ratings and involving no more than the usual risk of collectibility; and (iv) loans for purchases on usual trade terms, or for ordinary travel or expense advances, with usual commercial repayment arrangements. We also offer deferred share and other plans to non-employee directors, executives and certain other key employees. Refer to Note 21.

Note 30 Results by business and geographic segment

2007	Canadian Banking	Wealth Management	U.S. & International Banking	Capital Markets (1)	Corporate Support (1)	Total	Canada	United States	Other International
Net interest income	$ 6,353	$ 427	$ 1,031	$ 453	$ (732)	$ 7,532	$ 6,435	$ 412	$ 685
Non-interest income	6,168	3,565	884	3,936	377	14,930	8,605	4,322	2,003
Total revenue	12,521	3,992	1,915	4,389	(355)	22,462	15,040	4,734	2,688
Provision for (recovery of) credit losses	788	1	109	(22)	(85)	791	696	90	5
Insurance policyholder benefits, claims and acquisition expense	2,173	–	–	–	–	2,173	1,230	474	469
Non-interest expense	5,285	2,902	1,481	2,769	36	12,473	7,409	3,405	1,659
Net income (loss) before income taxes	4,275	1,089	325	1,642	(306)	7,025	5,705	765	555
Income taxes	1,288	327	74	278	(575)	1,392	1,705	(62)	(251)
Non-controlling interest	–	–	9	72	60	141	83	49	9
Net income	$ 2,987	$ 762	$ 242	$ 1,292	$ 209	$ 5,492	$ 3,917	$ 778	$ 797
Less: Preferred dividends	34	9	14	20	11	88	56	24	8
Net income (loss) available to common shareholders	$ 2,953	$ 753	$ 228	$ 1,272	$ 198	$ 5,404	$ 3,861	$ 754	$ 789
Average assets (2)	$ 220,000	$ 16,600	$ 39,700	$ 311,200	$ (6,500)	$ 581,000	$ 317,900	$ 135,100	$ 128,000
Total average assets	$ 220,000	$ 16,600	$ 39,700	$ 311,200	$ (6,500)	$ 581,000	$ 317,900	$ 135,100	$ 128,000

2006	Canadian Banking	Wealth Management	U.S. & International Banking	Capital Markets (1)	Corporate Support (1)	Total	Canada	United States	Other International
Net interest income	$ 5,816	$ 397	$ 940	$ 131	$ (488)	$ 6,796	$ 6,045	$ 108	$ 643
Non-interest income	5,880	3,090	688	4,005	178	13,841	7,518	4,397	1.926
Total revenue	11,696	3,487	1,628	4,136	(310)	20,637	13,563	4,505	2,569
Provision for (recovery of) credit losses	604	1	25	(115)	(86)	429	456	(28)	1
Insurance policyholder benefits, claims and acquisition expense	2,509	–	–	–	–	2,509	1,379	683	447
Non-interest expense	5,027	2,613	1,216	2,603	36	11,495	7,056	3,038	1,401
Business realignment charges	–	1	–	(1)	–	–	–	–	–
Net income (loss) before income taxes	3,556	872	387	1,649	(260)	6,204	4,672	812	720
Income taxes	1,130	268	117	317	(429)	1,403	1,458	14	(69)
Non-controlling interest	–	–	9	(23)	58	44	37	(1)	8
Net income (loss) from continuing operations	$ 2,426	$ 604	$ 261	$ 1,355	$ 111	$ 4,757	$ 3,177	$ 799	$ 781
Net loss from discontinued operations	–	–	(29)	–	–	(29)	–	(29)	–
Net income	2,426	604	232	1,355	111	4,728	3,177	770	781
Less: Preferred dividends	24	6	7	13	10	60	40	15	5
Net income (loss) available to common shareholders	$ 2,402	$ 598	$ 225	$ 1,342	$ 101	$ 4,668	$ 3,137	$ 755	$ 776
Average assets from continuing operations (2)	$ 199,200	$ 15,100	$ 32,600	$ 260,600	$ (5,400)	$ 502,100	$ 287,200	$ 113,300	$ 101,600
Average assets from discontinued operations (2)	–	–	200	–	–	200	–	200	–
Total average assets	$ 199,200	$ 15,100	$ 32,800	$ 260,600	$ (5,400)	$ 502,300	$ 287,200	$ 113,500	$ 101,600

2005	Canadian Banking	Wealth Management	U.S. & International Banking	Capital Markets (1)	Corporate Support (1)	Total	Canada	United States	Other International
Net interest income	$ 5,233	$ 374	$ 923	$ 557	$ (294)	$ 6,793	$ 5,628	$ 608	$ 557
Non-interest income	5,765	2,777	654	3,005	190	12,391	6,878	3,955	1,558
Total revenue	10,998	3,151	1,577	3,562	(104)	19,184	12,506	4,563	2,115
Provision for (recovery of) credit losses	542	2	49	(91)	(47)	455	433	23	(1)
Insurance policyholder benefits, claims and acquisition expense	2,625	–	–	–	–	2,625	1,270	809	546
Non-interest expense	4,830	2,440	1,136	2,890	61	11,357	6,685	3,595	1,077
Business realignment charges	7	1	(3)	1	39	45	45	–	–
Net income (loss) before income taxes	2,994	708	395	762	(157)	4,702	4,073	136	493
Income taxes	987	206	133	95	(143)	1,278	1,329	(76)	25
Non-controlling interest	–	–	6	(19)	–	(13)	(30)	12	5
Net income (loss) from continuing operations	2,007	502	256	686	(14)	3,437	2,774	200	463
Net loss from discontinued operations	–	–	(50)	–	–	(50)	–	(50)	–
Net income (loss)	$ 2,007	$ 502	$ 206	$ 686	$ (14)	$ 3,387	$ 2,774	$ 150	$ 463
Less: Preferred dividends	15	4	5	8	6	38	25	10	3
Net income (loss) available to common shareholders	$ 1,992	$ 498	$ 201	$ 678	$ (20)	$ 3,349	$ 2,749	$ 140	$ 460
Average assets from continuing operations (2)	$ 181,100	$ 13,200	$ 25,900	$ 229,100	$ (4,000)	$ 445,300	$ 263,200	$ 92,400	$ 89,700
Average assets from discontinued operations (2)	–	–	1,800	–	–	1,800	–	1,800	–
Total average assets	$ 181,100	$ 13,200	$ 27,700	$ 229,100	$ (4,000)	$ 447,100	$ 263,200	$ 94,200	$ 89,700

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

Revenue by business line

	2007	2006	2005
Banking (1)	$ 10,485	$ 9,418	$ 8,761
Wealth management	3,992	3,487	3,151
Global insurance	3,192	3,348	3,311
Global markets (2)	2,455	2,579	2,256
Global investment banking and equity markets (2), (3)	1,675	1,382	1,098
RBC Dexia IS (4)	759	558	500
Other (5)	(96)	(135)	104
Total	$ 22,462	$ 20,637	$ 19,184

(1) Includes cards and payment solutions.
(2) Taxable equivalent basis.
(3) Includes our National Clients business, which was transferred from our Other line of business in the second quarter of 2007.
(4) The amount for 2006 includes two months of revenue from IIS and our 50% proportionate share of nine months of revenue from RBC Dexia IS for the year ended October 31, 2006. Comparative amounts for 2005 only represent revenue from IIS.
(5) Consists of Global Credit and Research business, and includes the tax equivalent basis adjustment which is discussed below.

