Consolidated Financial Statements

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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 independent directors. 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, December 4, 2008

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, 2008 and 2007 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, 2008. 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.

We conducted our audits in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). 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, 2008 and 2007 and the results of its operations and its cash flows for each of the three years in the period ended October 31, 2008 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, 2008 based on the criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated December 4, 2008 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
December 4, 2008

Comments by Independent Registered Chartered Accountants on Canada-United States of America Reporting Difference

The standards of the Public Company Accounting Oversight Board (United States) require the addition of an explanatory paragraph (following the opinion paragraph) when there is a change in accounting principles that has a material effect on the comparability of the Bank's financial statements, such as the changes described in Notes 1, 2, 3, 7, and 31 to the consolidated financial statements. Our report to the shareholders dated December 4, 2008, is expressed in accordance with Canadian reporting standards which do not require a reference to such a change in accounting principles in the auditors' report when the change is properly accounted for and adequately disclosed in the financial statements.

Deloitte & Touche LLP
Independent Registered Chartered Accountants
Licensed Public Accountants

Toronto, Canada
December 4, 2008

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, in reasonable detail, accurately and fairly reflect 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, 2008, based on the criteria set forth in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that assessment, management concluded that, as of October 31, 2008, RBC's internal control over financial reporting is effective based on the criteria established in the Internal Control – Integrated Framework. Also, management determined that there were no material weaknesses in RBC's internal control over financial reporting as of October 31, 2008.

RBC's internal control over financial reporting as of October 31, 2008 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, 2008, 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, December 4, 2008

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, 2008 based on the 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, 2008 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, 2008 of the Bank and our report dated December 4, 2008 expressed an unqualified opinion on those consolidated financial statements.

Deloitte & Touche LLP
Independent Registered Chartered Accountants
Licensed Public Accountants

Toronto, Canada
December 4, 2008

Consolidated Balance Sheets

As at October 31 (C$ millions)	2008	2007
Assets		
Cash and due from banks	$ 11,086	$ 4,226
Interest-bearing deposits with banks	20,041	11,881
Securities (Note 3)		
Trading	122,508	147,485
Available-for-sale	48,626	30,770
	171,134	178,255
Assets purchased under reverse repurchase agreements and securities borrowed	44,818	64,313
Loans (Notes 4 and 5)		
Retail	195,455	169,462
Wholesale	96,300	69,967
	291,755	239,429
Allowance for loan losses	(2,215)	(1,493)
	289,540	237,936
Other		
Customers' liability under acceptances	11,285	11,786
Derivatives (Note 7)	136,134	66,585
Premises and equipment, net (Note 8)	3,260	2,131
Goodwill (Note 10)	9,977	4,752
Other intangibles (Note 10)	1,253	628
Other assets (Note 12)	25,331	17,853
	187,240	103,735
	$ 723,859	$ 600,346
Liabilities and shareholders' equity		
Deposits (Note 13)		
Personal	$ 139,036	$ 116,557
Business and government	269,994	219,886
Bank	29,545	28,762
	438,575	365,205
Other		
Acceptances	11,285	11,786
Obligations related to securities sold short	27,507	44,689
Obligations related to assets sold under repurchase agreements and securities loaned	32,053	37,033
Derivatives (Note 7)	128,705	72,010
Insurance claims and policy benefit liabilities (Note 14)	7,385	7,283
Other liabilities (Note 15)	35,689	28,483
	242,624	201,284
Subordinated debentures (Note 16)	8,131	6,235
Trust capital securities (Note 17)	1,400	1,400
Preferred share liabilities (Note 18)	–	300
Non-controlling interest in subsidiaries (Note 19)	2,371	1,483
Shareholders' equity (Note 18)		
Preferred shares	2,663	2,050
Common shares (shares issued – 1,341,260,229 and 1,276,260,033)	10,384	7,300
Contributed surplus	242	235
Treasury shares – preferred (shares held – 259,700 and 248,800)	(5)	(6)
– common (shares held – 2,258,047 and 2,444,320)	(104)	(101)
Retained earnings	19,936	18,167
Accumulated other comprehensive income (loss)	(2,358)	(3,206)
	30,758	24,439
	$ 723,859	$ 600,346

Gordon M. Nixon
President and Chief Executive Officer

Victor L. Young
Director

Consolidated Statements of Income

For the year ended October 31 (C$ millions)	2008	2007	2006
Interest income			
Loans	$ 14,983	$ 14,724	$ 12,708
Securities	6,974	7,665	6,189
Assets purchased under reverse repurchase agreements and securities borrowed	2,889	3,620	2,827
Deposits with banks	498	538	480
	25,344	26,547	22,204
Interest expense			
Deposits	12,158	13,770	10,708
Other liabilities	3,472	4,737	4,281
Subordinated debentures	354	338	419
	15,984	18,845	15,408
Net interest income	9,360	7,702	6,796
Non-interest income			
Insurance premiums, investment and fee income	2,609	3,152	3,348
Trading revenue	(408)	1,999	2,574
Investment management and custodial fees	1,759	1,579	1,301
Mutual fund revenue	1,561	1,473	1,242
Securities brokerage commissions	1,377	1,353	1,243
Service charges	1,367	1,303	1,216
Underwriting and other advisory fees	875	1,217	1,024
Foreign exchange revenue, other than trading	646	533	438
Card service revenue	648	491	496
Credit fees	415	293	241
Securitization revenue (Note 5)	461	261	257
Net (loss) gain on available-for-sale securities (Note 3)	(617)	63	–
Net gain on investment securities	–	–	88
Other	1,529	1,043	373
Non-interest income	12,222	14,760	13,841
Total revenue	21,582	22,462	20,637
Provision for credit losses (Note 4)	1,595	791	429
Insurance policyholder benefits, claims and acquisition expense	1,631	2,173	2,509
Non-interest expense			
Human resources (Notes 20 and 21)	7,779	7,860	7,268
Equipment	1,155	1,009	957
Occupancy	926	839	792
Communications	749	723	687
Professional fees	562	530	546
Outsourced item processing	341	308	298
Amortization of other intangibles (Note 10)	135	96	76
Other	704	1,108	871
	12,351	12,473	11,495
Income from continuing operations before income taxes	6,005	7,025	6,204
Income taxes (Note 23)	1,369	1,392	1,403
Net income before non-controlling interest	4,636	5,633	4,801
Non-controlling interest in net income of subsidiaries	81	141	44
Net income from continuing operations	4,555	5,492	4,757
Net loss from discontinued operations	–	–	(29)
Net income	$ 4,555	$ 5,492	$ 4,728
Preferred dividends (Note 18)	(101)	(88)	(60)
Net income available to common shareholders	$ 4,454	$ 5,404	$ 4,668
Average number of common shares (in thousands) (Note 24)	1,305,706	1,273,185	1,279,956
Basic earnings per share (in dollars)	$ 3.41	$ 4.24	$ 3.65
Basic earnings per share from continuing operations (in dollars)	$ 3.41	$ 4.24	$ 3.67
Basic earnings (loss) per share from discontinued operations (in dollars)	$ –	$ –	$ (.02)
Average number of diluted common shares (in thousands) (Note 24)	1,319,744	1,289,314	1,299,785
Diluted earnings per share (in dollars)	$ 3.38	$ 4.19	$ 3.59
Diluted earnings per share from continuing operations (in dollars)	$ 3.38	$ 4.19	$ 3.61
Diluted earnings (loss) per share from discontinued operations (in dollars)	$ –	$ –	$ (.02)
Dividends per share (in dollars)	$ 2.00	$ 1.82	$ 1.44

Consolidated Statements of Comprehensive Income

For the year ended October 31 (C$ millions)	2008	2007	2006
Comprehensive income			
Net income	$ 4,555	$ 5,492	$ 4,728
Other comprehensive income, net of taxes			
Net change in unrealized (losses) gains on available-for-sale securities			
Net unrealized losses on available-for-sale securities	(1,376)	(93)	–
Reclassification of losses on available-for-sale securities to income	373	28	–
	(1,003)	(65)	–
Foreign currency translation adjustments			
Unrealized foreign currency translation gains (losses)	5,080	(2,965)	(501)
Reclassification of (gains) losses on foreign currency translation to income	(3)	(42)	2
Net foreign currency translation (losses) gains from hedging activities	(2,672)	1,804	269
	2,405	(1,203)	(230)
Net change in cash flow hedges			
Net (losses) gains on derivatives designated as cash flow hedges	(603)	80	–
Reclassification of losses on derivatives designated as cash flow hedges to income	49	31	–
	(554)	111	–
Other comprehensive income (loss)	848	(1,157)	(230)
Total comprehensive income	$ 5,403	$ 4,335	$ 4,498

Consolidated Statements of Changes in Shareholders' Equity

For the year ended October 31 (C$ millions)	2008	2007	2006
Preferred shares (Note 18)			
Balance at beginning of year	$ 2,050	$ 1,050	$ 700
Issued	613	1,150	600
Redeemed for cancellation	–	(150)	(250)
Balance at end of year	2,663	2,050	1,050
Common shares (Note 18)			
Balance at beginning of year	7,300	7,196	7,170
Issued	3,090	170	127
Purchased for cancellation	(6)	(66)	(101)
Balance at end of year	10,384	7,300	7,196
Contributed surplus			
Balance at beginning of year	235	292	265
Renounced stock appreciation rights	(5)	(6)	(2)
Stock-based compensation awards	14	(46)	(18)
Other	(2)	(5)	47
Balance at end of year	242	235	292
Treasury shares – preferred (Note 18)			
Balance at beginning of year	(6)	(2)	(2)
Sales	23	33	51
Purchases	(22)	(37)	(51)
Balance at end of year	(5)	(6)	(2)
Treasury shares – common (Note 18)			
Balance at beginning of year	(101)	(180)	(216)
Sales	51	175	193
Purchases	(54)	(96)	(157)
Balance at end of year	(104)	(101)	(180)
Retained earnings			
Balance at beginning of year	18,167	15,771	13,704
Transition adjustment – Financial instruments (1)	–	(86)	–
Net income	4,555	5,492	4,728
Preferred share dividends (Note 18)	(101)	(88)	(60)
Common share dividends (Note 18)	(2,624)	(2,321)	(1,847)
Premium paid on common shares purchased for cancellation	(49)	(580)	(743)
Issuance costs and other	(12)	(21)	(11)
Balance at end of year	19,936	18,167	15,771
Accumulated other comprehensive income (loss)			
Transition adjustment – Financial instruments (1)	(45)	(45)	–
Unrealized gains and losses on available-for-sale securities	(1,068)	(65)	–
Unrealized foreign currency translation gains and losses, net of hedging activities	(802)	(3,207)	(2,004)
Gains and losses on derivatives designated as cash flow hedges	(443)	111	–
Balance at end of year	(2,358)	(3,206)	(2,004)
Retained earnings and Accumulated other comprehensive income	17,578	14,961	13,767
Shareholders' equity at end of year	$ 30,758	$ 24,439	$ 22,123

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

Consolidated Statements of Cash Flows

For the year ended October 31 (C$ millions)	2008	2007	2006
Cash flows from operating activities			
Net income	$ 4,555	$ 5,492	$ 4,757
Adjustments to determine net cash from (used in) operating activities			
Provision for credit losses	1,595	791	429
Depreciation	539	434	405
Business realignment payments	(11)	(38)	(74)
Future income taxes	(455)	(147)	144
Amortization of other intangibles	135	96	76
Gain on sale of premises and equipment	(17)	(16)	(16)
Gain on loan securitizations	(203)	(41)	(16)
Loss (gain) on sale of available-for-sale securities	1	(146)	–
Writedown of available-for-sale securities	631	66	–
Gain on sale of investment securities	–	–	(228)
Writedown of investment securities	–	–	25
Changes in operating assets and liabilities			
Insurance claims and policy benefit liabilities	102	(54)	220
Net change in accrued interest receivable and payable	164	(28)	217
Current income taxes	(2,705)	1,034	(203)
Derivative assets	(69,527)	(28,856)	1,105
Derivative liabilities	56,685	29,916	(498)
Trading securities	25,013	10,976	(21,341)
Net change in brokers and dealers receivable and payable	(552)	(317)	(1,017)
Other	(4,518)	3,341	1,713
Net cash from (used in) operating activities from continuing operations	11,432	22,503	(14,302)
Net cash from operating activities from discontinued operations	–	–	4
Net cash from (used in) operating activities	11,432	22,503	(14,298)
Cash flows from investing activities			
Change in interest-bearing deposits with banks	(8,160)	(1,379)	(5,265)
Change in loans, net of loan securitizations	(62,209)	(41,802)	(33,534)
Proceeds from loan securitizations	9,480	8,020	8,139
Proceeds from sale of available-for-sale securities	8,885	8,117	–
Proceeds from sale of investment securities	–	–	8,547
Proceeds from maturity of available-for-sale securities	14,804	15,350	–
Proceeds from maturity of investment securities	–	–	27,188
Purchases of available-for-sale securities	(24,864)	(22,012)	–
Purchases of investment securities	–	–	(31,976)
Net acquisitions of premises and equipment	(1,265)	(706)	(511)
Change in assets purchased under reverse repurchase agreements and securities borrowed	19,650	(4,935)	(16,405)
Net cash used in acquisitions	(974)	(373)	(256)
Net cash (used in) investing activities from continuing operations	(44,653)	(39,720)	(44,073)
Net cash from investing activities from discontinued operations	–	–	140
Net cash used in investing activities	(44,653)	(39,720)	(43,933)
Cash flows from financing activities			
Change in deposits	61,271	16,831	36,663
Issue of RBC Trust Capital Securities	500	–	–
Issue of RBC Trust Subordinated Notes	–	1,000	–
Issue of subordinated debentures	2,000	87	–
Repayment of subordinated debentures	(500)	(989)	(953)
Issue of preferred shares	613	1,150	600
Redemption of preferred shares for cancellation	(300)	(150)	(250)
Issuance costs	(11)	(23)	(6)
Issue of common shares	149	155	116
Purchase of common shares for cancellation	(55)	(646)	(844)
Sales of treasury shares	74	208	244
Purchase of treasury shares	(76)	(133)	(208)
Dividends paid	(2,688)	(2,278)	(1,807)
Dividends/distributions paid by subsidiaries to non-controlling interests	(33)	(59)	(47)
Change in obligations related to assets sold under repurchase agreements and securities loaned	(6,172)	(4,070)	17,722
Change in obligations related to securities sold short	(17,192)	6,436	5,861
Change in short-term borrowings of subsidiaries	1,618	(145)	620
Net cash from financing activities from continuing operations	39,198	17,374	57,711
Net cash from financing activities	39,198	17,374	57,711
Effect of exchange rate changes on cash and due from banks	883	(332)	(80)
Net change in cash and due from banks	6,860	(175)	(600)
Cash and due from banks at beginning of year	4,226	4,401	5,001
Cash and due from banks at end of year	$ 11,086	$ 4,226	$ 4,401
Supplemental disclosure of cash flow information			
Amount of interest paid in year	$ 15,967	$ 18,494	$ 14,678
Amount of income taxes paid in year	$ 2,025	$ 1,352	$ 1,682

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 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

Capital Disclosures and Financial Instruments – Disclosures and Presentation

On November 1, 2007, we adopted three new presentation and disclosure standards that were issued by the Canadian Institute of Chartered Accountants (CICA): Handbook Section 1535, *Capital Disclosures* (Section 1535), Handbook Section 3862, *Financial Instruments – Disclosures* (Section 3862), and Handbook Section 3863, *Financial Instruments – Presentation* (Section 3863).

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 substantially replaced Handbook Section 3861, *Financial Instruments – Disclosure and Presentation*, revised and enhanced its disclosure requirements and continued 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.

In October 2008, the CICA issued amendments to Handbook Section 3855, *Financial Instruments – Recognition and Measurement*, Section 3861, *Financial Instruments – Disclosure and Presentation* and Section 3862, *Financial Instruments – Disclosure*, permitting, under certain circumstances, financial assets to be reclassified from held-for-trading to available-for-sale or from available-for-sale to loans and receivables. Financial assets that were classified as held-for-trading using the fair value option cannot be reclassified. These amendments were effective for us on August 1, 2008, and details of the securities reclassified are presented in Note 3.

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 Other comprehensive income (OCI) on an after-tax basis. 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 and 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 the difference between the fair value and its amortized cost, including changes in foreign exchange rates, recognized in OCI, net of tax. Purchase premiums or discounts on available-for-sale debt 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. 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.

At each reporting date, and more frequently when conditions warrant, we evaluate our available-for-sale and held-to-maturity securities with unrealized losses to determine whether those unrealized losses are other-than-temporary. This determination is based on consideration of several factors including: (i) the length of time and extent to which the fair value has been less than its amortized cost; (ii) the severity of the impairment; (iii) the cause of the impairment and the financial condition and near-term prospects of the issuer; and (iv) our intent and ability to hold the investment for a period of time sufficient to allow for any anticipated recovery of fair value. If our assessment indicates that the impairment in value is other-than-temporary, or we do not have the intent or ability to hold the security until its fair value recovers, the security is written down to its current fair value, and a loss is recognized in net income.

Gains and losses realized on disposal of available-for-sale securities and losses related to other-than-temporary impairment in value of available-for-sale securities are included in Non-interest income as Net gain or losses on available-for-sale securities.

We account for all of 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.

Fair value option

A financial instrument can be designated as held-for-trading (the fair value option) on its initial recognition, 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 reliably measurable fair value and satisfy one of the following criteria established by OSFI: (i) it 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.

Financial instruments designated as held-for-trading using the fair value option are recorded at fair value and any gain or loss arising due to changes in fair value are included in net income. These instruments cannot be reclassified out of held-for-trading category while they are held or issued.

Transaction costs

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.

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 expense 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.

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.

Loans stated at amortized costs 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 collectability 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 for estimated losses that exist on the remaining portfolio, and on other factors including the composition and credit quality of the portfolio, and changes in economic and business conditions. The allowance for credit losses consists of specific allowances and the general allowance.

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.

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, equity swaps 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. An embedded derivative is a component of a hybrid instrument that includes a non-derivative host contract, with the effect that some of the cash flows of the hybrid instrument vary in a way similar to a stand-alone derivative. When an embedded derivative is separated, the host contract is accounted for based on GAAP applicable to contract of that type without the embedded derivative. All embedded derivatives are presented on a combined basis with the host contracts although they are separated for measurement purposes.

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. Market and credit valuation adjustments, 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.

To determine the fair value adjustments on RBC debt designated as held-for-trading, we calculate the present value of the instruments based on the contractual cash flows over the term of the arrangement by using RBC's effective funding rate at the beginning and end of the period with the unrealized change in present value recorded in Net income.

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 7 for the fair value of the derivatives and non-derivative 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 Accumulated other comprehensive income (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.

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.

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 3 years on a straight-line basis. For the majority of the non-principal and supplemental defined benefit pension plans, the expected return on plan assets is calculated based on fair value of assets.

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

Our defined benefit pension expense, which is included in Non-interest expense – 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 plans. 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 common 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 held-for-trading securities or available-for-sale securities, based on management's intent. Retained interests are classified as available-for-sale or as held-for-trading using the fair value option. Both MBS and the retained interests are subject to periodic impairment review.

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 and a portion of property and casualty contracts. These 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.

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 and finite lived intangible assets, 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.

Changes in financial statement presentation

Effective November 1, 2007, OSFI adopted new guidelines based on "International Convergence of Capital Measurement and Capital Standards: A Revised Framework – Comprehensive Version (June 2006)," known as Basel II, which introduced several changes from the predecessor framework, commonly referred to as Basel I. These changes have impacted the basis of preparation and presentation of certain tables in these notes.

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 financial position or results of operations.

Future accounting changes

Goodwill and Intangible Assets

The CICA issued a new accounting standard, *Section 3064, Goodwill and Intangible Assets*, which clarifies that costs can be deferred only when they relate to an item that meets the definition of an asset and, as a result, start-up costs must be expensed as incurred. This standard, which is effective for us beginning November 1, 2008, is not expected to materially impact our consolidated financial position or results of operations.

International Financial Reporting Standards

The CICA has announced that Canadian GAAP for publicly accountable enterprises companies will be replaced with International Financial Reporting Standards (IFRS) over a transition period expected to end in 2011. We will begin reporting our financial statements in accordance with IFRS on November 1, 2011. We have begun planning our transition to IFRS but the impact on our consolidated financial position and results of operations has not yet been determined.

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. 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. This includes valuation adjustments for liquidity for financial instruments that are not quoted in an active market when we believe that the amount realized on sale may be less than the estimated fair value due to insufficient liquidity in the market over a short period of time. It also includes valuation adjustments calculated when market prices are not observable due to insufficient trading volume or a lack of recent trades in a less active or inactive market.

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 in order to ascertain their fair values. 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 revised as appropriate. Changes to credit valuation adjustments are recorded in current period income.

A net gain of $12 million, representing the change in fair values estimated based on valuation techniques using input parameters that are not supported by observable market data, was recognized in Net income for the year ended October 31, 2008 (2007 – $8 million).

The unrealized gain or loss at inception for financial instruments is recognized in Net income only if the fair value of the instrument is (i) evidenced by a quoted market price in an active market or observable current market transactions that are substantially the same, (ii) based on a valuation technique that uses observable market inputs, or (iii) the risks associated with the derivative contract are fully offset by another contract(s) with a third party(ies). Unrealized gain or loss at inception is the difference between the transaction price and its fair value on the trade date. For financial instruments where the fair value is not evidenced by the above-mentioned criteria or the risks associated with the original contract are not fully transferred to a third party, the unrealized gain or loss at inception is deferred. The deferred gain or loss is recognized when (i) unobservable market inputs become observable to support the fair value of the transaction, (ii) the risks associated with the original contract are substantially offset by another contract(s) with a third party(ies), (iii) the gain or loss is realized through receipt or payment of cash, or (iv) the transaction is terminated early or on maturity.

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

The following table summarizes changes in the aggregate amount of deferred unrealized gains at inception for financial instruments.

	2008	2007
Deferred unrealized gains not yet recognized in net income, as at the beginning of the year	$ 186	$ 119
Add: Deferred unrealized gains arising during the year	24	75
Less: Deferred gains reclassified to net income during the year	12	8
Deferred unrealized gains, as at the end of the year	$ 198	$ 186

The deferred unrealized gains at inception primarily arise in equity structured notes, structured credit and interest rate derivatives, and bank-owned life insurance policies stable value contracts.

Carrying value and fair value of selected financial instruments

The following tables provide a comparison of the carrying and fair values for each classification of financial instruments:

	2008							
	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 (1)	Total carrying amount	Total fair value
Financial assets								
Securities								
Trading	$ 104,414	$ 18,094	$ –	$ –	$ –	$ –	$ 122,508	$ 122,508
Available-for-sale (2)	–	–	47,039	–	–	1,587	48,626	48,626
Total securities	$ 104,414	$ 18,094	$ 47,039	$ –	$ –	$ 1,587	$ 171,134	$ 171,134
Assets purchased under reverse repurchase agreements and securities borrowed	$ –	$ 15,607	$ –	$ 29,211	$ 29,211	$ –	$ 44,818	$ 44,818
Loans								
Retail	$ –	$ –	$ –	$ 194,448	$ 198,127	$ –	$ 194,448	$ 198,127
Wholesale	–	7,137	–	87,955	88,615	–	95,092	95,752
Total loans	$ –	$ 7,137	$ –	$ 282,403	$ 286,742	$ –	$ 289,540	$ 293,879
Other								
Derivatives (3)	$ 136,134	$ –	$ –	$ –	$ –	$ –	$ 136,134	$ 136,134
Other assets	–	136	–	30,903	30,903	–	31,039	31,039
Financial liabilities								
Deposits								
Personal	$ –	$ 2,678	$ –	$ 136,358	$ 137,181	$ –	$ 139,036	$ 139,859
Business and government (4)	–	67,462	–	202,532	202,564	–	269,994	270,026
Bank (5)	–	7,268	–	22,277	22,277	–	29,545	29,545
Total deposits	$ –	$ 77,408	$ –	$ 361,167	$ 362,022	$ –	$ 438,575	$ 439,430
Other								
Obligations related to securities sold short	$ 27,507	$ –	$ –	$ –	$ –	$ –	$ 27,507	$ 27,507
Obligations related to assets sold under repurchase agreements and securities loaned	–	17,870	–	14,183	14,183	–	32,053	32,053
Derivatives	128,705	–	–	–	–	–	128,705	128,705
Other liabilities	–	–	–	42,271	42,458	–	42,271	42,458
Subordinated debentures	–	81	–	8,050	7,605	–	8,131	7,686
Trust capital securities	–	–	–	1,400	1,448	–	1,400	1,448
Preferred share liabilities	–	–	–	–	–	–	–	–

(1) Includes the nominal value of our held-to-maturity investments which are carried at amortized cost.
(2) Loan substitutes are classified as available-for-sale securities. Also includes the securities reclassified from trading to available-for-sale on August 1, 2008. Refer to Note 3.
(3) Includes $2 million of bank-owned life insurance policies stable value contracts.
(4) Business and government includes deposits from regulated deposit-taking institutions other than regulated banks.
(5) Bank refers to regulated banks.

Carrying value and fair value of selected financial instruments (continued)

	2007							
	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 (1)	Total carrying amount	Total fair value
Financial assets								
Securities								
Trading	$ 128,647	$ 18,838	$ –	$ –	$ –	$ –	$ 147,485	$ 147,485
Available-for-sale (2)	–	–	29,572	–	–	1,198	30,770	30,770
Total securities	$ 128,647	$ 18,838	$ 29,572	$ –	$ –	$ 1,198	$ 178,255	$ 178,255
Assets purchased under reverse repurchase agreements and securities borrowed	$ –	$ 25,522	$ –	$ 38,791	$ 38,791	$ –	$ 64,313	$ 64,313
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
Other								
Derivatives (3)	$ 66,585	$ –	$ –	$ –	$ –	$ –	$ 66,585	$ 66,585
Other assets	–	164	–	24,653	24,653	–	24,817	24,817
Financial liabilities								
Deposits								
Personal	$ –	$ 851	$ –	$ 115,706	$ 115,609	$ –	$ 116,557	$ 116,460
Business and government (4)	1,639	56,751	–	161,496	161,217	–	219,886	219,607
Bank (5)	–	5,668	–	23,094	23,095	–	28,762	28,763
Total deposits	$ 1,639	$ 63,270	$ –	$ 300,296	$ 299,921	$ –	$ 365,205	$ 364,830
Other								
Obligations related to securities sold short	$ 44,689	$ –	$ –	$ –	$ –	$ –	$ 44,689	$ 44,689
Obligations related to assets sold under repurchase agreements and securities loaned	–	24,086	–	12,947	12,947	–	37,033	37,033
Derivatives	72,010	–	–	–	–	–	72,010	72,010
Other liabilities	–	–	–	36,232	36,262	–	36,232	36,262
Subordinated debentures	–	77	–	6,158	6,427	–	6,235	6,504
Trust capital securities	–	–	–	1,400	1,476	–	1,400	1,476
Preferred share liabilities	–	–	–	300	300	–	300	300

(1) Includes the nominal value of our held-to-maturity investments which are carried at amortized cost.
(2) Loan substitutes are classified as available-for-sale securities.
(3) Includes $71 million of bank-owned life insurance policies stable value contracts.
(4) Business and government includes deposits from regulated deposit-taking institutions other than regulated banks.
(5) Bank refers to regulated banks.

