

## REPORTS AND 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 the *Bank Act* (Canada) and Canadian generally accepted accounting principles (GAAP). Financial information appearing throughout our Management's Discussion and Analysis is consistent with these consolidated financial statements.

RBC's internal controls are designed to provide reasonable assurance 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 Chief 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 Administrative Officer and Chief Financial Officer

Toronto, December 3, 2009

## 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, 2009 and 2008 and the consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for each of the years in the three year period ended October 31, 2009. 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, 2009 and 2008 and the results of its operations and its cash flows for each of the years in the three year period ended October 31, 2009 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, 2009 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 3, 2009 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 3, 2009

## 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, 4, and 31 to the consolidated financial statements. Although we conducted our audits in accordance with both Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States), our report to the shareholders dated December 3, 2009, 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 3, 2009

## 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 Administrative Officer and 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 our 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 directors of RBC
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of RBC assets that could have a material effect on our 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 evaluated, under the supervision of and with the participation of the President and Chief Executive Officer and the Chief Administrative Officer and Chief Financial Officer, the effectiveness of the internal control over financial reporting of RBC as of October 31, 2009, 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 evaluation, management concluded that, as of October 31, 2009, internal control over financial reporting was effective based on the criteria established in the *Internal Control – Integrated Framework*. Also, based on the results of our evaluation, management concluded that there were no material weaknesses that have been identified in internal control over financial reporting as of October 31, 2009.

The internal control over financial reporting of RBC as of October 31, 2009 has been audited by Deloitte & Touche LLP, Independent Registered Chartered Accountants, who also audited our Consolidated Financial Statements for the year ended October 31, 2009, as stated in the Report of Independent Registered Chartered Accountants, which report expressed an unqualified opinion on the effectiveness of our internal control over financial reporting.

Gordon M. Nixon  
President and Chief Executive Officer

Janice R. Fukakusa  
Chief Administrative Officer and Chief Financial Officer

Toronto, December 3, 2009

## 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, 2009 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, 2009 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, 2009 of the Bank and our report dated December 3, 2009 expressed an unqualified opinion on those consolidated financial statements and includes a separate report titled Comments by Independent Registered Chartered Accountants on Canada-United States of America Reporting Difference referring to changes in accounting principles.

Deloitte & Touche LLP  
Independent Registered Chartered Accountants  
Licensed Public Accountants

Toronto, Canada  
December 3, 2009

## Consolidated Balance Sheets

As at October 31 (C\$ millions)	2009 (1)	2008 (1)
<b>Assets</b>		
Cash and due from banks	\$ 8,353	\$ 11,086
Interest-bearing deposits with banks	8,923	20,041
<b>Securities</b> (Note 3)		
Trading	140,062	122,508
Available-for-sale	46,210	48,626
	186,272	171,134
<b>Assets purchased under reverse repurchase agreements and securities borrowed</b>	<b>41,580</b>	<b>44,818</b>
<b>Loans</b> (Notes 4 and 5)		
Retail	205,224	195,455
Wholesale	78,927	96,300
	284,151	291,755
Allowance for loan losses	(3,188)	(2,215)
	280,963	289,540
<b>Other</b>		
Customers' liability under acceptances	9,024	11,285
Derivatives (Note 7)	92,173	136,134
Premises and equipment, net (2) (Note 8)	2,367	2,471
Goodwill (Note 10)	8,368	9,977
Other intangibles (2) (Note 10)	2,033	2,042
Other assets (Note 12)	14,933	25,331
	128,898	187,240
	\$ 654,989	\$ 723,859
<b>Liabilities and shareholders' equity</b>		
<b>Deposits</b> (Note 13)		
Personal	\$ 152,328	\$ 139,036
Business and government	220,772	269,994
Bank	25,204	29,545
	398,304	438,575
<b>Other</b>		
Acceptances	9,024	11,285
Obligations related to securities sold short	41,359	27,507
Obligations related to assets sold under repurchase agreements and securities loaned	35,150	32,053
Derivatives (Note 7)	84,390	128,705
Insurance claims and policy benefit liabilities (Note 14)	8,922	7,385
Other liabilities (Note 15)	31,007	35,809
	209,852	242,744
<b>Subordinated debentures</b> (Note 16)	<b>6,461</b>	<b>8,131</b>
<b>Trust capital securities</b> (Note 17)	<b>1,395</b>	<b>1,400</b>
<b>Non-controlling interest in subsidiaries</b> (Note 19)	<b>2,071</b>	<b>2,371</b>
<b>Shareholders' equity</b> (Note 18)		
Preferred shares	4,813	2,663
Common shares (shares issued – 1,417,609,720 and 1,341,260,229)	13,075	10,384
Contributed surplus	246	242
Treasury shares – preferred (shares held – 64,600 and 259,700)	(2)	(5)
– common (shares held – 2,126,699 and 2,258,047)	(95)	(104)
Retained earnings (1)	20,585	19,816
Accumulated other comprehensive income (loss)	(1,716)	(2,358)
	36,906	30,638
	\$ 654,989	\$ 723,859

(1) Opening retained earnings as at November 1, 2006 has been restated. Refer to 'Accounting adjustments' in Note 1.

(2) Comparative information has been reclassified as a result of adopting CICA Handbook Section 3064. Refer to 'Significant accounting changes' in Note 1.

Gordon M. Nixon  
President and Chief Executive Officer

Victor L. Young  
Director

## Consolidated Statements of Income

For the year ended October 31 (C\$ millions)	2009	2008	2007
<b>Interest income</b>			
Loans	\$ 13,504	\$ 14,983	\$ 14,724
Securities	5,946	6,662	7,665
Assets purchased under reverse repurchase agreements and securities borrowed	931	2,889	3,620
Deposits with banks	162	498	538
	20,543	25,032	26,547
<b>Interest expense</b>			
Deposits	6,762	12,158	13,770
Other liabilities	1,925	3,472	4,737
Subordinated debentures	350	354	338
	9,037	15,984	18,845
<b>Net interest income</b>	<b>11,506</b>	<b>9,048</b>	<b>7,702</b>
<b>Non-interest income</b>			
Insurance premiums, investment and fee income	5,718	2,609	3,152
Trading revenue	2,671	(96)	1,999
Investment management and custodial fees	1,619	1,759	1,579
Mutual fund revenue	1,293	1,561	1,473
Securities brokerage commissions	1,358	1,377	1,353
Service charges	1,556	1,367	1,303
Underwriting and other advisory fees	1,050	875	1,217
Foreign exchange revenue, other than trading	638	646	533
Card service revenue	732	648	491
Credit fees	530	415	293
Securitization revenue (Note 5)	1,169	461	261
Net (loss) gain on available-for-sale securities (Note 3)	(630)	(617)	63
Other	(104)	1,529	1,043
<b>Non-interest income</b>	<b>17,600</b>	<b>12,534</b>	<b>14,760</b>
<b>Total revenue</b>	<b>29,106</b>	<b>21,582</b>	<b>22,462</b>
<b>Provision for credit losses</b> (Note 4)	<b>3,413</b>	<b>1,595</b>	<b>791</b>
<b>Insurance policyholder benefits, claims and acquisition expense</b>	<b>4,609</b>	<b>1,631</b>	<b>2,173</b>
<b>Non-interest expense</b>			
Human resources (Notes 20 and 21)	8,978	7,779	7,860
Equipment (1)	1,025	934	847
Occupancy	1,045	926	839
Communications	761	749	723
Professional fees	559	562	530
Outsourced item processing	301	341	308
Amortization of other intangibles (1) (Note 10)	462	356	258
Other	1,427	704	1,108
	14,558	12,351	12,473
<b>Goodwill impairment charge</b>	<b>1,000</b>	<b>-</b>	<b>-</b>
<b>Income before income taxes</b>	<b>5,526</b>	<b>6,005</b>	<b>7,025</b>
Income taxes (Note 23)	1,568	1,369	1,392
<b>Net income before non-controlling interest</b>	<b>3,958</b>	<b>4,636</b>	<b>5,633</b>
Non-controlling interest in net income of subsidiaries	100	81	141
<b>Net income</b>	<b>\$ 3,858</b>	<b>\$ 4,555</b>	<b>\$ 5,492</b>
Preferred dividends (Note 18)	(233)	(101)	(88)
<b>Net income available to common shareholders</b>	<b>\$ 3,625</b>	<b>\$ 4,454</b>	<b>\$ 5,404</b>
Average number of common shares (in thousands) (Note 24)	1,398,675	1,305,706	1,273,185
<b>Basic earnings per share</b> (in dollars)	<b>\$ 2.59</b>	<b>\$ 3.41</b>	<b>\$ 4.24</b>
Average number of diluted common shares (in thousands) (Note 24)	1,412,126	1,319,744	1,289,314
<b>Diluted earnings per share</b> (in dollars)	<b>\$ 2.57</b>	<b>\$ 3.38</b>	<b>\$ 4.19</b>
<b>Dividends per share</b> (in dollars)	<b>\$ 2.00</b>	<b>\$ 2.00</b>	<b>\$ 1.82</b>

(1) Comparative information has been reclassified as a result of adopting CICA Handbook Section 3064. Refer to Note 1.

## Consolidated Statements of Comprehensive Income

For the year ended October 31 (C\$ millions)	2009	2008	2007
<b>Comprehensive income</b>			
<b>Net income</b>	\$ 3,858	\$ 4,555	\$ 5,492
<b>Other comprehensive income, net of taxes</b>			
Net unrealized gains (losses) on available-for-sale securities	662	(1,376)	(93)
Reclassification of losses on available-for-sale securities to income	330	373	28
Net change in unrealized gains (losses) on available-for-sale securities	992	(1,003)	(65)
Unrealized foreign currency translation (losses) gains	(2,973)	5,080	(2,965)
Reclassification of losses (gains) on foreign currency translation to income	2	(3)	(42)
Net foreign currency translation gains (losses) from hedging activities	2,399	(2,672)	1,804
Foreign currency translation adjustments	(572)	2,405	(1,203)
Net gains (losses) on derivatives designated as cash flow hedges	156	(603)	80
Reclassification of (gains) losses on derivatives designated as cash flow hedges to income	(38)	49	31
Net change in cash flow hedges	118	(554)	111
<b>Other comprehensive income (loss)</b>	538	848	(1,157)
<b>Total comprehensive income</b>	\$ 4,396	\$ 5,403	\$ 4,335

## Consolidated Statements of Changes in Shareholders' Equity

For the year ended October 31 (C\$ millions)	2009	2008 (1)	2007 (1)
<b>Preferred shares (Note 18)</b>			
Balance at beginning of year	\$ 2,663	\$ 2,050	\$ 1,050
Issued	2,150	613	1,150
Redeemed for cancellation	–	–	(150)
Balance at end of year	4,813	2,663	2,050
<b>Common shares (Note 18)</b>			
Balance at beginning of year	10,384	7,300	7,196
Issued	2,691	3,090	170
Purchased for cancellation	–	(6)	(66)
Balance at end of year	13,075	10,384	7,300
<b>Contributed surplus</b>			
Balance at beginning of year	242	235	292
Renounced stock appreciation rights	(7)	(5)	(6)
Stock-based compensation awards	(11)	14	(46)
Other	22	(2)	(5)
Balance at end of year	246	242	235
<b>Treasury shares – preferred (Note 18)</b>			
Balance at beginning of year	(5)	(6)	(2)
Sales	13	23	33
Purchases	(10)	(22)	(37)
Balance at end of year	(2)	(5)	(6)
<b>Treasury shares – common (Note 18)</b>			
Balance at beginning of year	(104)	(101)	(180)
Sales	59	51	175
Purchases	(50)	(54)	(96)
Balance at end of year	(95)	(104)	(101)
<b>Retained earnings</b>			
Balance at beginning of year (1)	19,816	18,047	15,771
Transition adjustment – Financial instruments (2)	66	–	(86)
Adjustment (1)	–	–	(120)
Net income	3,858	4,555	5,492
Preferred share dividends (Note 18)	(233)	(101)	(88)
Common share dividends (Note 18)	(2,819)	(2,624)	(2,321)
Premium paid on common shares purchased for cancellation	–	(49)	(580)
Issuance costs and other	(103)	(12)	(21)
Balance at end of year	20,585	19,816	18,047
<b>Accumulated other comprehensive (loss) income</b>			
Transition adjustment – Financial instruments (2)	59	(45)	(45)
Unrealized losses on available-for-sale securities	(76)	(1,068)	(65)
Unrealized foreign currency translation losses, net of hedging activities	(1,374)	(802)	(3,207)
Gains and losses on derivatives designated as cash flow hedges	(325)	(443)	111
Balance at end of year	(1,716)	(2,358)	(3,206)
<b>Retained earnings and Accumulated other comprehensive income</b>	18,869	17,458	14,841
<b>Shareholders' equity at end of year</b>	\$ 36,906	\$ 30,638	\$ 24,319

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

(2) The 2007 transition adjustment relates to the implementation of the financial instruments accounting standards on November 1, 2006. The 2009 transition adjustment relates to the amendments to certain of these standards that were effective November 1, 2008. Refer to Note 1.

## Consolidated Statements of Cash Flows

For the year ended October 31 (C\$ millions)

	2009	2008	2007
<b>Cash flows from operating activities</b>			
Net income	\$ 3,858	\$ 4,555	\$ 5,492
Adjustments to determine net cash from (used in) operating activities			
Provision for credit losses	3,413	1,595	791
Depreciation (1)	389	318	434
Business realignment payments	(2)	(11)	(38)
Future income taxes	(97)	(455)	(147)
Impairment of goodwill and amortization of other intangibles (1)	1,462	356	96
Gain on sale of premises and equipment	5	(17)	(16)
Gain on securitizations	(934)	(207)	(44)
(Gain) loss on available-for-sale securities	(17)	1	(146)
Writedown of available-for-sale securities	657	631	66
Changes in operating assets and liabilities			
Insurance claims and policy benefit liabilities	1,537	102	(54)
Net change in accrued interest receivable and payable	(147)	164	(28)
Current income taxes	3,546	(2,705)	1,034
Derivative assets	43,961	(69,527)	(28,856)
Derivative liabilities	(44,315)	56,685	29,916
Trading securities	(11,382)	24,966	10,976
Net change in brokers and dealers receivable and payable	2,396	(552)	(317)
Other	3,073	(4,518)	3,341
<b>Net cash from operating activities</b>	<b>7,403</b>	<b>11,381</b>	<b>22,500</b>
<b>Cash flows from investing activities</b>			
Change in interest-bearing deposits with banks	11,118	(8,160)	(1,379)
Change in loans, net of securitizations	(17,854)	(62,725)	(42,097)
Proceeds from securitizations	21,788	10,047	8,318
Proceeds from sale of available-for-sale securities	12,515	8,885	8,117
Proceeds from maturity of available-for-sale securities	18,108	14,804	15,350
Purchases of available-for-sale securities	(32,268)	(24,864)	(22,012)
Net acquisitions of premises and equipment and software	(700)	(1,265)	(706)
Change in assets purchased under reverse repurchase agreements and securities borrowed	3,238	19,650	(4,935)
Net cash used in acquisitions	(27)	(974)	(373)
<b>Net cash from (used in) investing activities</b>	<b>15,918</b>	<b>(44,602)</b>	<b>(39,717)</b>
<b>Cash flows from financing activities</b>			
Change in deposits	(40,742)	61,271	16,831
Issue of Trust Subordinated Notes	–	–	1,000
Repayment of subordinated debentures	(1,659)	(500)	(989)
Issue of subordinated debentures	–	2,000	87
Issue of preferred shares	2,150	613	1,150
Redemption of preferred shares for cancellation	–	(300)	(150)
Issue of RBC Trust Capital Securities (RBC TruCS)	–	500	–
Issue of common shares	2,439	149	155
Purchase of common shares for cancellation	–	(55)	(646)
Sales of treasury shares	72	74	208
Purchase of treasury shares	(60)	(76)	(133)
Dividends paid	(2,744)	(2,688)	(2,278)
Issuance costs	(77)	(11)	(23)
Dividends/distributions paid by subsidiaries to non-controlling interests	(4)	(33)	(59)
Change in obligations related to assets sold under repurchase agreements and securities loaned	3,097	(6,172)	(4,070)
Change in obligations related to securities sold short	13,852	(17,192)	6,436
Redemption of trust preferred notes	(140)	–	–
Change in short-term borrowings of subsidiaries	(1,967)	1,618	(145)
<b>Net cash (used in) from financing activities</b>	<b>(25,783)</b>	<b>39,198</b>	<b>17,374</b>
Effect of exchange rate changes on cash and due from banks	(271)	883	(332)
<b>Net change in cash and due from banks</b>	<b>(2,733)</b>	<b>6,860</b>	<b>(175)</b>
Cash and due from banks at beginning of year	11,086	4,226	4,401
<b>Cash and due from banks at end of year</b>	<b>\$ 8,353</b>	<b>\$ 11,086</b>	<b>\$ 4,226</b>
<b>Supplemental disclosure of cash flow information</b>			
Amount of interest paid in year	\$ 9,910	\$ 15,967	\$ 18,494
Amount of income taxes paid in year	\$ (102)	\$ 2,025	\$ 1,352

(1) Comparative information has been reclassified as a result of adopting CICA Handbook Section 3064. Refer to Note 1.