Changes in 2007

Composition of business segments

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

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

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

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

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

The comparative results have been revised to conform to our new basis of segment presentation.

All other enterprise level activities that are not allocated to these four business segments, such as enterprise funding securitization, net funding associated with unattributed capital, and consolidation adjustments, including the elimination of the taxable equivalent basis (teb) gross-up amounts, are included in Corporate Support. Teb adjustments gross up Net interest income from certain tax-advantaged sources (Canadian taxable corporate dividends) to their effective tax equivalent value with the corresponding offset recorded in the provision for income taxes. Management believes that these adjustments are necessary for Capital Markets to reflect how it is managed. The use of the teb adjustments enhances the comparability of revenue across our taxable and tax-advantaged sources. The use of teb adjustments and measures may not be comparable to similar GAAP measures or similarly adjusted amounts at other financial institutions. The teb adjustment for 2007 was $332 million (2006 – $213 million, 2005 – $109 million).

During 2007, we also reclassified the following balances in reporting our business segments: (i) certain amounts reported in Capital Markets from Interest income to Interest expense with no impact on Net interest income; (ii) certain amounts related to interest settlements on swaps in fair value hedge relationships from Non-interest income to Net interest income which had no impact on the prior years' results; (iii) certain deposits in Capital Markets and U.S. & International Banking related to RBC Dexia IS in accordance with the business realignment that occurred in the second quarter of 2007; (iv) expenses related to internally developed software from Non-interest expense – Other to the more specific Non-interest expense lines. Only Corporate Support was impacted by this reclassification and there was no impact on total Non-interest expense; and (v) certain amounts related to trustee services within Canadian Banking have been reclassified from Non-interest income – Investment management and custodial fees to Net interest income to reflect their nature. All comparative amounts have been revised to reflect these reclassifications.

Visa restructuring

In connection with the restructuring of Visa Inc., which was completed on October 3, 2007, RBC's membership interest in Visa Canada Association was exchanged for shares of Visa Inc., resulting in a gain of $326 million ($269 million net of taxes). The gain, which is based on an independent valuation of RBC's shares in Visa Inc., is included in Canadian Banking's Total revenue and recorded in Non-interest income – Other in our Consolidated Statement of Income. The shares of Visa Inc. are classified as Available-for-sale securities. Refer to Note 3.

Management reporting framework

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

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

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

Geographic segments

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

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

Our Consolidated Financial Statements are prepared in accordance with Subsection 308 of the *Bank Act* (Canada), which states that except as otherwise specified by the OSFI, our Consolidated Financial Statements are to be prepared in accordance with Canadian GAAP. As required by the U.S. Securities and Exchange Commission (SEC), material differences between Canadian and U.S. GAAP are quantified and described below. We adopted SEC Staff Accounting Bulletin No. 108 on November 1, 2006. Refer to the discussion under the Significant accounting changes section later in this note.

Condensed Consolidated Balance Sheets

	2007			2006		
	Canadian GAAP	Differences	U.S. GAAP	Canadian GAAP	Differences	U.S. GAAP
Assets						
Cash and due from banks	$ 4,226	$ (78)	$ 4,148	$ 4,401	$ (101)	$ 4,300
Interest-bearing deposits with banks	11,881	(4,436)	7,445	10,502	(4,223)	6,279
Securities						
Trading	148,246	(5,348)	142,898	147,237	(282)	146,955
Available-for-sale	30,009	6,326	36,335	–	–	–
Investments	–	–	–	37,632	(97)	37,535
	178,255	978	179,233	184,869	(379)	184,490
Assets purchased under reverse repurchase agreements and securities borrowed	64,313	(2,263)	62,050	59,378	(2,148)	57,230
Loans (net of allowance for loan losses)	237,936	(2,188)	235,748	208,530	(111)	208,419
Other						
Customers' liability under acceptances	11,786	–	11,786	9,108	–	9,108
Derivatives	66,585	(295)	66,290	37,729	717	38,446
Premises and equipment, net	2,131	(102)	2,029	1,818	(86)	1,732
Goodwill	4,752	(61)	4,691	4,304	(61)	4,243
Other intangibles	628	(180)	448	642	(211)	431
Reinsurance recoverables	–	1,140	1,140	–	1,182	1,182
Separate account assets	–	114	114	–	111	111
Assets of operations held for sale	–	–	–	82	–	82
Other assets	17,853	30,590	48,443	15,417	24,893	40,310
	103,735	31,206	134,941	69,100	26,545	95,645
	$ 600,346	$ 23,219	$ 623,565	$ 536,780	$ 19,583	$ 556,363
Liabilities and shareholders' equity						
Deposits	$ 365,205	$ (12,276)	$ 352,929	$ 343,523	$ (9,466)	$ 334,057
Other						
Acceptances	11,786	–	11,786	9,108	–	9,108
Obligations related to securities sold short	44,689	829	45,518	38,252	(1,188)	37,064
Obligations related to assets sold under repurchase agreements and securities loaned	37,033	(1,290)	35,743	41,103	(1,141)	39,962
Derivatives	72,010	(312)	71,698	42,094	312	42,406
Insurance claims and policy benefit liabilities	7,283	2,530	9,813	7,337	2,686	10,023
Separate account liabilities	–	114	114	–	111	111
Liabilities of operations held for sale	–	–	–	32	–	32
Other liabilities	28,483	33,712	62,195	22,649	27,877	50,526
	201,284	35,583	236,867	160,575	28,657	189,232
Subordinated debentures	6,235	6	6,241	7,103	300	7,403
Trust capital securities	1,400	(1,400)	–	1,383	(1,383)	–
Preferred share liabilities	300	(300)	–	298	(298)	–
Non-controlling interest in subsidiaries	1,483	1,405	2,888	1,775	1,083	2,858
Shareholders' equity (1)	24,439	201	24,640	22,123	690	22,813
	$ 600,346	$ 23,219	$ 623,565	$ 536,780	$ 19,583	$ 556,363

(1) Included in our consolidated earnings as at October 31, 2007 was $407 million (2006 – $293 million) of undistributed earnings of our joint ventures and investments accounted for using the equity method under U.S. GAAP.