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. We measure the change in the fair value of loans and receivables designated as held-for-trading due to changes in credit risk as the difference between the total change in the fair value of the instrument during the period and the change in fair value calculated using the appropriate risk-free yield curves.

	2008						
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, 2007 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, 2007	Cumulative change in fair value of credit derivatives or similar instruments (1)
Interest-bearing deposits with banks	$ 11,211	$ 11,211	$ –	$ –	$ –	$ –	$ –
Assets purchased under reverse repurchase agreements and securities borrowed	15,607	15,607	–	–	–	–	–
Loans – Wholesale	7,137	7,137	(241)	(288)	817	38	47
Total	$ 33,955	$ 33,955	$ (241)	$ (288)	$ 817	$ 38	$ 47

(1) The cumulative change is measured from the later of November 1, 2006, or the initial recognition of the credit derivative or similar instruments.

	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 (1)
Interest-bearing deposits with banks	$ 4,821	$ 4,821	$ –	$ –	$ –	$ –	$ –
Assets purchased under reverse repurchase agreements and securities borrowed	25,522	25,522	–	–	–	–	–
Loans – Wholesale	3,235	3,164	(42)	(21)	1,106	18	–
Total	$ 33,578	$ 33,507	$ (42)	$ (21)	$ 1,106	$ 18	$ –

(1) The cumulative change is measured from the later of November 1, 2006, or the initial recognition of the credit derivative or similar instruments.

The following table presents the changes in the fair value of our financial liabilities designated as held-for-trading using the fair value option as well as their contractual maturity and carrying amounts. In order to determine the change during a year in the fair value of a financial liability that we have designated as held-for-trading, we calculate the present value of the instrument's contractual cash flows using rates as at the beginning of the year: first, using an observed discount rate that reflects our credit spread and, again, using a rate that excludes our credit spread. We then compare the difference between those values to the difference between the same calculations using rates at the end of the year.

	2008				
Liabilities designated as held-for-trading	Contractual maturity amount	Carrying amount	Difference between carrying amount and contractual maturity amount	Change in fair value since November 1, 2007 attributable to changes in RBC credit spread	Cumulative change in fair value (1)
Term deposits					
Personal	$ 2,724	$ 2,678	$ (46)	$ (40)	$ (46)
Business and government (2)	67,541	67,462	(79)	(449)	(524)
Bank (3)	7,265	7,268	3	(3)	(4)
Total term deposits	$ 77,530	$ 77,408	$ (122)	$ (492)	$ (574)
Obligations related to assets sold under repurchase agreements and securities loaned	$ 17,877	$ 17,870	$ (7)	$ –	$ –
Subordinated debentures	122	81	(41)	(41)	(48)
Total	$ 95,529	$ 95,359	$ (170)	$ (533)	$ (622)

(1) The cumulative change attributable to changes in our credit spread is measured from the later of November 1, 2006, or the initial recognition of the liabilities designated as held-for-trading.
(2) Business and government includes deposits from regulated deposit-taking institutions other than regulated banks.
(3) Bank refers to regulated banks.

	2007			
Liabilities designated as held-for-trading	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 credit spread
Term deposits				
Personal	$ 890	$ 851	$ (39)	$ (6)
Business and government (1)	56,741	56,751	10	(74)
Bank (2)	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)

(1) Business and government includes deposits from regulated deposit-taking institutions other than regulated banks.
(2) Bank refers to regulated banks.

Note 3 Securities (1)

	Term to maturity (2)						2008	2007	2006
	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	$ 894	$ 3,492	$ 11,067	$ 1,833	$ 3,625	$ –	$ 20,911	$ 15,207	$ 13,937
U.S. government debt	624	1,252	1,159	957	4,736	–	8,728	6,603	10,523
Other OECD government debt (3)	29	458	840	839	322	–	2,488	4,236	6,494
Mortgage-backed securities	3	27	208	323	1,915	–	2,476	4,408	1,518
Asset-backed securities	600	383	1,239	1,458	871	–	4,551	9,387	6,784
Corporate debt and other debt									
Bankers' acceptances	12	1	–	–	–	–	13	374	766
Certificates of deposit	269	1,771	134	–	–	–	2,174	4,712	5,245
Other	4,760	8,629	14,843	5,737	4,405	689	39,063	42,438	44,139
Equities	–	–	–	–	–	42,104	42,104	60,120	57,831
	7,191	16,013	29,490	11,147	15,874	42,793	122,508	147,485	147,237
Available-for-sale securities (1)									
Canadian government debt									
Federal									
Amortized cost	1,720	137	11,128	125	13	–	13,123	7,742	9,496
Fair value	1,723	138	11,543	128	12	–	13,544	7,769	9,458
Yield (4)	3.9%	3.2%	3.5%	4.3%	4.9%	–	3.6%	4.5%	4.0%
Provincial and municipal									
Amortized cost	160	44	402	68	–	–	674	279	1,687
Fair value	160	44	407	67	–	–	678	278	1,935
Yield (4)	4.5%	4.2%	4.9%	4.6%	–	–	4.8%	4.2%	5.4%
U.S. state, municipal and agencies debt (5)									
Amortized cost	422	976	1,455	305	6,072	–	9,230	4,407	4,491
Fair value	422	974	1,443	298	5,753	–	8,890	4,370	4,415
Yield (4)	3.8%	2.6%	4.1%	4.1%	4.0%	–	3.8%	4.2%	4.4%
Other OECD government debt (3)									
Amortized cost	417	662	86	87	15	–	1,267	819	758
Fair value	417	662	88	88	15	–	1,270	818	761
Yield (4)	1.0%	.9%	3.9%	5.1%	5.3%	–	1.5%	1.4%	2.8%
Mortgage-backed securities									
Amortized cost	–	–	69	31	4,178	–	4,278	3,143	4,277
Fair value	–	–	60	30	3,458	–	3,548	3,096	4,248
Yield (4)	–	–	6.2%	5.4%	5.6%	–	5.6%	6.3%	5.4%
Asset-backed securities									
Amortized cost	306	147	427	1,855	2,457	–	5,192	1,179	1,058
Fair value	279	144	417	1,780	2,176	–	4,796	1,114	1,067
Yield (4)	5.1%	8.5%	5.8%	4.1%	4.3%	–	4.5%	5.9%	5.6%
Corporate debt and other debt									
Amortized cost	2,019	4,632	3,393	1,479	1,449	130	13,102	9,850	12,672
Fair value	2,028	4,656	3,419	1,364	1,188	130	12,785	9,794	12,868
Yield (4)	5.5%	5.3%	5.1%	7.4%	5.2%	–	5.5%	4.8%	4.7%
Equities (6)									
Cost	–	–	–	–	–	3,057	3,057	2,715	2,537
Fair value	–	–	–	–	–	2,683	2,683	2,874	2,592
Loan substitute									
Cost	–	–	–	–	–	256	256	656	656
Fair value	–	–	–	–	–	227	227	652	658
Yield (4)	–	–	–	–	–	5.6%	5.6%	5.1%	4.8%
Amortized cost	5,044	6,598	16,960	3,950	14,184	3,443	50,179	30,790	37,632
Fair value	5,029	6,618	17,377	3,755	12,602	3,040	48,421	30,765	38,002
Held-to-maturity securities (1)									
Amortized cost	–	4	–	200	1	–	205	5	–
Fair value	–	4	–	200	1	–	205	5	–
Total carrying value of securities (1)	$ 12,220	$ 22,635	$ 46,867	$ 15,102	$ 28,477	$ 45,833	$171,134	$178,255	$184,869

(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 derived using the contractual interest rate and the carrying value at the end of the year for the respective securities.
(5) The 2006 balances include U.S. federal government debt with amortized cost and fair value of $536 million and $508 million, respectively.
(6) Includes the value of the shares received upon the Visa Inc. restructuring which are carried at cost. Refer to Note 28.

The latter months of 2008, particularly September and October, were marked by a high degree of uncertainty and volatility in the global financial markets. As a result of significant concern regarding the liquidity of financial institutions, certain governments have taken significant steps to stabilize the markets and restore public confidence in financial institutions including reducing interest rates, providing funding programs and guarantees, injecting capital into financial institutions; some financial institutions have also been nationalized. As a result of these rare circumstances, we have reclassified, as of August 1, 2008, the securities identified in the following table, from the held-for-trading category to available-for-sale in accordance with the CICA's amendments to Sections 3855, 3861 and 3862 as discussed in Note 1.

Reclassification of securities from held-for-trading securities to available-for-sale

Financial assets	Fair value as at August 1, 2008	Changes in fair value recognized in net income during the period from November 1, 2007 to July 31, 2008	Changes in fair value recognized in net income during 2007	Effective interest rate as at August 1, 2008	Estimated cash flows expected to be recovered as at August 1, 2008	Total carrying value and fair value as at October 31, 2008	Changes in fair value during the period from August 1, 2008 to October 31, 2008	Changes in fair value recognized in net income during the period from August 1, 2008 to October 31, 2008
U.S. state, municipal and agency debt	$ 3,996	$ (144)	$ (11)	3.6%	$ 4,116	$ 4,358	$ (211)	$ –
Mortgage-backed securities	513	(94)	–	7.9%	808	593	(76)	5
Asset-backed securities	1,234	(80)	–	3.7%	1,322	1,324	(121)	(5)
Corporate debt and other debt	567	(61)	–	3.9%	629	593	(70)	–
	$ 6,310	$ (379)	$ (11)		$ 6,875	$ 6,868	$ (478)	$ –

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

	2008				2007			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value (2)
Canadian government debt								
Federal	$ 13,123	$ 422	$ (1)	$ 13,544	$ 7,732	$ 34	$ (6)	$ 7,760
Provincial and municipal	674	5	(1)	678	279	–	(1)	278
U.S. state, municipal and agencies debt	9,230	16	(356)	8,890	3,582	14	(52)	3,544
Other OECD government debt	1,271	4	(1)	1,274	819	1	(2)	818
Mortgage-backed securities	4,280	4	(734)	3,550	3,345	4	(89)	3,260
Asset-backed securities	5,192	11	(407)	4,796	1,812	2	(29)	1,785
Corporate debt and other debt	13,301	136	(453)	12,984	9,855	45	(101)	9,799
Equities	3,057	4	(378)	2,683	2,715	191	(32)	2,874
Loan substitute securities	256	–	(29)	227	656	–	(4)	652
	$ 50,384	$ 602	$ (2,360)	$ 48,626	$ 30,795	$ 291	$ (316)	$ 30,770

(1) Includes $205 million (2007 – $5 million) held-to-maturity securities.
(2) The comparative fair values have been revised from those previously presented; these revisions have no impact on our Consolidated Balance Sheets.

Realized gains and losses on available-for-sale securities (1), (2)

	2008	2007	2006
Realized gains	$ 99	$ 204	$ 293
Realized losses and writedowns	(731)	(124)	(90)
Net (losses) gain on available-for-sale securities	$ (632)	$ 80	$ 203

(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) The following related to our insurance operations are included in the Insurance premiums, investment and fee income line on the Consolidated Statements of Income: Realized gains – 2008 – $1 million, 2007 – $17 million, and 2006 – $116 million; Realized losses and writedowns – 2008 – $16 million, 2007 – $nil, and 2006 – $1 million.

Fair value and unrealized losses position for available-for-sale securities

	2008					
	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	$ 126	$ 1	$ –	$ –	$ 126	$ 1
Provincial and municipal	236	1	–	–	236	1
U.S. state, municipal and agencies debt	6,546	321	270	35	6,816	356
Other OECD government debt	99	1	–	–	99	1
Mortgage-backed securities	2,128	348	996	386	3,124	734
Asset-backed securities	4,073	314	361	93	4,434	407
Corporate debt and other debt	3,360	294	633	159	3,993	453
Equities	970	217	347	161	1,317	378
Loan substitute securities	–	–	191	29	191	29
Total temporarily impaired securities	$ 17,538	$ 1,497	$ 2,798	$ 863	$ 20,336	$ 2,360

	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	$ 1,310	$ 2	$ 951	$ 4	$ 2,261	$ 6
Provincial and municipal	210	1	–	–	210	1
U.S. state, municipal and agencies debt	212	–	887	52	1,099	52
Other OECD government debt	47	2	–	–	47	2
Mortgage-backed securities	862	13	1,954	76	2,816	89
Asset-backed securities	853	5	347	24	1,200	29
Corporate debt and other debt	1,955	53	686	48	2,641	101
Equities	432	30	68	2	500	32
Loan substitute securities	216	4	–	–	216	4
Total temporarily impaired securities	$ 6,097	$ 110	$ 4,893	$ 206	$ 10,990	$ 316

Available-for-sale and held-to-maturity securities are assessed for impairment at each reporting date and more frequently when conditions warrant. Our impairment review is primarily based on the factors described in Note 1. Depending on the nature of the securities under review we apply specific methodology to assess whether it is probable that the amortized cost of the security would be recovered. These include cash flow projection models which incorporate actual and projected cash flows using a number of assumptions and inputs that are based on security-specific collateral. The inputs and assumptions used such as default, prepayment and recovery rates, are based on updated market data provided by a third-party vendor. We also consider internal and external ratings, subordination and other market and security-specific factors. We do a further review of the security, if the model predicts that it is probable that we will not be able to recover the entire principal and interest amount in order to assess whether a loss would ultimately be realized. We used this approach to assess our MBS and ABS portfolio and some of our complex instruments included in our corporate and other debt. As at October 31, 2008, our unrealized losses on available-for-sale and held-to-maturity securities were $2,360 million.

With respect to securities where, based on management's judgment, it was not probable that the amortized cost would be recovered, the securities were deemed to be other-than-temporarily impaired and were written down to their fair value. In addition, securities which management was not certain we would hold until maturity or that the value of the security would recover prior to its disposition were also deemed to be other-than-temporarily impaired and were written down to their fair value.

The majority of the $356 million unrealized loss on U.S. state, municipal and agencies debt securities related to U.S. agency MBS and U.S. ARS, including certain securities that were reclassified from held-for-trading. The issuing agencies are supported by the U.S. government and the unrealized losses on these securities largely reflect the liquidity concerns in the current market.

The MBS largely consist of U.S. Alt-A, U.S. non-agency MBS and $206 million of U.S. subprime securities. The U.S. Alt-A and the non-agency MBS are high quality super-senior tranches with credit support through subordination, overcollateralization, and excess spread. The unrealized losses of $734 million largely reflect the impact of increased market spreads related to higher risk and liquidity premiums, with little differentiation in the market between higher and lower quality tranches. As at October 31, 2008, all U.S. MBS were assessed for other-than-temporary impairment using a cash flow projection model and management consideration of other market and security-specific factors. The cash flow model incorporated actual cash flows on the MBS through the current period and then projected the remaining cash flows on the underlying mortgages, using a number of assumptions and inputs that were based on the security-specific collateral. The assumptions included default, prepayment and recovery rates, the latter being largely dependent upon forecasted house prices which were assessed at the municipal level. Where management concluded based on our assessment that the loss was other-than-temporary, the security was written down to its fair value.

ABS mainly comprised insured student loans including U.S. ARS that were reclassified to available-for-sale on August 1, 2008, CLOs, U.S. uninsured student loans and commercial MBS. The majority of these instruments are highly rated with significant credit support and experienced moderate price declines over the year resulting in $407 million of unrealized losses or 8% of the portfolio value. Corporate and other debt mainly includes corporate bonds, non-OECD government bonds and structured notes securities. The corporate bonds are well diversified across a number of names and sectors, with U.S. and global financial institutions being the largest concentration. The non-OECD government securities are primarily related to Caribbean countries where we have ongoing operations. The structured notes are predominately supported by high quality Canadian credit card loans. The net unrealized losses mainly reflected widening spreads on certain U.S. and global financial institutional securities. The unrealized losses on the ABS and corporate and other debt are primarily attributable to interest rate changes and widening credit spreads caused by the ongoing disruption in the financial markets, and the continual weakening of the U.S. housing market. However, based on the underlying credit of the issuers or the fact that some of these securities are overcollateralized, have excess spread to support the credit of the bonds, or are at least A-rated, we believe that the future cash flows will be sufficient to enable us to recover the amortized costs of these securities by their maturity dates.

Equity holdings are largely comprised of publicly traded equity and preferred shares of Canadian financial institutions. To a lesser extent, we also hold investments in other public, private and venture companies. A substantial portion of the $378 million unrealized losses related to publicly traded Canadian bank shares we hold to economically hedge certain stock based compensation programs. While their share prices are under pressure due to current market conditions, these banks are well capitalized, continue to generate strong earnings and continue to pay dividends.

Management believes that the unrealized losses on the above-mentioned securities as at October 31, 2008, are temporary in nature and intends to hold them until recovery of their fair value which may be on maturity of the debt securities.

Impairment losses recognized

When we determine that a security is other-than-temporarily impaired, the amortized cost of the security is written down to fair value and the previously unrealized loss is reclassified from AOCI to net income. During 2008, $631 million of net losses were recognized in net income (2007 – $66 million) on available-for-sale securities. The majority of these losses were attributable to MBS and certain ABS and corporate debt securities that were deemed impaired. The losses also included writedowns of securities we intend to sell. Included in this amount is $10 million of writedown for our available-for-sale securities relating to our insurance operations which has been reflected in the Insurance premiums, investment and fee income line on our Consolidated Statements of Income (2007 – $nil).

Note 3 Securities (continued)

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), (2)

	2008	2007	2006
Taxable interest income	$ 2,089	$ 1,373	$ 1,401
Non-taxable interest income	99	31	44
Dividends	110	85	52
	$ 2,298	$ 1,489	$ 1,497

(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) The following related to our insurance operations are included in the Insurance premiums, investment and fee income line on the Consolidated Statements of Income: Taxable interest income – 2008 – $452 million, 2007 – $405 million, and 2006 – $314 million; Non-taxable interest income – 2008 – $29 million, 2007 – $29 million, and 2006 – $43 million; Dividends – 2008 – $17 million, 2007 – $11 million, and 2006– $7 million.

Note 4 Loans

	2008				2007			
	Canada	United States	Other International	Total	Canada	United States	Other International	Total
Retail (1)								
Residential mortgages	$ 117,690	$ 2,948	$ 2,353	$ 122,991	$ 107,453	$ 1,402	$ 890	$ 109,745
Personal	48,780	9,796	2,151	60,727	42,506	5,283	954	48,743
Credit cards	8,538	187	208	8,933	8,142	119	61	8,322
Small business (2)	2,804	–	–	2,804	2,652	–	–	2,652
	177,812	12,931	4,712	195,455	160,753	6,804	1,905	169,462
Wholesale (1)								
Business (3), (4)	43,497	30,424	15,475	89,396	37,163	17,741	8,953	63,857
Bank (5)	831	445	3,861	5,137	3,114	686	1,547	5,347
Sovereign (6)	815	–	952	1,767	416	–	347	763
	45,143	30,869	20,288	96,300	40,693	18,427	10,847	69,967
Total loans (7)	222,955	43,800	25,000	291,755	201,446	25,231	12,752	239,429
Allowance for loan losses	(1,199)	(834)	(182)	(2,215)	(1,101)	(321)	(71)	(1,493)
Total loans net of allowance for loan losses	$ 221,756	$ 42,966	$ 24,818	$ 289,540	$ 200,345	$ 24,910	$ 12,681	$ 237,936

(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 and U.S. for 2008 are loans totalling $1,200 million (2007 – $1,202 million) and $2,447 million (2007 –$ nil), respectively, to VIEs administered by us.
(5) Bank refers primarily to regulated deposit-taking institutions and securities firms.
(6) Sovereign refers to all central governments and agencies, central banks, as well as other qualifying public sector entities and multilateral development banks.
(7) Loans are net of unearned income of $160 million (2007 – $113 million).

Loan maturities and rate sensitivity

	2008							
	Maturity term (1)				Rate sensitivity			
	Under 1 year (2)	1 to 5 years	Over 5 years	Total	Floating	Fixed rate	Non-rate-sensitive	Total
Retail	$ 67,310	$ 110,776	$ 17,369	$ 195,455	$ 98,752	$ 93,861	$ 2,842	$ 195,455
Wholesale	51,627	32,294	12,379	96,300	65,095	31,201	4	96,300
Total loans	$ 118,937	$ 143,070	$ 29,748	$ 291,755	$ 163,847	$ 125,062	$ 2,846	$ 291,755
Allowance for loan losses	–	–	–	(2,215)	–	–	–	(2,215)
Total loans net of allowance for loan losses	$ 118,937	$ 143,070	$ 29,748	$ 289,540	$ 163,847	$ 125,062	$ 2,846	$ 289,540

	2007							
	Maturity term (1)				Rate sensitivity			
	Under 1 year (2)	1 to 5 years	Over 5 years	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 $3,647 million (2007 – $1,202 million) to variable interest entities administered by us. All of the loans reprice monthly or quarterly.

Impaired loans (1)

	2008			2007
	Gross	Specific allowances	Net	Net
Retail				
Residential mortgages (2)	$ 340	$ (30)	$ 310	$ 165
Personal	348	(161)	187	93
Small business (3)	40	(17)	23	10
	$ 728	$ (208)	$ 520	$ 268
Wholesale				
Business (2), (4), (5)	$ 2,195	$ (559)	$ 1,636	$ 499
Sovereign (6)	–	–	–	–
Bank (7)	–	–	–	–
	$ 2,195	$ (559)	$ 1,636	$ 499
Total	$ 2,923	$ (767)	$ 2,156	$ 767

(1) Average balance of gross impaired loans for the year was $1,906 million (2007 – $921 million).
(2) The October 31, 2007, comparative numbers reflect a reclassification of $22 million from our U.S. retail residential mortgage portfolio to our U.S. wholesale real estate and related portfolio (gross impaired loans of $30 million, net of specific allowances of $8 million).
(3) Includes small business exposure managed on a pooled basis.
(4) Includes small business exposure managed on an individual client basis. Includes gross and net impaired loans of $203 million (2007 – $nil) and $138 million (2007 – $nil), respectively, related to loans extended under liquidity facilities drawn on by RBC-administered multi-seller asset-backed commercial paper conduit programs.
(5) The comparative number that we had reported previously included certain U.S. foreclosed assets of $22 million that had already been reported as acquired assets in respect of problem loans below. Accordingly, the comparative number was decreased by $22 million.
(6) Sovereign refers to all central governments and agencies, central banks, as well as other qualifying public sector entities and multilateral development banks.
(7) Bank refers primarily to regulated deposit-taking institutions and securities firms.

The principal collateral and other credit enhancements we hold as security for retail loans include: (i) mortgage insurance, mortgages over residential real estate and properties, (ii) recourse to the personal assets being financed such as automobiles, as well as personal guarantees, term deposits and securities; for wholesale loans they include: (i) recourse to business assets such as real estate, equipment, inventory, accounts receivable and intangible assets, and (ii) recourse to the commercial real estate properties being financed.

During the year ended October 31, 2008, we acquired $215 million of assets in respect of problem loans (2007 – $36 million). The related reduction in the Allowance for credit losses was $87 million (2007 – $nil).

Allowance for loan losses

	2008						2007
	Balance at beginning of year	Write-offs	Recoveries	Provision for credit losses	Other adjust-ments (1)	Balance at end of year	Balance at end of year
Retail							
Residential mortgages (2)	$ 15	$ (9)	$ 1	$ 16	$ 7	$ 30	$ 15
Personal	96	(504)	77	445	47	161	96
Credit cards	–	(319)	49	270	–	–	–
Small business (3)	9	(44)	6	46	–	17	9
	$ 120	$ (876)	$ 133	$ 777	$ 54	$ 208	$ 120
Wholesale							
Business (2), (4)	$ 231	$ (435)	$ 29	$ 653	$ 81	$ 559	$ 231
Sovereign (5)	–	–	–	–	–	–	–
Bank (6)	–	–	–	–	–	–	–
	$ 231	$ (435)	$ 29	$ 653	$ 81	$ 559	$ 231
Specific allowances	$ 351	$ (1,311)	$ 162	$ 1,430	$ 135	$ 767	$ 351
Retail							
Residential mortgages	$ 16	$ –	$ –	$ (7)	$ 11	$ 20	$ 16
Personal	349	–	–	58	54	461	349
Credit cards	193	–	–	50	27	270	193
Small business (3)	37	–	–	10	–	47	37
	$ 595	$ –	$ –	$ 111	$ 92	$ 798	$ 595
Wholesale							
Business (4)	$ 370	$ –	$ –	$ 49	$ 231	$ 650	$ 370
Sovereign (5)	–	–	–	–	–	–	–
Bank (6)	–	–	–	–	–	–	–
	$ 370	$ –	$ –	$ 49	$ 231	$ 650	$ 370
Allowance for off-balance sheet and other items (7)	$ 256	$ –	$ –	$ 5	$ (177)	$ 84	$ 256
General allowance (7)	$ 1,221	$ –	$ –	$ 165	$ 146	$ 1,532	$ 1,221
Total allowance for credit losses	$ 1,572	$ (1,311)	$ 162	$ 1,595	$ 281	$ 2,299	$ 1,572
Allowance for off-balance sheet and other items (8)	(79)	–	–		(5)	(84)	(79)
Total allowance for loan losses	$ 1,493	$ (1,311)	$ 162	$ 1,595	$ 276	$ 2,215	$ 1,493

(1) Primarily represents the translation impact of foreign currency-denominated allowance for loan losses. Included in the Specific and General allowance adjustments are $57 million and $25 million, respectively, related to the loans acquired in connection with the acquisition of RBTT Financial Group. The General allowance adjustment also includes $50 million related to the acquisition of Alabama National BanCorporation. Refer to Note 11.
(2) The October 31, 2007 comparative numbers reflect a reclassification of $8 million in each of the allowance for credit losses and the provision for credit losses from our U.S. retail residential mortgage portfolio to our U.S. wholesale real estate and related portfolio.
(3) Includes small business exposure managed on a pooled basis.
(4) Includes small business exposure managed on an individual client basis. Includes $65 million (2007 – $nil) of provisions related to loans extended under liquidity facilities drawn on by RBC-administered multi-seller asset-backed commercial paper conduit programs.
(5) Sovereign refers to all central governments and agencies, central banks, as well as other qualifying public sector entities and multilateral development banks.
(6) Bank refers primarily to regulated deposit-taking institutions and securities firms.
(7) Includes $84 million related to off-balance sheet and other items (2007 – $79 million).
(8) The allowance for off-balance sheet is reported separately under Other liabilities.