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.

**General**

**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 is 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.

**Use of estimates and assumptions**

In preparing our Consolidated Financial Statements, 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, VIEs, 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 future Consolidated Financial Statements.

**Accounting adjustments**

In 2009, we corrected the following errors pertaining to prior periods: an under accrual of \$90 million (\$62 million after-tax) of our cards points liability; a \$63 million (\$43 million after-tax) over capitalization of software development costs; and a \$15 million understatement of income taxes. These errors are not material to the periods to which they relate; however, as correcting them in the first quarter of 2009 would have materially distorted the net income for that quarter, we corrected them by decreasing opening retained earnings for the quarter ended January 31, 2007, by \$120 million.

**Significant accounting changes**

*Goodwill and Intangible Assets*

On November 1, 2008, we adopted Canadian Institute of Chartered Accountants (CICA) Handbook Section 3064, *Goodwill and Intangible Assets* (Section 3064). Section 3064, which replaces Section 3062, *Goodwill and Other Intangible Assets*, and Section 3450, *Research and Development Costs*, provides clarifying guidance on the criteria that must be satisfied in order for an intangible asset to be recognized, including internally developed intangible assets. The CICA's Emerging Issues Committee (EIC) Abstract No. 27, *Revenues and Expenditures During the Pre-operating Period*, is no longer applicable once Section 3064 has been adopted. As a result of adopting Section 3064, we reclassified \$789 million of software from Premises and equipment to Other intangibles on our Consolidated Balance Sheets as at November 1, 2008. We have also reclassified depreciation of \$221 million and \$162 million from Non-interest expense – Equipment to Non-interest expense – Amortization of other intangibles on our Consolidated Statements of Income for the year ended October 31, 2008 and October 31, 2007, respectively.

*Credit Risk and the Fair Value of Financial Assets and Financial Liabilities*

In January 2009, the EIC issued Abstract No. 173, *Credit Risk and the Fair Value of Financial Assets and Financial Liabilities* (EIC-173). EIC-173 requires an entity to take into account its own credit risk and that of the relevant counterparty(s) when determining the fair value of financial assets and financial liabilities, including derivative instruments. This EIC, which was effective for us on November 1, 2008, had no impact on our financial position or results of operations because we had been incorporating the aforementioned credit risks into our valuation methodology before the EIC was issued.

*Effective Interest Method – Amendments to: Financial Instruments – Recognition and Measurement, Section 3855.*

In June 2009, the CICA clarified Section 3855 with respect to the effective interest method which is a method of calculating the amortized cost of financial assets and financial liabilities and of allocating the interest income or interest expense over the relevant period. The impact of the clarification had no material impact on our consolidated financial position or results of operations.

*Embedded Derivatives on Reclassification of Financial Assets – Amendments to: Financial Instruments – Recognition and Measurement, Section 3855.*

In June 2009, the CICA clarified Section 3855 with respect to the reclassification of financial instruments with embedded derivatives. A financial instrument classified as held-for-trading may not be reclassified when the embedded derivative that would have to be separated on reclassification of the combined contract cannot be measured separately. The amendment was effective for reclassifications made on or after July 1, 2009 and had no material impact on our consolidated financial position or results of operations.

*Fair Value and Liquidity Risk Disclosure – Amendments to: Financial Instruments – Disclosures, Section 3862.*

In June 2009, the CICA amended Section 3862 to improve fair value and liquidity risk disclosures. Section 3862 now requires that all financial instruments measured at fair value be categorized into one of three hierarchy levels, described below, for disclosure purposes. Each level is based on the transparency of the inputs used to measure the fair values of assets and liabilities:

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

Determination of fair value and the resulting hierarchy requires the use of observable market data whenever available. The classification of a financial instrument in the hierarchy is based upon the lowest level of input that is significant to the measurement of fair value. The amendments only impact our disclosures. Refer to Note 2. We have also enhanced our liquidity disclosures by including details on our sources of funding. Refer to Note 29.

*Impairment of Financial Assets – Amendments to: Financial Instruments – Recognition and Measurement, Section 3855.*

In August 2009, the CICA issued various amendments to Section 3855 which eliminated the distinction between debt securities and other debt instruments and changed the categories to which debt instruments are required or are permitted to be classified. As a result of these amendments non-derivative financial assets with fixed or determinable payments that are not quoted in an active market may be classified as loans and receivables; loan and receivables for which we may not recover substantially all of our initial investment, other than because of credit deterioration, must be classified as available-for-sale; and loans and receivables that we intend to sell immediately or in the near term must be classified as held-for-trading.



The amendments also permit, upon adoption and on an on-going basis, certain financial assets be reclassified from the held-for-trading and available-for-sale categories into the loans and receivables category, when specified conditions are met. They also require reversing an impairment loss relating to an available-for-sale debt instrument when, in a subsequent period, the fair value of the instrument increases and the increase can be objectively related to an event occurring after the loss was recognized. Impairment for debt instruments classified as loans and receivables will be assessed using the impairment model for loans.

We adopted these amendments with retrospective application to November 1, 2008, in accordance with the transitional provisions of the amendments; accordingly, we have reclassified \$179 million of held-for-trading and \$929 million of available-for-sale securities to loans and recorded the following transition adjustments in our Consolidated Financial Statements: (i) an increase of \$66 million, net of taxes of \$30 million, to our Retained earnings as of November 1, 2008, representing an adjustment to the impairment amount calculated as a result of using the impairment model for loans, and (ii) an increase of \$104 million, net of taxes of \$57 million, to our Accumulated other comprehensive income (AOCI) as of November 1, 2008, representing the cumulative marked-to-market adjustments previously recorded. Our results for 2009 were also impacted by the amendments as follows: (i) an increase of \$64 million, net of taxes, to our Net income, representing an adjustment to the impairment amount calculated as a result of using the impairment model for loans, and (ii) a reduction to Other comprehensive income (OCI) of \$26 million, net of taxes, representing the cumulative unrealized gains adjustments previously recorded.

We have reclassified \$179 million of loans intended to be sold in the near future upon origination to the held-for-trading category. We recorded an increase of \$2 million, net of taxes, to our Net income, representing marked-to-market adjustments on these reclassified loans.

### **Financial Instruments – Recognition and Measurement Securities**

Securities are classified, based on management's intentions, as held-for-trading, available-for-sale or held-to-maturity. Certain debt securities may be classified as loans and receivables as of November 1, 2008 in accordance with the CICA's amendments to Section 3855 discussed earlier in this Note under "Significant accounting changes."

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.

At each reporting date, and more frequently when conditions warrant, we evaluate our available-for-sale 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 gains or losses on available-for-sale securities.

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.

We assess our held-to-maturity securities for impairment using the same impairment model for loans in accordance with the CICA's amendments to Section 3855 discussed earlier in this Note under "Significant accounting changes." Refer to the Loans section for details.

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 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, and interest incurred on repurchase agreements is included in Interest expense, respectively, 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.

### Securitizations

Our various securitization activities generally consist of the transfer of financial assets to independent special purpose entities (SPEs) or trusts that issue securities to investors. SPEs may be a VIE as defined by CICA Accounting Guideline (AcG) 15, *Consolidation of Variable Interest Entities (AcG-15)* or a Qualifying SPEs (QSPEs) as defined under AcG-12, *Transfer of Receivables*.

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 assets. For control to be surrendered, all of the following must occur: (i) the transferred assets 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 assets or, if the purchaser is a QSPE, 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 assets through an agreement to repurchase them or have a right to cause the assets to be returned. If any one of these conditions is not met, the transfer is considered to be a secured borrowing, the assets remain on our Consolidated Balance Sheets, and the proceeds are recognized as a liability.

In the case of loan securitizations, we sell loans or package mortgage-backed securities (MBS) to SPEs or trusts that issue securities to investors.

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 largely 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 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 retained interests classified as available-for-sale 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 pre-payable 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 – Other assets. When the benefits of servicing are not expected to be adequate, we recognize a servicing liability in Other – 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.

In the case of bond securitizations, we purchase municipal government, government related and corporate bonds, and issue securities that are sold to third party investors. We do not retain any

beneficial interest unless we purchase some of the certificates issued.

### 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 Other – Other Liabilities 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 Other – Other Assets. 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 rate, 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, 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 rate, 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 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 currency-denominated liabilities and foreign exchange contracts to manage our foreign currency exposures to net investments in self-sustaining foreign operations having a functional currency other than the Canadian dollar.

**Loans**

Loans are recorded at amortized cost unless upon origination, we intend to sell them in the near future or 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 recorded at amortized cost are subject to periodic impairment review and are classified as impaired when, in management's opinion, there is no longer reasonable assurance of the timely collection of the full amount of principal or interest. Whenever a payment is 90 days past due, loans other than credit card balances and loans guaranteed or insured by a Canadian government (federal or provincial) or a Canadian government agency (collectively, Canadian government) are classified as impaired unless they are fully secured and collection efforts are reasonably expected to result in repayment of debt within 180 days of the loan becoming 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 carrying value of the loan. If the loan is completely written off, subsequent payments are 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, which is 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.

### 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. Liabilities are 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.

### Offsetting financial assets and financial liabilities

Financial assets and financial liabilities are presented net when we have a legally enforceable right to set off the recognized amounts and intend to settle on a net basis or to realize the asset and settle the liability simultaneously.

### 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. Changes in 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 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.

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.

### Pensions and other post-employment benefits and stock-based compensation

#### 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, respectively.

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 liabilities, 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 10% of the greater 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 Non-interest expense – Human Resources when settlement occurs. Curtailment gains and losses are recognized in the period when the curtailment becomes probable and the impact can be reasonably estimated.

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.

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

### **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 appreciation rights (SARs) obligations that are fully vested 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.

### **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 on 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. Our Consolidated Statements of Income include 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.

Net future income taxes accumulated as a result of temporary differences and tax loss carryforwards are included in Other assets. On a quarterly basis, we review our future tax assets to determine whether it is more likely than not that the benefits associated with these assets will be realized; this review involves evaluating both

positive and negative evidence. A valuation allowance is established to reduce future income tax assets to the amount that we believe is more likely than not to be realized. We review both positive and negative evidence in assessing whether future income tax assets are more likely than not to be realized.

### **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. The goodwill allocated to the portion of the reporting unit to be retained is tested for impairment.

Goodwill is evaluated for impairment annually as at August 1 or more often if events or circumstances indicate there may be an impairment. We test our goodwill by first determining the fair value of each reporting unit and comparing it to its carrying value, including the allocated goodwill. If the carrying value of a reporting unit exceeds its fair value, the fair value of the reporting unit's goodwill must be determined and compared to its carrying value. The fair value of the goodwill is imputed by determining the fair value of assets and liabilities of the reporting unit. 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, and is charged to Income in the period in which the impairment is identified. Subsequent reversals of impairment are prohibited.

The fair value of each reporting unit is determined primarily using an earnings-based approach which incorporates each reporting unit's internal forecasts of revenue and expenses. Estimates and assumptions of discount rates, growth rates, and terminal growth rates are incorporated in this approach. Changes to these estimates or assumptions could have an impact on the determination of the fair value of our reporting units and thus, the results of the impairment test. In addition to the earnings-based approach, where possible, we use a market-based approach to estimate the fair value of each reporting unit based on actual market events and comparable companies.

Other intangibles with a finite life are amortized on a straight-line basis over their estimated useful lives, generally not exceeding 20 years, 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.

### **Other**

#### **Translation of foreign currencies**

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

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

Unrealized gains or losses arising as a result of the translation of our foreign self-sustaining operations along with the effective portion of related hedges are reported as a component of OCI on an after-tax basis. 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.

### 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.

### Future accounting changes

*Business Combinations, Consolidated Financial Statements, and Non-controlling Interests*

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

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

*Embedded Prepayment Option – Amendments to: Financial Instruments – Recognition and Measurement, Section 3855.*

In June 2009, the CICA provided clarification to Section 3855 with respect to the accounting for embedded prepayment option. An embedded prepayment option in an interest-only or principal-only strip is closely related to the host contract, provided the host contract initially resulted from separating the right to receive contractual cash flows of a financial instrument, that, in and of itself, did not contain an embedded derivative; and does not contain any terms not present in the original host debt contract. This new standard will be applicable to us on November 1, 2011 although adoption in 2010 is permitted to facilitate the transition to IFRS in 2011. We are currently assessing the impact of adopting this amendment on our consolidated financial position and results of operations.

*International Financial Reporting Standards*

The CICA has announced that Canadian GAAP for publicly accountable enterprises companies will be replaced with 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.

## 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 of identical instruments traded in active markets are determined by reference to last quoted prices, in the most advantageous active market for that instrument. In the absence of an active market, we determine fair values based on quoted prices for instruments with similar characteristics and risk profiles. Fair values of financial instruments determined using valuation models require the use of inputs. In determining those inputs, we look primarily to external, readily observable market inputs, when available, including factors such as interest rate yield curves, currency rates, and price and rate volatilities, as applicable. In some circumstances, we use input parameters that are not based on observable market data. In these cases, we may adjust model values to reflect the valuation uncertainty (model and parameter valuation adjustments) in order to determine what the fair value would be based on the assumptions that market participants would use in pricing the financial instrument. These adjustments are made in order to determine the fair value of the instruments.

For some securities, we may record 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. We also include valuation adjustments calculated when market prices are not observable due to insufficient trading volume or a lack of recent trades in a less active or inactive market.

We make valuation adjustments for the credit risk of our derivative portfolios in order to arrive at 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 frequently updated due to the changes in derivative values and counterparty performance risk. Changes to credit valuation adjustments are recorded in current period income.

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.

Trading and available-for-sale securities and derivative-related assets represent 92% of the total fair-value assets, and deposits designated as held-for-trading and derivative-related liabilities represent 69% of the total fair-value liabilities.

The majority of our financial instruments classified as held-for-trading (other than derivatives) and as available-for-sale comprise actively traded debt and equity securities and are carried at fair value based on available quoted prices.

All of our derivatives transactions are accounted for on a fair value basis. Fair values of exchange-traded derivatives are based on last exchange prices. Over-the-counter derivatives are valued using either industry standard or internally developed valuation models. Valuation model inputs are either observable or unobservable.

Observable inputs of the financial instruments include G7 interest-rate-yield curves, currency rates and volatility of certain prices or rates. Unobservable inputs consist of non-G7 interest-rate-yield curves, prepayment speeds, credit spreads, probability of defaults, recovery rates, equity volatility and correlations of probability of defaults, market reference interest rates or baskets of common stock.