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

Condensed Consolidated Statements of Income

	2007	2006	2005
Net income from continuing operations, Canadian GAAP	$ 5,492	$ 4,757	$ 3,437
Differences:			
Net interest income			
Derivative instruments and hedging activities	(17)	(22)	36
Joint ventures	(115)	(75)	–
Liabilities and equity	115	115	115
Non-interest income			
Insurance accounting	(202)	(544)	(606)
Derivative instruments and hedging activities	56	(31)	11
Reclassification of financial instruments (1)	9	14	27
Variable interest entities	4	(10)	–
Limited partnerships	60	(3)	(9)
Joint ventures	(650)	(458)	(171)
Reclassification of foreign currency translation	(41)	(4)	–
Other	(31)	(29)	(4)
Provision for (recovery of) credit losses			
Joint ventures	4	2	18
Other	(8)	–	–
Insurance policyholder benefits, claims and acquisition expense			
Insurance accounting	137	471	584
Non-interest expense			
Stock appreciation rights	11	16	25
Insurance accounting	69	75	72
Joint ventures	653	440	118
Variable interest entities	2	2	–
Other	31	29	–
Income taxes and net difference in income taxes due to the above items	66	95	(13)
Non-controlling interest in net income of subsidiaries			
Variable interest entities	(6)	8	–
Joint ventures	3	3	–
Liabilities and equity	(101)	(101)	(101)
Net income from continuing operations, U.S. GAAP	$ 5,541	$ 4,750	$ 3,539
Net loss from discontinued operations, Canadian GAAP (2)	$ –	$ (29)	$ (50)
Difference – Other	–	–	5
Net loss from discontinued operations, U.S. GAAP (2)	$ –	$ (29)	$ (45)
Net income, U.S. GAAP	$ 5,541	$ 4,721	$ 3,494
Basic earnings per share (3)			
Canadian GAAP	$ 4.24	$ 3.65	$ 2.61
U.S. GAAP	$ 4.26	$ 3.62	$ 2.67
Basic earnings per share from continuing operations			
Canadian GAAP	$ 4.24	$ 3.67	$ 2.65
U.S. GAAP	$ 4.26	$ 3.64	$ 2.71
Basic earnings (loss) per share from discontinued operations (2)			
Canadian GAAP	$ –	$ (.02)	$ (.04)
U.S. GAAP	$ –	$ (.02)	$ (.04)
Diluted earnings per share (3)			
Canadian GAAP	$ 4.19	$ 3.59	$ 2.57
U.S. GAAP	$ 4.21	$ 3.57	$ 2.63
Diluted earnings per share from continuing operations			
Canadian GAAP	$ 4.19	$ 3.61	$ 2.61
U.S. GAAP	$ 4.21	$ 3.59	$ 2.67
Diluted earnings (loss) per share from discontinued operations (2)			
Canadian GAAP	$ –	$ (.02)	$ (.04)
U.S. GAAP	$ –	$ (.02)	$ (.04)

(1) Reclassification of financial instruments reflects differences in classification arising from the use of the fair value option and reclassification of securities. Prior to the adoption of the new financial instruments accounting standards on November 1, 2006, this item reflected the reclassification of securities only. Please refer to material differences between Canadian and U.S. GAAP for details of this reclassification of securities.

(2) Refer to Note 11.

(3) The impact of calculating earnings per share using the two-class method reduced U.S. GAAP basic and diluted earnings per share for all periods presented by less than one cent. Please refer to material differences between Canadian and U.S. GAAP for details of this two-class method.

Condensed Consolidated Statements of Cash Flows (1)

	2007	2006	2005
Cash flows from (used in) operating activities, Canadian GAAP	$ 19,473	$ (14,996)	$ (29,527)
U.S. GAAP adjustment for net income	49	(8)	102
Adjustments to determine net cash from (used in) operating activities			
Provision for credit losses	4	(2)	(18)
Depreciation	(24)	(20)	(4)
Future income taxes	(416)	271	(135)
Amortization of other intangibles	(26)	(20)	–
Net gain on sale of investment securities	–	–	3
Changes in operating assets and liabilities			
Insurance claims and policy benefit liabilities	(156)	43	(438)
Net change in accrued interest receivable and payable	293	(120)	(1)
Current income taxes	64	–	–
Derivative assets	1,012	440	41
Derivative liabilities	(624)	(267)	(90)
Trading securities	(5,546)	(695)	(710)
Reinsurance recoverable	(42)	(8)	(511)
Net change in brokers and dealers receivable and payable	344	3,872	(2,504)
Other	(437)	2,446	2,099
Net cash from (used in) operating activities, U.S. GAAP	13,968	(9,064)	(31,693)
Cash flows from (used in) investing activities, Canadian GAAP	(36,690)	(43,235)	(7,727)
Change in interest-bearing deposits with banks	213	4,191	48
Change in loans, net of loan securitizations	2,084	1,050	28
Proceeds from sale of investment securities	(7,565)	(14,709)	(25,628)
Proceeds from maturity of investment securities	(18,784)	(28,203)	(18,405)
Purchases of investment securities	24,097	38,474	36,373
Proceeds from sale of available-for-sale securities	7,565	14,727	25,651
Proceeds from maturity of available-for-sale securities	18,784	28,185	18,379
Purchases of available-for-sale securities	(19,964)	(38,383)	(36,130)
Net acquisitions of premises and equipment	40	73	12
Change in assets purchased under reverse repurchase agreements and securities borrowed	115	2,148	–
Net cash from (used in) investing activities, U.S. GAAP	30,105	(35,682)	(7,399)
Cash flows from financing activities, Canadian GAAP	17,374	57,711	38,666
Change in deposits	(17,831)	(36,663)	(35,001)
Change in deposits – Canada	(2,792)	(299)	15,522
Change in deposits – International	17,813	27,468	19,791
Issue of RBC Trust Capital Securities	–	–	(1,200)
Issue of preferred shares	(16)	(7)	–
Redemption of preferred shares for cancellation	5	–	–
Issuance costs	11	7	3
Issue of common shares	(1)	1	(1)
Sales of treasury shares	3	–	–
Purchase of treasury shares	(1)	(2)	7
Dividends paid	(15)	(13)	(14)
Change in obligations related to assets sold under repurchase agreements and securities loaned	(149)	(1,141)	–
Dividends/distributions paid by subsidiaries to non-controlling interests	(101)	(102)	(102)
Change in obligations related to securities sold short	2,017	(2,835)	2,837
Change in short-term borrowings of subsidiaries	–	–	(4)
Net cash from financing activities, U.S. GAAP	$ 16,317	$ 44,125	$ 40,504
Effect of exchange rate changes on cash and due from banks	$ (332)	$ (80)	$ (122)
Net change in cash and due from banks	(152)	(701)	1,290
Cash and due from banks at beginning of year	$ 4,300	$ 5,001	$ 3,711
Cash and due from banks at end of year, U.S. GAAP	$ 4,148	$ 4,300	$ 5,001

(1) We did not have any discontinued operations during 2007.

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

	2007				
	Canadian GAAP	Differences	U.S. GAAP	2006 (1)	2005 (1)
Transition adjustment	$ (45)	$ 45	$ –	$ –	$ –
Unrealized (losses) gains on available-for-sale securities	(65)	133	68	191	83
Unrealized foreign currency translation gains (losses), net of hedging activities	(3,207)	(4)	(3,211)	(2,000)	(1,768)
Gains (losses) on derivatives designated as cash flow hedges	111	(91)	20	(52)	(165)
Additional pension obligation	–	(541)	(541)	(62)	(313)
Accumulated other comprehensive income (loss), net of income taxes	$ (3,206)	$ (458)	$ (3,664)	$ (1,923)	$ (2,163)

(1) The concept of AOCI was introduced under Canadian GAAP upon the adoption of Section 1530 on November 1, 2006 (refer to Note 1). Accordingly, there is no reconciliation for the prior periods presented.