A loan is considered past due when a counterparty has not made a payment by the contractual due date. The following table presents the carrying value of loans that are past due but not classified as impaired because they are either (i) less than 90 days past due, or (ii) fully secured and collection efforts are reasonably expected to result in repayment. Credit card balances are written off when a payment is 180 days in arrears.

Loans past due but not impaired

	2008				2007			
	1–29 days	30–89 days	90 days and greater	Total	1–29 days	30–89 days	90 days and greater	Total
Retail	$ 3,337	$ 1,401	$ 365	$ 5,103	$ 2,365	$ 960	$ 254	$ 3,579
Wholesale	1,830	649	114	2,593	620	207	26	853
Total	$ 5,167	$ 2,050	$ 479	$ 7,696	$ 2,985	$ 1,167	$ 280	$ 4,432

Net interest income after provision for credit losses

	2008	2007	2006
Net interest income	$ 9,360	$ 7,702	$ 6,796
Provision for credit losses	1,595	791	429
Net interest income after provision for credit losses	$ 7,765	$ 6,911	$ 6,367

Note 5 Securitizations

The following table summarizes our securitization activities for 2008, 2007 and 2006 (1).

	2008			2007 (2)		2006		
	Credit card loans (2)	Canadian residential mortgage loans (3), (4)	Commercial mortgage loans (5)	Canadian residential mortgage loans (3), (4)	Commercial mortgage loans (5)	Credit card loans (2)	Canadian residential mortgage loans (3), (4)	Commercial mortgage loans (5)
Securitized and sold	$ 1,470	$ 7,892	$ 166	$ 6,188	$ 1,937	$ 1,200	$ 6,329	$ 718
Net cash proceeds received	1,404	7,846	156	6,097	1,876	400	6,210	729
Asset-backed securities purchased	65	–	9	–	47	794	–	–
Retained rights to future excess interest	9	242	–	146	–	9	121	–
Pre-tax gain (loss) on sale	8	196	(1)	55	(14)	3	2	11

(1) We did not recognize an asset or a liability for our servicing rights with respect to the securitized loans as we received adequate compensation for our services.
(2) With respect to the securitization of credit card loans, the net cash proceeds received represent gross cash proceeds of $1,469 million for the year ended October 31, 2008 (2007 – $nil; 2006 – $1,194 million) less funds used to purchase notes of $65 million (2007 – $nil; 2006 – $794 million) issued by Golden Credit Card Trust. The principal value of the notes was $65 million for the year ended October 31, 2008 (2007 – $nil; 2006 – $800 million).
(3) Canadian insured residential mortgage loans securitized during the year through the creation of mortgage-backed securities and retained as at October 31, 2008 were $9,464 million (2007 – $3,110 million; 2006 – $4,869 million). These securities are carried at fair value.
(4) All Canadian residential mortgage loans securitized are insured.
(5) During the year ended October 31, 2008, the net cash proceeds received represent gross proceeds of $165 million (2007 – $1,923 million) less funds used to purchase notes of $9 million (2007 – $47 million). The principal value of the notes was $10 million (2007 – $48 million). During the year ended October 31, 2006, the net cash proceeds received represent gross proceeds of $729 million.

In addition to the above securitization transactions, we sold US$67 million (C$70 million) of whole loans in commercial real estate mortgages to third-party investors at their principal amounts during the year ended October 31, 2008. The gains on these sales were $1.3 million during the year 2008. None were sold during 2007 or 2006.

During 2006, we sold $815 million of residential mortgage loans, resulting in a pre-tax loss of $3 million. None were sold during 2007 or 2008.

Cash flows from securitizations (1)

	2008			2007			2006		
	Credit card loans	Canadian residential mortgage loans		Credit card loans	Canadian residential mortgage loans		Credit card loans	Canadian residential mortgage loans	
		Variable rate	Fixed rate		Variable rate	Fixed rate		Variable rate	Fixed rate
Proceeds reinvested in revolving securitizations	$ 17,934	$ 641	$ 3,679	$ 15,684	$ 1,043	$ 3,559	$ 17,107	$ 466	$ 2,251
Cash flows from excess spread (2)	254	28	151	256	66	168	263	11	134

(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)

	2008			2007 (3)		2006		
	Credit card loans	Canadian residential mortgage loans		Canadian residential mortgage loans		Credit card loans	Canadian residential mortgage loans	
		Variable rate	Fixed rate	Variable rate	Fixed rate		Variable rate	Fixed rate
Expected weighted average life of prepayable receivables (in years)	.25	4.00	3.67	2.63	3.69	.16	2.61	3.60
Payment rate	37.02%	33.36%	15.11%	29.20%	14.38%	40.02%	30.00%	15.39%
Excess spread, net of credit losses	3.86	.84	1.51	.88	.83	5.13	1.18	.99
Expected credit losses	2.49	–	–	–	–	2.15	–	–
Discount rate	10.00%	2.22–4.07%	2.22–4.77%	4.15–5.05%	4.15–5.05%	10.00%	4.24–4.93%	3.70–4.93%

(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 2007.

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, 2008 was .54% (2007 – .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, 2008 and 2007.

Loans managed

	2008			2007		
	Loan principal	Past due (1)	Net write-offs	Loan principal	Past due (1)	Net write-offs
Retail	$ 225,467	$ 1,141	$ 842	$ 192,633	$ 680	$ 718
Wholesale	96,300	2,309	406	69,967	756	66
Total loans managed (2)	321,767	3,450	1,248	262,600	1,436	784
Less: Loans securitized and managed						
Credit card loans	4,120	48	99	3,650	38	86
Canadian residential mortgage-backed securities created and sold	15,196	–	–	14,239	–	–
Canadian residential mortgage-backed securities created and retained	10,696	–	–	5,282	–	–
Total loans reported on the Consolidated Balance Sheets	$ 291,755	$ 3,402	$ 1,149	$ 239,429	$ 1,398	$ 698

(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, 2008 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)

	2008			2007		
	Credit card loans	Canadian residential mortgage loans		Credit card loans	Canadian residential mortgage loans	
		Variable rate	Fixed rate		Variable rate	Fixed rate
Fair value of retained interests	$ 26.0	$ 42.1	$ 382.9	$ 27.5	$ 27.9	$ 386.7
Weighted average remaining service life (in years)	.25	4.51–5.89	2.58–4.32	.25	2.63–3.27	3.05–3.97
Payment rate	38.20%	28.00–40.00%	9.00–18.00%	37.39%	29.20–40.00%	9.25–18.00%
Impact on fair value of 10% adverse change	$ (1.6)	$ (3.7)	$ (10.1)	$ (1.6)	$ (.8)	$ (9.4)
Impact on fair value of 20% adverse change	(3.2)	(6.2)	(19.0)	(3.2)	(1.5)	(18.6)
Excess spread, net of credit losses	4.37%	.80%	.94–1.03%	5.72%	.68–.88%	.84–.89%
Impact on fair value of 10% adverse change	$ (5.4)	$ (11.4)	$ (46.4)	$ (5.0)	$ (14.0)	$ (37.1)
Impact on fair value of 20% adverse change	(10.7)	(21.9)	(91.3)	(10.0)	(28.0)	74.3
Expected credit losses	2.53%	–%	–%	2.18%	–%	–%
Impact on fair value of 10% adverse change	$ (2.0)	$ –	$ –	$ (1.2)	$ –	$ –
Impact on fair value of 20% adverse change	(3.0)	–	–	(2.3)	–	–
Discount rate	10.00%	2.94–4.00%	2.15–2.94%	10.00%	4.71–6.81%	4.69–4.71%
Impact on fair value of 10% adverse change	$ –	$ (.2)	$ (1.0)	$ –	$ (.2)	$ (2.3)
Impact on fair value of 20% adverse change	(.1)	(.4)	(2.1)	(.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, 2008 and 2007, 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.

	2008		2007	
	Total assets	Maximum exposure to loss	Total assets	Maximum exposure to loss
Unconsolidated VIEs in which we have significant variable interests (1)				
Multi-seller conduits (2)	$ 42,698	$ 43,513	$ 41,785	$ 42,912
Structured finance VIEs (3), (4)	15,245	5,319	2,841	407
Credit investment product VIEs	2,649	1,281	2,676	1,733
Investment funds	1,182	349	1,517	325
Third-party conduits (4)	734	386	1,830	825
Other	155	63	60	79
	$ 62,663	$ 50,911	$ 50,709	$ 46,281
Consolidated VIEs (5), (6)				
Structured finance VIEs (7)	$ 1,688		$ 560	
Investment funds	1,268		995	
Credit investment product VIEs	196		276	
Compensation vehicles	76		83	
Other	113		144	
	$ 3,341		$ 2,058	

(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 $7,207 million (2007 – $2,165 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, 2008. Actual assets held by these conduits as at October 31, 2008, were $33,591 million (2007 – $29,290 million).
(3) Includes total assets and maximum exposure to loss of $10,555 million (2007 – $200 million) and $4,820 million (2007 – $200 million), respectively, relating to unconsolidated auction rate securities entities as well as Tender Option Bond programs to which we have sold auction rate securities.
(4) A VIE was reclassified from Third-party conduits to Structured finance VIEs. Total assets of this VIE as at October 31, 2007 were $2,434 million. We have also reassessed the maximum exposure to loss of this VIE as at October 31, 2007 to be $nil.
(5) 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 $114 million (2007 – $75 million), Trading securities of $1,409 million (2007 – $1,185 million), Available-for-sale securities of $nil (2007 – $315 million), Loans of $1,543 million (2007 – $nil) and Other assets of $199 million (2007 – $401 million). The compensation vehicles hold $76 million (2007 – $83 million) of our common shares, which are reported as Treasury shares. The obligation to provide our common shares to employees is recorded as an increase to Contributed surplus as the expense for the corresponding stock-based compensation plan is recognized.
(6) 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.
(7) Includes total assets of consolidated ARS entities of $1,688 million (2007 – $nil).

Multi-seller and third-party conduits

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

The primary focus of the multi-seller conduits is to provide financing for asset classes originated by our clients, such as credit cards, auto loans and leases, trade receivables, student loans, asset-backed securities, equipment receivables and consumer loans. As at October 31, 2008, these asset classes comprised 95% of our maximum exposure to loss by client asset type. Less than 1% of outstanding securitized assets comprised U.S. Alt-A or subprime mortgages and the securitized assets do not contain commercial mortgage loans.

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 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 25.

Structured finance VIEs

In 2008, we purchased U.S. auction rate securities (ARS) from entities which funded their long-term investments in student loans by issuing short-term senior and subordinated notes. Certain of these entities are VIEs. Principal and accrued interest on the student loans are largely guaranteed by U.S. government agencies. In our role as auction remarketing agent to these entities, we are under no legal obligation to purchase the notes issued by these entities in the auction process. We hold significant variable interests in certain unconsolidated entities. We consolidate the entities where our investments expose us to a majority of the expected losses.

We also sell ARS into Tender Option Bond (TOB) programs, where each TOB program consists of a credit enhancement (CE) trust and a TOB trust. Each ARS sold to the TOB program is supported by a letter of credit issued by us and is financed by the issuance of floating-rate certificates to short-term investors and a residual certificate to a single third-party investor. We are the remarketing agent for the floating-rate certificates and we provide liquidity facilities to each of the TOB programs to purchase any floating-rate certificates that have been tendered but not remarketed. Both the CE and the TOB trusts are VIEs. We have significant variable interests in these trusts through our liquidity facilities and letters of credit. However, the residual certificate holder is exposed to a majority of the expected losses in these trusts. As a result, we do not consolidate these trusts under AcG-15. The liquidity facilities and letters of credit are included in our disclosure on guarantees in Note 25.

In 2008, we sold ARS to an unaffiliated and unconsolidated entity at fair market value. The purchase of the ARS by this entity was financed by a loan from us, and the loan is secured by various assets of the entity. We are the remarketing agent for the ARS. The entity is a VIE. We have significant variable interests in this VIE as a result of providing the ARS loan, a credit facility and guarantees, which are secured by cash collateral, to the VIE. This VIE also enters into interest rate derivatives with other

counterparties who are exposed to the majority of its variability; as a result, we do not consolidate this entity.

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, including credit derivatives, to purchase protection from these VIEs (credit protection) 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.

These VIEs issue funded notes. In certain instances, we invest in the funded notes issued by these VIEs. Some of the VIEs also issue unfunded notes in the form of senior credit derivatives or funding commitment and we may be an investor of these unfunded notes. The investors in the funded and unfunded notes ultimately bear the cost of any payments made by the VIEs as a result of the credit protection provided to us. We consolidate the VIEs in which our investments in the notes expose us to a majority of the expected losses.

Investment funds

We enter into equity derivative transactions with third parties including mutual funds, unit investment trusts and other investment funds for fees to provide their investors with the desired exposure, and we hedge our exposure from these derivatives by investing in other funds. We consolidate the investment funds when we are exposed to a majority of the expected losses of the funds.

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 VIEs 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 VIEs relative to others does not expose us to a majority of the expected losses. We also do not have significant interests in these VIEs. For details on our securitization activities, refer to Note 5.

Note 7 Derivative instruments and hedging activities

Derivative instruments are categorized as either financial or non-financial derivatives. Financial derivatives are financial contracts whose value is derived from an underlying interest rate, foreign exchange rate, equity or equity index. Non-financial derivatives are contracts whose value is derived from a commodity instrument or index.

Financial 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 futures 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.

Commodity swaps are contracts in which one counterparty agrees to pay or receive from the other cash flows based on changes in the value of a commodity index.

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, equity options and index 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
Certain warrants and loan commitments that meet the definition of derivative are also included as derivative instruments.

Non-financial derivatives
We also transact in non-financial derivative products including precious metal and commodity derivative contracts in both the over-the-counter and exchange markets.

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. We assess and measure the effectiveness of a derivative that is designated as a hedging instrument based on the change in its fair value. When cash instruments are designated as 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, 2008, after-tax net unrealized losses of $579 million (2007 – after-tax net unrealized gains of $24 million) were recognized in AOCI, representing the cumulative effective portions of our cash flow hedges.

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.

After-tax unrealized losses of $61 million (before-tax unrealized losses of $91 million) included in AOCI as at October 31, 2008 are expected to be reclassified to Net interest income within the next 12 months.

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

Derivatives and non-derivative instruments

	2008				2007			
	Designated as hedging instruments in hedging relationships				Designated as hedging instruments in hedging relationships			
	Cash flow hedges	Fair value hedges	Net investment hedges	Not designated in a hedging relationship (1)	Cash flow hedges	Fair value hedges	Net investment hedges	Not designated in a hedging relationship (1)
Assets								
Derivative instruments (2)	$ 879	$ 1,397	$ 355	$ 133,503	$ 390	$ 268	$ 856	$ 65,071
Liabilities								
Derivative instruments (2)	$ 1,597	$ 61	$ 1,229	$ 125,818	$ 206	$ 166	$ 5	$ 71,633
Non-derivative instruments (3)	–	449	5,886	n.a.	–	472	4,307	n.a.

(1) Includes $2 million of bank-owned life insurance policies stable value contracts (2007 – $71 million).
(2) All derivative instruments are carried at fair value.
(3) Non-derivative instruments are carried at amortized cost.
n.a. not applicable

Hedge activities

	2008			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	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	$ (6)	$ n.a.	$ n.a.	$ (14)	$ n.a.	$ n.a.
Cash flow hedges						
Ineffective portion	(8)	n.a.	n.a.	(9)	n.a.	n.a.
Effective portion	n.a.	n.a.	(603)	n.a.	n.a.	80
Reclassified to income during the year (1)	n.a.	(72)	n.a.	n.a.	(47)	n.a.
Net investment hedges						
Foreign currency gains (losses)	n.a.	n.a.	5,080	n.a.	n.a.	(2,965)
(Losses) gains from hedges	n.a.	n.a.	(2,672)	n.a.	n.a.	1,804
	$ (14)	$ (72)	$ 1,805	$ (23)	$ (47)	$ (1,081)

(1) After-tax losses of $49 million were reclassified from AOCI to income for the year ended October 31, 2008 (2007 – losses of $31 million).
n.a. not applicable

Notional amount of derivatives by term to maturity

	2008						2007	
	Term to maturity							
	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	$ 245,673	$ 19,369	$ –	$ 265,042	$ 265,042	$ –	$ 201,853	$ –
Swaps	962,719	1,201,252	594,231	2,758,202	2,534,700	223,502	2,096,153	158,393
Options purchased	21,001	28,492	43,114	92,607	91,826	781	89,585	1,003
Options written	28,024	36,559	100,482	165,065	164,847	218	149,169	573
Foreign exchange contracts								
Forward contracts	870,019	30,589	1,115	901,723	856,124	45,599	710,961	30,815
Cross currency swaps	6,121	8,811	11,097	26,029	25,484	545	17,748	399
Cross currency interest rate swaps	69,174	184,000	91,984	345,158	291,688	53,470	242,319	36,019
Options purchased	34,436	10,990	971	46,397	46,334	63	36,756	7
Options written	34,659	11,151	481	46,291	46,234	57	38,355	–
Credit derivatives (2)	33,199	156,092	86,548	275,839	272,525	3,314	393,247	5,977
Other contracts (3)	45,156	28,543	31,297	104,996	104,037	959	73,804	142
Exchange-traded contracts								
Interest rate contracts								
Futures – long positions	51,882	20,295	11	72,188	72,024	164	77,086	278
Futures – short positions	84,046	12,826	–	96,872	96,872	–	132,008	184
Options purchased	10,200	4,493	–	14,693	14,693	–	14,964	–
Options written	10,669	896	–	11,565	11,565	–	4,656	–
Foreign exchange contracts								
Futures – long positions	222	–	–	222	222	–	327	–
Futures – short positions	394	–	–	394	394	–	9,689	–
Other contracts (3)	179,996	10,281	6,373	196,650	196,650	–	254,206	–
	$ 2,687,590	$ 1,764,639	$ 967,704	$ 5,419,933	$ 5,091,261	$ 328,672	$4,542,886	$ 233,790

(1) Includes contracts maturing in over 10 years with a notional value of $255,281 million (2007 – $205,976 million). The related gross positive replacement cost is $9,840 million (2007 – $10,910 million).
(2) Comprises credit default swaps, total return swaps and credit default baskets, including credit derivatives given guarantee treatment for OSFI regulatory reporting purposes. Credit derivatives with a notional value of $3,167 million (2007 – $5,530 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 instruments:

Fair value of derivative instruments

	2008				2007			
	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	$ 191	$ 143	$ 329	$ 220	$ 44	$ 49	$ 72	$ 25
Swaps	21,632	21,559	32,596	30,448	13,938	14,241	14,250	14,446
Options purchased	797	–	1,569	–	621	–	488	–
Options written	–	1,216	–	1,714	–	786	–	625
	22,620	22,918	34,494	32,382	14,603	15,076	14,810	15,096
Foreign exchange contracts								
Forward contracts	12,831	12,793	37,096	36,682	8,342	8,508	14,503	14,410
Cross currency swaps	2,396	1,777	1,597	1,574	2,231	1,522	3,066	2,141
Cross currency interest rate swaps	12,628	11,806	18,654	18,628	8,987	9,419	13,634	14,250
Options purchased	1,214	–	1,850	–	1,044	–	1,221	–
Options written	–	1,160	–	1,830	–	1,028	–	1,302
	29,069	27,536	59,197	58,714	20,604	20,477	32,424	32,103
Credit derivatives (2)	13,131	11,868	16,456	15,344	3,964	3,508	10,416	9,375
Other contracts (3)	8,617	11,486	18,914	17,322	6,096	9,537	4,925	10,317
	$ 73,437	$ 73,808	$ 129,061	$ 123,762	$ 45,267	$ 48,598	$ 62,575	$ 66,891
Held or issued for other than trading purposes								
Interest rate contracts								
Swaps			$ 3,687	$ 2,774			$ 1,110	$ 760
Options purchased			19	–			6	–
Options written			–	31			–	25
			3,706	2,805			1,116	785
Foreign exchange contracts								
Forward contracts			1,404	1,299			921	503
Cross currency swaps			10	24			2	9
Cross currency interest rate swaps			3,377	2,544			1,371	3,635
Options purchased			10	–			–	–
Options written			–	6			–	–
			4,801	3,873			2,294	4,147
Credit derivatives (2)			400	15			36	30
Other contracts (3)			15	6			20	42
			8,922	6,699			3,466	5,004
Total gross fair values before netting (4)			137,983	130,461			66,041	71,895
Impact of master netting agreements								
With intent to settle net or simultaneously (5)			(1,756)	(1,756)			(473)	(473)
Without intent to settle net or simultaneously (6)			(76,179)	(76,179)			(38,256)	(38,256)
Total			$ 60,048	$ 52,526			$ 27,312	$ 33,166

(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 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) Market and credit valuation adjustments that are determined on an instrument-specific basis are included. For the remaining instruments, these adjustments are determined on a pooled basis and thus, have been excluded. Positive year-end fair values exclude market and credit valuation adjustments of $(1,117) million (2007 – $nil) and margin requirements of $1,024 million (2007 – $1,017 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.

Fair value of derivative instruments by term to maturity

	2008				2007
	Less than 1 year	1 to 5 years	Over 5 years	Total	Total
Derivative assets (1), (2)	$ 60,800	$ 43,760	$ 31,667	$ 136,227	$ 65,568
Derivative liabilities	56,269	42,797	29,639	128,705	71,422

(1) Includes $2 million of bank-owned life insurance policies stable value contracts (2007 – $71 million).
(2) Market and credit valuation adjustments that are determined on an instrument-specific basis are included. For the remaining instruments, these adjustments are determined on a pooled basis and thus, have been excluded. Derivative assets exclude market and credit valuation adjustments of $(1,117) million (2007 – $nil) and margin requirements of $1,024 million (2007 – $1,017 million).

Derivative-related credit risk

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

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

Netting is a technique that can reduce credit exposure from derivatives and is generally facilitated through the use of master netting agreements. A master netting agreement provides for a single net settlement of all financial instruments covered by the agreement in the event of default. 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 a 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 a 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. Mark-to-market provisions in our agreements with some counterparties, typically in the form of a Credit Support Annex, provide us 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.

The replacement cost for 2008 represents the total fair value of all outstanding contracts in a gain position after factoring in the master netting agreements. The replacement cost for 2007 represents the total fair value of all outstanding contracts in a gain position before and after factoring in the master netting agreements. The amounts in the table below exclude fair value of $5,999 million (2007 – $955 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 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

	2008 (1)			2007		
	Replacement cost	Credit equivalent amount	Risk-adjusted balance (2)	Replacement cost	Credit equivalent amount	Risk-adjusted balance (2)
Interest rate contracts						
Forward rate agreements	$ 329	$ 430	$ 244	$ 72	$ 92	$ 22
Swaps	7,743	12,938	4,106	15,360	23,484	5,213
Options purchased	353	729	230	364	1,032	248
	8,425	14,097	4,580	15,796	24,608	5,483
Foreign exchange contracts						
Forward contracts	16,438	19,797	3,938	15,424	22,222	5,674
Swaps	9,692	19,212	3,806	18,073	32,901	6,138
Options purchased	508	1,101	274	1,221	1,832	466
	26,638	40,110	8,018	34,718	56,955	12,278
Credit derivatives (3)	5,607	10,344	8,130	10,416	35,026	8,465
Other contracts (4)	12,979	17,680	5,168	4,120	6,723	2,251
Derivatives before master netting agreements	$ n.a.	$ n.a.	$ n.a.	$ 65,050	$ 123,312	$ 28,477
Impact of master netting agreements	n.a.	n.a.	n.a.	(38,729)	(65,339)	(14,020)
Total derivatives after master netting agreements (5)	$ 53,649	$ 82,231	$ 25,896	$ 26,321	$ 57,973	$ 14,457

(1) The amounts presented for 2008 are net of master netting agreements in accordance with Basel II.
(2) The 2008 risk-adjusted balance was calculated in accordance with Basel II. The 2007 risk-adjusted balance was calculated in accordance with Basel I.
(3) 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 $400 million (2007 – $36 million). Credit derivatives issued for other-than-trading purposes related to sold protection with a replacement cost of $3 million (2007 – $.4 million), credit equivalent amount of $147 million (2007 – $447 million) and risk-adjusted asset amount of $35 million (2007 – $447 million) which were given guarantee treatment per OSFI guidance.
(4) Comprises precious metal, commodity and equity-linked derivative contracts.
(5) The total credit equivalent amount after netting includes collateral applied of $4,721 million (2007 – $2,228 million).

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

	2008								
	Risk rating (1)					Counterparty type (2)			
	AAA, AA	A	BBB	BB or lower	Total	Banks	OECD governments	Other	Total
Gross positive replacement cost	$ 68,657	$ 40,630	$ 15,388	$ 7,308	$ 131,983	$ 82,512	$ 6,593	$ 42,878	$ 131,983
Impact of master netting agreements	41,916	24,587	8,487	2,944	77,934	65,073	–	12,861	77,934
Replacement cost (after netting agreements) (3)	$ 26,741	$ 16,043	$ 6,901	$ 4,364	$ 54,049	$ 17,439	$ 6,593	$ 30,017	$ 54,049
Replacement cost (after netting agreements) – 2007 (3)	$ 14,100	$ 6,684	$ 3,782	$ 1,791	$ 26,357	$ 7,057	$ 8,188	$ 11,112	$ 26,357

(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 OSFI.
(3) Includes credit derivatives issued for other-than-trading purposes with a total replacement cost of $400 million (2007 – $36 million).

Note 8 Premises and equipment

	2008			2007		
	Cost	Accumulated depreciation	Net book value	Cost	Accumulated depreciation	Net book value
Land	$ 216	$ –	$ 216	$ 133	$ –	$ 133
Buildings	845	427	418	553	333	220
Computer equipment	3,882	2,437	1,445	3,049	1,986	1,063
Furniture, fixtures and other equipment	1,395	981	414	1,059	764	295
Leasehold improvements	1,624	857	767	1,147	727	420
	$ 7,962	$ 4,702	$ 3,260	$ 5,941	$ 3,810	$ 2,131

The depreciation expense for premises and equipment for 2008 was $539 million (2007 – $434 million; 2006 – $405 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).