Valuation methods and assumptions used in measuring fair values of deposits designated as held-for-trading are described in the Carrying value and fair value of selected financial instruments section below.

### Deferred unrealized gains or losses at inception

An unrealized gain or loss at inception for financial instruments is the difference between the transaction price and its fair value on the trade date. Unrealized gains or losses at inception are 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 all significant observable market inputs; or (iii) the risks associated with the derivative contract are fully offset by another contract(s) with a third party(ies). 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 and is include in Other-Derivatives. The deferred gain or loss is recognized only 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.

Deferred unrealized gains at inception primarily arise in equity structured notes, structured credit and interest rate derivatives, and stable value contracts on bank-owned life insurance policies and 401(k) plans.

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

	2009	2008
Deferred unrealized gains not yet recognized in net income, as at the beginning of the year	\$ 198	\$ 186
Less: Adjustments (1)	(130)	–
Adjusted balance, as at beginning of the year	\$ 68	\$ 186
Add: Deferred unrealized gains arising during the year	(5)	24
Less: Deferred gains reclassified to net income during the year	17	12
Deferred unrealized gains, as at end of the year	\$ 46	\$ 198

(1) During 2009, we revised the valuation model that we use to fair value the stable value contracts on bank-owned life insurance policies and 401(k) plans, as a result of newly available data and information. The new valuation model eliminates the requirement for deferred unrealized gains or losses at inception on these instruments which is reflected in the table above.

### 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.

	2009								
	Carrying value and fair value of			Carrying value	Fair value			Total carrying amount	Total 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)			
<b>Financial assets</b>									
Securities									
Trading (2)	\$ 127,394	\$ 12,668	\$ –	\$ –	\$ –	\$ –	\$ 140,062	\$ 140,062	
Available-for-sale (2)	–	–	44,850	–	–	1,360	46,210	46,210	
Total securities	\$ 127,394	\$ 12,668	\$ 44,850	\$ –	\$ –	\$ 1,360	\$ 186,272	\$ 186,272	
Assets purchased under reverse repurchase agreements and securities borrowed	\$ –	\$ 18,911	\$ –	\$ 22,669	\$ 22,669	\$ –	\$ 41,580	\$ 41,580	
Loans									
Retail	\$ –	\$ –	\$ –	\$ 203,856	\$ 201,166	\$ –	\$ 203,856	\$ 201,166	
Wholesale (2)	–	2,818	–	74,289	69,712	–	77,107	72,530	
Total loans	\$ –	\$ 2,818	\$ –	\$ 278,145	\$ 270,878	\$ –	\$ 280,963	\$ 273,696	
Other									
Derivatives	\$ 92,173	\$ –	\$ –	\$ –	\$ –	\$ –	\$ 92,173	\$ 92,173	
Other assets	–	244	–	18,590	18,590	–	18,834	18,834	
<b>Financial liabilities</b>									
Deposits									
Personal	\$ –	\$ 2,605	\$ –	\$ 149,723	\$ 151,051	\$ –	\$ 152,328	\$ 153,656	
Business and government (3)	–	40,335	–	180,437	180,354	–	220,772	220,689	
Bank (4)	–	10,880	–	14,324	14,324	–	25,204	25,204	
Total deposits	\$ –	\$ 53,820	\$ –	\$ 344,484	\$ 345,729	\$ –	\$ 398,304	\$ 399,549	
Other									
Obligations related to securities sold short	\$ 41,359	\$ –	\$ –	\$ –	\$ –	\$ –	\$ 41,359	\$ 41,359	
Obligations related to assets sold under repurchase agreements and securities loaned	–	21,628	–	13,522	13,522	–	35,150	35,150	
Derivatives (5)	84,390	–	–	–	–	–	84,390	84,390	
Other liabilities	–	240	–	33,757	33,757	–	33,997	33,997	
Subordinated debentures	–	110	–	6,351	6,262	–	6,461	6,372	
Trust capital securities	–	–	–	1,395	1,482	–	1,395	1,482	

(1) Includes the nominal value of our held-to-maturity investments which are carried at amortized cost.

(2) As explained in Note 1, as of November 1, 2008, we have reclassified certain securities from held-for-trading and available-for-sale to loans in accordance with the CICA's amendments to Sections 3855. In addition, loans intended to be sold in the near future upon origination were reclassified from Loans to Trading.

(3) Business and government includes deposits from regulated deposit-taking institutions other than regulated banks.

(4) Bank refers to regulated banks.

(5) Includes stable value contracts on \$257 million of bank-owned life insurance policies and \$3 million of 401(k) plans.

	2008								
	Carrying value and fair value of			Carrying value	Fair value			Total carrying amount	Total 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)			
<b>Financial assets</b>									
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	
<b>Financial liabilities</b>									
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	

(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 stable value contracts on \$2 million of bank-owned life insurance policies and \$1 million of 401 (k) plans.

(4) Business and government includes deposits from regulated deposit-taking institutions other than regulated banks.

(5) Bank refers to regulated banks.

The following tables present 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.

	2009						
	Carrying amount of loans and receivables designated as held-for-trading	Maximum exposure to credit risk	Change in fair value since November 1, 2008 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, 2008	Cumulative change in fair value of credit derivatives or similar instruments (1)
Loans and receivables designated as held-for-trading							
Interest-bearing deposits with banks	\$ 2,773	\$ 2,773	\$ –	\$ –	\$ –	\$ –	\$ –
Assets purchased under reverse repurchase agreements and securities borrowed	18,911	18,911	–	–	–	–	–
Loans – Wholesale	2,818	2,818	27	(75)	428	(52)	10
Total	\$ 24,502	\$ 24,502	\$ 27	\$ (75)	\$ 428	\$ (52)	\$ 10

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



**Note 2 Fair value of financial instruments** (continued)

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	(201)	(248)	817	40	48
<b>Total</b>	<b>\$ 33,955</b>	<b>\$ 33,955</b>	<b>\$ (201)</b>	<b>\$ (248)</b>	<b>\$ 817</b>	<b>\$ 40</b>	<b>\$ 48</b>

(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 tables present 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. The carrying values (fair values) of these liabilities are based on present value of the instruments' contractual cash flows discounted at the appropriate market interest rates. Appropriate markets rates comprised observable benchmark interest rates and our credit spreads which are either observable or unobservable. In order to

determine the changes in fair value attributable to changes in our credit spreads as presented in the table below, we first calculate the difference in present values of the instrument's contractual cash flows by including and excluding our credit spreads in the discount rate as at the beginning of the year. We then re-perform the same calculations using the end-of-the-year rates. The difference between those values represents the changes in fair value attributable to changes in our credit spreads.

Liabilities designated as held-for-trading	2009				
	Contractual maturity amount	Carrying value	Difference between carrying value and contractual maturity amount	Changes in fair value since November 1, 2008 attributable to changes in RBC credit spreads	Cumulative change in fair value attributable to changes in RBC credit spreads (1)
Term deposits					
Personal	\$ 2,605	\$ 2,605	\$ –	\$ 40	\$ (6)
Business and government (2)	40,167	40,335	168	507	(57)
Bank (3)	10,880	10,880	–	3	(1)
<b>Total term deposits</b>	<b>\$ 53,652</b>	<b>\$ 53,820</b>	<b>\$ 168</b>	<b>\$ 550</b>	<b>\$ (64)</b>
Obligations related to assets sold under repurchase agreements and securities loaned	21,626	21,628	2	–	–
Subordinated debentures	120	110	(10)	36	(12)
Other liabilities	240	240	–	–	–
<b>Total</b>	<b>\$ 75,638</b>	<b>\$ 75,798</b>	<b>\$ 160</b>	<b>\$ 586</b>	<b>\$ (76)</b>

(1) The cumulative change attributable to changes in our credit spreads 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.

2008

Liabilities designated as held-for-trading	2008				
	Contractual maturity amount	Carrying value	Difference between carrying value and contractual maturity amount	Changes in fair value since November 1, 2007 attributable to changes in RBC credit spreads	Cumulative change in fair value attributable to changes in RBC credit spreads (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)
<b>Total term deposits</b>	<b>\$ 77,530</b>	<b>\$ 77,408</b>	<b>\$ (122)</b>	<b>\$ (492)</b>	<b>\$ (574)</b>
Obligations related to assets sold under repurchase agreements and securities loaned	17,877	17,870	(7)	–	–
Subordinated debentures	122	81	(41)	(41)	(48)
<b>Total</b>	<b>\$ 95,529</b>	<b>\$ 95,359</b>	<b>\$ (170)</b>	<b>\$ (533)</b>	<b>\$ (622)</b>

(1) The cumulative change attributable to changes in our credit spreads 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.

## Fair value of assets and liabilities classified using the fair value hierarchy

The following table presents the financial instruments measured at fair value classified by the fair value hierarchy set out in Section 3862 as described in Note 1:

	As at October 31, 2009				
	Fair value measurements using (1)			Netting adjustments (2)	Assets/liabilities at fair value
	Level 1	Level 2	Level 3		
<b>Financial assets</b>					
<b>Interest bearing deposits with banks</b>	\$ –	\$ 2,773	\$ –	\$ –	\$ 2,773
<b>Securities</b>					
<b>Trading</b>					
Canadian government debt (3)					
Federal	–	25,269	5	–	25,274
Provincial and municipal	–	5,073	54	–	5,127
U.S. state, municipal and agencies debt (3)	–	13,289	9	–	13,298
Other OECD government debt (4)	–	8,033	–	–	8,033
Mortgage-backed securities (3)	–	20	1,052	–	1,072
Asset-backed securities					
CDOs (5)	–	–	3,074	–	3,074
Non-CDO securities	–	211	321	–	532
Corporate debt and other debt	–	46,015	303	–	46,318
Equities	34,313	119	2,902	–	37,334
	\$ 34,313	\$ 98,029	\$ 7,720	\$ –	\$ 140,062
<b>Available-for-sale (6)</b>					
Canadian government debt (3)					
Federal	–	12,161	–	–	12,161
Provincial and municipal	237	897	–	–	1,134
U.S. state, municipal and agencies debt (3)	–	3,435	2,358	–	5,793
Other OECD government debt (4)	908	2,622	–	–	3,530
Mortgage-backed securities (3)	–	4	1,848	–	1,852
Asset-backed securities					
CDOs	–	–	222	–	222
Non-CDO securities	–	3,050	1,155	–	4,205
Corporate debt and other debt	177	10,802	3,580	–	14,559
Equities	537	147	560	–	1,244
Loan substitute securities	–	150	–	–	150
	\$ 1,859	\$ 33,268	\$ 9,723	\$ –	\$ 44,850
<b>Assets purchased under reverse repurchase agreements and securities borrowed</b>	–	18,911	–	–	18,911
<b>Loans</b>	–	2,441	377	–	2,818
<b>Other</b>					
Derivatives	3,413	83,739	5,289	(268)	92,173
Other assets	244	–	–	–	244
	\$ 39,829	\$ 239,161	\$ 23,109	\$ (268)	\$ 301,831
<b>Financial Liabilities</b>					
<b>Deposits</b>					
Personal	\$ –	\$ –	\$ 2,605	\$ –	\$ 2,605
Business and government	–	35,994	4,341	–	40,335
Bank	–	10,880	–	–	10,880
<b>Other</b>					
Obligations related to securities sold short	14,006	27,203	150	–	41,359
Obligations related to assets sold under repurchase agreements and securities loaned	–	21,628	–	–	21,628
Derivatives	1,368	77,824	5,466	(268)	84,390
Other liabilities	–	–	240	–	240
Subordinated debentures	–	–	110	–	110
	\$ 15,374	\$ 173,529	\$ 12,912	\$ (268)	\$ 201,547

(1) There were no significant transfers between Levels 1 and 2.

(2) The netting adjustments represent the impact of offsetting derivative 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. Hence, some of the derivative related assets and liabilities are reported on a net basis.

(3) As at October 31, 2009, residential and commercial MBS included in Trading securities were \$12,414 million and \$185 million, respectively, and in Available-for-sale securities, \$8,454 million and \$213 million, respectively.

(4) OECD stands for Organisation for Economic Cooperation and Development.

(5) CDOs stand for Collateralized Debt Obligations.

(6) Excludes \$1,360 million of Available-for-sale securities that are carried at cost.

**Changes in fair value measurement for instruments categorized in Level 3**

The following table presents the changes in fair value measurements for instruments included in Level 3 of the fair value hierarchy set out in Section 3862 as described in Note 1:

	2009								Changes in unrealized gains (losses) included earnings for assets and liabilities for the year ended October 31, 2009 for positions still held
	Fair value November 1, 2008	Total realized/unrealized gains (losses) included in earnings (1)	Total unrealized gains (losses) included in other comprehensive income (2)	Purchases of asset/issuances of liabilities	Sales of assets/settlements of liabilities and others (3)	Transfers into Level 3 (1)	Transfers out of Level 3 (1)	Fair value October 31, 2009	
<b>Assets</b>									
<b>Securities</b>									
<b>Trading</b>									
Canadian government debt (4)									
Federal	\$ -	\$ -	\$ -	\$ 5	\$ -	\$ -	\$ -	\$ 5	\$ -
Provincial and municipal	-	(13)	-	2	16	51	(2)	54	-
U.S. state, municipal and agencies debt (4)	206	4	(3)	42	3	-	(243)	9	(2)
Other OECD government debt	150	9	7	22	(110)	-	(78)	-	-
Mortgage-backed securities (4)	1,531	110	(191)	2,788	(1,645)	101	(1,642)	1,052	117
<b>Asset-backed securities</b>									
CDOs	4,208	256	(308)	337	(1,403)	85	(101)	3,074	153
Non-CDO securities	605	(12)	(4)	3,628	(3,780)	168	(284)	321	-
Corporate debt and other debt	1,482	(150)	(63)	1,384	(2,000)	831	(1,181)	303	(9)
Equities	10,315	(301)	(354)	32	(7,068)	289	(11)	2,902	(256)
	\$ 18,497	\$ (97)	\$ (916)	\$ 8,240	\$ (15,987)	\$ 1,525	\$ (3,542)	\$ 7,720	\$ 3
<b>Available-for-sale</b>									
U.S. state, municipal and agencies debt (4)	\$ 2,522	\$ (16)	\$ (215)	\$ 1,104	\$ (1,035)	\$ 797	\$ (799)	\$ 2,358	\$ -
Other OECD government debt	402	-	9	-	(411)	-	-	-	-
Mortgage-backed securities (4)	2,646	(183)	(1)	69	(895)	212	-	1,848	-
<b>Asset-backed securities</b>									
CDOs	256	(20)	43	-	(57)	-	-	222	-
Non-CDO securities	1,568	-	(102)	725	(1,045)	9	-	1,155	-
Corporate debt and other debt	3,783	(136)	(306)	569	(343)	44	(31)	3,580	-
Equities	78	-	(67)	626	(60)	1	(18)	560	-
	\$ 11,255	\$ (355)	\$ (639)	\$ 3,093	\$ (3,846)	\$ 1,063	\$ (848)	\$ 9,723	\$ -
<b>Loans – Wholesale</b>	\$ 651	\$ (202)	\$ (45)	\$ 26	\$ (53)	\$ -	\$ -	\$ 377	\$ 18
<b>Other</b>									
Derivatives, net of derivative related liabilities (5)	(1,010)	(52)	(32)	4,275	(3,562)	164	40	(177)	1,159
	\$ 29,393	\$ (706)	\$ (1,632)	\$ 15,634	\$ (23,448)	\$ 2,752	\$ (4,350)	\$ 17,643	\$ 1,180
<b>Liabilities</b>									
<b>Deposits</b>									
Personal	\$ (2,656)	\$ (355)	\$ (42)	\$ (1,511)	\$ 1,695	\$ -	\$ 264	\$ (2,605)	\$ (157)
Business and government	(12,214)	1,120	591	18	3,346	(703)	3,501	(4,341)	(1,073)
<b>Other</b>									
Obligations related to securities sold short	(22)	12	(6)	459	(917)	(98)	422	(150)	23
Other liabilities	-	-	-	-	-	(240)	-	(240)	-
Subordinated debentures	(81)	(31)	2	-	-	-	-	(110)	(31)
	\$ (14,973)	\$ 746	\$ 545	\$ (1,034)	\$ 4,124	\$ (1,041)	\$ 4,187	\$ (7,446)	\$ (1,238)

- (1) Transfers in and out of Level 3 are assumed to occur at the end of the period. For an asset or a liability that transfers into Level 3 during the period, the entire change in fair value for the period is excluded from the "Total realized/unrealized gains/(losses) included in earnings" column of the reconciliation, whereas for transfers out of Level 3 during the period, the entire change in fair value for the period is included in the said column of the reconciliation. During the year ended October 31, 2009, we transferred approximately \$1.6 billion of MBS and approximately \$1.2 billion of corporate debt and other debt out of Level 3 due to the reclassification of certain Agency residential MBS and the improved price transparency, respectively. A further \$3.5 billion of business and government deposits were transferred out of Level 3 due to the decline of credit spreads and the improved observability of credit spreads.
- (2) Includes the foreign currency translation gains or losses arising on consolidation of foreign subsidiaries relating to the Level 3 instruments, where applicable. The unrealized gains or (losses) on Available-for-sale securities were \$398 million for the year ended October 31, 2009, excluding the translation gains or losses.
- (3) Other includes amortization of premiums or discounts recognized in net income.
- (4) As at October 31, 2009, residential and commercial MBS included in Trading securities were \$12,414 million and \$185 million, respectively, and in Available-for-sale securities were \$8,454 million and \$213 million, respectively.
- (5) Net derivatives as at October 31, 2009 included derivative assets of \$5,289 million and derivative liabilities of \$5,466 million.