Consolidated Statements of Comprehensive Income

	2007				
	Canadian GAAP	Differences	U.S. GAAP	2006 (1)	2005 (1)
Net income	$ 5,492	$ 49	$ 5,541	$ 4,721	$ 3,494
Other comprehensive income, net of taxes					
Net unrealized (losses) gains on available-for-sale securities, net of reclassification adjustments	(65)	(58)	(123)	108	(95)
Unrealized foreign currency translation gains (losses)	(2,965)	(49)	(3,014)	(507)	(623)
Reclassification of (gains) losses on foreign currency translation to income	(42)	41	(1)	6	5
Net foreign currency translation gains (losses) from hedging activities	1,804	–	1,804	269	401
Net gains (losses) on derivatives designated as cash flow hedges	80	1	81	(35)	(97)
Reclassification to income of (gains) losses on derivatives designated as cash flow hedges	31	(5)	26	148	124
Additional pension obligation	–	50	50	251	(246)
Total comprehensive income	$ 4,335	$ 29	$ 4,364	$ 4,961	$ 2,963
Income taxes (recovery) deducted from the above items:					
Net unrealized gains (losses) on available-for-sale securities	$ (11)	$ (37)	$ (48)	$ 57	$ (55)
Net foreign currency translation gains (losses), net of hedging activities	911	–	911	130	204
Net unrealized gains (losses) on derivatives designated as cash flow hedges	43	–	43	(15)	(51)
Reclassification to income of (gains) losses on derivatives designated as cash flow hedges	16	(3)	13	75	66
Additional pension obligation	–	27	27	134	(132)
Total income taxes (recovery)	$ 959	$ (13)	$ 946	$ 381	$ 32

(1) A new Consolidated Statement of Comprehensive Income was introduced under Canadian GAAP upon adoption of Section 1530 on November 1, 2006 (refer to Note 1). Accordingly, there is no reconciliation for the prior periods presented.

Material balance sheet reconciling items

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

As at October 31, 2007	Derivatives and hedging activities	Variable interest entities	Joint ventures	Insurance accounting	Reclassification of financial instruments (1)	Limited partnerships	Stock appreciation rights	Liabilities and equity	Additional pension obligation	Trade date accounting	Non-cash collateral	Right of offset	Guarantees, loan commitments and other minor items (2)	Total
Assets														
Cash and due from banks	$ –	–	(78)	–	–	–	–	–	–	–	–	–	–	$ (78)
Interest-bearing deposits with banks	$ –	–	(4,436)	–	–	–	–	–	–	–	–	–	–	$ (4,436)
Securities	$ –	–	(375)	–	(875)	(195)	–	–	–	2,422	–	–	1	$ 978
Assets purchased under reverse repurchase agreements and securities borrowed	$ –	–	(2,262)	–	(1)	–	–	–	–	–	–	–	–	$ (2,263)
Loans	$ –	–	(2,931)	–	(18)	–	–	–	–	–	–	717	44	$ (2,188)
Other assets	$ (2)	–	(4,818)	2,967	873	220	(23)	–	(202)	13,995	18,106	–	90	$31,206
Liabilities and shareholders' equity														
Deposits	$ (8)	–	(12,277)	–	13	–	–	–	–	–	–	–	(4)	$(12,276)
Other liabilities	$ 2	–	(2,594)	2,728	(14)	–	(60)	(34)	339	16,417	18,106	717	(24)	$35,583
Subordinated debentures	$ –	–	–	–	6	–	–	–	–	–	–	–	–	$ 6
Trust capital securities	$ –	–	–	–	–	–	–	(1,400)	–	–	–	–	–	$ (1,400)
Preferred share liabilities	$ –	–	–	–	–	–	–	(300)	–	–	–	–	–	$ (300)
Non-controlling interest in subsidiaries	$ –	–	(29)	–	–	–	–	1,434	–	–	–	–	–	$ 1,405
Shareholders' equity	$ 4	–	–	239	(26)	25	37	300	(541)	–	–	–	163	$ 201

(1) Reclassification of financial instruments reflects differences in classification arising from the use of the fair value option and reclassification of securities. Prior to the adoption of the new financial instruments accounting standards on November 1, 2006, this column reflected the reclassification of securities only. Refer to the material differences between Canadian and U.S. GAAP for details of this reclassification of securities.

(2) Other minor differences include cumulative translation adjustment of $41 million (2006 – $4 million) and $8 million ($nil for 2006) related to loans held for sale which are recorded at the lower of cost or market under U.S. GAAP and recorded at amortized cost under Canadian GAAP.

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

(1) Reclassification of financial instruments reflects differences in classification arising from the use of the fair value option and reclassification of securities. Prior to the adoption of the new financial instruments accounting standards on November 1, 2006, this column reflected the reclassification of securities only. Refer to the material differences between Canadian and U.S. GAAP for details of this reclassification of securities.

Material differences between Canadian and U.S. GAAP

No.	Item	U.S. GAAP	Canadian GAAP
1	Variable interest entities	We consolidate VIEs where we are the entity's Primary Beneficiary under Financial Accounting Standards Board (FASB) Interpretation No. 46, *Consolidation of Variable Interest Entities* (FIN 46R). VIEs are entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. The Primary Beneficiary is the party that has exposure to a majority of the expected losses and/or expected residual returns of the VIE. In the fourth quarter of 2006, we adopted FASB Staff Position FIN 46(R)-6, *Determining the Variability to be Consolidated in Applying FASB Interpretation No. 46(R)* (FSP FIN 46(R)-6). This guidance provides additional clarification on how to analyze VIEs and their consolidation requirements. Upon adoption of this guidance, we deconsolidated certain investment funds.	The accounting for VIEs is consistent in all material aspects with U.S. GAAP. In the second quarter of 2007, we adopted EIC-163 which is substantially the same as FSP FIN 46(R)-6. Refer to Note 1.
2	Liabilities and equity	Shares issued with conversion or conditional redemption features are classified as equity. Shares that are mandatorily redeemable because there is an unconditional obligation requiring the issuer to redeem the instrument by transferring its assets upon a specified date or upon an event that is certain to occur are classified as liabilities.	Financial instruments that can be settled by a variable number of our common shares upon their conversion by the holder are classified as liabilities under Canadian GAAP. As a result, certain of our preferred shares and TruCS are classified as liabilities. Dividends and yield distributions on these instruments are included in Interest expense in our Consolidated Statements of Income.
3	Derivative instruments and hedging activities	All derivatives are recorded on our Consolidated Balance Sheets at fair value, including certain derivatives embedded within hybrid instruments. For derivatives that do not qualify for hedge accounting, changes in their fair value are recorded in Non-interest income. For derivatives that are designated and qualify as cash flow hedges, changes in fair value related to the effective portion of the hedge are recorded in AOCI within Shareholders' equity, and will be subsequently recognized in Net interest income in the same period when the cash flow of the hedged item affects earnings. The ineffective portion of the hedge is reported in Non-interest income.	Prior to November 1, 2006, derivatives embedded within hybrid instruments generally were not separately accounted for except for those related to equity-linked deposit contracts. For derivatives that did not qualify for hedge accounting, changes in their fair value were recorded in Non-interest income. Non-trading derivatives where hedge accounting had not been applied upon adoption of Accounting Guideline 13, *Hedging Relationships*, were recorded at fair value with transition gains or losses being recognized in income as the original hedged item affects Net interest income. Where derivatives had been