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, 2008	October 31, 2007
Consolidated Balance Sheets		
Assets (1)	$ 19,136	$ 15,544
Liabilities	18,114	14,533

(1) Includes $72 million (2007 – $69 million) of goodwill and $158 million (2007 – $179 million) of intangible assets.

	For the year ended October 31, 2008	For the year ended October 31, 2007	For the nine months ended October 31, 2006 (1)
Consolidated Statements of Income			
Net interest income	$ 162	$ 116	$ 75
Non-interest income	647	600	363
Non-interest expense	602	529	315
Net income	135	125	73
Consolidated Statements of Cash Flows			
Cash flows used in operating activities	$ (1,433)	$ (546)	$ (71)
Cash flows used in investing activities	(2,158)	(2,299)	(97)
Cash flows from (used in) financing activities	3,713	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, 2008	For the year ended October 31, 2007	For the nine months ended October 31, 2006 (1)
Net interest income	$ 145	$ 157	$ 99
Non-interest income	28	26	16
Non-interest expense	38	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 28, 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.

Effective May 1, 2008, as discussed in Note 28, we created our Insurance segment, formerly a business under Canadian Banking. This reorganization resulted in the realignment of certain reporting units. Accordingly, we have reallocated our goodwill to the reporting units using the relative fair value approach. The reorganization also resulted in the U.S. & International Banking segment being renamed International Banking.

The following tables disclose the changes in goodwill during 2007 and 2008, 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, 2006	$ 2,491	$ 900	$ 913	$ 4,304
Goodwill acquired between November 1, 2006 and January 31, 2007	–	406	121	527
Other adjustments (1)	9	58	34	101
Balance at January 31, 2007	$ 2,500	$ 1,364	$ 1,068	$ 4,932

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

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.

Goodwill

	Canadian Banking	Wealth Management	U.S. & International Banking	Capital Markets	Total
Balance at October 31, 2007	$ 2,050	$ 882	$ 996	$ 824	$ 4,752
Goodwill acquired between November 1, 2007 and April 30, 2008	–	–	1,270	–	1,270
Other adjustments (1)	–	70	11	62	143
Balance at April 30, 2008	$ 2,050	$ 952	$ 2,277	$ 886	$ 6,165

(1) Other adjustments in the first two quarters of 2008 primarily include the impact of foreign exchange translations on foreign currency-denominated goodwill.

Reallocation of goodwill

	Goodwill balance before business reorganization	Canadian Banking	Wealth Management	Insurance	International Banking	Capital Markets	Goodwill balance after business reorganization
Canadian Banking	$ 2,050	$ 1,919	$ –	$ 131	$ –	$ –	$ 2,050
Wealth Management	952	–	952	–	–	–	952
U.S. & International Banking	2,277	–	–	–	2,277	–	2,277
Capital Markets	886	–	–	–	–	886	886
Balance at April 30, 2008	$ 6,165	$ 1,919	$ 952	$ 131	$ 2,277	$ 886	$ 6,165
Goodwill acquired between May 1 and October 31, 2008	$ 2,775	$ –	$ 1,147	$ –	$ 1,607	$ 21	$ 2,775
Other adjustments (1)	1,037	–	147	22	722	146	1,037
Balance at October 31, 2008	$ 9,977	$ 1,919	$ 2,246	$ 153	$ 4,606	$ 1,053	$ 9,977

(1) Other adjustments in the last two quarters of 2008 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, 2008 (2007 – $nil; 2006 – $nil).

Other intangibles

	2008			2007		
	Gross carrying amount	Accumulated amortization (1)	Net carrying amount	Gross carrying amount	Accumulated amortization (1)	Net carrying amount
Core deposit intangibles	$ 725	$ (273)	$ 452	$ 376	$ (170)	$ 206
Customer lists and relationships	1,073	(287)	786	605	(200)	405
Mortgage servicing rights	70	(54)	16	47	(30)	17
	$ 1,868	$ (614)	$ 1,254	$ 1,028	$ (400)	$ 628

(1) Total amortization expense for 2008 was $135 million (2007 – $96 million).

The projected amortization of Other intangibles for each of the years ending October 31, 2009 to October 31, 2013 is approximately $126 million. There were no writedowns of intangible assets due to impairment for the year ended October 31, 2008 (2007 – $nil).

2008

International Banking

In February 2008, RBC Bancorporation (USA), formerly RBC Centura Banks, Inc., completed the acquisition of Birmingham-based Alabama National BanCorporation (ANB), parent of 10 subsidiary banks and other affiliated businesses in Alabama, Florida and Georgia.

In June 2008, we completed the acquisition of RBTT Financial Group (RBTT) for a total purchase price of TT$13.7 billion (C$2.3 billion). RBTT is a Caribbean-based banking and financial services group which offers a complete range of banking and financial intermediation services to customers in Trinidad and Tobago and other Caribbean countries. We have not recognized revenues or expenses for the month of October 2008 as we report the results of RBTT on a one-month lag basis.

The purchase price allocations of these acquisitions are preliminary and may be revised when estimates and assumptions are finalized and the valuation of assets and liabilities is completed. We do not anticipate that any revisions will be significant to our financial statements. Details of the purchase price and the preliminary allocation are as follows:

	ANB	RBTT
Acquisition date	February 22, 2008	June 16, 2008
Percentage of shares acquired	100%	100%
Purchase consideration in the currency of the transaction	Total cash payment of US$939 million and 16.4 million RBC common shares valued at US$49.9067 each	Total cash payment of TT$8.3 billion and 18.2 million RBC common shares valued at US$48.2540 each
Purchase consideration in Canadian dollar equivalent	$ 1,779	$ 2,278
Fair value of tangible assets acquired (1)	$ 7,459	$ 8,787
Fair value of liabilities assumed (2)	(7,079)	(8,200)
Fair value of identifiable net assets acquired	380	587
Core deposit intangibles (3)	91	121
Goodwill	1,307	1,570
Total purchase consideration	$ 1,778	$ 2,278

(1) Included in the fair value of tangible assets acquired from ANB are loans of approximately $140 million that have been identified for sale.
(2) Includes future income tax liabilities of $32 million and $31 million related to the intangible assets acquired for ANB and RBTT, respectively.
(3) Core deposit intangibles are amortized on a straight-line basis over an estimated average useful life of seven years.

Wealth Management

In May 2008, we completed the acquisition of Vancouver-based Phillips, Hager & North Investment Management Ltd. (PH&N), an investment management firm with approximately $68 billion of assets under management.

In June 2008, we completed the acquisition of Washington D.C.-based Ferris, Baker Watts, Incorporated (FBW), a full-service broker-dealer with 42 branch offices in eight states and the District of Columbia.

The purchase price allocations of these acquisitions are preliminary and have not been finalized because the valuation of certain assets and liabilities has not been completed. Details of the preliminary purchase price allocations are as follows:

	PH&N	FBW
Acquisition date	May 1, 2008	June 20, 2008
Percentage of shares acquired	100%	100%
Purchase consideration in the currency of the transaction (1)	20.2 million RBC common shares and 6.75 million exchangeable shares of a wholly owned subsidiary of RBC valued at $48.0025 each	Total cash payment of US$27 million and 4.8 million RBC common shares valued at US$48.2485 each
Purchase consideration in Canadian dollar equivalent	$ 1,297	$ 265
Fair value of tangible assets acquired	$ 57	$ 421
Fair value of liabilities assumed (2)	(178)	(301)
Fair value of identifiable net assets acquired	(121)	120
Customer relationships (3)	423	7
Goodwill	995	138
Total purchase consideration	$ 1,297	$ 265

(1) The exchangeable shares issued for the acquisition of PH&N will be exchanged on a one-for-one basis for RBC common shares three years after closing in accordance with the purchase agreement.
(2) Includes future income tax liabilities of $125 million and $3 million related to the intangible assets acquired for PH&N and FBW, respectively.
(3) Customer relationships are amortized on a straight-line basis over an estimated average useful life of 11 years and seven years for PH&N and FBW, respectively.

Other acquisitions

During the year ended October 31, 2008, we also completed the following acquisitions: (i) on December 4, 2007, International Banking completed the acquisition of 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 called Royal Fidelity Merchant Bank & Trust Limited; (ii) on August 4, 2008, Capital Markets completed the acquisition of Richardson Barr & Co., a Houston-based energy advisory firm specializing in acquisitions and divestitures in the exploration and production sector; and (iii) on October 1, 2008, Canadian Banking acquired ABN AMRO's Canadian commercial leasing division. The combined preliminary purchase price of these acquisitions, which were not material to the respective segments, was $389 million and resulted in goodwill of $26 million.

2007

International Banking

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
Acquisition date	December 8, 2006	March 9, 2007
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)	(1,870)	(2,369)
Fair value of identifiable net tangible 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) Includes future income tax liabilities of $12 million and $10 million related to the intangible assets acquired for Flag and AmSouth Branches, respectively.
(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 were not material to Capital Markets and resulted in goodwill of $160 million.

Wealth Management

In May 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 cash. Total purchase price was US$65 million (C$71 million), of which US$42 million (C$45 million) was paid at close and the final adjustment was paid subsequent to October 31, 2008 under the purchase agreement. The acquisition was not material to Wealth Management and resulted in goodwill of $43 million.

Note 12 Other assets

	2008	2007
Receivable from brokers, dealers and clients	$ 10,269	$ 4,048
Accrued interest receivable	2,461	2,608
Investment in associated corporations and limited partnerships	1,156	1,420
Insurance-related assets (1)	1,062	827
Net future income tax asset (refer to Note 23)	1,706	1,251
Prepaid pension benefit cost (2) (refer to Note 20)	551	590
Other	8,126	7,109
	$ 25,331	$ 17,853

(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:

	2008				2007
	Demand (1)	Notice (2)	Term (3), (4)	Total	Total
Personal	$ 59,946	$ 4,580	$ 74,510	$ 139,036	$ 116,557
Business and government (4), (5)	100,011	3,245	166,738	269,994	219,886
Bank	6,699	12	22,834	29,545	28,762
	$ 166,656	$ 7,837	$ 264,082	$ 438,575	$ 365,205
Non-interest-bearing					
Canada				$ 34,463	$ 28,254
United States				4,682	2,285
Other International				4,579	1,693
Interest-bearing					
Canada (4), (5)				168,246	155,190
United States				68,450	41,514
Other International				158,155	136,269
				$ 438,575	$ 365,205

(1) Deposits payable on demand include all deposits for which we do not have the right to notice of withdrawal. These deposits include both savings and 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, 2008, the balance of term deposits also includes senior deposit notes we have issued to provide long-term funding of $63.2 billion (2007 – $51.5 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 OSFI. It may be redeemed earlier, at our option in certain specified circumstances, subject to the approval of 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 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 following table presents the contractual maturities of our demand, notice and term deposit liabilities. Included in "within 1 year" are deposits payable on demand and deposits payable after notice.

Deposits (1)

	2008	2007
Within 1 year	$ 357,112	$ 308,708
1 to 2 years	30,768	17,484
2 to 3 years	19,912	15,290
3 to 4 years	10,871	9,501
4 to 5 years	11,319	8,552
Over 5 years	8,593	5,670
	$ 438,575	$ 365,205

(1) The aggregate amount of term deposits in denominations of $100,000 or more as at October 31, 2008 was $221 billion (2007 – $186 billion).

The following table presents the average deposit balances and average rates of interest paid during 2008 and 2007.

Average deposit balances and rates

	Average balances		Average rates	
	2008	2007	2008	2007
Canada	$ 187,182	$ 190,754	2.36%	2.97%
United States	58,997	54,812	2.98	4.68
Other International	164,862	122,910	3.63	4.50
	$ 411,041	$ 368,476	2.96%	3.74%

Note 14 Insurance

Insurance claims and policy benefit liabilities

	2008	2007
Life and Health	$ 6,676	$ 6,664
Property and Casualty	459	417
Reinsurance	250	202
Total	$ 7,385	$ 7,283
Future policy benefit liabilities	$ 6,660	$ 6,610
Claims liabilities	725	673
Total	$ 7,385	$ 7,283

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

Furthermore, the review of various actuarial assumptions and completion of certain actuarial experience studies resulted in a net decrease of $33 million in life insurance liabilities (2007 – $57 million) and a net decrease of $111 million in health insurance liabilities (2007 – $32 million). 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.

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

Reinsurance

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

Reinsurance recoverables related to property and casualty insurance business, which are included in Other assets, include amounts related to paid benefits and unpaid claims. Reinsurance recoverables related to our 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

	2008	2007	2006
Gross premiums	$ 3,760	$ 3,445	$ 3,405
Ceded premiums	(896)	(852)	(810)
	$ 2,864	$ 2,593	$ 2,595

Note 15 Other liabilities

	2008	2007
Short-term borrowings of subsidiaries	$ 5,402	$ 3,784
Payable to brokers, dealers and clients	9,610	3,941
Accrued interest payable	2,925	2,908
Accrued pension and other post-employment benefit expense (1) (refer to Note 20)	1,383	1,266
Insurance-related liabilities	428	408
Dividends payable	701	661
Payroll and related compensation	3,855	3,960
Trade payables and related accounts	2,329	1,854
Taxes payable	139	1,078
Cheques and other items in transit	1,193	281
Other	7,724	8,342
	$ 35,689	$ 28,483

(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 OSFI.

All subordinated debentures are redeemable at our option. 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	2008	2007
March 15, 2009		6.50%	US$125	$ 151	$ 118
January 22, 2013	January 22, 2008 (1)	6.10%		–	483
January 27, 2014	January 27, 2009 (2)	3.96% (3)		500	495
June 1, 2014	June 1, 2009 (4)	4.18% (3)		1,001	976
November 14, 2014		10.00%		271	257
January 25, 2015	January 25, 2010 (5)	7.10% (3)		528	515
June 24, 2015	June 24, 2010 (2)	3.70% (3)		816	775
April 12, 2016	April 12, 2011 (6)	6.30% (3)		407	389
March 11, 2018	March 11, 2013 (7)	4.84% (8)		1,039	–
June 6, 2018	June 6, 2013 (9)	5.00% (10)		1,012	–
November 4, 2018	November 4, 2013 (11)	5.45% (3)		1,102	1,021
June 8, 2023		9.30%		110	110
June 26, 2037	June 26, 2017 (12)	2.86% (13)	JPY 10,000	81	77
October 1, 2083	(14)	(15)		224	224
June 6, 2085	(14)	(16)	US$189	228	179
June 18, 2103	June 18, 2009 (17)	5.95% (18)		672	622
				$ 8,142	$ 6,241
Deferred financing costs				(11)	(6)
				$ 8,131	$ 6,235

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 8 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 9 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 12.5 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 22 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 42.5 basis points and (ii) par value, and thereafter at any time at par value.
(8) Interest at stated interest rate until earliest par value redemption date, and thereafter at a rate of 2.00% above the 90-day Bankers' Acceptance rate.
(9) Redeemable at any time prior to the earliest par value redemption date at the greater of (i) the fair value of the subordinated debentures based on the yield on Government of Canada bonds plus 44 basis points and (ii) par value, and thereafter at any time at par value.
(10) Interest at stated interest rate until earliest par value redemption date, and thereafter at a rate of 2.15% above the 90-day Bankers' Acceptance rate.
(11) Redeemable at any time prior to the earliest par value redemption date at the greater of (i) the fair value of the subordinated debentures based on the yield on Government of Canada bonds plus 14 basis points and (ii) par value, and thereafter at any time at par value.
(12) Redeemable on or after June 26, 2017 at par value.
(13) Fixed interest rate at 2.86% per annum, payable semi-annually.
(14) Redeemable on any interest payment date at par value.
(15) Interest at a rate of 40 basis points above the 30-day Bankers' Acceptance rate.
(16) 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.
(17) 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.
(18) 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:

	2008
Within 1 year	$ 151
1 to 5 years	–
5 to 10 years	5,574
Thereafter	2,417
	$ 8,142

Note 17 Trust capital securities

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

On April 28, 2008, we issued $500 million of RBC Trust Capital Securities Series 2008-1 (RBC TruCS 2008-1) through our consolidated subsidiary RBC Capital Trust (Trust), a closed-end trust established under the laws of the Province of Ontario. The issue was priced at $1,000 per RBC TruCS 2008-1, and the proceeds were used to fund the Trust's acquisition of trust assets. The holders of RBC TruCS 2008-1 do not have any conversion rights or any other redemption rights. As a result, upon consolidation of the Trust, RBC TruCS 2008-1 are classified as Non-controlling interest in subsidiaries (refer to Note 19).

In prior years, we also issued non-voting RBC Trust Capital Securities Series 2010, 2011 and 2015 (RBC TruCS 2010, 2011 and 2015) through the Trust. 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 Business and government deposit liabilities (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 RBC 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.

In 2007, we issued $1 billion innovative subordinated debentures, RBC TSNs – Series A, through Trust III. Trust III is a closed-end trust established under the laws of the Province of Ontario. 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 RBC TSNs – Series A issued by Trust III are not reported on our Consolidated Balance Sheets but the senior deposit note issued by us to Trust III is reported in Business and government deposit liabilities (refer to Note 13).

The table below presents the significant terms and conditions of RBC TruCS and RBC TSNs as at October 31, 2008 and 2007.

Issuer	Issuance date	Distribution dates	Annual yield	Redemption date: At the option of the issuer	Conversion date: At the option of the holder	2008 Principal amount	2007 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
500,000 Trust Capital Securities – Series 2008–1	April 28, 2008	June 30, December 31	6.821% (8)	June 30, 2013	Holder does not have conversion option	500	–
						$ 3,100	$ 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	$ 1,000

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

(1) Subject to the approval of 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 2008-1, 2010, 2011 and 2015, without the consent of the holders.

(2) Subject to the approval of 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 2008-1, 2010, 2011, 2013 or 2015 without the consent of the holders.

(3) Issuer Redemption Price: The RBC TruCS 2008-1 may be redeemed for cash equivalent to (i) the Early Redemption Price if the redemption occurs prior to June 30, 2018 or (ii) the Redemption Price if the redemption occurs on or after June 30, 2018. 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 RBC TSNs – Series A may be redeemed, in whole or in part, subject to the approval of 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, 2018, plus 77 basis points, for RBC TruCS 2008-1, 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 RBC TSNs – Series A.

(4) Automatic Exchange Event: Without the consent of the holders, each RBC TruCS 2008-1 will be exchanged automatically for 40 of our non-cumulative redeemable Bank Preferred Shares Series AI, 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 RBC 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) 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) 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 Bank Preferred Shares Series AI and 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 and 2008, we held none of RBC TruCS 2008-1, RBC TruCS 2010, RBC TruCS 2011 and RBC TSNs – Series A, except for $6 million of RBC TruCS 2015 in 2007 as treasury holdings which were deducted from regulatory capital.

(6) Regulatory capital: According to OSFI guidelines, innovative capital instruments can comprise up to 15% of net Tier 1 capital with an additional 5% eligible for Tier 2B capital. RBC TSN – Series A qualifies as Tier 2B capital. As at October 31, 2008, $3,879 million (2007 – $3,494 million) represents Tier 1 capital, $1,147 million (2007 – $1,027 million) represents Tier 2B capital and $nil (2007 – $6 million) of our treasury holdings of innovative capital is deducted for regulatory capital purposes.

(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 2008-1, RBC TruCS 2015 and RBC 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. The non-cumulative cash distribution on the RBC TruCS 2008-1 will be 6.821%, paid semi-annually in an amount of $34.105 on June 30 and December 31 of each year until June 30, 2018, and floating distributions thereafter at the six-month Bankers' Acceptance rate plus 350 basis points.

(9) Subject to the approval of 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 RBC 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 RBC 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

	2008			2007			2006		
	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 (1)	–	$ –	$ .88	11,916	$ 298	$ 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	
Preferred shares									
First preferred									
Non-cumulative Series O (2)	–	$ –	$ –	–	$ –	$ –	6,000	$ 150	$ 1.38
Non-cumulative Series W (3)	12,000	300	1.23	12,000	300	1.23	12,000	300	1.23
Non-cumulative Series AA (4)	12,000	300	1.11	12,000	300	1.11	12,000	300	.71
Non-cumulative Series AB (5)	12,000	300	1.18	12,000	300	1.18	12,000	300	.41
Non-cumulative Series AC (6)	8,000	200	1.15	8,000	200	1.22	–	–	–
Non-cumulative Series AD (7)	10,000	250	1.13	10,000	250	1.06	–	–	–
Non-cumulative Series AE (8)	10,000	250	1.13	10,000	250	.95	–	–	–
Non-cumulative Series AF (9)	8,000	200	1.11	8,000	200	.77	–	–	–
Non-cumulative Series AG (10)	10,000	250	1.13	10,000	250	.65	–	–	–
Non-cumulative Series AH (11)	8,500	213	.81	–	–	–	–	–	–
Non-cumulative Series AJ (12)	16,000	400	–	–	–	–	–	–	–
		$ 2,663			$ 2,050			$ 1,050	
Common shares									
Balance at beginning of year	1,276,260	$ 7,300		1,280,890	$ 7,196		1,293,502	$ 7,170	
Issued on new acquisitions	59,675	2,937		–	–		–	–	
Issued under the stock option plan (13)	6,445	153		7,215	170		5,617	127	
Purchased for cancellation	(1,120)	(6)		(11,845)	(66)		(18,229)	(101)	
Balance at end of year	1,341,260	$ 10,384	$ 2.00	1,276,260	$ 7,300	$ 1.82	1,280,890	$ 7,196	$ 1.44
Treasury shares – Preferred shares									
Balance at beginning of year	(249)	$ (6)		(94)	$ (2)		(91)	$ (2)	
Sales	1,060	23		1,345	33		2,082	51	
Purchases	(1,071)	(22)		(1,500)	(37)		(2,085)	(51)	
Balance at end of year	(260)	$ (5)		(249)	$ (6)		(94)	$ (2)	
Treasury shares – Common shares									
Balance at beginning of year	(2,444)	$ (101)		(5,486)	$ (180)		(7,053)	$ (216)	
Sales	1,269	51		4,756	175		5,097	193	
Purchases	(1,083)	(54)		(1,714)	(96)		(3,530)	(157)	
Balance at end of year	(2,258)	$ (104)		(2,444)	$ (101)		(5,486)	$ (180)	

(1) On August 22, 2008, we redeemed Non-cumulative First Preferred Shares Series N at a redemption price equal to the carrying value.
(2) 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.
(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) On April 29, 2008, we issued 8.5 million Non-cumulative First Preferred Shares Series AH at $25 per share.
(12) On September 16, 2008, we issued 16 million Non-cumulative 5-Year Rate Reset First Preferred Shares Series AJ at $25 per share.
(13) Includes fair value adjustments to stock options of $5 million (2007 – $2 million), 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 $4 million (2007 – $10 million), and from renounced tandem SARs, net of related income taxes, of $4 million (2007 – $6 million).
(14) The 6.75 million exchangeable shares of a wholly owned subsidiary of RBC issued for the acquisition of PH&N are not included in this table. Refer to Note 11.

Terms of preferred share liabilities and preferred shares

	Dividend per share (1)	Redemption date (2)	Redemption price (2), (3)	Conversion date (5) At the option of the bank (2), (4)	Conversion date (5) At the option of the holder
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
Non-cumulative Series AH	.353125	May 24, 2013	26.00	Not convertible	Not convertible
Non-cumulative Series AJ	.312500	February 24, 2014	25.00	Not convertible	Not convertible

(1) Non-cumulative preferential dividends on Series W, AA, AB, AC, AD, AE, AF, AG, AH and AJ 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, 2008 or the contractual redemption price, whichever is applicable. Subject to the consent of 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 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; and in the case of Series AH, at a price per share of $26, if redeemed during the 12 months commencing May 24, 2013, and decreasing by $.25 each 12-month period thereafter to a price per share of $25 if redeemed on or after May 24, 2017; and in the case of Series AJ, at a price per share of $25, if redeemed on February 24, 2014 and on each February 24 every fifth year thereafter.

(3) Subject to the consent of OSFI and the requirements of the Act, we may purchase the First Preferred Shares Series W, AA, AB, AC, AD, AE, AF, AG, AH and AJ 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 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) The conversion date refers to the date of conversion to common shares.

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.

We have agreed that if Trust or 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.

Dividend reinvestment plan

Our dividend reinvestment plan (plan) provides registered common shareholders with a means to automatically reinvest the cash dividends paid on their common shares in 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, 2008, 26.8 million common shares are available for future issue relating to our dividend investment plan and potential exercise of stock options outstanding.

Others

We announced on October 23, 2008, our intention to issue 8 million Non-cumulative 5-Year Rate Reset First Preferred Shares Series AL at $25 per share, for total proceeds of $200 million. This issuance was completed on November 3, 2008 for a total of 12 million shares and proceeds of $300 million, including underwriters' options that were exercised.

We also announced on October 30, 2008, that the Toronto Stock Exchange has approved RBC to repurchase up to 20 million common shares. Subject to consultation with OSFI, purchases under the Normal Course Issuer Bid (NCIB) may commence on November 1, 2008 and will terminate on October 31, 2009.

Normal Course Issuer Bid

Details of common shares repurchased under NCIBs during 2008, 2007 and 2006 are given below.

	2008				2007			
NCIB period	Number of shares eligible for repurchase (000s)	Number of shares repurchased (000s)	Average cost per share	Amount	Number of shares eligible for repurchase (000s)	Number of shares repurchased (000s)	Average cost per share	Amount
November 1, 2007 – October 31, 2008	20,000	1,120	$ 49.50	$ 55	–	–	–	–
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

Note 19 Non-controlling interest in subsidiaries

	2008	2007
RBC Trust Capital Securities (RBC TruCS) – Series 2015	$ 1,220	$ 1,214
– Series 2008-1	511	–
Consolidated VIEs	205	188
Others	435	81
	$ 2,371	$ 1,483

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 Series 2015 in 2005 and Series 2008-1 in 2008 which are reported as Non-controlling interest in subsidiaries upon consolidation as discussed in Note 17. As at October 31, 2008, $20 million (2007 – $20 million) of accrued interest was included in RBC TruCS Series 2015. The 2007 amount is net of $6 million of treasury holdings. Series 2008-1 includes $11 million of accrued interest.

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.

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, 2008. The next actuarial valuation for funding purposes will be completed on January 1, 2009.