Level 3 financial instruments include hedge fund investments with certain redemption restrictions, certain structured debt securities (asset-backed securities, auction-rate securities and U.S. Non-agency MBS), non-OECD government and corporate debt with long-dated maturities and significant unobservable spreads, derivatives referenced to the performance of certain CDOs, commodity swaps, credit default swaps, equity derivatives and structured notes.

Fair values of certain Level 3 instruments are based on broker quotes, pricing services, fund managers' information, and unobservable credit spreads and therefore, no other reasonably

possible alternative assumptions could be applied to the valuations. In addition, some of the instruments are fully hedged and any changes in fair values of the instruments due to the use of other reasonably possible alternative assumptions would have equal and offsetting valuation effects on the hedges. For the significant instruments that other reasonably possible alternative assumptions are available to the valuation models, we used these assumptions to recalculate the fair values of the instruments, resulting in an increase in total Level 3 fair value by \$103 million and a decrease of total Level 3 fair value of \$216 million.

### Note 3 Securities <sup>(1)</sup>

The following table presents the financial instruments we held at the end of the period, measured at carrying value:

	Term to maturity <sup>(2)</sup>						With no specific maturity	2009 Total	2008 Total	2007 Total
	Within 3 months	3 months to 1 year	1 to 5 years	Over 5 years to 10 years	Over 10 years					
<b>Trading account</b>										
Canadian government debt	\$ 1,749	\$ 4,863	\$ 15,484	\$ 5,023	\$ 3,282	\$ –	\$ 30,401	\$ 20,911	\$ 15,207	
U.S. government debt	1,736	1,030	2,746	1,341	6,445	–	13,298	8,728	6,603	
Other OECD government debt <sup>(3)</sup>	224	860	3,460	1,898	1,591	–	8,033	2,488	4,236	
Mortgage-backed securities <sup>(4)</sup>	36	26	379	232	637	–	1,310	2,476	4,408	
Asset-backed securities <sup>(4)</sup>	73	161	1,878	623	259	–	2,994	4,551	9,387	
Corporate debt and other debt <sup>(4)</sup>										
Bankers' acceptances	390	38	–	–	–	–	428	13	374	
Certificates of deposit	349	1,047	403	27	40	–	1,866	2,174	4,712	
Other <sup>(5)</sup>	3,371	7,877	19,776	5,251	7,652	471	44,398	39,063	42,438	
Equities	–	–	–	–	–	37,334	37,334	42,104	60,120	
	7,928	15,902	44,126	14,395	19,906	37,805	140,062	122,508	147,485	
<b>Available-for-sale securities <sup>(1)</sup></b>										
Canadian government debt										
Federal										
Amortized cost	45	4	11,493	209	13	–	11,764	13,123	7,742	
Fair value	46	4	11,883	216	12	–	12,161	13,544	7,769	
Yield <sup>(6)</sup>	5.5%	1.0%	3.3%	3.9%	5.7%	–	3.3%	3.6%	4.5%	
Provincial and municipal										
Amortized cost	1	242	832	19	10	–	1,104	674	279	
Fair value	1	242	862	19	10	–	1,134	678	278	
Yield <sup>(6)</sup>	1.7%	1.1%	4.3%	5.1%	4.5%	–	3.7%	4.8%	4.2%	
U.S. state, municipal and agencies debt										
Amortized cost	545	869	452	359	3,556	–	5,781	9,230	4,407	
Fair value	546	870	472	374	3,531	–	5,793	8,890	4,370	
Yield <sup>(6)</sup>	.2%	1.7%	5.1%	4.4%	2.4%	–	2.4%	3.8%	4.2%	
Other OECD government debt <sup>(3)</sup>										
Amortized cost	1,579	1,365	467	102	–	–	3,513	1,267	819	
Fair value	1,580	1,369	477	104	–	–	3,530	1,270	818	
Yield <sup>(6)</sup>	.9%	1.4%	3.7%	4.5%	–	–	1.6%	1.5%	1.4%	
Mortgage-backed securities <sup>(5)</sup>										
Amortized cost	–	–	56	54	1,947	–	2,057	4,278	3,143	
Fair value	–	–	55	55	1,742	–	1,852	3,548	3,096	
Yield <sup>(6)</sup>	–	–	2.2%	4.9%	4.7%	–	4.6%	5.6%	6.3%	
Asset-backed securities										
Amortized cost	133	644	885	948	1,906	–	4,516	5,192	1,179	
Fair value	126	662	909	945	1,785	–	4,427	4,796	1,114	
Yield <sup>(6)</sup>	.7%	4.0%	2.5%	1.0%	1.3%	–	1.9%	4.5%	5.9%	
Corporate debt and other debt <sup>(5)</sup>										
Amortized cost	5,073	3,128	3,163	1,061	1,914	227	14,566	13,102	9,850	
Fair value	5,101	3,161	3,343	1,046	1,717	191	14,559	12,785	9,794	
Yield <sup>(6)</sup>	2.3%	2.0%	2.9%	4.0%	2.7%	2.2%	2.5%	5.5%	4.8%	
Equities <sup>(7)</sup>										
Cost	–	–	–	–	–	2,437	2,437	3,057	2,715	
Fair value	–	–	–	–	–	2,412	2,412	2,683	2,874	
Loan substitute										
Cost	–	–	–	–	–	256	256	256	656	
Fair value	–	–	–	–	–	186	186	227	652	
Yield <sup>(6)</sup>	–	–	–	–	–	3.7%	3.7%	5.6%	5.1%	
Amortized cost	7,376	6,252	17,348	2,752	9,346	2,920	45,994	50,179	30,790	
Fair value	7,400	6,308	18,001	2,759	8,797	2,789	46,054	48,421	30,765	
<b>Held-to-maturity securities <sup>(1)</sup></b>										
Amortized cost	82	2	41	14	17	–	156	205	5	
Fair value	82	2	41	14	17	–	156	205	5	
<b>Total carrying value of securities <sup>(1)</sup></b>	\$ 15,410	\$ 22,212	\$ 62,168	\$ 17,168	\$ 28,720	\$ 40,594	\$ 186,272	\$ 171,134	\$ 178,255	

(1) Available-for-sale securities, including loan substitutes, are carried at fair value and held-to-maturity securities are carried at amortized cost.

(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) Includes CDOs which are presented as Asset-backed securities – CDOs in the table entitled "Fair value of assets and liabilities classified using the fair value hierarchy" in Note 2.

(5) As explained in Note 1, as of November 1, 2008, we have reclassified certain securities from held-for-trading and available-for-sale to loans in accordance with the CICA's amendments to Section 3855. The reclassified securities are included in the 2008 balances and excluded from the 2009 balances in this table.

(6) 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.

(7) Includes the value of the shares received in 2008 upon the Visa Inc. restructuring which are carried at cost.

**Reclassification of financial instruments**

As reported in Note 3 to our 2008 Annual Consolidated Financial Statements, as of August 1, 2008, we had reclassified certain securities from held-for-trading to available-for-sale in accordance with the CICA's amendments to Sections 3855, 3861 and 3862 which were issued in October 2008. Current year information regarding

these securities, which were not impacted by the 2009 amendments to Section 3855 discussed in Note 1, and additional MBS that were reclassified but not included in the table entitled "Reclassification of securities from held-for-trading securities to available-for-sale" in Note 3 to our 2008 Annual Consolidated Financial Statements, is presented in the following table.

	As at and for the year ended October 31, 2009			As at and for the year ended October 31, 2008		
	Total carrying value and fair value	Change in fair value during the year (1)	Income/gains (losses) recognized in net income during the year (2)	Total carrying value and fair value (3)	Change in fair value during the year (1)	Income/gains (losses) recognized in net income during the year (2)
<b>Financial assets</b>						
U.S. state, municipal and agency debt	\$ 1,904	\$ 13	\$ 54	\$ 4,267	\$ (87)	\$ 40
Mortgage-backed securities	500	67	28	939	(167)	17
Asset-backed securities	1,007	48	29	1,326	(122)	9
Corporate debt and other debt	641	(2)	17	723	(102)	8
	<b>\$ 4,052</b>	<b>\$ 126</b>	<b>\$ 128</b>	<b>\$ 7,255</b>	<b>\$ (478)</b>	<b>\$ 74</b>

(1) This amount represents the change in fair value of securities we held at the end of the period and includes any principal draw downs or redemptions on these securities.

(2) The total amount includes net income of \$27 million related to securities and debt redeemed or sold during the year ended October 31, 2009 (year ended October 31, 2008 – \$nil).

(3) Certain amounts presented have been reclassified from those reported in prior periods. The reclassifications have no impact to the total balance.

**Unrealized gains and losses on available-for-sale securities** <sup>(1), (2)</sup>

	2009				2008			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Canadian government debt								
Federal	\$ 11,764	\$ 404	\$ (7)	\$ 12,161	\$ 13,123	\$ 422	\$ (1)	\$ 13,544
Provincial and municipal	1,104	31	(1)	1,134	674	5	(1)	678
U.S. federal, state, municipal and agencies debt	5,781	129	(117)	5,793	9,230	16	(356)	8,890
Other OECD government debt	3,517	18	(1)	3,534	1,271	4	(1)	1,274
Mortgage-backed securities <sup>(3)</sup>	2,057	24	(229)	1,852	4,280	4	(734)	3,550
Asset-backed securities								
CDOs	234	11	(24)	222	335	1	(82)	253
Non-CDO securities	4,282	67	(143)	4,205	4,857	10	(325)	4,543
Corporate debt and other debt <sup>(3)</sup>	14,718	382	(389)	14,711	13,301	136	(453)	12,984
Equities	2,437	45	(70)	2,412	3,057	4	(378)	2,683
Loan substitute securities	256	–	(70)	186	256	–	(29)	227
	<b>\$ 46,150</b>	<b>\$ 1,111</b>	<b>\$ (1,051)</b>	<b>\$ 46,210</b>	<b>\$ 50,384</b>	<b>\$ 602</b>	<b>\$ (2,360)</b>	<b>\$ 48,626</b>

(1) Includes \$156 million (2008 – \$205 million) held-to-maturity securities.

(2) The majority of the MBS are residential. Amortized cost, gross unrealized gains, gross unrealized losses and fair value related to commercial MBS are \$224 million, \$1 million, \$(11) million and \$213 million, respectively for 2009 (2008 – \$249 million, \$nil, \$(14) million and \$235 million).

(3) As explained in Note 1, as of November 1, 2008, we have reclassified certain securities from available-for-sale to loans in accordance with the CICA's amendments to Section 3855. The reclassified securities are included in the 2008 balances in this table but excluded from the 2009 balances.

**Realized gains and losses on available-for-sale securities** <sup>(1), (2)</sup>

	2009	2008	2007
Realized gains	\$ 296	\$ 99	\$ 204
Realized losses and writedowns	(936)	(731)	(124)
<b>Net (losses) gains on available-for-sale securities</b>	<b>\$ (640)</b>	<b>\$ (632)</b>	<b>\$ 80</b>

(1) Available-for-sale securities, including loan substitutes, are carried at fair value and held-to-maturity securities are carried at amortized cost.

(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 – 2009 – \$12 million, 2008 – \$1 million, and 2007 – \$17 million; Realized losses and writedowns – 2009 – \$22 million, 2008 – \$16 million, and 2007 – \$nil.

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

	2009 <sup>(1)</sup>					
	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	\$ 1,108	\$ 7	\$ –	\$ –	\$ 1,108	\$ 7
Provincial and municipal	13	1	–	–	13	1
U.S. state, municipal and agencies debt	154	7	1,081	110	1,235	117
Other OECD government debt	456	1	44	–	500	1
Mortgage-backed securities <sup>(2)</sup>	83	11	1,475	218	1,558	229
Asset-backed securities						
CDOs	–	–	205	24	205	24
Non-CDO securities	770	8	721	135	1,491	143
Corporate debt and other debt <sup>(2)</sup>	924	42	1,321	347	2,245	389
Equities	60	42	103	28	163	70
Loan substitute securities	–	–	150	70	150	70
<b>Total temporarily impaired securities</b>	<b>\$ 3,568</b>	<b>\$ 119</b>	<b>\$ 5,100</b>	<b>\$ 932</b>	<b>\$ 8,668</b>	<b>\$ 1,051</b>

(1) The majority of the MBS are residential. Fair value and unrealized losses of commercial MBS for less than 12 months are \$nil and \$nil, respectively and for 12 months or more are \$156 million and \$11 million, respectively.

(2) As explained in Note 1, as of November 1, 2008, we have reclassified certain securities from available-for-sale to loans in accordance with the CICA's amendments to Section 3855. The reclassified securities are included in the 2008 balances in the table below, but excluded from the 2009 balances.

	2008 <sup>(1)</sup>					
	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						
CDOs	–	–	246	82	246	82
Non-CDO securities	4,073	314	115	11	4,188	325
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
<b>Total temporarily impaired securities</b>	<b>\$ 17,538</b>	<b>\$ 1,497</b>	<b>\$ 2,798</b>	<b>\$ 863</b>	<b>\$ 20,336</b>	<b>\$ 2,360</b>

(1) The majority of the MBS are residential. Fair value and unrealized losses of commercial MBS for less than 12 months are \$103 million and \$3 million, respectively and for 12 months or more are \$109 million and \$11 million, respectively.

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. As at October 31, 2009, our gross unrealized losses on available-for-sale and held-to-maturity securities were \$1,051 million.

When assessing other-than-temporary impairment for debt instruments including Government, State, Municipal, Agency and Corporate debt and perpetual preferred shares we primarily considered counterparty ratings and security-specific factors, including internal and external ratings, subordination, transaction structure, credit enhancement and other market and security-specific factors. For more complex debt instruments including Non-agency U.S. MBS, asset-backed securities (ABS) and other structured products, we primarily use cash flow projection models which incorporate actual and projected cash flows for each security using a number of assumptions and inputs that are based on security specific factors. The inputs and assumptions used such as default, prepayment and recovery rates are based on updated market data, the latter being largely dependent upon forecasted house prices which were assessed at the municipal level, provided by a third-party vendor. We also consider internal and external ratings, subordination, transaction structure, credit enhancement 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.