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

No.	Item	U.S. GAAP	Canadian GAAP
3	Derivative instruments and hedging activities (continued)	For derivatives that are designated and qualify as fair value hedges, the carrying amount of the hedged item is adjusted by gains or losses attributable to the hedged risk and recorded in Non-interest income. This change in fair value of the hedged item is generally offset by changes in the fair value of the derivative.	designated and qualified as effective hedges, they were accounted for on an accrual basis with gains or losses deferred and recognized over the life of the hedged assets or liabilities as adjustments to Net interest income. The ineffective portion of the hedge was not required to be recognized. Upon the adoption of Section 3855 and Section 3865 on November 1, 2006, Canadian GAAP is substantially harmonized with U.S. GAAP. Refer to Note 1.
4	Joint ventures	Investments in joint ventures other than VIEs are accounted for using the equity method.	Investments in joint ventures other than VIEs are proportionately consolidated.
5	Insurance accounting	Fixed income and equity investments are included in Available-for-sale securities and are carried at estimated fair value. Unrealized gains and losses, net of income taxes, are reported in AOCI within Shareholders' equity. Realized gains and losses are included in Non-interest income when realized.	Prior to November 1, 2006, fixed income and equity investments were classified as Investment account securities. Fixed income investments were carried at amortized cost, and equity investments at cost except for those that support life insurance liabilities whose carrying values were adjusted quarterly by 5% of the difference between market value and previously adjusted carrying cost. Realized gains and losses on disposal of fixed income investments that support life insurance liabilities were deferred and amortized to Non-interest income over the remaining term to maturity of the investments sold to a maximum period of 20 years. Realized gains and losses on disposal of equity investments were deferred and recognized as Non-interest income at the quarterly rate of 5% of unamortized deferred gains and losses. Upon adoption of Section 3855 on November 1, 2006, fixed income and equity securities are classified as available-for-sale securities except for those supporting the policy benefit liabilities of life and health insurance contracts which are designated as held-for-trading using the fair value option, as described in Note 1.
		Insurance claims and policy benefit liabilities: Liabilities for life insurance contracts, except universal life and investment-type contracts, are determined using the net level premium method, which includes assumptions for mortality, morbidity, policy lapses, surrenders, investment yields, policy dividends and direct operating expenses. These assumptions are not revised unless it is determined that existing deferred acquisition costs cannot be recovered. For universal life and investment-type contracts, liabilities represent policyholder account balances and include a net level premium reserve for some contracts. The account balances represent an accumulation of gross deposits received plus credited interest less withdrawals, expenses and mortality charges. Underlying reserve assumptions of these contracts are subject to review at least annually. Property and casualty claim liabilities represent the estimated amounts required to settle all unpaid claims, and are recorded on an undiscounted basis.	*Insurance claims and policy benefit liabilities:* Liabilities for life insurance contracts are determined using the Canadian Asset Liability Method, which incorporates assumptions for mortality, morbidity, policy lapses, surrenders, investment yields, policy dividends and maintenance expenses. To recognize the uncertainty in the assumptions underlying the calculation of the liabilities, a margin (provision for adverse deviations) is added to each assumption. These assumptions are reviewed at least annually and updated in response to actual experience and market conditions. Property and casualty claim liabilities represent the estimated amounts required to settle all unpaid claims, and are recorded on a discounted basis.

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

No.	Item	U.S. GAAP	Canadian GAAP
5	Insurance accounting (continued)	*Insurance revenue:* Amounts received for universal life and other investment-type contracts are not included as revenue, but are reported as deposits to policyholders' account balances in Insurance claims and policy benefit liabilities. Revenue from these contracts are limited to amounts assessed against policyholders' account balances for mortality, policy administration and surrender charges, and are included in Non-interest income when earned. Payments upon maturity or surrender are reflected as reductions in the Insurance claims and policy benefit liabilities.	*Insurance revenue:* Premiums for universal life and other investment-type contracts are recorded as Non-interest income, and a liability for future policy benefits is established as a charge to Insurance policyholder benefits, claims and acquisition expense.
		Policy acquisition costs: Acquisition costs are deferred in Other assets. The amortization method of the acquisition costs is dependent on the product to which the costs are related. For long-duration contracts, they are amortized in proportion to premium revenue. For universal life and investment-type contracts, amortization is based on a constant percentage of estimated gross profits.	*Policy acquisition costs:* The costs of acquiring new life insurance and annuity business are implicitly recognized as a reduction in Insurance claims and policy benefit liabilities.
		Value of business acquired: The value of business acquired (VOBA) is determined at the acquisition date and recorded as an asset. The VOBA asset is amortized and charged to income using the same methodologies used for policy acquisition cost amortization but reflecting premiums or profit margins after the date of acquisition only.	*Value of business acquired:* The value of life insurance in-force policies acquired in a business combination is implicitly recognized as a reduction in policy benefit liabilities.
		Reinsurance: Reinsurance recoverables are recorded as an asset on our Consolidated Balance Sheets.	*Reinsurance:* Reinsurance recoverables of life insurance business related to the risks ceded to other insurance or reinsurance companies are recorded as an offset to Insurance claims and policy benefit liabilities.
		Separate accounts: Separate accounts are recognized on our Consolidated Balance Sheets.	*Separate accounts:* Assets and liabilities of separate accounts (known as segregated funds in Canada) are not recognized on our Consolidated Balance Sheets.
6	Reclassification of securities and the application of the fair value option	Securities are classified as Trading account or Available-for-sale, and are carried on our Consolidated Balance Sheets at their estimated fair value. The net unrealized gain (loss) on Available-for-sale securities, net of related income taxes, is reported in AOCI within Shareholders' equity except where the Available-for-sale securities qualify as hedged items in fair value hedges. These hedged unrealized gains (losses) are recorded in Non-interest income where they are generally offset by the changes in fair value of the hedging derivatives. Writedowns to reflect other-than-temporary impairment in the value of Available-for-sale securities are included in Non-interest income.	Prior to November 1, 2006, securities were classified as Trading account (carried at estimated fair value), Investment account (carried at amortized cost) or Loan substitute. Writedowns to reflect other-than-temporary impairments in the value of Investment account securities were included in Non-interest income. Loan substitute securities were accorded the accounting treatment applicable to loans and, if required, were reduced by an allowance.
		On November 1, 2006, we adopted Financial Accounting Standards Board (FASB) Statement No. 155, *Accounting for Certain Hybrid Financial Instruments – an amendment of FASB Statements No. 133 and 140* (FAS 155). FAS 155 allows an entity to measure any hybrid financial instrument that contains an embedded derivative that requires bifurcation at its fair value, with changes in fair value recognized in earnings. On November 1, 2006, we also adopted FASB Statement No. 156, *Accounting for Servicing of Financial Assets – an amendment of FASB Statement No. 140* (FAS 156). Under FAS 156, an entity is required to initially measure its servicing rights at fair value and can elect to subsequently amortize its initial fair value over the term of the servicing rights, or remeasure them at fair value with changes recognized in	With the adoption of Section 3855 on November 1, 2006, Canadian GAAP is substantially harmonized with U.S. GAAP. The significant difference subsequent to the adoption of this new Canadian standard primarily relates to the use of the fair value option. As described in Note 1, Section 3855 allows the designation of any financial instrument as held-for-trading on its initial recognition or upon adoption of the new standard. The fair value option can be applied to any financial instrument under Canadian GAAP (except for certain restrictions imposed by the OSFI) whereas U.S. GAAP only allows the use of the fair value option for servicing rights and certain hybrid financial instruments. The principal categories of financial instruments where we have applied the fair value option under Canadian GAAP are described in Note 1.