For 2008, total contributions to our pension and other post-employment benefit plans were $285 million and $43 million (2007 – $208 million and $57 million), respectively. For 2009, total contributions to pension plans and other post-employment benefit plans are expected to be approximately $475 million and $44 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)	
	2008	2007	**2008**	2007
Change in fair value of plan assets				
Opening fair value of plan assets	**$ 6,784**	$ 6,407	**$ 52**	$ 41
Actual return on plan assets	**(877)**	638	**(4)**	4
Company contributions	**191**	146	**45**	56
Plan participant contributions	**29**	25	**6**	5
Benefits paid	**(343)**	(333)	**(58)**	(54)
Business acquisitions	**7**	–	**–**	–
Other	**–**	(34)	**–**	–
Change in foreign currency exchange rate	**35**	(65)	**–**	–
Closing fair value of plan assets	**$ 5,826**	$ 6,784	**$ 41**	$ 52
Change in benefit obligation				
Opening benefit obligation	**$ 6,846**	$ 6,838	**$ 1,504**	$ 1,468
Service cost	**174**	178	**16**	19
Interest cost	**389**	362	**83**	75
Plan participant contributions	**29**	25	**6**	5
Actuarial (gain) loss	**(932)**	(115)	**(264)**	3
Benefits paid	**(343)**	(333)	**(58)**	(54)
Plan amendments and curtailments	**(12)**	(9)	**–**	–
Business acquisitions	**12**	5	**11**	–
Other	**–**	(27)	**–**	–
Change in foreign currency exchange rate	**51**	(78)	**17**	(12)
Closing benefit obligation	**$ 6,214**	$ 6,846	**$ 1,315**	$ 1,504
Funded status				
Excess of benefit obligation over plan assets	**$ (388)**	$ (62)	**$ (1,274)**	$ (1,452)
Unrecognized net actuarial loss	**769**	488	**272**	564
Unrecognized transitional (asset) obligation	**(8)**	(10)	**1**	1
Unrecognized prior service cost	**62**	95	**(283)**	(307)
Contributions between September 30 and October 31	**14**	2	**3**	5
Prepaid asset (accrued liability) as at October 31	**$ 449**	$ 513	**$ (1,281)**	$ (1,189)
Amounts recognized in our Consolidated Balance Sheets consist of:				
Other assets	**$ 551**	$ 590	**$ –**	$ –
Other liabilities	**(102)**	(77)	**(1,281)**	(1,189)
Net amount recognized as at October 31	**$ 449**	$ 513	**$ (1,281)**	$ (1,189)
Weighted average assumptions to calculate benefit obligation				
Discount rate	**6.70%**	5.60%	**6.72%**	5.62%
Rate of increase in future compensation	**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 $5,359 million (2007 – $5,850 million) and $4,917 million (2007 – $5,687 million), respectively.

(2) For our other post-employment plans, the assumed healthcare 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 6.2% for medical decreasing to an ultimate rate of 4.1% in 2017 and 4.5% for dental.

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
2009	**$ 370**	**$ 66**
2010	**371**	**70**
2011	**378**	**74**
2012	**387**	**78**
2013	**399**	**82**
2014–2018	**2,247**	**472**

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 0.4 million (2007 – 1.5 million) of our common shares having a fair value of $20 million (2007 – $84 million). Dividends amounting to $1.8 million (2007 – $2.6 million) were received on our common shares held in the plan assets during the year.

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

Asset category

	Actual	
	2008	2007
Equity securities	**51%**	60%
Debt securities	**45%**	40%
Other	**4%**	–
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

	2008	2007	2006
Service cost	$ 174	$ 178	$ 173
Interest cost	389	362	345
Expected return on plan assets	(438)	(411)	(364)
Amortization of transitional asset	(2)	(2)	(2)
Amortization of prior service cost	22	29	32
Amortization of actuarial loss (gain)	103	129	138
Other	–	7	3
Defined benefit pension expense	$ 248	$ 292	$ 325
Defined contribution pension expense	82	74	65
Pension benefit expense	$ 330	$ 366	$ 390
Weighted average assumptions to calculate pension benefit expense			
Discount rate	5.60%	5.25%	5.25%
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

	2008	2007	2006
Service cost	$ 16	$ 19	$ 26
Interest cost	83	75	77
Expected return on plan assets	(3)	(3)	(2)
Amortization of transitional obligation	–	–	3
Amortization of actuarial loss (gain)	29	36	31
Amortization of prior service cost	(23)	(23)	(20)
Curtailment gain	–	–	(8)
Other post-employment benefit expense	$ 102	$ 104	$ 107
Weighted average assumptions to calculate other post-employment benefit expense			
Discount rate	5.62%	5.26%	5.41%
Rate of increase in future compensation	3.30%	3.30%	3.30%

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 7.25% for 2009 (7.00% for 2005 to 2008).

Discount rate

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

Sensitivity analysis

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

2008 Sensitivity of key assumptions

Pension	Change in obligation	Change in expense
Impact of .25% change in discount rate assumption	$ 197	$ 25
Impact of .25% change in rate of increase in future compensation assumption	18	3
Impact of .25% change in the long-term rate of return on plan assets assumption	–	16
Other post-employment	Change in obligation	Change in expense
Impact of .25% change in discount rate assumption	$ 42	$ 9
Impact of .25% change in rate of increase in future compensation assumption	–	–
Impact of 1.00% increase in healthcare cost trend rates	120	10
Impact of 1.00% decrease in healthcare cost trend rates	(100)	(8)

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

	2008	2007	2006
Defined benefit pension expense recognized	$ 248	$ 292	$ 325
Difference between expected and actual return on plan assets	1,315	(227)	(81)
Difference between actuarial losses (gains) amortized and actuarial losses (gains) arising	(1,035)	(246)	(100)
Difference between prior service costs amortized and prior service costs arising	(34)	(38)	(2)
Amortization of transitional asset	2	2	2
Defined benefit pension expense incurred	$ 496	$ (217)	$ 144

Other post-employment benefit expense incurred

	2008	2007	2006
Other post-employment benefit expense recognized	$ 102	$ 104	$ 107
Difference between expected and actual return on plan assets	8	(1)	(1)
Difference between actuarial losses (gains) amortized and actuarial losses (gains) arising	(293)	(33)	7
Difference between prior service costs amortized and prior service costs arising	24	23	(485)
Amortization of transitional obligation	–	–	(3)
Other post-employment benefit expense incurred	$ (159)	$ 93	$ (375)

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 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. These grants, which are accompanied by tandem SARs, resulted in a compensation gain of $21 million for the year ended October 31, 2008 (2007 – $19 million expense; 2006 – $27 million expense).

A summary of our stock option activity and related information

	2008		2007		2006	
	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	26,623	$ 27.71	32,243	$ 24.66	36,481	$ 23.15
Granted	2,020	52.87	1,835	55.06	1,756	44.13
Exercised – Common shares (1), (2)	(6,445)	21.72	(7,215)	21.10	(5,617)	20.40
– SARs	(148)	19.30	(204)	21.50	(143)	21.60
Cancelled	(277)	48.36	(36)	36.42	(234)	24.36
Outstanding at end of year	21,773	$ 31.66	26,623	$ 27.71	32,243	$ 24.66
Exercisable at end of year	17,247	$ 26.92	21,924	$ 24.17	26,918	$ 22.57
Available for grant	19,925		21,527		23,121	

(1) Cash received for options exercised during the year was $140 million (2007 – $152 million; 2006 – $115 million).
(2) New shares were issued for all options exercised in 2008, 2007 and 2006. Refer to Note 18.

Options outstanding and options exercisable as at October 31, 2008 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
$10.80 – $11.35 (1)	219	$ 11.24	1.1	219	$ 11.24
$15.00 – $19.51	2,398	16.71	1.0	2,398	16.71
$21.79 – $25.00	7,709	24.58	2.5	7,709	24.58
$26.10 – $31.70	6,144	30.50	4.8	5,669	30.40
$44.13 – $57.90	5,303	50.88	8.1	1,252	47.92
Total	21,773	$ 31.66	4.3	17,247	$ 26.92

(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, 2008, in respect of these plans was $12 million (2007 – $13 million; 2006 – $13 million). The compensation expenses related to non-vested awards were $11 million at October 31, 2008 (2007 – $14 million; 2006 – $13 million), to be recognized over the weighted average period of 2.0 years (2007 – 2.2 years; 2006 – 2.0 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. 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, 2008, 2007 and 2006.

The weighted average fair value of options granted during 2008 was estimated at $6.57 (2007 – $7.84; 2006 – $6.80) using an option pricing model on the date of grant. The following assumptions were used:

For the year ended October 31	2008	2007	2006
Weighted average assumptions			
Risk-free interest rate	3.93%	3.82%	3.98%
Expected dividend yield	3.27%	3.06%	3.16%
Expected share price volatility	14%	16%	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 common 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 2008, we contributed $68 million (2007 – $64 million; 2006 – $60 million), under the terms of these plans, towards the purchase of our common shares. As at October 31, 2008, an aggregate of 34.1 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, 2008, was $200 million (2007 – $285 million; 2006 – $232 million). The share price fluctuations and dividend equivalents compensation gain recorded for the year ended October 31, 2008, in respect of these plans was $37 million (2007 – $37 million expense; 2006 – $45 million expense).

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, 2008, was $473 million (2007 – $490 million; 2006 – $401 million). The share price fluctuations and dividend equivalents compensation gain for the year ended October 31, 2008, in respect of this plan was $75 million (2007 – $62 million expense; 2006 – $51 million expense).

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, 2008, was 2.0 million (2007 –2.3 million; 2006 – 5.3 million). The value of the DSUs liability as at October 31, 2008 was $164 million (2007 – $250 million; 2006 – $153 million). The compensation expense recorded for the year ended October 31, 2008, in respect of these plans was $96 million (2007 – $168 million; 2006 – $148 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, 2008, was $244 million (2007 – $285 million; 2006 – $289 million). The compensation gain recorded for the year ended October 31, 2008, was $123 million (2007 – $157 million expense; 2006 – $110 million expense).

For other stock-based plans, compensation expense of $5 million was recognized for the year ended October 31, 2008 (2007 – $9 million; 2006 – $10 million). The liability for the share units held under these plans as at October 31, 2008, was $35 million (2007 – $21 million; 2006 – $4 million). The number of our common shares held under these plans was .2 million (2007 – .3 million; 2006 – .3 million).

Note 22 Revenue from trading and selected non-trading financial instruments

Held-for-trading financial instruments

Total Trading revenue includes both trading-related net interest income and trading revenue reported in Non-interest income. Net interest income arises from interest income and dividends recognized on trading assets and liabilities. Non-interest income includes a $210 million decrease in the fair values of our net financial assets classified as held-for-trading for the year ended October 31, 2008 (2007 – increased by $1,912 million).

	2008	2007	2006
Net interest income (expense)	$ 998	$ (220)	$ (539)
Non-interest (expense) income	(408)	1,999	2,574
Total	$ 590	$ 1,779	$ 2,035
By product line			
Interest rate and credit	$ (259)	$ 640	$ 1,174
Equities	265	784	561
Foreign exchange and commodities (1)	584	355	300
Total	$ 590	$ 1,779	$ 2,035

(1) Include precious metals.

Financial instruments designated as held-for-trading

During the year, net gains or losses representing net changes in the fair value of financial assets and financial liabilities designated as held-for-trading decreased by $341 million (2007 – increased by $80 million).

Financial instruments measured at amortized cost

The following were recognized in Non-interest income during the year ended October 31, 2008:

- Net fee income of $3,183 million, which does not form an integral part of the effective interest rate of financial assets and liabilities other than held-for-trading (2007 – $2,617 million).
- Net fee income of $5,405 million arising from trust and other fiduciary activities (2007 – $5,779 million).
- Net gains and losses of $nil arising from financial instruments measured at amortized cost (2007 – $nil).

Note 23 Income taxes

	2008	2007	2006
Income taxes (recoveries) in Consolidated Statements of Income			
Continuing operations			
Current			
Canada – Federal	$ 1,350	$ 696	$ 506
– Provincial	664	416	331
International	85	322	435
	2,099	1,434	1,272
Future			
Canada – Federal	(533)	14	104
– Provincial	(211)	3	31
International	14	(59)	(4)
	(730)	(42)	131
Subtotal	1,369	1,392	1,403
Discontinued operations			
Current			
International	–	–	(20)
Future			
International	–	–	2
Subtotal	1,369	1,392	1,385
Income taxes (recoveries) in Consolidated Statements of Comprehensive Income and Changes in Shareholders' Equity			
Continuing operations			
Other comprehensive income (1)			
Net unrealized losses on available-for-sale securities	(778)	(26)	n.a.
Reclassification of losses on available-for-sale securities to income	201	15	n.a.
Net foreign currency translation (losses) gains, net of hedging activities	(1,361)	911	130
Net unrealized (losses) gains on derivatives designated as cash flow hedges	(304)	43	n.a.
Reclassification to income of losses on derivatives designated as cash flow hedges	23	16	n.a.
Issuance costs	(6)	(12)	(4)
Stock appreciation rights	2	5	4
Other	(2)	(6)	6
Subtotal	(2,225)	946	136
Total income (recoveries) taxes	$ (856)	$ 2,338	$ 1,521

(1) OCI was introduced upon the adoption of Section 1530 on November 1, 2006; accordingly, there are no comparative figures for 2006, 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

	2008	2007
Future income tax asset		
Allowance for credit losses	$ 719	$ 460
Deferred compensation	721	642
Pension related	189	188
Business realignment charges	6	10
Tax loss carryforwards	106	91
Deferred income	31	50
Enron-related litigation provision	27	204
Other comprehensvie income	234	47
Other	708	369
	2,741	2,061
Valuation allowance	(78)	(10)
	2,663	2,051
Future income tax liability		
Premises and equipment	(240)	(245)
Deferred expense	(64)	(138)
Intangibles	(185)	(25)
Other	(468)	(392)
	(957)	(800)
Net future income tax asset	$ 1,706	$ 1,251

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 $106 million of future income tax assets related to losses in our Canadian, Japanese and U.S. operations (2007 – $91 million) which will expire starting in 2009.

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

	2008		2007		2006	
Income taxes at Canadian statutory tax rate	$ 1,952	32.5%	$ 2,431	34.6%	$ 2,152	34.7%
(Decrease) increase in income taxes resulting from						
Lower average tax rate applicable to subsidiaries	(450)	(7.5)	(734)	(10.4)	(599)	(9.6)
Tax-exempt income from securities	(326)	(5.4)	(272)	(3.9)	(184)	(3.0)
Tax rate change	51	.8	30	.4	13	.2
Other	142	2.4	(63)	(.9)	21	.3
Income taxes reported in Consolidated Statements of Income before discontinued operations and effective tax rate	$ 1,369	22.8%	$ 1,392	19.8%	$ 1,403	22.6%

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 $920 million as at October 31, 2008 (2007 – $843 million; 2006 – $822 million).

Note 24 Earnings per share

	2008	2007	2006
Basic earnings per share			
Net income from continuing operations	$ 4,555	$ 5,492	$ 4,757
Net loss from discontinued operations (1)	–	–	(29)
Net income	4,555	5,492	4,728
Preferred share dividends	(101)	(88)	(60)
Net gain on redemption of preferred shares	–	–	–
Net income available to common shareholders	$ 4,454	$ 5,404	$ 4,668
Average number of common shares (in thousands)	1,305,706	1,273,185	1,279,956
Basic earnings (loss) per share			
Continuing operations	$ 3.41	$ 4.24	$ 3.67
Discontinued operations	–	–	(0.02)
Total	$ 3.41	$ 4.24	$ 3.65
Diluted earnings per share			
Net income available to common shareholders	$ 4,454	$ 5,404	$ 4,668
Average number of common shares (in thousands)	1,305,706	1,273,185	1,279,956
Stock options (2)	8,497	13,254	14,573
Issuable under other stock-based compensation plans	2,148	2,875	5,256
Exchangeable shares (3)	3,393	–	–
Average number of diluted common shares (in thousands)	1,319,744	1,289,314	1,299,785
Diluted earnings (loss) per share			
Continuing operations	$ 3.38	$ 4.19	$ 3.61
Discontinued operations	–	–	(0.02)
Total	$ 3.38	$ 4.19	$ 3.59

(1) The net loss for 2006 is related to RBC Mortgage Company which was disposed of in 2005.
(2) The dilutive effect of stock options was calculated using the treasury stock method. For 2008, we excluded from the calculation of diluted earnings per share 3,541,989 average options outstanding with an exercise price of $53.99 as the exercise price of these options was greater than the average market price of our common shares. 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, no options were outstanding with an exercise price exceeding the average market price of our common shares.
(3) Exchangeable shares were issued for the acquisition of PH&N. Refer to Note 11.

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, *Disclosure of Guarantees*. 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.

	2008		2007	
	Maximum potential amount of future payments	Carrying amount	Maximum potential amount of future payments	Carrying amount
Credit derivatives and written put options (1)	$ 43,700	$ 5,742	$ 70,242	$ 2,657
Backstop liquidity facilities (2)	40,892	59	43,066	41
Stable value products (3)	24,876	–	17,369	–
Financial standby letters of credit and performance guarantees (4)	22,185	75	16,661	57
Credit enhancements	4,873	22	4,814	30
Mortgage loans sold with recourse	210	–	230	–

(1) The carrying amount is included in Other – Derivatives on our Consolidated Balance Sheets. The notional amount of the contract approximates the maximum potential amount of future payments.

(2) Certain RBC-administered multi-seller asset-backed commercial paper conduit programs drew down certain of our backstop liquidity facilities. As at October 31, 2008, these loans totalled US$1,617 million (C$1,947 million) before the allowance for loan losses of US$54 million (C$65 million) and are included in Wholesale Loans – Business on our Consolidated Balance Sheets.

(3) The notional amount of the contract approximates the maximum potential amount of future payments. The maximum potential amount of future payments comprise $9.4 billion (October 31, 2007 – $7.0 billion) for bank-owned life insurance policies and $15.4 billion (October 31, 2007 – $10.4 billion) for U.S. *Employee Retirement Income Security Act of 1974* (ERISA)-governed pension plans such as 401(k) plans. During the year, we recorded a provision of approximately $149 million in connection with the bank-owned life insurance policies stable value contracts. The provision reflects both the value of the assets in the underlying investment portfolios of the policies and our estimate of the probability of the policyholders surrendering their policies.

(4) The carrying amount is included in Other – Other liabilities on our Consolidated Balance Sheets. Includes $1.4 billion maximum potential amount of future payments related to the ARS TOB programs and represents the higher of the notional amounts of the letters of credit and the liquidity facilities.

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, 2008, RBC Dexia IS securities lending indemnifications totalled $45,723 million (2007 – $63,462 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 disclosed only 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 41 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 six 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 to three years.

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.

Stable value products
We sell stable value products that offer book value protection primarily to plan sponsors of *United States Employee Retirement Income Security Act of 1974* (ERISA)-governed pension plans such as 401(k) plans and 457 plans as well as bank-owned life insurance policies. The book value protection is provided on portfolios of intermediate/short-term fixed income securities and is intended to cover any shortfall in the event that plan participants withdraw funds or policyholders surrender their life insurance policies 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. For certain guarantees, the guaranteed party can request payment from us even though the client has not defaulted on its obligations. 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 approximately three 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

	2008	2007 (1)
Commitments to extend credit (2)		
Original term to maturity of 1 year or less	$ 44,135	$ 42,236
Original term to maturity of more than 1 year	60,572	54,733
Securities lending	27,547	36,187
Uncommitted amounts (3)	170,780	185,297
Documentary and commercial letters of credit	558	501
	$ 303,592	$ 318,954

(1) The 2007 comparative information has been revised as a result of implementing Basel II.
(2) Includes liquidity facilities.
(3) The comparative numbers have been revised to include retail commitments in addition to commercial commitments. Uncommitted amounts include uncommitted liquidity loan facilities of $41.4 billion (2007 – $42.2 billion) provided to RBC-administered multi-seller conduits. As at October 31, 2008, $nil (2007 – $758 million) was drawn upon on these facilities and is included in Loans.

Restructuring of non-bank-sponsored asset-backed commercial paper (ABCP) conduits

In August 2007, certain non-bank-sponsored ABCP conduits in Canada faced various liquidity issues which ultimately led them to an agreed upon standstill process and discussions toward a longer-term solution. As a result of negotiations amongst various parties, a proposed restructuring of the ABCP conduits under the *Companies Creditors Arrangement Act* was reviewed by the Ontario Superior Court (Court). One aspect of the restructuring involves a margin funding facility from a group of derivative counterparties, banks and others. We have been actively engaged in discussions related to the restructuring and have indicated our support for this margin funding facility, subject to the approval of the restructuring by the Court and the completion of certain other conditions. Upon the approval of the restructuring and the completion of these conditions, we anticipate that we will account for the margin funding facility as a loan commitment.

On June 5, 2008, the Court approved the proposed restructuring of the non-bank-sponsored ABCP conduits but the Court's decision was appealed to the Ontario Court of Appeal. On August 18, 2008, the Ontario Court of Appeal unanimously upheld the decision of the Court. Certain investors of the non-bank-sponsored ABCP conduits requested the Supreme Court of Canada to hear their arguments on the appeal, but on September 19, 2008, the Supreme Court of Canada turned down their request.

While we have been working toward closing the transaction, on November 25, 2008, the Pan-Canadian Investors Committee for the non-bank-sponsored ABCP conduits announced that they will not be in a position to close the transaction by the end of November. We understand that the Court has now extended the plan implementation date to December 19, 2008.

Pledged assets

In the ordinary course of business, we pledge assets with terms and conditions that are usual and customary to our regular lending, borrowing and trading activities recorded on our Consolidated Balance Sheets. The following are examples of our general terms and conditions on pledged assets:

- The risks and rewards of the pledged assets reside with the pledgor.
- The pledged asset is returned to the pledgor when the necessary conditions have been satisfied.
- The right of the pledgee to sell or repledge the asset is dependent on the specific agreement under which the collateral is pledged.
- If there is no default, the pledgee must return the comparable asset to the pledgor upon satisfaction of the obligation

We are also required to provide intraday pledges to the Bank of Canada when we use the Large Value Transfer System (LVTS), which is a real-time electronic wire transfer system that continuously processes all Canadian dollar large-value or time-critical payments throughout the day. The pledged assets earmarked for LVTS activities are normally released back to us at the end of the settlement cycle each day. Therefore, the pledged securities amount is not included in the table below. For the year ended October 31, 2008, we had on average $3.2 billion (2007 – $3.6 billion) of securities pledged intraday to the Bank of Canada on a daily basis. There are infrequent occasions where we are required to take an overnight advance from the Bank of Canada to cover a settlement requirement, in which case an equivalent value of the pledged assets would be used to secure the advance. There were no overnight advances taken on October 31, 2008 and October 31, 2007.

Details of assets pledged against liabilities are shown in the following tables:

Pledged assets

	2008	2007
Cash and due from banks	$ 2,443	$ 305
Interest-bearing deposits with banks	9,960	3,443
Loans	9,821	1,733
Securities	45,920	51,695
Assets purchased under reverse repurchase agreements	23,362	39,670
Other assets	989	1,052
	$ 92,495	$ 97,898

	2008	2007
Assets pledged to:		
Foreign governments and central banks	$ 5,706	$ 1,981
Clearing systems, payment systems and depositories	2,226	1,772
Assets pledged in relation to:		
Securities borrowing and lending	25,613	34,801
Obligations related to securities sold under repurchase agreements	30,919	48,479
Derivative transactions	17,664	7,474
Covered bonds	5,142	–
Other	5,225	3,391
	$ 92,495	$ 97,898

Collateral

In the ordinary course of business, we enter into collateral agreements with terms and conditions that are usual and customary to our regular lending and borrowing activities recorded on our Consolidated Balance Sheets. The following are examples of our general terms and conditions on collateral assets that we may sell, pledge or repledge:

- The risks and rewards of the pledged assets reside with the pledgor.
- The pledged asset is returned to the pledgor when the necessary conditions have been satisfied.
- The right of the pledgee to sell or repledge the asset is dependent on the specific agreement under which the collateral is pledged.
- If there is no default, the pledgee must return the comparable asset to the pledgor upon satisfaction of the obligation.

As at October 31, 2008, the approximate market value of collateral accepted that may be sold or repledged by us was $83.0 billion (2007 – $122.4 billion). This collateral was received in connection with reverse repurchase agreements, securities borrowings and loans, and derivative transactions. Of this amount, $32.6 billion (2007 – $56.5 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), (2)

2009	$ 550
2010	478
2011	406
2012	344
2013	289
Thereafter	1,129
	$ 3,196

(1) Substantially all of our lease commitments are related to operating leases.
(2) The minimum lease payments include an imputed interest of capital leases of $7 million.

Repurchase offer of ARS

On October 8, 2008, we announced that, as part of an agreement in principle to settle with the U.S. regulators, we will offer to purchase, at par, for a six-month period beginning no later than December 15, 2008, ARS held by U.S. retail brokerage clients that are qualified for the repurchase offer. Qualifying clients who sold eligible ARS below par between February 11, 2008 and October 8, 2008 will be paid the difference between par and the price of the sale.

The repurchase offer represents notional amounts of approximately US$850 million (C$1,024 million) as at October 31, 2008. The impact on our 2008 results is US$34.5 million (C$41.6 million) pre-tax which comprised the estimated difference between par value and current valuations and a penalty of US$9.8 million (C$11.8 million). RBC has agreed to pay to the New York Attorney General's office and the state securities commissioners associated with the North American Securities Administrators Association. The final financial impact of the repurchase offer will depend on the number of clients who accept the repurchase offer and market conditions at the time they accept.

In addition, we will also continue to work with issuers and other interested parties to provide liquidity solutions for institutional investors not covered by the repurchase offer.

Litigation

Enron Corp. (Enron) litigation

A purported class of purchasers of Enron publicly traded equity and debt securities between January 9, 1999 and November 27, 2001, 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). The Regent's case was consolidated with the lead action entitled *Newby v. Enron Corp.*, which is the main consolidated purported Enron shareholder class action wherein similar claims have been made against numerous other financial institutions, law firms, accountants and certain current former officers and directors of Enron. RBC has also been named as a defendant by several individual investors in respect of the losses suffered by those investors as purchasers of Enron publicly traded equity and debt securities.