With respect to debt securities where, based on management's judgment, it was not probable that all principal and interest would be recovered, the securities were deemed to be other-than-temporarily impaired and were written down to their fair value.

As equity securities do not have contractual cash flows, they are assessed differently than debt securities. For equity securities held at cost and those with unrealized losses we assess whether there is any objective evidence that suggest that the security is other-than-temporarily impaired. The factors we consider include the length of time and extent the fair value has been below the cost, the financial condition and near term prospects of the issuer. We also consider the estimated recoverable value and the period of recovery. We conduct further analysis for securities where the fair value had been below cost for greater than twelve months. For equity securities, where management believes that the fair value will not recover prior to their disposition, there has been an unrealized loss for a prolonged period of time or the unrealized loss is significant, these securities were deemed to be other-than-temporarily impaired and were written down to their fair value.

The majority of the \$117 million unrealized loss on U.S. state, municipal and agencies debt securities related to U.S. agency MBS and U.S. auction rate securities (ARS). 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 Non-agency U.S. Alt-A, prime and subprime securities. The U.S. Alt-A and the prime are high quality super senior tranches with credit support through subordination, overcollateralization, and excess spread. The unrealized losses of \$229 million are primarily on Alt A and prime securities. The losses on Non-agency U.S. MBS are significantly lower compared to the prior year reflecting the price improvements during the year resulting from improved U.S. housing and financial markets.

ABS are mainly comprised of U.S. insured and uninsured student loans U.S. ARS, CDOs and securities backed by credit card receivables. The majority of these instruments are highly rated with significant credit support and have experienced significant price improvements over the year. There are unrealized losses of \$167 million which primarily relate to U.S. ARS and uninsured student loans. Based on our assessment, these losses are temporary in nature and we do not intend to sell these securities prior to recovery of value.

Corporate and other debt mainly includes certificate of deposits issued by global financial institutions, corporate debt and bonds, Non-OECD government securities and hybrid instruments. The majority of these securities are highly rated and are well diversified with global financial institutions being the largest concentration. The Non-OECD government securities are primarily related to Caribbean countries where we have ongoing operations. The net unrealized losses of \$389 million are significantly lower compared to a year ago and mainly reflect the low interest rate environment and improved spreads.

Equity holdings are largely comprised of publicly traded common and preferred shares. To a lesser extent, we also hold investments in private and venture companies. As at October 31, 2009, the Canadian bank common shares that we hold were deemed to be other-than-temporarily impaired due to the prolonged decline in value and were written down to their fair value. The remaining unrealized losses of \$70 million mainly relates to publicly traded common and preferred shares.

The loan substitute securities are predominantly perpetual preferred shares of highly rated Canadian entities.

Based on our assessment, the unrealized losses on the above mentioned securities as at October 31, 2009, are temporary in nature and we intend to hold them until recovery of their fair value which may be on maturity of the debt securities.

**Held-to-maturity securities**

Held-to-maturity securities 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. In accordance with the recent amendments to CICA Section 3855 our impairment review of held-to-maturity securities is primarily based on the impairment model for loans as described in Note 1 to the financial statements. Based on our assessment, there is no impairment on held-to-maturity investments as at October 31, 2009.

**Net gains /losses on Available-for-sale securities**

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 previous loss in AOCI is reclassified in net income. During 2009, \$640 million of net losses were recognized in net income (2008 – \$631 million) on available-for sale securities. The majority of these losses were attributable to Non-agency U.S. MBS, Canadian bank common shares, hybrid instruments and CDOs. The losses also included write-downs of securities we intend to sell. Included in this amount is \$21 million of write-down 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 (2008 – \$10 million). During 2009, \$17 million net gains (2008 – \$1 million net loss) were realized due to sales of available-for-sale securities.

**Interest and dividends on available-for-sale and held-to-maturity securities <sup>(1), (2)</sup>**

	2009	2008	2007
Taxable interest income <sup>(3)</sup>	\$ 2,362	\$ 2,089	\$ 1,373
Non-taxable interest income	110	99	31
Dividends	82	110	85
	\$ 2,554	\$ 2,298	\$ 1,489

(1) Available-for-sale securities, including loan substitutes, are carried at fair value and held-to-maturity securities are carried at amortized cost.

(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 – 2009 – \$601 million, 2008 – \$452 million, and 2007 – \$405 million; Non-taxable interest income – 2009 – \$33 million, 2008 – \$29 million and 2007 – \$29 million; Dividends – 2009 – \$15 million, 2008 – \$17 million, and 2007 – \$11 million.

(3) As explained in Note 1, as of November 1, 2008, we have reclassified certain securities from available-for-sale to loans in accordance with CICA's amendments to Section 3855. Interest income recognized on the reclassified loans are included in the 2008 balances in this table but excluded from the 2009 balances.

**Note 4 Loans**

	2009				2008			
	Canada	United States	Other International	Total	Canada	United States	Other International	Total
<b>Retail (1)</b>								
Residential mortgages	\$ 117,292	\$ 2,490	\$ 2,348	\$ 122,130	\$ 117,690	\$ 2,948	\$ 2,353	\$ 122,991
Personal	60,493	8,975	2,074	71,542	48,780	9,796	2,151	60,727
Credit cards	8,285	213	203	8,701	8,538	187	208	8,933
Small business (2)	2,851	–	–	2,851	2,804	–	–	2,804
	<b>188,921</b>	<b>11,678</b>	<b>4,625</b>	<b>205,224</b>	<b>177,812</b>	<b>12,931</b>	<b>4,712</b>	<b>195,455</b>
<b>Wholesale (1)</b>								
Business (3), (4), (5)	38,624	25,206	10,336	74,166	43,497	30,424	15,475	89,396
Bank (6)	1,096	177	1,243	2,516	831	445	3,861	5,137
Sovereign (5), (7)	860	–	1,385	2,245	815	–	952	1,767
	<b>40,580</b>	<b>25,383</b>	<b>12,964</b>	<b>78,927</b>	<b>45,143</b>	<b>30,869</b>	<b>20,288</b>	<b>96,300</b>
<b>Total loans (8)</b>	<b>229,501</b>	<b>37,061</b>	<b>17,589</b>	<b>284,151</b>	<b>222,955</b>	<b>43,800</b>	<b>25,000</b>	<b>291,755</b>
<b>Allowance for loan losses (5)</b>	<b>(1,474)</b>	<b>(1,460)</b>	<b>(254)</b>	<b>(3,188)</b>	<b>(1,199)</b>	<b>(834)</b>	<b>(182)</b>	<b>(2,215)</b>
<b>Total loans net of allowance for loan losses</b>	<b>\$ 228,027</b>	<b>\$ 35,601</b>	<b>\$ 17,335</b>	<b>\$ 280,963</b>	<b>\$ 221,756</b>	<b>\$ 42,966</b>	<b>\$ 24,818</b>	<b>\$ 289,540</b>

(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 2009 are loans totalling \$1,050 million (2008 – \$1,200 million) and \$1,686 million (2008 – \$1,947 million), respectively, to VIEs administered by us.

(5) As explained in Note 1, as of November 1, 2008, we have reclassified certain securities from held-for-trading and available-for-sale to loans in accordance with CICA's amendments to Section 3855. The reclassified securities are excluded from the 2008 balances and included in 2009 balances in the table above. In addition, we have also reclassified certain loans to held-for-trading. These reclassified securities are included in the 2008 balances and excluded from 2009 balances in the table above.

(6) Bank refers primarily to regulated deposit-taking institutions and securities firms.

(7) Sovereign refers to all central governments and agencies, central banks, as well as other qualifying public sector entities and multilateral development banks.

(8) Loans are net of unearned income of \$198 million (2008 – \$160 million).

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, and (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.

**Loan maturities and rate sensitivity**

	2009							
	Maturity term (1)				Rate sensitivity			
	Under 1 year (2), (3)	1 to 5 years	Over 5 years	Total	Floating	Fixed Rate	Non-rate-sensitive	Total
Retail	\$ 99,558	\$ 87,956	\$ 17,710	\$ 205,224	\$ 106,627	\$ 96,175	\$ 2,422	\$ 205,224
Wholesale (4)	45,922	23,148	9,857	78,927	47,756	30,497	674	78,927
<b>Total loans</b>	<b>\$ 145,480</b>	<b>\$ 111,104</b>	<b>\$ 27,567</b>	<b>\$ 284,151</b>	<b>\$ 154,383</b>	<b>\$ 126,672</b>	<b>\$ 3,096</b>	<b>\$ 284,151</b>
<b>Allowance for loan losses (4)</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>(3,188)</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>(3,188)</b>
<b>Total loans net of allowance for loan losses</b>	<b>\$ 145,480</b>	<b>\$ 111,104</b>	<b>\$ 27,567</b>	<b>\$ 280,963</b>	<b>\$ 154,383</b>	<b>\$ 126,672</b>	<b>\$ 3,096</b>	<b>\$ 280,963</b>
	2008							
	Maturity term (1)				Rate sensitivity			
	Under 1 year (2), (3)	1 to 5 years	Over 5 years	Total	Floating	Fixed Rate	Non-rate-sensitive	Total
Retail	\$ 92,156	\$ 87,862	\$ 15,437	\$ 195,455	\$ 98,752	\$ 93,861	\$ 2,842	\$ 195,455
Wholesale (4)	54,736	30,052	11,512	96,300	65,095	31,201	4	96,300
<b>Total loans</b>	<b>\$ 146,892</b>	<b>\$ 117,914</b>	<b>\$ 26,949</b>	<b>\$ 291,755</b>	<b>\$ 163,847</b>	<b>\$ 125,062</b>	<b>\$ 2,846</b>	<b>\$ 291,755</b>
<b>Allowance for loan losses (4)</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>(2,215)</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>(2,215)</b>
<b>Total loans net of allowance for loan losses</b>	<b>\$ 146,892</b>	<b>\$ 117,914</b>	<b>\$ 26,949</b>	<b>\$ 289,540</b>	<b>\$ 163,847</b>	<b>\$ 125,062</b>	<b>\$ 2,846</b>	<b>\$ 289,540</b>

(1) Generally, based on the earlier of contractual repricing or maturity date.

(2) Included in Wholesale are loans totalling \$2,736 million (2008 – \$3,147 million) to variable interest entities administered by us. All of the loans reprice monthly or quarterly.

(3) Includes variable rate loans that can be repriced at the clients' discretion without penalty.

(4) As explained in Note 1, as of November 1, 2008, we have reclassified certain securities from held-for-trading and available-for-sale to loans in accordance with CICA's amendments to Section 3855. The reclassified securities are excluded from the 2008 balances and included in the 2009 balances in this table.



During the year ended October 31, 2009, we acquired \$1,658 million of assets in respect of problem loans (2008 – \$236 million). The related reduction in the Allowance for credit losses was \$156 million (2008 – \$98 million).

**Allowance for loan losses**

	2009						2008	
	Balance at beginning of year	Write-offs	Recoveries	Provision for credit losses	Other adjustments (1)	Balance at end of year	Balance at end of year	
<b>Retail</b>								
Residential mortgages	\$ 30	\$ (52)	\$ 1	\$ 73	\$ 2	\$ 54	\$ 30	
Personal	161	(732)	74	701	(7)	197	161	
Credit cards	–	(455)	53	402	–	–	–	
Small business (2)	17	(54)	5	55	(1)	22	17	
	\$ 208	\$ (1,293)	\$ 133	\$ 1,231	\$ (6)	\$ 273	\$ 208	
<b>Wholesale</b>								
Business (3), (4)	\$ 698	\$ (1,373)	\$ 140	\$ 1,573	\$ (62)	\$ 976	\$ 559	
Sovereign (5)	–	–	–	–	10	10	–	
Bank (6)	–	–	–	20	–	20	–	
	\$ 698	\$ (1,373)	\$ 140	\$ 1,593	\$ (52)	\$ 1,006	\$ 559	
<b>Specific allowances</b>	\$ 906	\$ (2,666)	\$ 273	\$ 2,824	\$ (58)	\$ 1,279	\$ 767	
<b>Retail</b>								
Residential mortgages	\$ 20	\$ –	\$ –	\$ 32	\$ (2)	\$ 50	\$ 20	
Personal	461	–	–	236	(26)	671	461	
Credit cards	270	–	–	58	(1)	327	270	
Small business (2)	47	–	–	–	–	47	47	
	\$ 798	\$ –	\$ –	\$ 326	\$ (29)	\$ 1,095	\$ 798	
<b>Wholesale</b>								
Business (3)	\$ 650	\$ –	\$ –	\$ 263	\$ (99)	\$ 814	\$ 650	
Sovereign (5)	–	–	–	–	–	–	–	
Bank (6)	–	–	–	–	–	–	–	
	\$ 650	\$ –	\$ –	\$ 263	\$ (99)	\$ 814	\$ 650	
<b>Allowance for off-balance sheet and other items (7)</b>	\$ 84	\$ –	\$ –	\$ –	\$ 30	\$ 114	\$ 84	
<b>General allowance (7)</b>	\$ 1,532	\$ –	\$ –	\$ 589	\$ (98)	\$ 2,023	\$ 1,532	
<b>Total allowance for credit losses</b>	\$ 2,438	\$ (2,666)	\$ 273	\$ 3,413	\$ (156)	\$ 3,302	\$ 2,299	
<b>Allowance for off-balance sheet and other items (8)</b>	(84)	–	–	–	(30)	(114)	(84)	
<b>Total allowance for loan losses</b>	\$ 2,354	\$ (2,666)	\$ 273	\$ 3,413	\$ (186)	\$ 3,188	\$ 2,215	

- (1) Primarily represents the translation impact of foreign currency-denominated allowance for loan losses. Included in the wholesale general allowance adjustment is \$27 million related to the loans acquired in connection with the acquisition of RBTT Financial Group (RBTT), of which we have reclassified \$22 million to the specific allowance as it relates to specific wholesale loans; the remaining \$5 million was recorded in net income during the year.
- (2) Includes small business exposure managed on a pooled basis.
- (3) Includes small business exposure managed on an individual client basis. Includes \$2 million (2008 – \$65 million) of provisions related to loans extended under liquidity facilities drawn on by RBC-administered multi-seller asset-backed commercial paper conduit programs.
- (4) As explained in Note 1, as of November 1, 2008, we have reclassified certain securities from available-for-sale to loans in accordance with CICA's amendments to Section 3855. As a result, wholesale specific allowance relating to the securities that were reclassified are excluded from 2008 balances and included in the 2009 balances in this table.
- (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 \$114 million related to off-balance sheet and other items (2008 – \$84 million).
- (8) The allowance for off-balance sheet is reported separately under Other liabilities.

**Net interest income after provision for credit losses**

	2009	2008	2007
Net interest income (1)	\$ 11,506	\$ 9,048	\$ 7,702
Provision for credit losses (1)	3,413	1,595	791
<b>Net interest income after provision for credit losses</b>	<b>\$ 8,093</b>	<b>\$ 7,453</b>	<b>\$ 6,911</b>

- (1) As explained in Note 1, as of November 1, 2008, we have reclassified certain securities from available-for-sale to loans in accordance with the CICA's amendments to Section 3855. Net interest income after provision for credit losses, if any, recognized on the reclassified loans are excluded from the 2008 balances and included in the 2009 balances in this table.