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

No.	Item	U.S. GAAP	Canadian GAAP
6	Reclassification of securities and the application of the fair value option (continued)	Net income. The ability to remeasure servicing rights at fair value through Net income eliminates the accounting mismatch between the servicing rights and the related derivatives that would otherwise result in the absence of hedge accounting. Upon adoption of FAS 155 and FAS 156, certain hybrid financial instruments and servicing rights are measured at fair value. The adoption of these standards did not materially impact our consolidated financial position or results of operations.	
7	Limited partnerships	The equity method is used to account for investments in limited partnerships that are non-VIEs or unconsolidated VIEs, if we own at least 3% of the total ownership interest.	We use the equity method to account for investments in limited partnerships that are non-VIEs or unconsolidated VIEs, if we have the ability to exercise significant influence, generally indicated by an ownership interest of 20% or more.
8	Stock appreciation rights (SARs)	Between November 29, 1999, and June 5, 2001, grants of options under the employee stock option plan were accompanied with tandem SARs, whereby participants could choose to exercise a SAR instead of the corresponding option. In such cases, the participants would receive a cash payment equal to the difference between the closing price of our common shares on the day immediately preceding the day of exercise and the exercise price of the option. For such a plan, compensation expense would be measured using estimates based on past experience of participants exercising SARs rather than the corresponding options. On November 1, 2005, we adopted FASB Statement No. 123 (revised 2004) *Share-Based Payment* (FAS 123(R)) and its related FASB Staff Positions (FSPs) prospectively for new awards and the unvested portion of existing awards. FAS 123(R) requires that the compensation expense should be measured assuming that all participants will exercise SARs. Under the transition guidelines of the new standard, the requirements of the new accounting standard are applicable to awards granted after the adoption of the new standard. Since these SARs were awarded prior to adoption of the new accounting standard, these will continue to be accounted for under the previous accounting standard.	For such a plan, a liability is recorded for the potential cash payments to participants and compensation expense is measured assuming that all participants will exercise SARs.
9	Pension and other post-employment obligations	On October 31, 2007, we adopted the recognition requirements of FASB Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Post-retirement Plans – an amendment of FASB Statements No. 87, 88, 106 and 132(R)* (FAS 158), which require an entity to: (i) recognize the funded status of a benefit plan on the balance sheet; and (ii) recognize in OCI the existing unrecognized net actuarial gains and losses, prior service costs and credits, and net transitional assets or obligations. The measurement requirement of FAS 158, which requires an entity to measure defined benefit plan assets and obligations as at the year-end date, will be effective for us prospectively at the end of 2009. The impact of adopting FAS 158 is disclosed in the Pensions and other post-employment benefits section of this note. Prior to 2007, for defined benefit pension plans, an unfunded accumulated benefit obligation was recorded as an	Canadian GAAP does not have the same requirements as FAS 158. For a defined benefit plan, the plan assets and the benefit obligations may be measured as of a date not more than three months prior to the year-end. We measure our benefit obligations and pension plan assets as at September 30 each year.

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

No.	Item	U.S. GAAP	Canadian GAAP
9	Pension and other post-employment obligations (continued)	additional minimum pension liability, an intangible asset was recorded up to the amount of unrecognized prior service cost, and the excess of unfunded accumulated benefit obligation over unrecognized prior service cost was recorded as a reduction in Other comprehensive income.	
10	Trade date accounting	For securities transactions, trade date basis of accounting is used for both our Consolidated Balance Sheets and our Consolidated Statements of Income.	For securities transactions, settlement date basis of accounting is used for our Consolidated Balance Sheets whereas trade date basis of accounting is used for our Consolidated Statements of Income.
11	Non-cash collateral	Non-cash collateral received in securities lending transactions is recorded on our Consolidated Balance Sheets as an asset and a corresponding obligation to return it is recorded as a liability, if we have the ability to sell or repledge it.	Non-cash collateral received in securities lending transactions is not recognized on our Consolidated Balance Sheets.
12	Right of offset	When financial assets and liabilities are subject to a legally enforceable right of offset and we intend to settle these assets and liabilities with the same party either on a net basis or simultaneously, the financial assets and liabilities may be presented on a net basis.	Net presentation of financial assets and liabilities is required when the same criteria under U.S. GAAP are met. In addition, the netting criteria may be applied to a tri-party transaction.
13	Guarantees	For guarantees issued or modified after December 31, 2002, a liability is recognized at the inception of a guarantee, for the fair value of the obligation undertaken in issuing the guarantee.	Prior to November 1, 2006, Canadian GAAP only provides for disclosure requirements. Upon the adoption of Section 3855 on November 1, 2006, Canadian GAAP is substantially harmonized with U.S. GAAP.
14	Loan commitments	For loan commitments entered into after March 31, 2004 and issued for loans that will be held for sale when funded, revenue associated with servicing assets embedded in these commitments should be recognized only when the servicing asset has been contractually separated from the underlying loans.	Upon adoption of Section 3855, loan commitments that can be settled net or when there is a past practice of selling the assets resulting from the loan commitments shortly after origination can be treated as derivatives and such treatment applies to all loan commitments in the same class. In addition, loan commitments can be designated as held-for-trading on their initial recognition or upon adoption of the new standard using the fair value option (refer to Item No. 6 above).
15	Two-class method of calculating earnings per share	When calculating earnings per share, we are required to give effect to securities or other instruments or contracts that entitle their holders to participate in undistributed earnings when such entitlement is nondiscretionary and objectively determinable.	Canadian GAAP does not have such a requirement.
16	Income taxes	In addition to the tax impact of the differences outlined above, the effects of changes in tax rates on deferred income taxes are recorded when the tax rate change has been passed into law.	These effects are recorded when the tax rate change has been substantively enacted.

Restricted net assets

Certain of our subsidiaries and joint ventures are subject to regulatory requirements of the jurisdictions in which they operate. When these subsidiaries and joint ventures are subject to such requirements, they may be restricted from transferring to us our share of their assets in the form of cash dividends, loans or advances. At October 31, 2007, restricted net assets of these subsidiaries were $10.3 billion (2006 – $7.1 billion).

Pensions and other post-employment benefits

The following information on our defined benefit plans is in addition to that disclosed in Note 20.

On October 31, 2007, we adopted the recognition and disclosure provisions of FAS 158 which require the recognition of a plan's over-funded or under-funded status as an asset or liability with an offsetting adjustment to AOCI net of tax. The adjustments to AOCI at adoption represent the net actuarial gains and losses, prior service costs or credits, and transitional assets or obligations that were previously unrecognized. These amounts will be subsequently recognized as pension expense as they are amortized over the expected average remaining service life of employee groups covered by the plans. Further, actuarial gains and losses that arise in subsequent periods and are not recognized as pension expense in the same periods will be recognized as a component of OCI. These amounts will be subsequently recognized as a component of pension expense on the same basis as the amounts recognized in AOCI on adoption of FAS 158.