During the fourth quarter of 2005, RBC established a litigation provision of $591 million (US$500 million) or $326 million after-tax (US$276 million) in regard to its Enron-related litigation exposure. Management reviews this provision regularly and at least on a quarterly basis. There were several important developments during 2008 which we believe affect the analysis of RBC's potential Enron-related litigation exposure, including Supreme Court and other court decisions in the United States, the restatement by the plaintiffs in the Newby case of the basis for certification of the class in regard to their claim and the defendants' replies to that restatement. As a result of our continuous evaluation of these developments as they occurred, individually and in aggregate, our latest assessment of them has led us to conclude that a litigation provision of $60 million (US$50 million) or $33 million after-tax (US$27 million) is reasonable. The $542 million (US$450 million) difference has been recorded in Non-interest expense – Other on our income statement. We will continue to vigorously defend ourselves in all remaining Enron-related cases and will exercise our judgment in resolving these claims.

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 26 Contractual repricing and maturity schedule

The following table details our exposure to interest rate risk as defined and prescribed by CICA Handbook Section 3862, *Financial Instruments – Disclosures*. 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, 2008, would result in a change in the under-one-year gap from $(63.0) billion to $(48.7) billion (2007 – $(74.4) billion to $(53.3) billion).

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	$ –	$ 29,247	$ –	$ –	$ –	$ –	$ 1,880	$ 31,127
Effective interest rate	–	2.68%	–	–	–	–	–	–
Securities								
Trading	–	16,908	7,409	8,855	20,264	26,279	42,793	122,508
Effective interest rate	–	2.80%	3.12%	3.05%	3.23%	4.06%		
Available-for-sale	–	10,925	2,794	3,390	19,354	9,123	3,040	48,626
Effective interest rate	–	2.41%	3.25%	2.96%	4.48%	4.45%	–	–
Assets purchased under reverse repurchase agreements and securities borrowed	–	44,818	–	–	–	–	–	44,818
Effective interest rate	–	2.79%	–	–	–	–	–	–
Loans (net of allowance for loan losses) (1)	140,102	30,363	8,802	21,162	80,781	7,699	631	289,540
Effective interest rate	–	4.04%	5.03%	5.01%	5.50%	5.70%	–	–
Derivatives	53,156	7,064	2	–	17	–	75,895	136,134
Effective interest rate	–	2.97%	3.03%	–	3.18%	–	–	–
Other assets	–	–	–	–	–	–	51,106	51,106
	$193,258	$139,325	$ 19,007	$ 33,407	$120,416	$ 43,101	$175,345	$723,859
Liabilities								
Deposits	$171,501	$139,513	$ 14,883	$ 30,384	$ 74,015	$ 7,389	$ 890	$438,575
Effective interest rate	–	2.36%	3.34%	3.43%	3.98%	4.67%	–	–
Obligations related to assets sold under repurchase agreements and securities loaned	–	29,232	525	1,473	633	190	–	32,053
Effective interest rate	–	2.79%	3.11%	2.38%	2.62%	3.91%	–	–
Obligations related to securities sold short	–	706	199	331	6,415	5,964	13,892	27,507
Effective interest rate	–	3.15%	3.09%	2.85%	2.85%	3.97%	–	–
Derivatives	51,012	5,318	–	–	3	28	72,344	128,705
Effective interest rate	–	2.85%	–	–	3.20%	3.16%	–	–
Other liabilities	–	168	12	8	1,734	524	51,913	54,359
Effective interest rate	–	2.35%	2.44%	2.62%	4.08%	5.63%	–	–
Subordinated debentures	–	951	151	1,671	3,796	1,562	–	8,131
Effective interest rate	–	3.51%	6.50%	5.93%	5.20%	6.73%	–	–
Trust capital securities	–	–	–	–	1,400	–	–	1,400
Effective interest rate	–	–	–	–	7.23%	–	–	–
Preferred share liabilities	–	–	–	–	1,200	500	671	2,371
Effective interest rate	–	–	–	–	4.87%	6.82%	–	–
Non-controlling interest in subsidiaries	–	–	–	–	–	2,663	28,095	30,758
Effective interest rate	–	–	–	–	–	4.58%	–	–
Shareholders' equity	–	–	–	–	–	–	–	–
Effective interest rate	–	–	–	–	–	–	–	–
	$222,513	$175,888	$ 15,770	$ 33,867	$ 89,196	$ 18,820	$167,805	$723,859
Total gap based on contractual repricing	$ (29,255)	$ (36,563)	$ 3,237	$ (460)	$ 31,220	$ 24,281	$ 7,540	$ –
Canadian dollar	(29,221)	(36,638)	3,174	(513)	31,164	24,247	7,788	1
Foreign currency	(34)	75	63	53	56	34	(248)	(1)
Total gap	$ (29,255)	$ (36,563)	$ 3,237	$ (460)	$ 31,220	$ 24,281	$ 7,540	$ –
Canadian dollar – 2007	$ (23,067)	$ 9,417	$ 11,450	$ (6,183)	$ 22,680	$ (6,296)	$ (8,000)	$ 1
Foreign currency – 2007	(24,068)	(22,819)	(20,358)	1,214	25,895	21,435	18,700	(1)
Total gap – 2007	$ (47,135)	$ (13,402)	$ (8,908)	$ (4,969)	$ 48,575	$ 15,139	$ 10,700	$ –

(1) Includes loans totalling $3,647 million to variable interest entities administered by us, with maturity terms exceeding five years.

Note 27 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, 2008, the aggregate indebtedness, excluding routine indebtedness, to RBC or its subsidiaries of current directors and executive officers was approximately $0.6 million (2007 – $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 collectability; 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 28 Results by business and geographic segment

2008	Canadian Banking	Wealth Management	Insurance	International Banking	Capital Markets (1)	Corporate Support (1)	Total	Canada	United States	Other International
Net interest income	$ 6,718	$ 468	$ –	$ 1,330	$ 1,839	$ (995)	$ 9,360	$ 6,929	$ 1,132	$ 1,299
Non-interest income	2,868	3,519	2,610	771	2,096	358	12,222	8,220	2,521	1,481
Total revenue	9,586	3,987	2,610	2,101	3,935	(637)	21,582	15,149	3,653	2,780
Provision for (recovery of) credit losses	867	1	–	497	183	47	1,595	924	643	28
Insurance policyholder benefits, claims and acquisition expense	–	–	1,631	–	–	–	1,631	922	30	679
Non-interest expense	4,758	3,038	576	1,876	2,121	(18)	12,351	7,490	2,991	1,870
Net income (loss) before income taxes	3,961	948	403	(272)	1,631	(666)	6,005	5,813	(11)	203
Income taxes	1,299	283	14	(128)	465	(564)	1,369	1,750	(159)	(222)
Non-controlling interest	–	–	–	9	(4)	76	81	76	(4)	9
Net income	$ 2,662	$ 665	$ 389	$ (153)	$ 1,170	$ (178)	$ 4,555	$ 3,987	$ 152	$ 416
Less: Preferred dividends	28	12	4	21	23	13	101	60	30	11
Net income (loss) available to common shareholders	$ 2,634	$ 653	$ 385	$ (174)	$ 1,147	$ (191)	$ 4,454	$ 3,927	$ 122	$ 405
Average assets (2)	$ 232,300	$ 16,900	$ 12,600	$ 51,300	$ 340,300	$ (3,100)	$ 650,300	$ 354,700	$ 143,500	$ 152,100
Total average assets	$ 232,300	$ 16,900	$ 12,600	$ 51,300	$ 340,300	$ (3,100)	$ 650,300	$ 354,700	$ 143,500	$ 152,100

2007	Canadian Banking	Wealth Management	Insurance	International Banking	Capital Markets (1)	Corporate Support (1)	Total	Canada	United States	Other International
Net interest income	$ 6,353	$ 427	$ –	$ 1,031	$ 623	$ (732)	$ 7,702	$ 6,402	$ 412	$ 888
Non-interest income	2,976	3,565	3,192	884	3,766	377	14,760	8,638	4,322	1,800
Total revenue	9,329	3,992	3,192	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	4,748	2,902	537	1,481	2,769	36	12,473	7,409	3,405	1,659
Net income (loss) before income taxes	3,793	1,089	482	325	1,642	(306)	7,025	5,705	765	555
Income taxes	1,248	327	40	74	278	(575)	1,392	1,705	(62)	(251)
Non-controlling interest	–	–	–	9	72	60	141	83	49	9
Net income	$ 2,545	$ 762	$ 442	$ 242	$ 1,292	$ 209	$ 5,492	$ 3,917	$ 778	$ 797
Less: Preferred dividends	29	9	5	14	20	11	88	56	24	8
Net income (loss) available to common shareholders	$ 2,516	$ 753	$ 437	$ 228	$ 1,272	$ 198	$ 5,404	$ 3,861	$ 754	$ 789
Average assets (2)	$ 207,500	$ 16,600	$ 12,500	$ 39,700	$ 311,200	$ (6,500)	$ 581,000	$ 317,900	$ 135,100	$ 128,000
Total average assets	$ 207,500	$ 16,600	$ 12,500	$ 39,700	$ 311,200	$ (6,500)	$ 581,000	$ 317,900	$ 135,100	$ 128,000

2006	Canadian Banking	Wealth Management	Insurance	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	2,532	3,090	3,348	688	4,005	178	13,841	7,518	4,397	1,926
Total revenue	8,348	3,487	3,348	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	4,510	2,613	517	1,216	2,603	36	11,495	7,056	3,038	1,401
Business realignment charges	–	1	–	–	(1)	–	–	–	–	–
Net income (loss) before income taxes	3,234	872	322	387	1,649	(260)	6,204	4,672	812	720
Income taxes	1,110	268	20	117	317	(429)	1,403	1,458	14	(69)
Non-controlling interest	–	–	–	9	(23)	58	44	37	(1)	8
Net income from continuing operations	$ 2,124	$ 604	$ 302	$ 261	$ 1,355	$ 111	$ 4,757	$ 3,177	$ 799	$ 781
Net loss from discontinued operations	–	–	–	(29)	–	–	(29)	–	(29)	–
Net income	2,124	604	302	232	1,355	111	4,728	3,177	770	781
Less: Preferred dividends	20	6	4	7	13	10	60	40	15	5
Net income available to common shareholders	$ 2,104	$ 598	$ 298	$ 225	$ 1,342	$ 101	$ 4,668	$ 3,137	$ 755	$ 776
Average assets from continuing operations (2)	$ 187,600	$ 15,100	$ 11,600	$ 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	$ 187,600	$ 15,100	$ 11,600	$ 32,800	$ 260,600	$ (5,400)	$ 502,300	$ 287,200	$ 113,500	$ 101,600

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

Revenue by business line

	2008	2007	2006
Banking (1)	$ 10,832	$ 10,485	$ 9,418
Wealth management	3,987	3,992	3,487
Insurance	2,610	3,192	3,348
Global markets (2)	1,902	2,404	2,553
Global investment banking and equity markets (2), (3)	1,536	1,733	1,417
RBC Dexia IS (4)	855	759	558
Other (5)	(140)	(103)	(144)
Total	$ 21,582	$ 22,462	$ 20,637

(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.
(5) Consists of Global Credit and Research business, and includes the tax equivalent basis adjustment which is discussed below.

Changes in 2008

Composition of business segments

Effective May 1, 2008, we created our Insurance business segment, formerly a business under Canadian Banking. Concurrent with the realignment, we renamed our U.S. & International Banking segment International Banking. Our five business segments are outlined below.

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

Wealth Management businesses serve affluent and high net worth clients around the world, and provide asset management and estate and trust services directly to clients and through our internal partners and third-party distributors.

Insurance offers a wide range of life, health, travel, home and auto insurance products and creditor insurance services to individual and business clients in Canada and the U.S. We also offer reinsurance for clients around the world.

International Banking comprises our banking businesses in the U.S. and Caribbean, and global custody and investor services, which we provide through our 50% ownership in RBC Dexia IS.

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

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

All other enterprise level activities that are not allocated to these five business segments, such as enterprise funding, securitizations, net charges 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. Our 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 2008 was $410 million (2007 – $332 million; 2006 – $213 million).

During 2008, we also reclassified the following balances in reporting our business segments: (i) certain Allowance for credit losses – General allowance from Canadian Banking, International Banking and Capital Markets were transferred to Corporate Support without a revision to comparative segment results given the insignificance of the transfer on comparative periods; (ii) certain Trading revenue reported in the fourth quarter of 2007, and the first and second quarters of 2008 in Capital Markets from Net interest income – Interest income to Non-interest income – Other with no impact to Total revenue; (iii) segregated fund deposits were included in our gross insurance premiums and deposits balances in Insurance to ensure consistent application with insurance industry practices; (iv) management oversight and the results of our Wealth Management U.S. subprime and collateralized debt obligations available-for-sale securities (CDO AFS) portfolio were transferred to Corporate Support without a revision to comparative segment results given the insignificance of its impact on comparative periods; (v) certain U.S. municipal debt held in our Tender Option Bond (TOB) programs from Securities – Trading to Securities – Available for Sale resulting in a non-significant charge to Net income and AOCI; (vi) certain loans in our Wholesale – Bank – Canada to Wholesale – Non-banking financial services – Other International without impacting total Loans and acceptances or Net income; and (vii) certain Trading revenue reported in the fourth quarter of 2007 in Capital Markets from Non-interest income – Trading revenue to Net interest income to better reflect its nature with no impact to Total trading revenue. All comparative amounts have been revised to reflect these reclassifications, unless otherwise specifically stated.

Visa Inc. initial public offering (Visa IPO)

We incurred a net loss of $20 million ($17 million after-tax) in respect of our shares of Visa Inc., including those that were subject to mandatory redemption in connection with the Visa IPO. The net loss includes a $35 million loss recognized by Canadian Banking on their shares that were subject to mandatory redemption, representing the difference between the price at which we recorded the shares when they were received on October 3, 2007, upon the reorganization of Visa Canada and the Visa IPO price. International Banking recognized a gain of $15 million on its shares at the time of the Visa IPO. The shares of Visa Inc. are classified as available-for-sale securities and carried at cost. 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 29 Nature and extent of risks arising from financial instruments

We are exposed to the following risks as a result of holding financial instruments: credit risk, market risk, liquidity and funding risk. The following is a description of those risks and how we manage our exposure to them.

Credit risk

Credit risk is the risk of loss associated with a counterparty's inability or unwillingness to fulfill its payment obligations. Credit risk may arise directly from claims against a debtor or obligor, an issuer of securities or a policyholder through outstanding premiums, or indirectly from claims against a guarantor of credit obligations or a reinsurer, resulting from ceded insurance risk.

Risk measurement

We employ different risk measurement processes for our wholesale and retail portfolios.

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

Under the AIRB Approach, we use our own estimates of the three key parameters, Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD), based on historical experience from internal credit risk rating systems in the derivation of risk-weighted assets in accordance with supervisory standards. The three key parameters are defined as follows:

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

Credit risk rating systems are designed to assess and quantify the risk inherent in credit activities in an accurate and consistent manner.

Under the Standardized Approach, used primarily for RBC Dexia IS, RBC Bank (USA) and our Caribbean banking operations, risk weights prescribed by OSFI are used to calculate risk-weighted assets for credit risk exposures. Credit assessments by OSFI-recognized external credit rating agencies of Standard & Poor's (S&P), Moody's Investor Services (Moody's), Fitch Ratings (Fitch) and Dominion Bond Rating Services (DBRS) are used to risk-weight our sovereign and bank exposures based on the standards and guidelines issued by OSFI. For our business and retail exposures, we use the standard risk weights prescribed by OSFI.

The wholesale credit risk rating system is designed to measure and identify the risk inherent in our credit activities in an accurate and consistent manner along two dimensions: borrower risk rating (BRR), which reflects an assessment of the credit quality of the obligor, and LGD.

Credit scoring is the primary risk rating system for assessing obligor and transaction risk for retail exposures. Retail exposures are assessed on a pooled basis, with each pool consisting of exposures that possess similar homogeneous characteristics. The pools are assessed based on the following parameters: PD, LGD and EAD. The estimation of these parameters takes into account borrower and transaction characteristics, including behavioural credit score, product type and delinquency status. The LGD is estimated based on transaction-specific factors, including product and collateral types. Our risk ratings are reviewed and updated on a regular basis.

Our gross credit risk exposure is categorized into lending-related and other, and trading-related. Lending-related and other credit risk exposure comprises outstanding loans and acceptances, undrawn commitments as well as other exposure, including contingent liabilities such as letters of credit and guarantees, and available-for-sale debt securities. For undrawn commitments and contingent liabilities, gross exposure represents an estimated portion of the contractual amount that is expected to be drawn upon at the time of default of an obligor.

Trading-related credit risk exposure consists of repo-style transactions, which includes repurchase and reverse repurchase agreements and securities lending and borrowing transactions, as well as over-the-counter derivatives. For repurchase and reverse repurchase agreements, gross exposure represents the amount at which securities were initially sold or acquired. For securities lending and borrowing transactions, gross exposure is the amount at which securities were initially loaned or borrowed. For over-the-counter derivatives, the gross exposure amount represents the credit equivalent amount, which is defined by OSFI as the replacement cost plus an add-on amount for potential future credit exposure.

Credit quality performance

Refer to Note 4 for additional information on the credit quality performance of our loans.

Credit risk exposure by portfolio and sector

	2008					
	Lending-related and other			Trading-related		
	Loans and acceptances					
	Outstanding	Undrawn commitments	Other (1)	Repo-style transactions (2)	Over-the-counter derivatives (3)	Total exposure (4)
Residential mortgages (5)	$ 122,991	$ 2	$ –	$ –	$ –	$ 122,993
Personal	60,727	42,462	67	–	–	103,256
Credit cards	8,933	19,933	–	–	–	28,866
Small business (6)	2,804	2,265	49	–	–	5,118
Retail	$ 195,455	$ 64,662	$ 116	$ –	$ –	$ 260,233
Business (7)						
Agriculture	$ 5,305	$ 409	$ 18	$ –	$ 54	$ 5,786
Automotive	3,999	1,856	137	20	507	6,519
Consumer goods	7,389	2,085	396	–	502	10,372
Energy	8,146	8,371	2,443	1	1,801	20,762
Non-bank financial services	8,788	5,212	4,589	49,463	18,241	86,293
Forest products	1,152	523	101	7	122	1,905
Industrial products	5,033	2,177	323	–	306	7,839
Mining and metals	3,947	1,206	542	69	962	6,726
Real estate and related	22,978	3,406	1,428	7	397	28,216
Technology and media	3,206	3,026	296	–	490	7,018
Transportation and environment	4,239	2,026	569	–	865	7,699
Other (8)	25,623	6,357	10,100	1,661	10,710	54,451
Sovereign (9)	2,496	2,548	10,749	2,784	17,824	36,401
Bank (10)	5,284	4,308	57,793	61,675	34,171	163,231
Wholesale	$ 107,585	$ 43,510	$ 89,484	$ 115,687	$ 86,952	$ 443,218
Total exposure	$ 303,040	$ 108,172	$ 89,600	$ 115,687	$ 86,952	$ 703,451

(1) Includes contingent liabilities such as letters of credit and guarantees, and available-for-sale debt securities.
(2) Includes repurchase and reverse repurchase agreements and securities borrowing and lending transactions.
(3) Credit equivalent amount after factoring in master netting agreements.
(4) Total exposure represents exposure at default, which is the expected gross exposure upon the default of an obligor. This amount is before any specific allowances and does not reflect the impact of credit risk mitigation. Exposure under Basel II asset classes of qualifying revolving retail and other retail are largely included within Personal and Credit cards, while home equity lines of credit are included in Personal.
(5) Includes certain synthetic mortgage securitizations.
(6) Includes small business exposure managed on a pooled basis.
(7) Includes small business exposure managed on an individual client basis.
(8) The Lending-related and other credit risk exposure of our Other Business sector within the Wholesale portfolio comprises: (i) for Outstanding loans and acceptances: other services $10.9 billion, financing products $4.9 billion, holding and investments $4.6 billion, health $2.5 billion and other $2.7 billion; (ii) for Undrawn loans and acceptances commitments: other services $3.7 billion, health $.9 billion, holding and investments $.7 billion, financing products $.6 billion and other $.4 billion; and (iii) for Other lending-related: other services $2.2 billion, financing products $.7 billion, holdings and investments $.6 billion and other $6.5 billion. The Trading-related credit risk exposure of our Other Business sector within the Wholesale portfolio comprises: (i) for Repo-style transactions: other services $.4 billion, holdings and investments $.3 billion, financing products $.1 billion and other $.8 billion; and (ii) Over-the-counter derivatives: financing products $5.4 billion, other services $1.7 billion and other $3.5 billion.
(9) Sovereign refers to all central governments and agencies, central banks, as well as other qualifying public sector entities and multilateral development banks.
(10) Bank refers primarily to regulated deposit-taking institutions and securities firms.

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.

Concentration of credit risk

	2008									2007 (1)								
	Canada	%	United States	%	Europe	%	Other International	%	Total	Canada	%	United States	%	Europe	%	Other International	%	Total
On-balance sheet assets other than derivatives (2)	$240,620	69%	$ 56,382	16%	$ 40,519	12%	$ 10,337	3%	$347,858	$227,206	72%	$ 41,518	13%	$ 40,658	13%	$ 6,146	2%	$315,528
Derivatives before master netting agreement (3), (4)	24,033	18	27,106	21	69,728	53	10,716	8	131,583	14,690	23	15,096	23	29,501	45	5,763	9	65,050
	$264,653	55%	$ 83,488	18%	$110,247	23%	$ 21,053	4%	$479,441	$241,896	64%	$ 56,614	15%	$ 70,159	18%	$11,909	3%	$380,578
Off-balance sheet credit instruments (5)																		
Committed and uncommitted (6)	$177,317	64%	$ 62,932	23%	$ 17,388	6%	$ 17,850	7%	$275,487	$163,897	58%	$ 69,326	25%	$ 22,893	8%	$26,150	9%	$282,266
Other	24,820	51	11,047	23	10,615	22	1,998	4	48,480	31,194	53	13,418	23	14,226	24	87	–	58,925
	$202,137	63%	$ 73,979	23%	$ 28,003	9%	$ 19,848	6%	$323,967	$195,091	57%	$ 82,744	24%	$ 37,119	11%	$26,237	8%	$341,191

(1) The 2007 comparative information has been revised as a result of implementing Basel II.
(2) 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% (2007 – 51%), the Prairies at 16% (2007 – 16%), British Columbia and the territories at 16% (2007 – 15%) and Quebec at 12% (2007 – 14%). No industry accounts for more than 19% (2007 – 30%) of total on-balance sheet credit instruments.
(3) The largest concentration of credit exposure by counterparty type is banks at 62% (2007 – 60%).
(4) Excludes credit derivatives classified as other than trading with a replacement cost of $400 million (2007 – $36 million).
(5) Represents financial instruments with contractual amounts representing credit risk.
(6) Comparative amounts have been revised to include retail commitments in addition to commercial commitments. Retail and wholesale commitments comprise 32% (2007 – 30%) and 68% (2007 – 70%), respectively, of our total commitments. The largest sector concentration in the wholesale portfolio relates to Non-bank financial services at 34% (2007 – 38%), Bank at 11% (2007 – 16%), Energy at 9% (2007 – 7%), Real estate and related at 7% (2007 – 7%) and Sovereign at 6% (2007 – 3%).

Credit derivatives

Credit derivatives are over-the-counter contracts that transfer credit risk related to an underlying financial instrument from one counterparty to another. We are exposed to counterparty credit risk when we purchase credit protection or the derivative has a positive fair value. As with other derivatives, we use collateral and master netting agreements for managing counterparty credit risk. These contracts are subject to the same credit approval, limits and monitoring standards used for managing other credit risk.

We purchase and sell credit protection for both trading and other-than-trading purposes. Our trading activities are conducted in association with market-making, positioning and managing certain trading-related credit risk.

Trading credit derivatives (1)

	2008	2007
Notional amount		
Protection purchased	$ 140,010	$ 202,733
Protection sold	132,515	190,514
Fair value (2)		
Positive	16,456	10,416
Negative	15,344	9,375
Replacement cost (3)	5,607	3,340

(1) Comprises credit default swaps.
(2) Gross fair value before netting.
(3) Replacement cost is after netting but before collateral.

We also purchase and sell credit derivatives for other-than-trading purposes in order to manage our overall credit portfolio. To mitigate industry sector concentrations and single-name exposures related to our credit portfolio, we purchase credit derivatives to transfer credit risk to third parties. We also sell credit protection in order to diversify our portfolio. The notional amount of other-than-trading credit derivatives represents the contract amount used as a reference point to calculate payments. Notional amounts are generally not exchanged by the counterparties, and do not reflect our exposure at default. None of these contracts are with monoline insurers nor related to U.S. subprime-related assets.

Other-than-trading credit derivatives position (notional amount and fair value) (1)

	2008	2007
Notional amount		
Business		
Automotive	$ 473	$ 379
Energy	363	957
Non-bank financial services	379	1,161
Mining and metals	590	591
Real estate and related	136	413
Technology and media	10	10
Transportation and environment	224	335
Other	439	472
Sovereign (2)	294	220
Bank (3)	259	731
Net protection purchased	$ 3,167	$ 5,269
Offsetting protection sold related to the same reference entity	–	261
Gross protection purchased	$ 3,167	$ 5,530
Net protection sold (4)	$ 147	$ 186
Offsetting protection purchased related to the same reference entity	–	261
Gross protection sold	$ 147	$ 447
Gross protection purchased and sold (notional amount)	$ 3,314	$ 5,977
Fair value (5)		
Positive	$ 400	$ 36
Negative	15	30

(1) Comprises credit default swaps.
(2) Sovereign refers to all central governments and agencies, central banks, as well as other qualifying public sector entities and multilateral development banks.
(3) Bank refers primarily to regulated deposit-taking institutions and securities firms.
(4) Protection sold as at October 31, 2008 related to consumer goods $81 million and other $66 million (October 31, 2007 – consumer goods $67 million and other $119 million).
(5) Gross fair value before netting.

Objectives, policies and methodologies

Our credit risk management principles are guided by our overarching risk management principles. In particular, the following two principles are complemented by the items below with respect to credit risk management:

(i) The effective balancing of risk and return is achieved through:

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

(ii) All business activities that are not consistent with our values, code of conduct or policies must be avoided.

The following committees are involved in the management of credit risks: Board of Directors and Conduct Review and Risk Policy Committee (CR&RPC), Group Risk Committee (GRC), Policy Review Committee and Structured Transactions Oversight Committee. Working in combination, these committees approve credit risk limits, ensure that management has in place frameworks, policies, processes and procedures to manage credit risk and that the overall credit risk policies are complied with at the business and transaction levels.