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 less than 90 days past due, or 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**

	2009				2008			
	1-29 days	30-89 days	90 days and greater	Total	1-29 days	30-89 days	90 days and greater	Total
<b>Retail</b>	\$ 2,841	\$ 1,359	\$ 323	\$ 4,523	\$ 3,043	\$ 1,245	\$ 253	\$ 4,541
<b>Wholesale</b>	1,313	563	36	1,912	1,748	560	94	2,402
<b>Total</b>	<b>\$ 4,154</b>	<b>\$ 1,922</b>	<b>\$ 359</b>	<b>\$ 6,435</b>	<b>\$ 4,791</b>	<b>\$ 1,805</b>	<b>\$ 347</b>	<b>\$ 6,943</b>

**Impaired loans** <sup>(1)</sup>

	2009			2008
	Gross	Specific allowances	Net	Net
<b>Retail</b>				
Residential mortgages	\$ 641	\$ (54)	\$ 587	\$ 310
Personal	409	(197)	212	187
Small business <sup>(2)</sup>	59	(22)	37	23
	\$ 1,109	\$ (273)	\$ 836	\$ 520
<b>Wholesale</b>				
Business <sup>(3), (4)</sup>	\$ 4,276	\$ (976)	\$ 3,300	\$ 1,636
Sovereign <sup>(5)</sup>	10	(10)	–	–
Bank <sup>(6)</sup>	62	(20)	42	–
	\$ 4,348	\$ (1,006)	\$ 3,342	\$ 1,636
<b>Total</b>	\$ 5,457	\$ (1,279)	\$ 4,178	\$ 2,156

(1) Average balance of gross impaired loans for the year was \$4,643 million (2008 – \$1,906 million).

(2) Includes small business exposure managed on a pooled basis.

(3) Includes small business exposure managed on an individual client basis. Includes gross and net impaired loans of \$65 million (2008 – \$203 million) and \$63 million (2008 – \$138 million), respectively, related to loans extended under liquidity facilities drawn on by RBC-administered multi-seller asset-backed commercial paper conduit programs.

(4) As explained in Note 1, as of November 1, 2008, we have reclassified certain securities from available-for-sale to loans in accordance with CICA's amendments to Section 3855. The reclassified securities are excluded from the 2008 balances and included in the 2009 balances in this table.

(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.

**Note 5 Securitizations****Securitization activities by major product type**

We periodically securitize our credit card receivables, residential mortgage loans and bond securitizations primarily to diversify our funding sources, enhance our liquidity position and for capital purposes. We also securitize residential and commercial mortgage loans for sales and trading activities.

*Credit card receivables*

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

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

We own all of the subordinated securities issued by the QSPE and report them within our AFS securities in our Consolidated Balance Sheets. The subordinated securities owned by us represent approximately 4.5% of the total securities issued by the QSPE as at October 31, 2009 and provide credit support for the senior securities. We also act as counterparty in interest rate and cross currency swap agreements under which we pay the QSPE the interest due to investors, we may own some senior securities as investments or for market-making activities and retain a cash reserve account from time to time.

*Canadian residential mortgage loans*

We securitize insured Canadian residential mortgage loans through the creation of MBS and sell a portion of these MBS as part of government auctions as well as to a government-sponsored SPE on a revolving basis. The SPE is financed through the issuance of government-guaranteed mortgage bonds which are sold to third party investors. Proceeds of the issuances are used by the SPE to purchase the government-guaranteed MBS from eligible sellers.

Our continuing involvement includes servicing the underlying mortgages we have securitized ourselves or through an independent servicer. We also retain interests in the form of excess spread on the sold MBS. The present value of this excess spread is reported as a retained interest within our available-for-sale or held-for-trading securities on our Consolidated Balance Sheets. In addition, we also act as counterparty in interest rate swap agreements under which we pay the SPE the interest due to investors and receive the interest on the government-guaranteed MBS relating to our sold portion.

*U.S. residential mortgage loans*

We originate and sell U.S. residential mortgage loans into the secondary mortgage market to issuers or guarantors of MBS. The issuers are usually government-sponsored entities which securitize these mortgages into MBS securities and guarantee as to timely payment of principal and interest. Our continuing involvement includes only servicing the underlying mortgages we have sold for funding and liquidity purposes ourselves or through an independent servicer.

*Commercial mortgage loans*

We securitize commercial mortgages by selling them in collateral pools, which meet certain diversification, leverage and debt coverage criteria, to SPEs, one of which is sponsored by us. The SPEs finance the purchase of these pools by issuing certificates with varying degrees of subordination. The certificates issued by the SPE which we sponsor range from AAA to B- and are rated by any two of DBRS, Moody's and S&P. The most subordinated certificates are unrated. The certificates represent undivided interests in the collateral pool, and the SPE which we sponsor, having sold all undivided interests available in the pool, retains none of the risk of the collateral pools.

## Note 5 Securitizations (continued)

We do not retain any beneficial interests in the loans sold unless we purchase some of the securities issued by the SPEs for our own account. We are the primary servicer under contract with a third-party master servicer for the loans that are sold to our sponsored SPE.

### Bond Securitizations

We participate in bond securitizations activities where we purchase government, government related and corporate bonds, repackages

those bonds in participation certificates, add a structure fee income and sell to third party investors. The structure fee income is recognized in our Income Statement at the time of sale to third party investors. Our continuing involvement includes only servicing the underlying bonds we sold to third party investors and we do not retain any beneficial interest unless we purchase some of the certificates issued.

The following table summarizes our securitization activities for 2009, 2008 and 2007.

	2009 (1)			2008					2007 (1)		
	Canadian residential mortgage loans (2), (4), (7)	U.S. residential mortgage loans (5)	Bond participation certificates (2), (8)	Credit card loans (2), (3)	Canadian residential mortgage loans (2), (4), (7)	U.S. residential mortgage loans (5)	Commercial mortgage loans (2), (6)	Bond participation certificates (2), (8)	Canadian residential mortgage loans (2), (4), (7)	U.S. residential mortgage loans (5)	Commercial mortgage loans (2), (6)
Securitized and sold	\$ 21,392	\$ 568	\$ 15	\$ 1,470	\$ 7,892	\$ 516	\$ 166	\$ 47	\$ 6,188	\$ 295	\$ 1937
Net cash proceeds received	21,202	570	16	1,404	7,846	519	156	48	6,097	298	1876
Asset-backed securities purchased	-	-	-	65	-	-	9	-	-	-	47
Retained rights to future excess interest	1,121	-	-	9	242	-	-	-	146	-	-
Pre-tax gain (loss) on sale, net of hedging activities	770	2	1	8	168	3	(1)	1	55	3	(14)

(1) We did not securitize any credit card loans during the period.

(2) We did not recognize an asset or a liability for our servicing rights with respect to the securitized transactions as we received adequate compensation for our services.

(3) With respect to the securitization of credit card loans in 2008, the net cash proceeds received represent gross cash proceeds of \$1,469 million less funds used to purchase notes of \$65 million issued by Golden Credit Card Trust. The principal value of the notes was \$65 million.

(4) Canadian insured residential mortgage loans securitized during the year through the creation of MBS and retained as at October 31, 2009 were \$6,745 million (2008 - \$9,464 million; 2007 - \$3,110 million). These securities are carried at fair value.

(5) U.S. residential mortgage loans securitized and sold include insured and non-insured mortgages. We recognized nominal servicing rights with respect to securitized loans during the period. None of these securities were retained.

(6) 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). There were no activities during 2009.

(7) Pre-tax gain (loss) on sale includes the results of our economic hedging activities of \$(161) million (2008 - \$(28) million). Economic hedging activities during 2007 were nominal.

(8) Includes bond securitizations activities of RBTT. None of the securities sold were retained.

### Cash flows from securitizations (1)

	2009		2008		2007	
	Credit card loans	Canadian residential mortgage loans	Credit card loans	Canadian residential mortgage loans	Credit card loans	Canadian residential mortgage loans
Proceeds reinvested in revolving securitizations	\$ 17,157	\$ 14,100	\$ 17,934	\$ 4,320	\$ 15,684	\$ 4,602
Cash flows from excess spread (2)	270	629	254	179	256	234
Other cash flows received (3)	42	-	39	-	48	-

(1) This analysis is not applicable for commercial mortgage loans, U.S. residential mortgage loans and bond securitizations as we have not retained rights to future excess spread in these transactions.

(2) Includes servicing fees received.

(3) Includes cash flows received on AFS securities held by us including principal and interest payment received.

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

### Key assumptions (1), (2)

	2009 (3)	2008		2007 (3)
	Canadian residential mortgage loans	Credit card loans	Canadian residential mortgage loans	Canadian residential mortgage loans
Expected weighted average life of prepayable receivables (in years)	2.70	.25	4.05	2.91
Payment rate	26.76%	37.02%	27.55%	28.59%
Excess spread, net of credit losses	2.34	3.86	1.05	.86
Discount rate	.40 - 3.07%	10.00%	2.22 - 4.77%	4.15 - 5.05%

(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, U.S. residential mortgage loans and bond securitizations as we have not retained rights to future excess spread in these transactions.

(3) We did not securitize any credit card loans during the period.

Static pool credit losses provide a measure of the credit risk in our securitized assets and are calculated by totalling actual incurred and projected credit losses and dividing the result by the original balance of the loans securitized. The expected static pool credit loss ratio for

securitized credit card loans at October 31, 2009 was .87% (2008 - .54%). 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.

### Loans managed

	2009			2008		
	Loan principal	Past due (1)	Net write-offs	Loan principal	Past due (1)	Net write-offs
Retail	\$ 245,430	\$ 1,746	\$ 1,300	\$ 225,775	\$ 1,144	\$ 842
Wholesale	78,927	4,384	1,233	96,300	2,309	406
Total loans managed (2)	324,357	6,130	2,533	322,075	3,453	1,248
Less: Loans securitized and managed						
Credit card loans	3,870	57	140	4,120	48	99
Canadian residential mortgage-backed securities created and sold	28,815	204	–	15,196	–	–
Canadian residential mortgage-backed securities created and retained	7,521	53	–	10,696	–	–
U.S. residential mortgage-backed securities created and sold (3)	–	–	–	308	3	–
Total loans reported on the Consolidated Balance Sheets	\$ 284,151	\$ 5,816	\$ 2,393	\$ 291,755	\$ 3,402	\$ 1,149

(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.

(3) Loans held as at August 1, 2009, were reclassified to held-for-trading securities in accordance with CICA's amendments to Section 3855. The reclassified securities are included in the 2008 balances and excluded from 2009 balances in the table above. Refer to Note 1.

### 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, 2009 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)

	2009		2008	
	Credit card loans	Canadian residential mortgage loans	Credit card loans	Canadian residential mortgage loans
Fair value of retained interests	\$ 33.5	\$ 1,240.6	\$ 26.0	\$ 425.0
Weighted average remaining service life (in years)	.25	2.90 - 3.77	.25	2.58 - 5.89
Payment rate	38.33%	9.00 - 28.00%	38.20%	9.00 - 40.00%
Impact on fair value of 10% adverse change	\$ (2.0)	\$ (35.0)	\$ (1.6)	\$ (13.8)
Impact on fair value of 20% adverse change	(4.1)	(68.9)	(3.2)	(25.2)
Excess spread, net of credit losses	5.61%	.8 - 1.98%	4.37%	.8 - 1.03%
Impact on fair value of 10% adverse change	\$ (6.1)	\$ (137.8)	\$ (5.4)	\$ (57.8)
Impact on fair value of 20% adverse change	(12.2)	(296.1)	(10.7)	(113.2)
Expected credit losses	3.86%	–%	2.53%	–%
Impact on fair value of 10% adverse change	\$ (2.3)	\$ –	\$ (2.0)	\$ –
Impact on fair value of 20% adverse change	(4.6)	–	(3.0)	–
Discount rate	10.50%	.4 - 2.76%	10.00%	2.15 - 4.00%
Impact on fair value of 10% adverse change	\$ –	\$ (1.8)	\$ –	\$ (1.2)
Impact on fair value of 20% adverse change	(.1)	(4.2)	(.1)	(2.5)

(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, U.S. residential mortgage loans and bond 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.

In addition to the above securitization transactions, our whole loan sales activities are presented in the following table:

### Whole loan sales (1)

	2009		2008		2007	
	U.S. residential mortgage loans	U.S. commercial mortgage loans	U.S. residential mortgage loans	U.S. commercial mortgage loans	U.S. residential mortgage loans	U.S. commercial mortgage loans
Sold	\$ 1,021	\$ 23	\$ 237	\$ 70	\$ 264	\$ –

(1) Gains on whole loan sales are nominal.

## Note 6 Variable interest entities (VIEs)

The following table provides information about VIEs as at October 31, 2009 and 2008, in which we have significant variable interests, and those we consolidate under AcG-15, because we are the Primary Beneficiary.

	2009		2008	
	Total assets	Maximum exposure to loss	Total assets	Maximum exposure to loss
<b>Unconsolidated VIEs in which we have significant variable interests (1)</b>				
Multi-seller conduits (2)	\$ 26,181	\$ 26,550	\$ 42,698	\$ 43,448
Structured finance VIEs (3)	9,613	2,527	10,904	3,927
Credit investment product VIEs	930	505	2,649	1,281
Third-party conduits	575	250	734	386
Investment funds (3)	84	28	816	184
Other	340	103	155	63
	<b>\$ 37,723</b>	<b>\$ 29,963</b>	<b>\$ 57,956</b>	<b>\$ 49,289</b>
<b>Consolidated VIEs (4), (5)</b>				
Structured finance VIEs (3)	\$ 2,620		\$ 2,491	
Investment funds	588		1,268	
Compensation vehicles	64		76	
Credit investment product VIEs	–		196	
Other	3		113	
	<b>\$ 3,275</b>		<b>\$ 4,144</b>	

- (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 \$4,020 million (2008 – \$5,586 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, 2009. Actual assets held by these conduits as at October 31, 2009, were \$18,908 million (2008 – \$33,591 million).
- (3) We revisited certain unconsolidated structured finance VIEs in which we previously reported we have significant variable interests and determined that they should have been excluded from the disclosure in the comparative period. The total assets and maximum exposure to loss related to these entities as at October 31, 2008 was \$4,341 million and \$1,392 million, respectively. Similarly, our October 31, 2008 comparatives for investment funds have been revised to exclude certain VIEs. The total assets and maximum exposure to loss related to these entities as at October 31, 2008 was \$366 million and \$165 million, respectively. In addition, certain consolidated structured finance VIEs which were not previously disclosed should have been included in the comparative numbers. The total assets of these entities as at October 31, 2008 was \$803 million.
- (4) 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 \$120 million (2008 – \$114 million), Trading securities of \$272 million (2008 – \$1,409 million), Available-for-sale securities of \$1,234 million (2008 – \$798 million), Loans of \$1,496 million (2008 – \$1,543 million) and Other assets of \$91 million (2008 – \$204 million). The compensation vehicles hold \$64 million (2008 – \$76 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.
- (5) 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.

### 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.

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; therefore, we are not the Primary Beneficiary and do not consolidate these conduits. However, we continue to hold a significant variable interest in these multi-seller conduits resulting from our provision of backstop liquidity and partial credit enhancement facilities and entitlement to residual fees.

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

As the result of the restructuring of non-bank-sponsored ABCP conduits in 2009, Master Asset Vehicle II (MAV II), which is a VIE, was created. We are not required to consolidate MAV II as we do not have a majority of its exposure. Our significant variable interests in MAV II consist of our participating in the margin funding facility and the note investments.

The liquidity and credit enhancement facilities are described in Note 25.

### Structured finance VIEs

In 2008, we purchased U.S. 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 (U.S. ARS VIEs). We are subjected to losses on these U.S. ARS VIEs if defaults are experienced on the underlying student loans; however, the principal and accrued interest on the student loans are largely guaranteed by U.S. government agencies. In our role as auction remarketing agent for some of 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 sold ARS into Tender Option Bond (ARS TOB) programs, where each ARS 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, which requires us to extend funding if there are any credit losses on the ARS, 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 ARS TOB programs to purchase any floating-rate certificates that have been tendered but not remarketed. We receive market-based fees for acting as the remarketing agent and providing the letters of credit and liquidity facilities. Both the CE and the TOB trusts are VIEs. In 2009, the ARS underlying certain of the ARS TOB programs experienced cash flow deterioration which resulted in external rating downgrades. As a result, we consolidated certain of these ARS TOB programs where our updated expected loss calculations indicated that we are exposed to a majority of the expected loss through our letters of credit and liquidity facilities. We continue to hold significant variable interests through the provision of the facilities in other unconsolidated ARS TOB programs where the residual certificate holder is exposed to a majority of the expected losses in these trusts. The liquidity facilities and letters of credit are described in Note 25.