The incremental effects of adopting the provisions of FAS 158 on our Consolidated Balance Sheet at October 31, 2007 are presented in the following table, including the effect of recognizing the additional minimum liability of $30 million prior to adopting FAS 158. The incremental effects of adopting the provision of FAS 158 on our Consolidated Balance Sheet at October 31, 2007 had no effect on our Consolidated Statement of Income for the year ended October 31, 2007, or for any year presented.

	2007		
	Before application of FAS 158	Adjustments	After application of FAS 158
Other assets			
Prepaid pension benefit cost (1)	$ 578	$ (479)	$ 99
Other liabilities			
Accrued pension and other post-employment benefit expense (2)	1,262	330	1,592
Accumulated other comprehensive loss (3)	$ 18	$ 809	$ 827

(1) Includes the reversal of $12 million unrecognized prior service costs reported as intangible asset.
(2) Includes the reversal of the additional minimum liability adjustment of $30 million.
(3) Includes employee benefit plan adjustments of $549 million, net of tax, and the reversal of the additional minimum liability adjustment of $20 million, net of tax.

The under-funded status of the pension plans and other post-employment plans of $52 million and $1,441 million, respectively, are recognized on our Consolidated Balance Sheet in Other liabilities. The accumulated benefit obligations for the pension plans is $6,299 million at October 31, 2007 (2006 – $6,277 million).

The pre-tax amounts included in AOCI at October 31, 2007 are as follows:

	2007		
	Pension plans	Other post-employment plans	Total
Net actuarial loss	$ 484	$ 564	$ 1,048
Prior service cost (benefit)	95	(307)	(212)
Transitional (asset) obligation	(10)	1	(9)
Pre-tax amount recognized in Accumulated other comprehensive loss (1)	$ 569	$ 258	$ 827

(1) Amount recognized in AOCI, net of tax is $541 million.

The estimated net actuarial loss and prior service cost for the pension plans that will be amortized from AOCI, on a pre-tax basis, into pension expense during 2008 are $94 million and $22 million, respectively, and pension expense will be reduced by $2 million relating to the amortization of transitional assets. The estimated net actuarial loss and transitional obligation for the Other post-employment plans that will be amortized from AOCI, on a pre-tax basis, into pension expense during 2008 are $37 million and $nil, respectively, and pension expense will be reduced by $23 million relating to the amortization of prior service benefit.

Hedging activities

Upon adoption of Section 3855 and Section 3865 on November 1, 2006, Canadian GAAP is substantially harmonized with U.S. GAAP. The criteria in applying hedge accounting and the accounting for each of the permitted hedging strategies are described in Note 1.

Prior to November 1, 2006, there were material differences between Canadian and U.S. GAAP and such differences are quantified as follows:

Fair value hedge

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

Cash flow hedge

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

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

Hedges of net investments in foreign operations

For the year ended October 31, 2006, we experienced foreign currency losses of $507 million (2005 – $623 million) related to our net investments in foreign operations, which were offset by gains of $269 million (2005 – $401 million) related to derivative and non-derivative instruments designated as hedges for such foreign currency exposures. The net foreign currency gains (losses) are recorded as a component of OCI.

Average assets, U.S. GAAP

	2007		2006		2005	
	Average assets	% of total average assets	Average assets	% of total average assets	Average assets	% of total average assets
Canada	$ 338,545	56%	$ 297,740	57%	$ 277,442	58%
United States	139,569	23%	119,614	23%	97,002	20%
Other International	125,743	21%	104,533	20%	101,961	22%
	$ 603,857	100%	$ 521,887	100%	$ 476,405	100%

Significant accounting changes

Guidance for quantifying financial statement misstatements

In September 2006, the SEC issued Staff Accounting Bulletin No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements* (SAB 108). It provides guidance on how to evaluate prior period financial statement misstatements for the purpose of assessing their materiality in the current period. SAB 108 requires registrants to evaluate the materiality of identified adjusted errors using both of the follow methods: the "rollover" approach, which quantifies errors based on the amount of the errors originating in the current-year income statement without considering the effects of correcting the portion of the current-year balance sheet for misstatements that originated in prior years, and the "iron curtain" approach, which quantifies an error based on the effects of correcting the misstatement existing in the balance sheet at the end of the current year, irrespective of when it arose. SAB 108 permits companies to adjust for the cumulative effect of errors that the company previously determined to be immaterial by adjusting the carrying amount of assets and liabilities as of the beginning of the current year, with an offsetting adjustment to the opening balance of retained earnings.

We adopted SAB 108 on November 1, 2006, and reduced our opening retained earnings and AOCI by $42 million and $35 million, respectively, and increased other liabilities by $77 million. These adjustments pertain to errors that arose between 2001 and 2006 when certain criteria were not met in order for hedge accounting to be achieved. We previously deemed these errors to be immaterial to our Consolidated Financial Statements using the rollover method.

Future accounting changes

Guidance on accounting for income taxes

FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109* (FIN 48), on July 13, 2006, and its related Staff Position FIN 48-1, *Definition of Settlement in FASB Interpretation No. 48* (FSP FIN 48-1), on May 2, 2007. FIN 48 and FSP FIN 48-1 provide additional guidance on how to recognize, measure and disclose income tax benefits. The cumulative effect of applying the provisions of FIN 48 will be reported as an adjustment to the opening balance of retained earnings. FIN 48 became effective for us on November 1, 2007, and is not expected to materially impact our consolidated financial position and results of operations.

Accounting for deferred acquisition costs for insurance operations

On September 19, 2005, the Accounting Standards Executive Committee of the American Institute of Certified Public Accountants (AICPA) issued Statement of Position (SOP) 05-1, *Accounting by Insurance Enterprises for Deferred Acquisition Costs in Connection with Modifications or Exchanges of Insurance Contracts* (SOP 05-1). SOP 05-1 provides guidance on accounting for deferred acquisition costs on internal replacements of insurance and investment contracts other than those specifically described in FASB Statement No. 97, *Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses from the Sale of Investments*. SOP 05-1 defines an internal replacement as a modification in product benefits, features, rights or coverages that occurs by the exchange of a contract for a new contract, by amendment or endorsement, rider to a contract, or by the election of a feature or coverage within a contract. A replacement contract that is substantially

changed from the replaced contract is accounted for as an extinguishment of the replaced contract, resulting in the unamortized deferred acquisition costs, unearned revenue liabilities, and deferred sales inducement assets from extinguished contracts being expensed. This SOP became effective for us on November 1, 2007 on a prospective basis, and is not expected to materially impact our consolidated financial position and results of operations.

Guidance for written loan commitments recorded at fair value through earnings
On November 5, 2007, the SEC issued Staff Accounting Bulletin No. 109, *Written Loan Commitments Recorded at Fair Value Through Earnings* (SAB 109). It requires that the expected net future cash flows related to the associated servicing of the loan should be included in the measurement of all written loan commitments that are accounted for at fair value through earnings. In addition, internally developed intangible assets should not be recorded as part of the fair value of a derivative loan commitment. SAB 109 is effective for us on February 1, 2008. We are currently assessing the impact that this SAB will have on our consolidated financial position and results of operations.