Our enterprise-wide credit risk policies set out the minimum requirements for the management of credit risk in a variety of transactional and portfolio management contexts. Our credit risk policies comprise the following six categories:

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

Our products and services are subject to risk review and approval processes. Proposals for new and amended credit products and services are comprehensively reviewed and approved under a risk assessment framework. The risk assessment is used to assess the risk level of the proposal to determine the level of risk approval required. For proposals with significant risk implications, approval by the Policy Review Committee is required. We seek to mitigate our exposure to credit risk through a variety of means, including structuring of transactions, collateral and credit derivatives.

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

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

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

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

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

Our credit risk objectives, policies and methodologies have not changed materially from 2007.

Market risk

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

Trading market risk

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

Trading market risk encompasses various risks associated with cash and related derivative products that are traded in interest rate, foreign exchange, equity, credit and commodity markets and comprise:

- Interest rate risk, which is the potential adverse impact on the value of a financial instrument due to changes in interest rates. It is composed of (i) directional risk – arising from parallel shifts in the yield curve; (ii) yield curve risk – arising from non-uniform rate changes across a spectrum of maturities; (iii) basis risk –

resulting from an imperfect hedge of one instrument type by another instrument type whose changes in price are not perfectly correlated; and (iv) option risk – arising from changes in the value of embedded options due to changes in prices or rates and their volatility. Most financial instruments have exposure to interest rate risk.

- Foreign exchange rate risk, which is the potential adverse impact on the value of a financial instrument due to currency rate and precious metals price movements and volatilities. In our proprietary positions, we are exposed to the spot, forwards and derivative markets.
- Equity risk, which is the potential adverse impact on the value of a financial instrument due to movements in individual equity prices or general movements in the level of the stock market. We are exposed to equity risk from the buying and selling of equities and indices as principal in conjunction with our investment banking activities and from our trading activities, which include tailored equity derivative products, arbitrage trading and relative value trading.
- Commodities risk, which is the potential adverse impact on the value of a financial instrument due to commodities price movements and volatilities. Principal commodities traded include crude oil, heating oil, natural gas and power. In our proprietary positions, we are exposed to the spot, forwards and derivative markets.
- Credit spread risk, which is the general adverse impact on the value of a financial instrument due to changes in the credit spreads associated with our holdings of instruments subject to credit risk.
- Credit specific risk, which is the potential adverse impact on the value of a financial instrument due to changes in the creditworthiness and default of issuers on our holdings in bonds and money market instruments, and those underlying credit derivatives. Severe dislocation of money market and bond markets from the synthetic credit markets, as well as fundamentals-based market valuations, impacts trading ability, profitability and risk measurements.
- Market illiquidity risk, which is the inability to liquidate our positions or acquire hedges to neutralize our trading positions. In times of severe stress, illiquidity is experienced in even the most highly rated and previously highly liquid instruments.

Risk measurement

We use risk measurement tools such as Value-at-Risk (VaR), sensitivity analysis and stress testing in assessing global risk-return trends. The majority of trading positions in foreign exchange, interest rate, equity, commodity and credit trading have capital calculated under a VaR based Internal Models Approach, while structured credit derivatives and mortgage-backed securities are calculated under the Standardized Approach as approved by OSFI. Also calculated under the Standardized Approach for migration and default (specific) risk are a limited set of interest rate products. These products and risks are not included in our global VaR. The breadth of our trading activity is designed to diversify market risk to any particular strategy, and to reduce trading revenue volatility.

VaR is a statistical technique that measures the worst-case loss expected over the period within a 99% confidence level. Larger losses are possible, but with low probability. For example, based on a 99% confidence interval, a portfolio with a VaR of $20 million held over one day would have a one in one hundred chance of suffering a loss greater than $20 million in that day. We measure VaR by major risk category on a discrete basis. We also measure and monitor the effects of correlation in the movements of interest rates, credit spreads, exchange rates, equity and commodity prices and highlight the benefit of diversification within our trading portfolio.

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

To ensure VaR effectively captures our market risk, we continuously monitor and enhance our methodology. Daily back-testing serves to compare hypothetical profit or loss against the VaR to monitor the statistical validity of 99% confidence level of the daily VaR measure. Back-testing is calculated by holding position levels constant and isolating the effect of the movement of actual market rates over the next day and over the next 10 days on the market value of the portfolios. Intraday position changes account for most of the difference between theoretical back-testing and actual profit and loss. VaR models and market risk factors are independently reviewed periodically to further ensure accuracy and reliability.

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

VaR is a risk measure that is only meaningful in normal market conditions. To address more extreme market events, stress testing is used to measure and alert senior management to our exposure to potential political, economic or other disruptive events. Our stress scenarios are reviewed and updated as required to reflect relevant events and hypothetical situations. In light of the current market environment, we supplemented existing market risk measures by frequent updates to the historical scenario window used in VaR and risk factors were refined to accurately reflect the current market conditions in the calculations. While we endeavour to be conservative in our stress testing, there can be no assurance that our stress testing assumptions will cover every market scenario that may unfold.

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

Global VaR

	2008				2007			
	As at October 31	For the year ended October 31			As at October 31	For the year ended October 31		
		Average	High	Low		Average	High	Low
Equity	$ 8	$ 13	$ 28	$ 6	$ 8	$ 9	$ 18	$ 4
Foreign exchange	8	3	9	1	4	2	7	1
Commodities	1	2	6	0	2	1	2	–
Interest rate	34	26	44	17	20	19	23	14
Credit specific	8	7	11	4	3	3	5	2
Diversification	(19)	(23)	(38)	(13)	(19)	(13)	(22)	(8)
Global VaR	$ 40	$ 28	$ 50	$ 18	$ 18	$ 21	$ 27	$ 16

Objectives, policies and methodologies

Our market risk management framework is designed to ensure that our risks are appropriately diversified on a global basis. Market risk limit approval authorities are established by the Board of Directors, upon recommendation of the CR&RPC, and delegated to senior management.

The independent oversight of trading market risk management activities is the responsibility of GRM – Marketing and Trading Credit Risk. GRM – Market and Trading Credit Risk establishes market risk policies and limits, develops quantitative techniques and analytical tools, vets trading models and systems, maintains the VaR and stress risk measurement systems, and provides enterprise risk reporting on trading activities. This group also provides independent oversight on trading activities, including the establishment and administration of trading operational limits, market risk and counterparty credit limit compliance, risk analytics, and the review and oversight of non-traditional or complex transactions. GRM uses risk measurement tools such as VaR, sensitivity analysis and stress testing in assessing global risk-return trends and to alert senior management to adverse trends or positions. Reports on trading risks are provided by GRM – Market and Trading Credit Risk to the Chief Risk Officer (CRO) and the operating committee of Capital Markets on a weekly basis and to senior management on a daily basis. Enterprise-wide reporting is used to monitor compliance against VaR and stress limits approved by the Board of Directors and the operating limits derived from these board limits. In addition to this monitoring, GRM – Market and Trading Credit Risk pre-approves excesses and reports any breach to the CRO and the operating committee of Capital Markets.

Non-trading market risk (Asset/liability management)

Traditional non-trading banking activities, such as deposit taking and lending, expose us to market risk, of which interest rate risk is the largest component. Our goal is to manage the interest rate risk of the non-trading balance sheet to a target level. We modify the risk profile of the balance sheet through hedging to achieve our target level. We continually monitor the effectiveness of our interest rate risk mitigation activity within Corporate Treasury on a value and earnings basis. For additional information regarding the use of the derivatives in asset and liability management, refer to Note 7.

Risk measurement

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

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

Market risk measures – Non-trading banking activities

	2008						2007		2006	
	Economic value of equity risk			Net interest income risk						
	Canadian dollar impact	U.S. dollar impact (1)	Total	Canadian dollar impact	U.S. dollar impact (1)	Total	Economic value of equity risk	Net interest income risk	Economic value of equity risk	Net interest income risk
Before-tax impact of:										
100bp increase in rates	$ (470)	$ (38)	$ (508)	$ 23	$ 22	$ 45	$ (440)	$ 54	$ (496)	$ 87
100bp decrease in rates	404	44	448	(62)	(28)	(90)	309	(111)	375	(153)
Before-tax impact of:										
200bp increase in rates	$ (982)	$ (68)	$ (1,050)	$ 8	$ 54	$ 62	$ (930)	$ 97	$ (1,044)	$ 147
200bp decrease in rates	774	64	838	(236)	(43)	(279)	553	(231)	658	(319)

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

Objectives, policies and methodologies

Corporate Treasury is responsible for managing our enterprise-wide interest rate risk, monitoring approved limits and compliance with policies and operating standards. Our Asset and Liability Committee (ALCO) provides oversight to Corporate Treasury and reviews and approves the policies developed by Corporate Treasury. An enterprise interest rate risk report is reviewed monthly by ALCO and quarterly by GRC and the Board of Directors.

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

Our overall market risk objectives and methodologies have not changed materially from 2007.

Liquidity and funding risk

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

Risk measurement

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

- Structural liquidity risk, which addresses the risk due to mismatches in effective maturities between assets and liabilities, more specifically the risk of over-reliance on short-term liabilities to fund longer-term illiquid assets;
- Tactical liquidity risk, which addresses our normal day-to-day funding requirements that are managed by imposing prudential

limits on net fund outflows in Canadian dollar and foreign currencies for key short-term time horizons (overnight to nine weeks), as well as on our pledging activities that are subject to an enterprise-wide framework that assigns a risk-adjusted limit to our aggregate pledging exposure and individual limits by types of pledging activities; and
- Contingent liquidity risk, which assesses the impact of and our intended responses to sudden stressful events.

Objectives, policies and processes

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

Our liquidity and funding management practices and processes reinforce these risk mitigation strategies by assigning prudential limits or targets to metrics associated with these activities and regularly measuring and monitoring various sources of liquidity risk under both normal and stressed market conditions. We monitor and manage our liquidity position on a consolidated basis and consider legal, regulatory, tax, operational and any other applicable restrictions when analyzing our ability to lend or borrow funds between branches, branches and subsidiaries, and subsidiaries. In response to deteriorating macroeconomic and financial market conditions, we have taken steps to further conserve funding and manage the composition of our balance sheet. This includes selectively reducing trading inventories, enhancing the liquidity of our balance sheet and evaluating various newly announced public sector funding programs in different jurisdictions to determine our eligibility and, as applicable, our interest.

The Board of Directors is responsible for oversight of our liquidity and funding management framework, which is developed and implemented by senior management.
- The Audit Committee and the CR&RPC approve our liquidity and funding management framework. The Audit Committee approves our liquidity risk policy, pledging framework, and liquidity contingency plan and establishes broad liquidity risk tolerance levels, and the Board of Directors is informed on a periodic basis about our current and prospective liquidity condition.
- GRC and ALCO share management oversight responsibility for liquidity and funding policies and receive regular reports detailing compliance with key limits and guidelines.
- Corporate Treasury has global responsibility for the development of liquidity and funding management policies, strategies and contingency plans and for recommending and monitoring limits within the framework.
- Treasury departments of business segments and key subsidiaries execute transactions in line with liquidity management policies and strategies.
- Subsidiaries are responsible for managing their own liquidity in compliance with policies and practices established under advice and counsel by Corporate Treasury and within governing regulatory requirements.

In managing liquidity risk, we favour a centralized management approach so that funding and operational efficiencies can be maximized. We also believe that this approach results in more co-ordinated and effective measurement and oversight. However, market, regulatory, tax and organizational considerations influence the extent to which we can be fully centralized.

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

Targets for our structural liquidity position are approved at least annually and monitored quarterly. With respect to net short-term funding requirements, limits are monitored daily or weekly, depending on the materiality of each RBC reporting entity to ensure compliance. The prescribed treatment of cash flow assets and liabilities under varying conditions is reviewed periodically by Corporate Treasury with GRM and the business to determine if they remain valid or changes to assumptions and limits are required in light of internal or external developments. Through this type of process, we ensure that a close link is maintained between the management of liquidity and funding risk and market liquidity risk. As a result of global market volatility during the last year, we have modified the liquidity treatment of certain asset classes, including auction rate securities and asset-backed securities, based on our expectations of market liquidity for these products. Some limits have been revised to take into consideration the results of updated stress tests during this period of market volatility.

Our liquidity and funding risk objectives, policies and methodologies have not changed materially from 2007. However, certain limits and strategies have been revised as a result of the market conditions.

Credit ratings

The following table presents our major credit ratings as at December 4, 2008.

As at December 4, 2008 (1)	Short-term debt	Senior long-term debt	Outlook
Moody's (2)	P-1	Aaa	negative
S&P (3)	A-1+	AA-	stable
Fitch	F1+	AA	stable
DBRS	R-1(high)	AA	stable

(1) Credit ratings are not recommendations to purchase, sell or hold our securities as they do not comment on market price or suitability for a particular investor. Ratings are subject to revision or withdrawal at any time by the rating organization.
(2) In November 2008, Moody's revised our rating outlook from stable to negative.
(3) In May 2008, S&P revised our rating outlook from positive to stable.

Contractual obligations

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

Note 29 Nature and extent of risks arising from financial instruments (continued)

	2008 (1)					2007 (1)
	Within 1 year	1 to 3 years	3 to 5 years	Over 5 years	Total	Total
Unsecured long-term funding	$ 11,906	$ 26,676	$ 14,237	$ 5,796	$ 58,615	$ 49,131
Covered bonds	205	–	3,103	1,940	5,248	–
Subordinated debentures	278	–	–	7,980	8,258	6,343
Obligations under leases (2)	550	884	633	1,129	3,196	3,161
	$ 12,939	$ 27,560	$ 17,973	$ 16,845	$ 75,317	$ 58,635

(1) The amounts presented exclude accrued interest except for the category "Within 1 year."
(2) Substantially all of our lease commitments are operating.

Note 30 Capital management

Regulatory capital and capital ratios

Capital levels for Canadian banks are regulated pursuant to guidelines issued by OSFI, based on standards issued by the Bank for International Settlements, Basel Committee of Banking Supervisors. Regulatory capital is allocated to two tiers: Tier 1 and Tier 2. Tier 1 capital comprises the more permanent components of capital and consists primarily of common shareholders' equity, non-cumulative preferred shares (the majority of which do not have conversion features into common shares) and the eligible amount of innovative capital instruments. In addition, goodwill and other items prescribed by OSFI are deducted from Tier 1 capital. Tier 2 capital consists mainly of subordinated debentures, trust subordinated notes, the eligible amount of innovative capital instruments that could not be included in Tier 1 capital, and an eligible portion of the total general allowance for credit losses, less OSFI-prescribed deductions. Total capital is defined as the sum of Tier 1 and Tier 2 capital.

Regulatory capital ratios are calculated by dividing Tier 1 and Total capital by risk-adjusted assets (RAA). OSFI requires banks to meet minimum risk-based capital requirements for exposures to credit risk, operational risk, and where they have significant trading activity, market risk. RAA is calculated for each of these risk types and added together to determine total RAA .

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

Our regulatory capital ratios for 2008 have been calculated using Basel II, which is required to be applied only on a prospective basis. The differences between Basel I and Basel II make it difficult to meaningfully compare the ratios to those as at October 31, 2007.

Regulatory capital and capital ratios

	Basel II 2008	Basel I 2007
Capital		
Tier 1 capital	$ 25,173	$ 23,383
Total capital	30,830	28,571
Risk-adjusted assets		
Credit risk	$ 229,537	$ 231,302
Market risk	17,220	16,333
Operational risk	31,822	–
Total risk-adjusted assets	$ 278,579	$ 247,635
Capital ratios		
Tier 1 capital	9.0%	9.4%
Total capital	11.1%	11.5%
Assets-to-capital multiple	20.1X	19.9X

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 Act , which states that except as otherwise specified by 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.

Condensed Consolidated Balance Sheets

	2008			2007		
	Canadian GAAP	Differences	U.S. GAAP	Canadian GAAP	Differences	U.S. GAAP
Assets						
Cash and due from banks	$ 11,086	$ (133)	$ 10,953	$ 4,226	$ (78)	$ 4,148
Interest-bearing deposits with banks	20,041	(5,017)	15,024	11,881	(4,436)	7,445
Securities (1)						
Trading	122,508	(2,388)	120,120	147,485	(4,490)	142,995
Available-for-sale	48,626	6,176	54,802	30,770	5,468	36,238
	171,134	3,788	174,922	178,255	978	179,233
Assets purchased under reverse repurchase agreements and securities borrowed	44,818	(3,086)	41,732	64,313	(2,263)	62,050
Loans (net of allowance for loan losses)	289,540	(2,638)	286,902	237,936	(2,188)	235,748
Other						
Customers' liability under acceptances	11,285	–	11,285	11,786	–	11,786
Derivatives	136,134	(345)	135,789	66,585	(295)	66,290
Premises and equipment, net	3,260	(141)	3,119	2,131	(102)	2,029
Goodwill	9,977	(65)	9,912	4,752	(61)	4,691
Other intangibles	1,253	(161)	1,092	628	(180)	448
Reinsurance recoverables	–	1,260	1,260	–	1,140	1,140
Separate account assets	–	81	81	–	114	114
Other assets	25,331	25,684	51,015	17,853	30,590	48,443
	187,240	26,313	213,553	103,735	31,206	134,941
	$ 723,859	$ 19,227	$ 743,086	$ 600,346	$ 23,219	$ 623,565
Liabilities and shareholders' equity						
Deposits	$ 438,575	$ (16,040)	$ 422,535	$ 365,205	$ (12,276)	$ 352,929
Other						
Acceptances	11,285	–	11,285	11,786	–	11,786
Obligations related to securities sold short	27,507	1,787	29,294	44,689	829	45,518
Obligations related to assets sold under repurchase agreements and securities loaned	32,053	(1,135)	30,918	37,033	(1,290)	35,743
Derivatives	128,705	(346)	128,359	72,010	(312)	71,698
Insurance claims and policy benefit liabilities	7,385	3,720	11,105	7,283	2,530	9,813
Separate account liabilities	–	81	81	–	114	114
Other liabilities	35,689	31,739	67,428	28,483	33,712	62,195
	242,624	35,846	278,470	201,284	35,583	236,867
Subordinated debentures	8,131	41	8,172	6,235	6	6,241
Trust capital securities	1,400	(1,400)	–	1,400	(1,400)	–
Preferred share liabilities	–	–	–	300	(300)	–
Non-controlling interest in subsidiaries	2,371	1,396	3,767	1,483	1,405	2,888
Shareholders' equity (2)	30,758	(616)	30,142	24,439	201	24,640
	$ 723,859	$ 19,227	$ 743,086	$ 600,346	$ 23,219	$ 623,565

(1) On October 1, 2008, we reclassified $3,476 million of securities from Trading to Available-for-sale. Refer to the Reclassification of securities section later in this note.
(2) Included in our consolidated earnings as at October 31, 2008 was $538 million (2007 – $407 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

	2008	2007	2006
Net income from continuing operations, Canadian GAAP	$ 4,555	$ 5,492	$ 4,757
Differences:			
Net interest income			
Derivative instruments and hedging activities	(10)	(17)	(22)
Joint ventures	(165)	(115)	(75)
Liabilities and equity	112	115	115
Other	(12)	–	–
Non-interest income			
Insurance accounting	289	(202)	(544)
Derivative instruments and hedging activities	(107)	56	(31)
Reclassification of securities	(379)	8	14
Application of the fair value option	(127)	1	–
Variable interest entities	–	4	(10)
Limited partnerships	(17)	60	(3)
Joint ventures	(681)	(650)	(458)
Reclassification of foreign currency translation	(3)	(41)	(4)
Other	(17)	(31)	(29)
Provision for (recovery of) credit losses			
Joint ventures	3	4	2
Other	(44)	(8)	–
Insurance policyholder benefits, claims and acquisition expense			
Insurance accounting	(368)	137	471
Non-interest expense			
Stock appreciation rights	(13)	11	16
Insurance accounting	72	69	75
Joint ventures	724	653	440
Variable interest entities	–	2	2
Other	17	31	29
Income taxes and net difference in income taxes due to the above items	342	66	95
Non-controlling interest in net income of subsidiaries			
Variable interest entities	–	(6)	8
Joint ventures	5	3	3
Liabilities and equity	(101)	(101)	(101)
Net income from continuing operations, U.S. GAAP	$ 4,075	$ 5,541	$ 4,750
Net loss from discontinued operations, Canadian GAAP (1)	$ –	$ –	$ (29)
Difference – Other	–	–	–
Net loss from discontinued operations, U.S. GAAP (1)	$ –	$ –	$ (29)
Net income, U.S. GAAP	$ 4,075	$ 5,541	$ 4,721
Basic earnings per share (2)			
Canadian GAAP	$ 3.41	$ 4.24	$ 3.65
U.S. GAAP	$ 3.03	$ 4.26	$ 3.62
Basic earnings per share from continuing operations			
Canadian GAAP	$ 3.41	$ 4.24	$ 3.67
U.S. GAAP	$ 3.03	$ 4.26	$ 3.64
Basic earnings (loss) per share from discontinued operations (1)			
Canadian GAAP	$ –	$ –	$ (.02)
U.S. GAAP	$ –	$ –	$ (.02)
Diluted earnings per share (2)			
Canadian GAAP	$ 3.38	$ 4.19	$ 3.59
U.S. GAAP	$ 3.00	$ 4.21	$ 3.57
Diluted earnings per share from continuing operations			
Canadian GAAP	$ 3.38	$ 4.19	$ 3.61
U.S. GAAP	$ 3.00	$ 4.21	$ 3.59
Diluted earnings (loss) per share from discontinued operations (1)			
Canadian GAAP	$ –	$ –	$ (.02)
U.S. GAAP	$ –	$ –	$ (.02)

(1) Discontinued operations relate to the sale of RBC Mortgage Company in 2005.
(2) 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)

	2008	2007	2006
Cash flows from (used in) operating activities, Canadian GAAP	$ 11,432	$ 22,503	$ (14,298)
U.S. GAAP adjustment for net income	(480)	49	(8)
Adjustments to determine net cash from (used in) operating activities			
Provision for credit losses	41	4	(2)
Depreciation	(26)	(24)	(20)
Future income taxes	(43)	(416)	271
Amortization of other intangibles	(27)	(26)	(20)
Gain on sale of available-for-sale securities	(9)	(14)	–
Writedown of available-for-sale securities	15	–	–
Changes in operating assets and liabilities			
Insurance claims and policy benefit liabilities	1,190	(156)	43
Net change in accrued interest receivable and payable	–	293	(120)
Current income taxes	(219)	64	–
Derivative assets	50	1,012	440
Derivative liabilities	(34)	(624)	(267)
Trading securities	(6,087)	(2,102)	(695)
Reinsurance recoverable	(120)	42	8
Net change in brokers and dealers receivable and payable	3,050	344	3,872
Other	342	184	2,430
Net cash from (used in) operating activities, U.S. GAAP	9,075	21,133	(8,366)
Cash flows used in investing activities, Canadian GAAP	(44,653)	(39,720)	(43,933)
Change in interest-bearing deposits with banks	581	213	4,191
Change in loans, net of loan securitizations	443	2,084	1,050
Proceeds from sale of available-for-sale securities	4,057	4,773	14,727
Proceeds from sale of investment securities	–	–	(14,709)
Proceeds from maturity of available-for-sale securities	678	1,185	28,185
Proceeds from maturity of investment securities	–	–	(28,203)
Purchases of available-for-sale securities	(1,586)	(5,960)	(38,383)
Purchases of investment securities	–	–	38,474
Net acquisitions of premises and equipment	65	40	73
Change in assets purchased under reverse repurchase agreements and securities borrowed	823	115	2,148
Net cash used in investing activities, U.S. GAAP	(39,592)	(37,270)	(36,380)
Cash flows from financing activities, Canadian GAAP	39,198	17,374	57,711
Change in deposits	(61,271)	(17,831)	(36,663)
Change in deposits – Canada	6,562	(2,792)	(299)
Change in deposits – International	50,945	17,813	27,468
Issue of preferred shares	(5)	(16)	(7)
Redemption of preferred shares for cancellation	7	5	–
Issuance costs	5	11	7
Issue of common shares	1	(1)	1
Purchase of treasury shares	–	(1)	(2)
Sales of treasury shares	–	3	–
Dividends paid	(14)	(15)	(13)
Change in obligations related to assets sold under repurchase agreements and securities loaned	155	(149)	(1,141)
Dividends/distributions paid by subsidiaries to non-controlling interests	(102)	(101)	(102)
Change in obligations related to securities sold short	958	2,017	(2,835)
Net cash from financing activities, U.S. GAAP	$ 36,439	$ 16,317	$ 44,125
Effect of exchange rate changes on cash and due from banks	$ 883	$ (332)	$ (80)
Net change in cash and due from banks	6,805	(152)	(701)
Cash and due from banks at beginning of year	$ 4,148	$ 4,300	$ 5,001
Cash and due from banks at end of year, U.S. GAAP	$ 10,953	$ 4,148	$ 4,300

(1) We did not have any discontinued operations during 2008 and 2007.

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

	2008			2007			2006 (1)
	Canadian GAAP	Differences	U.S. GAAP	Canadian GAAP	Differences	U.S. GAAP	U.S. GAAP
Transition adjustment	$ (45)	$ 45	$ –	$ (45)	$ 45	$ –	$ –
Unrealized gains and losses on available-for-sale securities	(1,068)	57	(1,011)	(65)	133	68	191
Unrealized foreign currency translation gains and losses, net of hedging activities	(802)	45	(757)	(3,207)	(4)	(3,211)	(2,000)
Gains and losses on derivatives designated as cash flow hedges	(443)	(86)	(529)	111	(91)	20	(52)
Additional pension obligation	–	(523)	(523)	–	(541)	(541)	(62)
Accumulated other comprehensive (loss), net of income taxes	$ (2,358)	$ (462)	$ (2,820)	$ (3,206)	$ (458)	$ (3,664)	$ (1,923)

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

Consolidated Statements of Comprehensive Income

	2008			2007			2006 (1)
	Canadian GAAP	Differences	U.S. GAAP	Canadian GAAP	Differences	U.S. GAAP	U.S. GAAP
Net income	$ 4,555	$ (480)	$ 4,075	$ 5,492	$ 49	$ 5,541	$ 4,721
Other comprehensive income, net of taxes							
Net unrealized (losses) gains on available-for-sale securities, net of reclassification adjustments	(1,003)	(76)	(1,079)	(65)	(58)	(123)	108
Unrealized foreign currency translation gains (losses)	5,080	46	5,126	(2,965)	(49)	(3,014)	(507)
Reclassification of (gains) losses on foreign currency translation to income	(3)	3	–	(42)	41	(1)	6
Net foreign currency translation (losses) gains from hedging activities	(2,672)	–	(2,672)	1,804	–	1,804	269
Net (losses) gains on derivatives designated as cash flow hedges	(603)	–	(603)	80	1	81	(35)
Reclassification of losses on derivatives designated as cash flow hedges to income	49	5	54	31	(5)	26	148
Additional pension obligation	–	18	18	–	50	50	251
Total comprehensive income	$ 5,403	$ (484)	$ 4,919	$ 4,335	$ 29	$ 4,364	$ 4,961
Income taxes (recovery) deducted from the above items:							
Net unrealized (losses) gains on available-for-sale securities	$ (577)	$ 64	$ (513)	$ (11)	$ (37)	$ (48)	$ 57
Net foreign currency translation (losses) gains from hedging activities	(1,361)	–	(1,361)	911	–	911	130
Net (losses) gains on derivatives designated as cash flow hedges	(304)	–	(304)	43	–	43	(15)
Reclassification of losses on derivatives designated as cash flow hedges to income	23	3	26	16	(3)	13	75
Additional pension obligation	–	9	9	–	27	27	134
Total income taxes (recovery)	$ (2,219)	$ 76	$ (2,143)	$ 959	$ (13)	$ 946	$ 381

(1) A new Consolidated Statement of Comprehensive Income was introduced under Canadian GAAP upon adoption of Section 1530 on November 1, 2006. 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.