The structure of other non-ARS TOB programs that we are involved with is similar to the structure of the ARS TOB program described above. We also hold the residual certificates issued by these non-ARS TOB programs which will expose us to interest rate basis risk and may provide liquidity facilities and credit enhancements to these non-ARS TOB programs. We consolidate the non-ARS TOB programs where we are exposed to a majority of the expected losses as a result of our continuing involvement with the non-ARS TOB programs.

In 2008, we sold ARS to an unaffiliated and unconsolidated VIE at fair market value. The purchase of the ARS by the VIE 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. 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.

#### **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 may hold significant variable interests in VIEs as a result of our investment in the notes.

### **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, credit risk, and equity or equity index. Non-financial derivatives are contracts whose value is derived from a precious metal, commodity instrument or index. Notional amount of derivatives represents the contract amount used as a reference point to calculate payments. Notional amounts are generally not exchanged by counterparties, and do not reflect our exposure at default.

#### **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.

#### **Investment funds**

We enter into fee-based equity derivative transactions with third parties including mutual funds, unit investment trusts and other investment funds. These transactions 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) and RBC Capital Trust II (Trust II) were created to issue innovative capital instruments, the proceeds of which were used to purchase senior deposit notes from us. 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 variable interest in these trusts. For details on the senior deposit notes and innovative capital instruments, refer to Notes 13 and 17, respectively.

#### **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, which is specifically exempt from consolidation, 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 variable interests in these VIEs. For details on our securitization activities, refer to Note 5.

Additional details about our VIEs are provided in Note 31.

#### *Swaps*

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

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

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

#### *Options*

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

equity and foreign exchange risk related to our funding, lending, investment activities and asset/liability management.

Interest rate swaps are used to manage our 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 predominantly use credit derivatives to manage our credit exposures. We mitigate industry sector concentrations and single-name exposures related to our credit portfolio by purchasing credit derivatives to transfer credit risk to third parties.

Certain derivatives and cash instruments are specifically designated and qualify for hedge accounting. We apply hedge accounting to minimize volatility 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 largely 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.

From time to time, we also enter into derivative transactions to economically hedge certain exposures 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.

As at October 31, 2009, after-tax net unrealized losses of \$423 million (2008 – after-tax net unrealized losses of \$579 million) were recognized in AOCI, representing the cumulative effective portions of our cash flow hedges.

After-tax unrealized losses of \$7 million (before-tax unrealized losses of \$10 million) included in AOCI as at October 31, 2009 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

	2009				2008			
	Designated as hedging instruments in hedging relationships			Not designated in a hedging relationship (1)	Designated as hedging instruments in hedging relationships			Not designated in a hedging relationship (1)
	Cash flow hedges	Fair value hedges	Net investment hedges		Cash flow hedges	Fair value hedges	Net investment hedges	
<b>Assets</b>								
Derivative instruments	\$ 1,130	\$ 2,107	\$ 139	\$ 88,797	\$ 879	\$ 1,397	\$ 355	\$ 133,503
<b>Liabilities</b>								
Derivative instruments	\$ 1,493	\$ 82	\$ 327	\$ 82,488	\$ 1,597	\$ 61	\$ 1,229	\$ 125,818
Non-derivative instruments (2)	–	278	5,233	n.a.	–	449	5,886	n.a.

(1) Derivative liabilities include stable value contracts on \$257 million of bank-owned life insurance policies and \$3 million of 401(k) plans; in 2008 – these were derivative assets of \$2 million and \$1 million, respectively.

(2) Non-derivative instruments are carried at amortized cost.

n.a. not applicable

**Results of hedge activities recorded in Net income and OCI**

	2009			2008		
	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
<b>Fair value hedges</b>						
Ineffective portion	\$ 9	\$ n.a.	\$ n.a.	\$ (6)	\$ n.a.	\$ n.a.
<b>Cash flow hedges</b>						
Ineffective portion	9	n.a.	n.a.	(8)	n.a.	n.a.
Effective portion	n.a.	n.a.	156	n.a.	n.a.	(603)
Reclassified to income during the year (1)	n.a.	56	n.a.	n.a.	(72)	n.a.
<b>Net investment hedges</b>						
Foreign currency (losses) gains	n.a.	n.a.	(2,973)	n.a.	n.a.	5,080
Gains (losses) from hedges	n.a.	n.a.	2,399	n.a.	n.a.	(2,672)
	\$ 18	\$ 56	\$ (418)	\$ (14)	\$ (72)	\$ 1,805

(1) After-tax gains of \$38 million were reclassified from AOCI to income for the year ended October 31, 2009 (2008 – losses of \$49 million).  
n.a. not applicable

**Notional amount of derivatives by term to maturity (absolute amounts)**

	2009					2008			
	Term to maturity					Trading	Other than Trading	Trading	Other than Trading
	Within 1 year	1 to 5 years	Over 5 years (1)	Total					
<b>Over-the-counter contracts</b>									
Interest rate contracts									
Forward rate agreements	\$ 308,668	\$ 47,396	\$ –	\$ 356,064	\$ 356,064	\$ –	\$ 265,042	\$ –	\$ –
Swaps	744,559	1,282,069	649,366	2,675,994	2,467,890	208,104	2,534,700	223,502	–
Options purchased	9,228	50,440	53,723	113,391	113,067	324	91,826	781	–
Options written	21,924	51,746	103,156	176,826	176,826	–	164,847	218	–
Foreign exchange contracts									
Forward contracts	617,524	25,924	1,048	644,496	585,913	58,583	856,124	45,599	–
Cross currency swaps	5,990	7,505	11,991	25,486	25,198	288	25,484	545	–
Cross currency interest rate swaps	55,422	196,419	100,266	352,107	315,253	36,854	291,688	53,470	–
Options purchased	29,740	6,639	2,023	38,402	38,399	3	46,334	63	–
Options written	30,418	5,947	1,382	37,747	37,746	1	46,234	57	–
Credit derivatives (2)	19,800	79,757	29,628	129,185	127,012	2,173	272,525	3,314	–
Other contracts (3)	40,825	38,203	7,436	86,464	85,248	1,216	104,037	959	–
<b>Exchange-traded contracts</b>									
Interest rate contracts									
Futures – long positions	16,915	16,994	57,272	91,181	91,133	48	72,024	164	–
Futures – short positions	21,823	9,253	67,414	98,490	98,490	–	96,872	–	–
Options purchased	25,666	–	–	25,666	25,666	–	14,693	–	–
Options written	28,473	129	–	28,602	28,602	–	11,565	–	–
Foreign exchange contracts									
Futures – long positions	14	–	–	14	14	–	222	–	–
Futures – short positions	32	–	–	32	32	–	394	–	–
Other contracts (3)	97,477	16,149	5,999	119,625	119,625	–	196,650	–	–
	\$ 2,074,498	\$ 1,834,570	\$ 1,090,704	\$ 4,999,772	\$ 4,692,178	\$ 307,594	\$ 5,091,261	\$ 328,672	\$ –

- (1) Includes contracts maturing in over 10 years with a notional value of \$286,951 million (2008 – \$255,281 million). The related gross positive replacement cost is \$14,067 million (2008 – \$9,840 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 \$2,163 million (2008 – \$3,167 million) are economic hedges. Trading credit derivatives comprise protection purchased of \$68,643 million (2008 – \$140,010 million) and protection sold of \$58,369 million (2008 – \$132,515 million); other-than-trading credit derivatives comprise protection purchased of \$2,163 million (2008 – \$3,167 million) and protection sold of \$10 million (2008 – \$147 million).
- (3) Comprises precious metal, commodity, stable value and equity derivative contracts.



**Fair value of derivative instruments**

	2009				2008			
	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
<b>Held or issued for trading purposes</b>								
Interest rate contracts								
Forward rate agreements	\$ 336	\$ 274	\$ 221	\$ 196	\$ 191	\$ 143	\$ 329	\$ 220
Swaps	56,487	51,138	47,660	43,119	21,632	21,559	32,596	30,448
Options purchased	1,744	–	1,712	–	797	–	1,569	–
Options written	–	2,353	–	2,007	–	1,216	–	1,714
	58,567	53,765	49,593	45,322	22,620	22,918	34,494	32,382
Foreign exchange contracts								
Forward contracts	17,465	17,631	8,790	8,923	12,831	12,793	37,096	36,682
Cross currency swaps	2,004	1,665	2,219	1,614	2,396	1,777	1,597	1,574
Cross currency interest rate swaps	13,787	12,725	10,846	9,993	12,628	11,806	18,654	18,628
Options purchased	1,685	–	1,377	–	1,214	–	1,850	–
Options written	–	1,591	–	1,385	–	1,160	–	1,830
	34,941	33,612	23,232	21,915	29,069	27,536	59,197	58,714
Credit derivatives (2)	11,739	10,343	5,192	4,398	13,131	11,868	16,456	15,344
Other contracts (3)	12,298	10,774	8,148	8,112	8,617	11,486	18,914	17,322
	\$ 117,545	\$ 108,494	\$ 86,165	\$ 79,747	\$ 73,437	\$ 73,808	\$ 129,061	\$ 123,762
<b>Held or issued for other than trading purposes</b>								
Interest rate contracts								
Swaps			\$ 4,334	\$ 2,807			\$ 3,687	\$ 2,774
Options purchased			9	–			19	–
Options written			–	–			–	31
			4,343	2,807			3,706	2,805
Foreign exchange contracts								
Forward contracts			466	490			1,404	1,299
Cross currency swaps			4	7			10	24
Cross currency interest rate swaps			1,866	1,587			3,377	2,544
Options purchased			–	–			10	–
Options written			–	–			–	6
			2,336	2,084			4,801	3,873
Credit derivatives (2)			128	20			400	15
Other contracts (3)			102	–			15	6
			6,909	4,911			8,922	6,699
<b>Total gross fair values before netting (4), (5)</b>			<b>93,074</b>	<b>84,658</b>			<b>137,983</b>	<b>130,461</b>
Valuation adjustments determined on a pooled basis			(633)	–			(1,117)	–
Impact of master netting agreements								
With intent to settle net or simultaneously (6)			(268)	(268)			(1,756)	(1,756)
			\$ 92,173	\$ 84,390			\$ 135,110	\$ 128,705
Impact of master netting agreements								
Without intent to settle net or simultaneously (7)			(62,868)	(62,868)			(76,179)	(76,179)
			\$ 29,305	\$ 21,522			\$ 58,931	\$ 52,526

(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, stable value and equity derivative contracts. Certain warrants and loan commitments that meet the definition of derivatives are also included.

(4) Total gross fair values before netting include market and credit valuation adjustments that are determined on an instrument-specific basis. Positive year-end fair values exclude margin requirements of \$67 million (2008 – \$1,024 million).

(5) In our Consolidated Balance Sheets, the margin requirements are included in Derivative assets for 2008 but are included in Other assets for 2009.

(6) 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.

(7) 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**

	2009				2008
	Less than 1 year	1 to 5 years	Over 5 years	Total	
Derivative assets (1)	\$ 22,819	\$ 37,748	\$ 31,606	\$ 92,173	\$ 135,110
Derivative liabilities (2)	20,572	35,162	28,656	84,390	128,705

(1) Market and credit valuation adjustments that are determined on an instrument-specific basis and on a pooled basis are included. For 2009, Derivative assets in the table above and in our Consolidated Balance Sheets exclude margin requirements of \$67 million that are included in Other assets. For 2008, Derivative assets in the table above exclude margin requirements of \$1,024 million which are included in our Consolidated Balance Sheets.

(2) Includes stable value contracts on \$257 million of bank-owned life insurance policies and \$3 million of 401(k) plans; in 2008 – these were derivative assets of \$2 million and \$1 million respectively.

### 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. 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.

Replacement cost represents the total fair value of all outstanding contracts in a gain position after factoring in the master netting agreements. The amounts in the table below exclude fair value of \$3,234 million (2008 – \$5,999 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

	2009 <sup>(1)</sup>			2008 <sup>(1)</sup>		
	Replacement cost	Credit equivalent amount <sup>(2)</sup>	Risk-adjusted balance <sup>(3)</sup>	Replacement cost	Credit equivalent amount <sup>(2)</sup>	Risk-adjusted balance <sup>(3)</sup>
<b>Interest rate contracts</b>						
Forward rate agreements	\$ 152	\$ 365	\$ 352	\$ 329	\$ 430	\$ 244
Swaps	11,794	15,773	5,485	7,743	12,938	4,106
Options purchased	466	975	316	353	729	230
	<b>12,412</b>	<b>17,113</b>	<b>6,153</b>	<b>8,425</b>	<b>14,097</b>	<b>4,580</b>
<b>Foreign exchange contracts</b>						
Forward contracts	3,280	6,663	1,214	16,438	19,797	3,938
Swaps	4,697	12,744	2,888	9,692	19,212	3,806
Options purchased	892	1,504	346	508	1,101	274
	<b>8,869</b>	<b>20,911</b>	<b>4,448</b>	<b>26,638</b>	<b>40,110</b>	<b>8,018</b>
Credit derivatives <sup>(4)</sup>	2,409	4,140	4,096	5,607	10,344	8,130
Other contracts <sup>(5)</sup>	2,886	4,868	2,476	12,979	17,680	5,168
<b>Total</b>	<b>\$ 26,576</b>	<b>\$ 47,032</b>	<b>\$ 17,173</b>	<b>\$ 53,649</b>	<b>\$ 82,231</b>	<b>\$ 25,896</b>

(1) The amounts presented are net of master netting agreements in accordance with Basel II.

(2) The total credit equivalent amount includes collateral applied of \$7,277 million (2008 – \$4,721 million).

(3) The risk-adjusted balance was calculated in accordance with Basel II.

(4) 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 \$128 million (2008 – \$400 million). Credit derivatives issued for other-than-trading purposes related to sold protection with a replacement cost of \$nil (2008 – \$3 million), credit equivalent amount of \$10 million (2008 – \$147 million) and risk-adjusted asset amount of \$3 million (2008 – \$35 million) which were given guarantee treatment per OSFI guidance.

(5) Comprises precious metal, commodity and equity derivative contracts.

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

	2009									
	Risk rating <sup>(1)</sup>					Counterparty type <sup>(2)</sup>				
	AAA, AA	A	BBB	BB or lower	Total	Banks	OECD governments	Other	Total	
Gross positive replacement cost	\$ 31,331	\$ 40,549	\$ 12,521	\$ 5,439	\$ 89,840	\$ 59,786	\$ 8,900	\$ 21,154	\$ 89,840	
Impact of master netting agreements	21,982	30,558	8,444	2,152	63,136	48,620	6,065	8,451	63,136	
Replacement cost (after netting agreements) <sup>(3)</sup>	\$ 9,349	\$ 9,991	\$ 4,077	\$ 3,287	\$ 26,704	\$ 11,166	\$ 2,835	\$ 12,703	\$ 26,704	
Replacement cost (after netting agreements) – 2008 <sup>(3)</sup>	\$ 26,741	\$ 16,043	\$ 6,901	\$ 4,364	\$ 54,049	\$ 17,439	\$ 6,593	\$ 30,017	\$ 54,049	

(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 \$128 million (2008 – \$400 million).

## Note 8 Premises and equipment

	2009			2008		
	Cost	Accumulated depreciation	Net book value	Cost	Accumulated depreciation	Net book value
Land	\$ 250	\$ –	\$ 250	\$ 216	\$ –	\$ 216
Buildings	942	479	463	845	427	418
Computer equipment	2,018	1,537	481	2,100	1,444	656
Furniture, fixtures and other equipment	1,401	972	429	1,395	981	414
Leasehold improvements	1,642	898	744	1,624	857	767
	\$ 6,253	\$ 3,886	\$ 2,367	\$ 6,180	\$ 3,709	\$ 2,471

The depreciation expense for premises and equipment for 2009 was \$389 million (2008 – \$318 million; 2007 – \$272 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 2009	October 31 2008
<b>Consolidated Balance Sheets</b>		
Assets (1)	\$ 15,502	\$ 19,136
Liabilities	14,438	18,114

(1) Includes \$73 million (2008 – \$72 million) of goodwill and \$137 million (2008 – \$158 million) of intangible assets.