Framework on fair value measurement
On September 15, 2006, FASB issued FASB Statement No. 157, *Fair Value Measurements* (FAS 157), which establishes a framework for measuring fair value in U.S. GAAP, and is applicable to other accounting pronouncements where fair value is considered to be the relevant measurement attribute. FAS 157 also expands disclosures about fair value measurements and will be effective for us on November 1, 2008. We are currently assessing the impact of adopting this standard on our consolidated financial position and results of operations.

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

Offsetting of amounts related to certain contracts
On April 30, 2007, FASB issued a Staff Position FIN 39-1, *Amendment of FASB Interpretation No. 39* (FSP FIN 39-1), which amends certain aspects of FIN 39, *Offsetting of Amounts Related to Certain Contracts*, to permit a reporting entity to offset fair value amounts recognized for the right to reclaim cash collateral (a receivable) or the obligation to return cash collateral (a payable) against fair value amounts recognized for derivative instruments executed with the same counterparty under the same master netting agreement. FSP FIN 39-1 will be effective for us on November 1, 2008. We are currently assessing the impact of adopting this standard on our consolidated financial position and results of operations.

Income tax benefits of dividends on share-based payment awards
At the June 27, 2007 meeting, the FASB ratified the consensus reached by the Emerging Issues Task Force (EITF) on Issue 06-11, *Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards* (EITF 06-11), on realized tax benefits on dividend payments related to certain share-based payment arrangements which can be treated as deductible compensation expense for income tax purposes. Under EITF 06-11, a realized tax benefit from dividends or dividend equivalents that are charged to retained earnings and paid to employees for equity-classified non-vested equity shares, non-vested equity share units, and outstanding share options should be recognized as an increase to additional paid-in capital (APIC). Those tax benefits are considered excess tax benefits (“windfall”) under FAS 123(R). The EITF also reached a final consensus that if an entity’s estimate of forfeitures increases (resulting in compensation expense), the amount of associated tax benefits that are reclassified from APIC to the income statement should be limited to the entity’s pool of excess tax benefits. This EITF will be effective for us on November 1, 2008. We are currently assessing the impact of adopting this standard on our consolidated financial position and results of operations.

Note 32 Parent company information

The following table presents information regarding the legal entity of Royal Bank of Canada with its subsidiaries presented on an equity accounted basis:

Condensed Balance Sheets

	2007	2006
Assets		
Cash and due from banks	$ 2,992	$ 2,924
Interest-bearing deposits with banks	5,154	2,920
Securities	94,603	90,076
Investments in bank subsidiaries and associated corporations	12,151	10,345
Investments in other subsidiaries and associated corporations	22,347	21,830
Assets purchased under reverse repurchase agreements	10,609	9,221
Loans, net of allowances	196,414	166,528
Net balances due from bank subsidiaries	18,194	24,750
Net balances due from other subsidiaries	9,078	10,845
Other assets	86,502	54,545
	$ 458,044	$ 393,984
Liabilities and shareholders' equity		
Deposits	$ 306,123	$ 285,898
Other liabilities	121,065	78,699
	$ 427,188	$ 364,597
Subordinated debentures	$ 6,117	$ 6,966
Preferred share liabilities	300	298
Shareholders' equity	24,439	22,123
	$ 458,044	$ 393,984

Condensed Statements of Income

	2007	2006	2005
Interest income (1)	$ 17,563	$ 14,007	$ 11,616
Interest expense	12,940	10,351	6,867
Net interest income	4,623	3,656	4,749
Non-interest income (2)	4,408	3,935	3,412
Total revenue	9,031	7,591	8,161
Provision for credit losses	702	410	392
Non-interest expense	5,905	5,720	6,001
Business realignment charges	–	2	44
Income from continuing operations before income taxes	2,424	1,459	1,724
Income taxes	454	424	528
Net income before equity in undistributed income of subsidiaries	1,970	1,035	1,196
Equity in undistributed income of subsidiaries (3)	3,522	3,693	2,191
Net income	$ 5,492	$ 4,728	$ 3,387

(1) Includes dividend income from investments in subsidiaries and associated corporations of $420 million, $17 million and $20 million for 2007, 2006 and 2005, respectively.
(2) Includes income from associated corporations of $4 million, $8 million and $49 million for 2007, 2006 and 2005, respectively.
(3) Includes net loss from discontinued operations related to RBC Mortgage of $29 million and $50 million for 2006 and 2005, respectively. Refer to Note 11.

Condensed Statements of Cash Flows

	2007	2006	2005
Cash flows from operating activities			
Net income	$ 5,492	$ 4,728	$ 3,387
Adjustments to determine net cash from (used in) operating activities:			
Change in undistributed earnings of subsidiaries	(3,522)	(3,693)	(2,191)
Other operating activities, net	11,100	(7,397)	(17,184)
Net cash from (used in) operating activities	13,070	(6,362)	(15,988)
Cash flows from investing activities			
Change in interest-bearing deposits with banks	(2,234)	(1,192)	1,878
Change in loans, net of loan securitizations	(38,896)	(23,417)	(23,439)
Proceeds from loan securitizations	6,113	5,963	3,213
Proceeds from sale of available-for-sale securities	2,376	–	–
Proceeds from sale of investment securities	–	11,233	17,149
Proceeds from maturity of available-for-sale securities	4,891	–	–
Proceeds from maturity of investment securities	–	18,195	7,434
Purchase of available-for-sale securities	(10,365)	–	–
Purchase of investment securities	–	(25,445)	(16,374)
Net acquisitions of premises and equipment	(481)	(401)	(310)
Change in assets purchased under reverse repurchase agreements and securities borrowed	(1,388)	(388)	516
Net cash from (used in) investments in subsidiaries	(2,101)	(946)	(326)
Change in net funding provided to subsidiaries	8,062	(8,734)	(13,639)
Net cash used in investing activities	(34,023)	(25,132)	(23,898)
Cash flows from financing activities			
Change in deposits	20,225	28,989	36,542
Issue of subordinated debentures	87	–	800
Repayment of subordinated debentures	(989)	(953)	(786)
Issue of preferred shares	1,150	600	300
Redemption of preferred shares for cancellation	(150)	(250)	(132)
Issuance costs	(23)	(6)	(3)
Issue of common shares	155	116	198
Purchase of common shares for cancellation	(646)	(844)	(226)
Sale of treasury shares	208	244	179
Purchase of treasury shares	(133)	(208)	(49)
Dividends paid	(2,278)	(1,807)	(1,469)
Change in obligations related to assets sold under repurchase agreements and securities loaned	(553)	3,955	1,137
Change in obligations related to securities sold short	3,968	1,059	3,658
Net cash from financing activities	21,021	30,895	40,149
Net change in cash and due from banks	68	(599)	263
Cash and due from banks at beginning of year	2,924	3,523	3,260
Cash and due from banks at end of year	$ 2,992	$ 2,924	$ 3,523
Supplemental disclosure of cash flow information			
Amount of interest paid in year	$ 13,061	$ 8,971	$ 6,540
Amount of income taxes (recovered) paid in year	$ (165)	$ 656	$ 1,106