2008	Joint ventures	Insurance accounting	Reclassification of securities	Application of the fair value option	Limited partnerships	Stock appreciation rights	Liabilities and equity	Pension and other post-employment benefits	Trade date accounting	Non-cash collateral	Right of offset	Derivative instruments and hedging activities	Cumulative translation adjustment, loans held for sale and other minor items	Total
Assets														
Cash and due from banks	$ (133)	–	–	–	–	–	–	–	–	–	–	–	–	$ (133)
Interest-bearing deposits with banks	$ (5,017)	–	–	–	–	–	–	–	–	–	–	–	–	$ (5,017)
Securities	$ (1,460)	–	(940)	–	(240)	–	–	–	6,427	–	–	–	1	$ 3,788
Assets purchased under reverse repurchase agreements and securities borrowed	$ (3,085)	–	–	(1)	–	–	–	–	–	–	–	–	–	$ (3,086)
Loans	$ (2,635)	–	–	(3)	–	–	–	–	–	–	–	–	–	$ (2,638)
Other assets	$ (5,893)	3,538	1,023	51	280	(19)	–	(256)	14,108	13,360	–	(1)	122	$ 26,313
Liabilities and shareholders' equity														
Deposits	$ (16,124)	–	–	91	–	–	–	–	–	–	–	(3)	(4)	$ (16,040)
Other liabilities	$ (2,061)	3,801	–	1	–	(46)	(34)	267	20,535	13,360	–	–	23	$ 35,846
Subordinated debentures	$ –	–	–	41	–	–	–	–	–	–	–	–	–	$ 41
Trust capital securities	$ –	–	–	–	–	–	(1,400)	–	–	–	–	–	–	$ (1,400)
Preferred share liabilities	$ –	–	–	–	–	–	–	–	–	–	–	–	–	$ –
Non-controlling interest in subsidiaries	$ (38)	–	–	–	–	–	1,434	–	–	–	–	–	–	$ 1,396
Shareholders' equity	$ –	(263)	83	(86)	40	27	–	(523)	–	–	–	2	104	$ (616)

2007	Joint ventures	Insurance accounting	Reclassification of securities	Application of the fair value option	Limited partnerships	Stock appreciation rights	Liabilities and equity	Pension and other post-employment benefits	Trade date accounting	Non-cash collateral	Right of offset	Derivative instruments and hedging activities	Cumulative translation adjustment, loans held for sale and other minor items	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	$ (4,818)	2,967	870	3	220	(23)	–	(202)	13,995	18,106	–	(2)	90	$ 31,206
Liabilities and shareholders' equity														
Deposits	$ (12,277)	–	–	13	–	–	–	–	–	–	–	(8)	(4)	$(12,276)
Other liabilities	$ (2,594)	2,728	–	(14)	–	(60)	(34)	339	16,417	18,106	717	2	(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	$ –	239	(5)	(21)	25	37	300	(541)	–	–	–	4	163	$ 201

Material differences between Canadian and U.S. GAAP

No.	Item	U.S. GAAP	Canadian GAAP
1	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.
2	Insurance accounting	*Classification of securities:* 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.	*Classification of securities:* Fixed income and equity investments are classified as available-for-sale securities except for those supporting the policy benefit liabilities of life and health insurance contracts and a portion of property and casualty contracts which are designated as held-for-trading using the fair value option. Available-for-sale and held-for-trading securities are carried at fair value, however, the unrealized gains and losses for available-for-sale securities are reported in AOCI, net of taxes, whereas held-for-trading investments, which are designated using the fair value option, are reported in net income. (Refer to Item No. 4 below.)
		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.
		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.

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

No.	Item	U.S. GAAP	Canadian GAAP
2	Insurance accounting (continued)	*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 reflects 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.
3	Reclassification of securities	*Differences relating to pre-November 1, 2006 period:* 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.	*Differences relating to pre-November 1, 2006 period:* 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.
		Differences in presentation on the balance sheet: Certain investments in private equities measured at cost are included in Other assets.	*Differences in presentation on the balance sheet:* Investments are measured at cost and presented under Securities.
		Differences in classification of securities: Certain MBS, where management intends to sell them in the near term, are classified as Available-for-sale.	*Differences in classification of securities:* These are classified as held-for-trading.
		Differences in securities reclassified as a result of the current economic environment: For purposes of our U.S. GAAP results, we reclassified certain securities from held-for-trading to available-for-sale effective October 1, 2008. In addition, the U.S. Municipal guaranteed investment contracts and U.S. mortgage-backed securities reclassified under Canadian GAAP were not reclassified under U.S. GAAP because the entities which hold those securities are prohibited from classifying securities as available-for-sale. The fair value of the securities reclassified on October 1, 2008 was $3,476 million.	*Differences in securities reclassified as a result of the current economic environment:* As discussed in Note 3, in accordance with Canadian GAAP, we reclassified certain securities from trading to available-for-sale as of August 1, 2008.
4	Application of the fair value option	Effective November 1, 2006, U.S. GAAP allowed the following financial instruments to be measured at fair value with changes in fair value to be recognized in net income: (i) any hybrid financial instrument that contains an embedded derivative that requires bifurcation at its fair value; and (ii) servicing rights. The ability to measure the entire hybrid financial	As described in Note 1, effective November 1, 2006, any financial instrument can be designated as held-for-trading on its initial recognition (fair value option) (subject to certain restrictions imposed by OSFI), provided the fair value of the instrument is reliably measurable, whereas under U.S. GAAP, the use of the fair value option is available only

No.	Item	U.S. GAAP	Canadian GAAP
4	Application of the fair value option (continued)	instrument at fair value eliminates the requirement to bifurcate the embedded derivative, whereas the remeasurement of 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.	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 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; (iv) assets sold or purchased under repurchase or reverse repurchase agreements that form part of our trading portfolio which is managed and evaluated on a fair value basis; (v) deposits and structured notes with embedded derivatives that are not closely related to the host contracts; and (vi) certain deposits to offset the impact of related hedging derivatives measured at fair value. Financial instruments designated as held-for-trading using the fair value option are recorded at fair value and any gain or loss arising due to changes in fair value are included in net income.
5	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.
6	Stock appreciation rights (SARs)	Between November 29, 1999, and June 5, 2001, options granted under the employee stock option plan were accompanied by 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. 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 associated with these awards should be measured assuming that all participants will exercise SARs. Under the transition guidelines of the new standard, the requirements of the FAS 123(R) are applicable to awards granted after the adoption of the new standard. Since these SARs were awarded prior to adoption of the FAS 123(R), they continue to be accounted for under the previous accounting standard.	For stock options granted with SARs, a liability is recorded for the potential cash payments to participants and compensation expense is measured assuming that all participants will exercise SARs.
7	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 RBC TruCS are classified as liabilities. Dividends and yield distributions on these instruments are included in Interest expense in our Consolidated Statements of Income.
8	Pension and other post-employment benefits	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. FAS 158 requires an entity to measure defined benefit plan assets and obligations as at the year-end date; this measurement requirement will be	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
8	Pension and other post-employment benefits (continued)	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 presented later in this note. Prior to 2007, for defined benefit pension plans, an unfunded accumulated benefit obligation was recorded as an 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.	
9	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.
10	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.
11	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.
12	Derivative instruments and hedging activities	*Non-derivative hedging instrument:* Certain foreign currency-denominated available-for-sale assets have been hedged against foreign currency-denominated deposits. In order to qualify for hedge accounting under U.S. GAAP, the hedging instrument should be a derivative, unless it is a hedge of a foreign exchange exposure of a net investment in a self-sustaining foreign operation or it relates to unrecognized firm commitments. Accordingly, the change in fair value of the available-for-sale assets including the foreign exchange gain or loss is recognized in AOCI, whereas the change in translation gain or loss on the foreign currency-denominated deposits is recorded in net income resulting in a mismatch.	*Non-derivative hedging instrument:* Under Canadian GAAP, a non-derivative hedging instrument can be used to hedge any foreign currency risk exposure.
		Differences relating to pre-November 1, 2006 period: 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. 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.	*Differences relating to pre-November 1, 2006 period:* 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 when the original hedged item affected Net interest income. Where derivatives had been 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.

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

No.	Item	U.S. GAAP	Canadian GAAP
13	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.
14	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.
15	Cumulative translation adjustment	Foreign currency translation gains and losses relating to our self-sustaining foreign operations that have been accumulated in AOCI can be recognized in net income only when the foreign operation has been substantially or fully liquidated.	Foreign currency translation gains and losses can be recognized in net income when there is a reduction in the net investment of our foreign operations which may be even due to dividend distribution.
16	Loans held-for-sale	Loans held-for-sale are recorded at the lower of cost or market value.	These are measured at amortized cost.

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, 2008, restricted net assets of these subsidiaries were $16.3 billion (2007 – $10.3 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 on 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. 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 effects of adopting the provisions of FAS 158 on our Consolidated Balance Sheets 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. Adopting FAS 158 had no impact on our Consolidated Statements of Income 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 $355 million and $1,272 million (2007 – $52 million and $1,441 million), respectively, is recognized on our Consolidated Balance Sheets in Other liabilities. The accumulated benefit obligations for the pension plans were $5,757 million at October 31, 2008 (2007 – $6,299 million).

The pre-tax amounts included in AOCI are as follows:

	2008			2007		
	Pension plans	Other post-employment plans	Total	Pension plans	Other post-employment plans	Total
Net actuarial loss	$ 761	$ 267	$ 1,028	$ 484	$ 564	$ 1,048
Prior service cost (benefit)	62	(283)	(221)	95	(307)	(212)
Transitional (asset) obligation	(8)	1	(7)	(10)	1	(9)
Pre-tax amount recognized in Accumulated other comprehensive loss (1)	$ 815	$ (15)	$ 800	$ 569	$ 258	$ 827

(1) Amount recognized in AOCI, net of tax, is $523 million (2007 – $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 2009 are $51 million and $20 million, respectively, and pension expense will be reduced by $2 million relating to 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 2009 are $21 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. 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 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 was reclassified to Net income during the year. A net loss of $26 million deferred in AOCI as at October 31, 2006, was 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 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 related to our net investments in foreign operations, which were offset by gains of $269 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.

Securities

The following table represents the duration of the unrealized losses on our available-for-sale securities. Refer to Note 3 for the reasons why these securities are considered to be not other-than-temporarily impaired as at October 31, 2008. The gross unrealized losses of the available-for-sale securities under U.S. GAAP are higher than those under Canadian GAAP as disclosed in Note 3 primarily because certain of these securities were designated as held-for-trading under Canadian GAAP using the fair value option.

Fair value and unrealized losses position for available-for-sale securities

	2008					
	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	$ 958	$ 11	$ –	$ –	$ 958	$ 11
Provincial and municipal	883	72	26	5	909	77
U.S. state, municipal and agencies debt	7,180	354	360	41	7,540	395
Other OECD government debt	132	3	21	4	153	7
Mortgage-backed securities	2,329	373	1,270	443	3,599	816
Asset-backed securities	4,179	345	401	108	4,580	453
Corporate debt and other debt	5,355	569	1,369	382	6,724	951
Equities	1,080	230	347	161	1,427	391
Loan substitute securities	–	–	191	29	191	29
Total temporarily impaired securities	$ 22,096	$ 1,957	$ 3,985	$ 1,173	$ 26,081	$ 3,130

	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	$ 1,734	$ 8	$ 966	$ 4	$ 2,700	$ 12
Provincial and municipal	390	5	27	1	417	6
U.S. government debt						
Federal	–	–	11	–	11	–
State, municipal and agencies	388	2	1,249	65	1,637	67
Other OECD government debt	133	5	–	–	133	5
Mortgage-backed securities	1,019	16	2,218	88	3,237	104
Asset-backed securities	877	6	382	25	1,259	31
Corporate debt and other debt	3,322	85	1,329	72	4,651	157
Equities	432	30	71	2	503	32
Loan substitute securities	216	4	–	–	216	4
Total temporarily impaired securities	$ 8,511	$ 161	$ 6,253	$ 257	$ 14,764	$ 418

Average assets, U.S. GAAP

	2008		2007		2006	
	Average assets	% of total average assets	Average assets	% of total average assets	Average assets	% of total average assets
Canada	$ 374,121	56%	$ 338,545	56%	$ 297,740	57%
United States	147,835	22%	139,569	23%	119,614	23%
Other International	147,049	22%	125,743	21%	104,533	20%
	$ 669,005	100%	$ 603,857	100%	$ 521,887	100%

Significant accounting changes

Guidance on accounting for income taxes

On November 1, 2007, we adopted Financial Accounting Standards Board (FASB) Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109* (FIN 48). FIN 48 provides specific guidance on the recognition, de-recognition, measurement and disclosure of income tax positions in financial statements, including the accrual of related interest and penalties.

Under FIN 48, income tax benefits are recognized and measured based on a two-step model: (i) a tax position must be more-likely-than-not of being sustained where "more-likely-than-not" means a likelihood of more than 50%, and (ii) the benefit is measured as the dollar amount of the position that is more-likely-than-not of being realized upon ultimate settlement with a taxing authority. The difference between the tax benefit recognized in accordance with the FIN 48 model and the tax benefit claimed on a tax return is referred to as an unrecognized tax benefit (UTB).

A reconciliation of the change in the UTB balance (excluding any related accrual for interest) from November 1, 2007 to October 31, 2008 is as follows:

Reconcilation of the change in unrecognized tax benefits

Balance, November 1, 2007	$ 635
Add: Increases related to positions taken during prior years	23
Add: Increases related to positions taken during current year	191
Add: Positions acquired or assumed in business combinations	32
Add: Foreign exchange and other	27
Less: Decreases related to positions taken during prior years	(39)
Less: Settlements	(11)
Balance, October 31, 2008	$ 858

As at October 31, 2008 and November 1, 2007, the balances of our UTBs, excluding any related accrual for interest, were $858 million and $635 million, respectively, of which $827 million and $627 million, respectively, if recognized, would affect our effective tax rate. It is difficult to project how unrecognized tax benefits will change over the next 12 months.

Under FIN 48, we continue our policy of accruing income-tax-related interest and penalties within income tax expense. As at October 31, 2008 and November 1, 2007, our accrual for interest and penalties that relate to income taxes, net of payments on deposit to taxing authorities, were $23 million and $27 million, respectively. There was a net decrease of $4 million in the accrual for interest and penalties during the 12 months ended October 31, 2008. The adoption of FIN 48 had no material impact on our retained earnings or goodwill as at November 1, 2007.

RBC and its subsidiaries are subject to Canadian federal and provincial income tax, U.S. federal, state and local income tax, and income tax in other foreign jurisdictions. The following are the major tax jurisdictions in which RBC and its subsidiaries operate and the earliest tax year subject to examination:

Jurisdiction	Tax year
Canada	2004
United States	1998
United Kingdom	2006

Accounting for deferred acquisition costs for insurance operations

On November 1, 2007, we adopted 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. 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. The adoption of

this standard did not 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 was effective for us on February 1, 2008. The impact of adopting this SAB was not material to our consolidated financial position and results of operations.

Accounting for a change or projected change in the timing of cash flows relating to income taxes generated by a leveraged lease transaction
On November 1, 2007, we adopted FASB Staff Position FAS 13-2, *Accounting for a Change or Projected Change in the Timing of Cash Flows Relating to Income Taxes Generated by a Leveraged Lease Transaction* (FSP FAS 13-2), which addresses the accounting for a change or projected change in the timing of cash flows relating to income taxes generated by leveraged lease transactions. The principal provision of FSP FAS 13-2 is the requirement that a lessor recalculate the recognition of lease income when there is a change in the estimated timing of the cash flows relating to income taxes generated by such leveraged leases even if the total amount of income tax cash flow is not affected. The adoption of FSP FAS 13-2 resulted in a decrease to the opening balance of retained earnings as of November 1, 2007, by $21 million, net of tax, which represents a cumulative effect of a change in accounting principle, with a corresponding offset decreasing the net investment in leveraged leases. The charge to retained earnings will be recognized as a component of net income over the remaining lives of the respective leases.

If new information becomes available in the future causing a change in assumptions relating to the amount and timing of income tax cash flows, we will then be required to perform another recalculation. The effect will be reported in the results of our operations, and could, depending on the assumption that changed, result in either an increase or decrease to the net investment in the leases.

Future accounting changes

Framework on fair value measurement
The FASB issued the following pronouncements regarding fair value measurement: (i) FASB Statement No. 157, *Fair Value Measurements (FAS 157)* on September 15, 2006; (ii) Staff Position FAS 157-1, *Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13* on February 14, 2008; (iii) Staff Position FAS 157-2, *Effective Date of FASB Statement No. 157* on February 12, 2008; and (iv) Staff Position FAS 157-3, *Determining the fair value of a financial asset when the market for that asset is not active* on October 10, 2008. FAS 157 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. FAS 157 became effective for us on November 1, 2008 except for certain non-financial assets and non-financial liabilities which will be effective on November 1, 2009. The transition adjustment will be recognized in the opening balance of retained earnings reported under U.S. GAAP as at November 1, 2008 and is not material to our consolidated financial position.

Fair value option for financial assets and liabilities
On February 15, 2007, the 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 became effective for us on November 1, 2008. The transition adjustment will be recognized in the opening balance of retained earnings reported under U.S. GAAP as at November 1, 2008 and is not material to our consolidated financial position.

Offsetting of amounts related to certain contracts
On April 30, 2007, the 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 became effective for us on November 1, 2008, and the impact of adopting it is not material to 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 shared-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 became effective for us on November 1, 2008, and the impact of adopting it is not material to our consolidated financial position and results of operations.

Business combinations
In December 2007, the FASB issued Statement No. 141 (revised 2007), *Business Combinations* (FAS 141(R)), which replaces Statement No. 141, *Business Combinations* (FAS 141). FAS 141(R), which will be effective for us on November 1, 2009, improves the relevance, representational faithfulness, and comparability of the information that an entity provides in its financial reports about a business combination and its effects. FAS 141(R) retains the fundamental requirements in FAS 141, being the requirement to use the acquisition method of accounting for all business combinations and the identification of an acquirer for each business combination. Significant changes in FAS 141(R) are as follows:

- More assets acquired and liabilities assumed to be measured at fair value as of the acquisition date;
- Liabilities related to contingent consideration to be remeasured at fair value and each subsequent reporting period;
- An acquirer to expense acquisition-related costs;
- Non-controlling interest in subsidiaries initially to be measured at fair value and classified as a separate component of equity.

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

Non-controlling interest
In December 2007, the FASB issued Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No. 51* (FAS 160). FAS 160, which will be effective for us on November 1, 2009, improves the relevance, representational faithfulness, and comparability of the information that an entity provides in its financial reports related to an entity’s non-controlling interests. Significant requirements of FAS 160 include:

- Ownership interests in subsidiaries held by parties other than the parent to be presented clearly in equity, but separately from the parent's equity;
- The amount of consolidated net income attributable to the parent and to the non-controlling interest be clearly identified and presented on the consolidated statement of income;
- After control is obtained, a change in ownership interests that does not result in a loss of control should be accounted for as an equity transaction; and
- A change in ownership of a consolidated subsidiary that results in a loss of control and deconsolidation will trigger recognition of a gain or loss and any retained non-controlling equity investment in the former subsidiary will be initially measured at fair value.

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

Derivatives and hedging activities

In March 2008, the FASB issued Statement No. 161, *Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133* (FAS 161). FAS 161 enhances disclosures for derivative instruments and hedging activities and their effects on an entity's financial position, financial performance and cash flows. Under FAS 161, an entity is required to disclose the objectives for using derivative instruments in terms of underlying risk and accounting designation; the fair values, gains and losses of derivatives; as well as credit-risk-related contingent features in derivative agreements. FAS 161 will be effective for us on February 1, 2009. We are currently assessing the impact of adopting this standard on our consolidated financial position and results of operations.

Convertible debt instruments

In May 2008, the FASB issued Staff Position APB 14-1, *Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)* (FSP APB 14-1). FSB APB 14-1 clarifies that issuers of convertible debt instruments should separately account for the liability and equity components in order to properly reflect the entity's borrowing rate that would be applied to a nonconvertible debt instrument. FSP APB 141-1 will be effective for us on November 1, 2009. 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

As at October 31	2008	2007
Assets		
Cash and due from banks	$ 3,649	$ 2,992
Interest-bearing deposits with banks	11,497	5,154
Securities	93,981	94,603
Investments in bank subsidiaries and associated corporations	27,676	12,151
Investments in other subsidiaries and associated corporations	21,786	22,347
Assets purchased under reverse repurchase agreements	5,619	10,609
Loans, net of allowances for loan losses	218,449	196,414
Net balances due from bank subsidiaries	16,778	18,194
Net balances due from other subsidiaries	1,232	9,078
Other assets	156,701	86,502
	$ 557,368	$ 458,044
Liabilities and shareholders' equity		
Deposits	$ 351,286	$ 306,123
Other liabilities	167,343	121,065
	$ 518,629	$ 427,188
Subordinated debentures	7,981	6,117
Preferred share liabilities	–	300
Shareholders' equity	30,758	24,439
	$ 557,368	$ 458,044

Condensed Statements of Income

For the year ended October 31	2008	2007	2006
Interest income (1)	$ 18,615	$ 17,563	$ 14,007
Interest expense	11,302	12,940	10,351
Net interest income	7,313	4,623	3,656
Non-interest income (2)	3,882	4,408	3,935
Total revenue	11,195	9,031	7,591
Provision for credit losses	1,116	702	410
Non-interest expense	5,372	5,905	5,720
Business realignment charges	–	–	2
Income from continuing operations before income taxes	4,707	2,424	1,459
Income taxes	1,257	454	424
Net income before equity in undistributed income of subsidiaries	3,450	1,970	1,035
Equity in undistributed income of subsidiaries (3)	1,105	3,522	3,693
Net income	$ 4,555	$ 5,492	$ 4,728

(1) Includes dividend income from investments in subsidiaries and associated corporations of $415 million, $420 million and $17 million for 2008, 2007 and 2006, respectively.
(2) Includes loss from associated corporations of $4 million for 2008 and income of $4 million and $8 million for 2007 and 2006, respectively.
(3) Included in the net loss for 2006 was $29 million related to RBC Mortgage Company which was disposed of in 2005.

Note 32 Parent company information (continued)

Condensed Statements of Cash Flows

For the year ended October 31	2008	2007	2006
Cash flows from operating activities			
Net income	$ 4,555	$ 5,492	$ 4,728
Adjustments to determine net cash from (used in) operating activities:			
Change in undistributed earnings of subsidiaries	(1,105)	(3,522)	(3,693)
Other operating activities, net	(7,853)	10,058	(7,368)
Net cash used in operating activities	(4,403)	12,028	(6,333)
Cash flows from investing activities			
Change in interest-bearing deposits with banks	(6,343)	(2,234)	(1,192)
Change in loans, net of loan securitizations	(38,136)	(41,648)	(23,417)
Proceeds from loan securitizations	6,559	6,113	5,963
Proceeds from sale of available-for-sale securities	4,866	2,438	–
Proceeds from sale of investment securities	–	–	6,330
Proceeds from maturity of available-for-sale securities	6,060	4,891	–
Proceeds from maturity of investment securities	–	–	18,195
Purchase of available-for-sale securities	(12,136)	(6,633)	–
Purchase of investment securities	–	–	(20,571)
Net acquisitions of premises and equipment	(616)	(481)	(401)
Change in assets purchased under reverse repurchase agreements and securities borrowed	4,990	(1,388)	(388)
Net cash used in investments in subsidiaries	(6,055)	(2,101)	(946)
Change in net funding provided to subsidiaries	9,436	8,062	(8,734)
Net cash used in investing activities	(31,375)	(32,981)	(25,161)
Cash flows from financing activities			
Change in deposits	45,163	20,225	28,989
Issue of subordinated debentures	2,000	87	–
Repayment of subordinated debentures	(500)	(989)	(953)
Issue of preferred shares	613	1,150	600
Redemption of preferred shares for cancellation	(300)	(150)	(250)
Issuance costs	(11)	(23)	(6)
Issue of common shares	149	155	116
Purchase of common shares for cancellation	(55)	(646)	(844)
Sale of treasury shares	74	208	244
Purchase of treasury shares	(76)	(133)	(208)
Dividends paid	(2,688)	(2,278)	(1,807)
Change in obligations related to assets sold under repurchase agreements and securities loaned	3,541	(553)	3,955
Change in obligations related to securities sold short	(11,475)	3,968	1,059
Net cash from financing activities	36,435	21,021	30,895
Net change in cash and due from banks	657	68	(599)
Cash and due from banks at beginning of year	2,992	2,924	3,523
Cash and due from banks at end of year	$ 3,649	$ 2,992	$ 2,924
Supplemental disclosure of cash flow information			
Amount of interest paid in year	$ 11,524	$ 13,061	$ 8,971
Amount of income taxes (recovered) paid in year	$ 1,052	$ (165)	$ 656

Note 33 Subsequent event

On November 24, 2008, we announced our intention to issue 9 million Non-cumulative 5-Year Rate Reset First Preferred Shares Series AN at $25 per share, for total proceeds of $225 million. We granted the underwriters an option, exercisable in whole or in part, to purchase up to an additional 4.0 million preferred shares at the same offering price. The issuance is expected to be completed on December 8, 2008.