	For the year ended		
	October 31 2009	October 31 2008	October 31 2007
<b>Consolidated Statements of Income</b>			
Net interest income	\$ 152	\$ 162	\$ 116
Non-interest income	496	647	600
Non-interest expense	593	602	529
Net income	34	135	125
<b>Consolidated Statements of Cash Flows</b>			
Cash flows from (used in) operating activities	\$ 446	\$ (1,433)	\$ (546)
Cash flows from (used in) investing activities	2,869	(2,158)	(2,299)
Cash flows (used in) from financing activities	(3,328)	3,713	2,856

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 2009	October 31 2008	October 31 2007
Net interest income	\$ 49	\$ 145	\$ 157
Non-interest income	25	28	26
Non-interest expense	37	38	34

## Note 10 Goodwill and other intangibles

### Goodwill

During the second quarter, we determined that the goodwill of our International Banking reporting unit was impaired by \$1 billion. This impairment reflected the continuing impact of the deterioration in the overall U.S. economic environment, including declines in the U.S. housing market and in the market value of U.S. banks. The \$1 billion impairment charge impacted our United States geographic results for

the year ended October 31, 2009 and was recorded in our International Banking business segment; refer to Note 28.

We also completed our annual assessment for goodwill impairment in all reporting units and determined that there was no other goodwill impairment for the year ended October 31, 2009 (2008 – \$nil; 2007 – \$nil).

The following tables disclose the changes in goodwill during 2008 and 2009.

	Canadian Banking	Wealth Management	Insurance	International Banking (1)	Capital Markets	Total
Balance at October 31, 2007	\$ 2,050	\$ 882	\$ –	\$ 996	\$ 824	\$ 4,752
Business reorganization (1)	(131)	–	131	–	–	–
Goodwill acquired during the year	–	1,147	–	2,877	21	4,045
Other adjustments (2)	–	217	22	733	208	1,180
Balance at October 31, 2008	\$ 1,919	\$ 2,246	\$ 153	\$ 4,606	\$ 1,053	\$ 9,977
Goodwill acquired during the year	15	20	–	–	4	39
Goodwill impairment charge	–	–	–	(1,000)	–	(1,000)
Other adjustments (2)	2	(121)	(13)	(398)	(118)	(648)
Balance at October 31, 2009	\$ 1,936	\$ 2,145	\$ 140	\$ 3,208	\$ 939	\$ 8,368

(1) The reorganization during 2008 resulted in the creation of our Insurance segment and the U.S. & International Banking segment being renamed International Banking.

(2) Other adjustments primarily include the impact of foreign exchange translations on foreign currency-denominated goodwill.

### Other intangibles

	2009			2008		
	Gross carrying amount	Accumulated amortization (1)	Net carrying amount	Gross carrying amount	Accumulated amortization (1)	Net carrying amount
Core deposit intangibles	\$ 688	\$ (328)	\$ 360	\$ 725	\$ (273)	\$ 452
Customer lists and relationships	1,121	(388)	733	1,073	(288)	785
Mortgage servicing rights	67	(50)	17	70	(54)	16
Computer software (2)	2,136	(1,213)	923	1,782	(993)	789
	\$ 4,012	\$ (1,979)	\$ 2,033	\$ 3,650	\$ (1,608)	\$ 2,042

(1) Total amortization expense for 2009 was \$462 million (2008 – \$356 million).

(2) Computer software was reclassified from Premises and Equipment effective November 1, 2008 in accordance with Section 3064. Refer to Note 1.

The projected amortization of Other intangibles for each of the years ending October 31, 2010 to October 31, 2014 is approximately \$147 million. There were no writedowns of intangible assets due to impairment for the year ended October 31, 2009 (2008 – \$nil).

## Note 11 Significant acquisitions

### 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.

Details of the final purchase price and the allocation, including an adjustment made in the fourth quarter for RBTT, 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\$934 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	\$ 1,775	\$ 2,281
Fair value of tangible assets acquired (1)	\$ 7,444	\$ 8,787
Fair value of liabilities assumed (2)	(7,067)	(8,219)
Fair value of identifiable net assets acquired	377	568
Core deposit intangibles (3)	91	160
Goodwill	1,307	1,553
Total purchase consideration	\$ 1,775	\$ 2,281

(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 \$19 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.

**Note 11 Significant acquisitions** (continued)**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.

Details of the final 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	\$ 68	\$ 420
Fair value of liabilities assumed (2)	(179)	(299)
Fair value of identifiable net assets acquired	(111)	121
Customer relationships (3)	423	7
Goodwill	985	137
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 \$115 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 final purchase price of these acquisitions, which were not material to the respective segments, was \$389 million and resulted in goodwill of \$26 million.

**Note 12 Other assets**

	2009	2008
Receivable from brokers, dealers and clients	\$ 3,185	\$ 10,269
Accrued interest receivable	1,735	2,461
Investment in associated corporations and limited partnerships	637	1,156
Insurance-related assets (1)	1,297	1,062
Net future income tax asset (refer to Note 23)	1,726	1,706
Prepaid pension benefit cost (2) (refer to Note 20)	1,028	551
Other	5,325	8,126
	\$ 14,933	\$ 25,331

(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.

	2009				2008
	Demand (1)	Notice (2)	Term (3), (4), (5)	Total	Total
Personal	\$ 73,629	\$ 9,837	\$ 68,862	\$ 152,328	\$ 139,036
Business and government (4), (5)	105,220	1,717	113,835	220,772	269,994
Bank	4,023	18	21,163	25,204	29,545
	\$ 182,872	\$ 11,572	\$ 203,860	\$ 398,304	\$ 438,575
<b>Non-interest-bearing</b>					
Canada				\$ 41,175	\$ 34,463
United States				4,893	4,682
Other International				3,041	4,579
<b>Interest-bearing</b>					
Canada (4), (5)				174,345	168,246
United States				47,930	68,450
Other International				126,920	158,155
				\$ 398,304	\$ 438,575

- (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, 2009, the balance of term deposits also includes senior deposit notes we have issued to provide long-term funding of \$75.5 billion (2008 – \$63.9 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 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)

	2009	2008
Within 1 year	\$ 258,322	\$ 357,112
1 to 2 years	78,338	30,768
2 to 3 years	28,892	19,912
3 to 4 years	15,570	10,871
4 to 5 years	5,464	11,319
Over 5 years	11,718	8,593
	\$ 398,304	\$ 438,575

- (1) The aggregate amount of term deposits in denominations of \$100,000 or more as at October 31, 2009 was \$167 billion (2008 – \$221 billion).

### Average deposit balances and average of interest paid rates

	Average balances		Average rates	
	2009	2008	2009	2008
Canada	\$ 207,506	\$ 187,182	1.42%	2.36%
United States	65,138	58,997	1.19	2.98
Other International	149,314	164,862	2.03	3.63
	\$ 421,958	\$ 411,041	1.60%	2.96%

## Note 14 Insurance

### Insurance claims and policy benefit liabilities

	2009	2008
Life and Health	\$ 8,151	\$ 6,676
Property and Casualty	532	459
Reinsurance	239	250
<b>Total</b>	\$ 8,922	\$ 7,385
Future policy benefit liabilities	8,093	6,660
Claims liabilities	829	725
<b>Total</b>	\$ 8,922	\$ 7,385

The net increase in Insurance claims and policy benefit liabilities over the prior year comprised: (i) the net increase in life and health and property and casualty liabilities attributable to business growth; (ii) the increase due to market movements on assets backing life and health, reinsurance and property and casualty liabilities; and (iii) the favourable impact of the appreciation of the Canadian dollar on U.S. dollar-denominated liabilities.

Furthermore, the review of various actuarial assumptions and completion of certain actuarial experience studies resulted in a net increase of \$20 million in life and health insurance liabilities (2008 – a net decrease of \$144 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.

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

### Net premiums

	2009	2008	2007
Gross premiums	\$ 4,884	\$ 3,760	\$ 3,445
Ceded premiums	(995)	(896)	(852)
	\$ 3,889	\$ 2,864	\$ 2,593

## Note 15 Other liabilities

	2009	2008
Short-term borrowings of subsidiaries	\$ 3,295	\$ 5,402
Payable to brokers, dealers and clients	4,922	9,610
Accrued interest payable	2,052	2,925
Accrued pension and other post-employment benefit expense (1) (refer to Note 20)	1,436	1,383
Insurance-related liabilities	488	428
Dividends payable	775	701
Payroll and related compensation	5,010	3,855
Trade payables and related accounts	1,500	2,329
Taxes payable	1,946	139
Cheques and other items in transit	2,099	1,193
Other	7,484	7,844
	<b>\$ 31,007</b>	<b>\$ 35,809</b>

(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	2009	2008
March 15, 2009		6.50%	US\$125	\$ –	\$ 151
January 27, 2014	January 27, 2009 (1)	3.96% (2)		–	500
June 1, 2014	June 1, 2009 (1)	4.18% (2)		–	1,001
November 14, 2014		10.00%		264	271
January 25, 2015	January 25, 2010 (3)	7.10% (2)		506	528
June 24, 2015	June 24, 2010	3.70% (2)		809	816
April 12, 2016	April 12, 2011 (4)	6.30% (2)		403	407
March 11, 2018	March 11, 2013 (5)	4.84% (6)		1,048	1,039
June 6, 2018	June 6, 2013 (7)	5.00% (8)		1,013	1,012
November 4, 2018	November 4, 2013 (9)	5.45% (2)		1,106	1,102
June 8, 2023		9.30%		110	110
June 26, 2037	June 26, 2017 (10)	2.86% (11)	JPY10,000	110	81
October 1, 2083		(12)	(13)	224	224
June 6, 2085		(12)	(14)	205	228
June 18, 2103	June 18, 2009 (15)	5.95% (16)	US\$189	673	672
				<b>\$ 6,471</b>	<b>\$ 8,142</b>
Deferred financing costs				<b>(10)</b>	<b>(11)</b>
				<b>\$ 6,461</b>	<b>\$ 8,131</b>

The terms and conditions of the debentures are as follows:

- (1) Redeemed on the earliest par value redemption date at principal plus accrued interest to the redemption date.
- (2) 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.
- (3) 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.
- (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 22 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 42.5 basis points and (ii) par value, and thereafter at any time at par value.
- (6) 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.
- (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 44 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 2.15% 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 14 basis points and (ii) par value, and thereafter at any time at par value.

- (10) Redeemable on or after June 26, 2017 at par value.
- (11) Fixed interest rate at 2.86% per annum, payable semi-annually.
- (12) Redeemable on any interest payment date at par value.
- (13) Interest at a rate of 40 basis points above the 30-day Bankers' Acceptance rate.
- (14) 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.
- (15) 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.
- (16) 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:

	2009
Within 1 year	\$ –
1 to 5 years	–
5 to 10 years	5,149
Thereafter	1,322
	<b>\$ 6,471</b>

## 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), Trust II and Trust III.

In 2008, we issued \$500 million of RBC Trust Capital Securities Series 2008-1 (RBC TruCS 2008-1) through our consolidated subsidiary, Trust, a closed-end trust. 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 on our preferred shares, or 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. 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 the Primary Beneficiary (refer to Note 6); therefore, the RBC TSNs – Series A issued by Trust III are not reported on our Consolidated Balance Sheet but the senior deposit note issued by us to Trust III is reported 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, 2009 and 2008.

Issuer	Issuance date	Distribution dates	Annual yield	Redemption date	Conversion date	2009	2008
				At the option of the issuer	At the option of the holder	Principal amount	Principal amount
<b>RBC Capital Trust (1),(2),(3),(4),(5),(6),(7)</b>							
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	500
						\$ 3,100	\$ 3,100
<b>RBC Capital Trust II (2),(3),(4),(6),(7),(9)</b>							
900,000 Trust Capital Securities – Series 2013	July 23, 2003	June 30, December 31	5.812%	December 31, 2008	Any time	\$ 900	\$ 900
<b>RBC Subordinated Notes Trust (3),(4),(5),(6),(7),(10),(11)</b>							
\$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:

- 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.
- 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.
- 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.

- 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 A1, 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 A1 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.
- From time to time, we purchase some of the innovative capital instruments and hold them temporarily. As at October 31, 2009 we held \$5 million of RBC TruCS 2008-1, \$2 million of RBC TruCS 2010, \$2 million of RBC TruCS 2011 and \$10 million of RBC TSNs – Series A as treasury holdings which were deducted from regulatory capital. As at October 31, 2008 we held none.
- Regulatory capital: According to OSFI guidelines, innovative capital instruments may 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, 2009, \$3,991 million represents Tier 1 capital (2008 – \$3,857 million), \$1,017 million represents Tier 2B capital (2008 – \$1,169 million) and \$19 million of our treasury holdings of innovative capital is deducted for regulatory capital purposes (2008 – \$nil).



## Note 17 Trust capital securities (continued)

- (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 <sup>(1)</sup>

	2009			2008			2007		
	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
<b>Preferred share liabilities</b>									
<b>First preferred</b>									
Non-cumulative Series N <sup>(2)</sup>	–	\$ –	\$ –	–	\$ –	\$ .88	11,916	\$ 298	\$ 1.18
Treasury shares – sales	–	–	–	–	–	–	152	4	–
Treasury shares – purchases	–	–	–	–	–	–	(68)	(2)	–
<b>Preferred share liabilities, net of treasury holdings</b>	–	\$ –	–	–	\$ –	–	12,000	\$ 300	–
<b>Preferred shares</b>									
<b>First preferred <sup>(3)</sup></b>									
Non-cumulative Series W	12,000	\$ 300	\$ 1.23	12,000	\$ 300	\$ 1.23	12,000	\$ 300	\$ 1.23
Non-cumulative Series AA	12,000	300	1.11	12,000	300	1.11	12,000	300	1.11
Non-cumulative Series AB	12,000	300	1.18	12,000	300	1.18	12,000	300	1.18
Non-cumulative Series AC	8,000	200	1.15	8,000	200	1.15	8,000	200	1.22
Non-cumulative Series AD	10,000	250	1.13	10,000	250	1.13	10,000	250	1.06
Non-cumulative Series AE	10,000	250	1.13	10,000	250	1.13	10,000	250	.95
Non-cumulative Series AF	8,000	200	1.11	8,000	200	1.11	8,000	200	.77
Non-cumulative Series AG	10,000	250	1.13	10,000	250	1.13	10,000	250	.65
Non-cumulative Series AH	8,500	213	1.41	8,500	213	.81	–	–	–
Non-cumulative, 5-Year Rate Reset Series AJ	16,000	400	1.49	16,000	400	–	–	–	–
Non-cumulative, 5-Year Rate Reset Series AL	12,000	300	1.48	–	–	–	–	–	–
Non-cumulative, 5-Year Rate Reset Series AN	9,000	225	1.50	–	–	–	–	–	–
Non-cumulative, 5-Year Rate Reset Series AP	11,000	275	1.34	–	–	–	–	–	–
Non-cumulative, 5-Year Rate Reset Series AR	14,000	350	1.27	–	–	–	–	–	–
Non-cumulative, 5-Year Rate Reset Series AT	11,000	275	1.11	–	–	–	–	–	–
Non-cumulative, 5-Year Rate Reset Series AV	16,000	400	1.01	–	–	–	–	–	–
Non-cumulative, 5-Year Rate Reset Series AX	13,000	325	.87	–	–	–	–	–	–
		\$ 4,813	–		\$ 2,663	–		\$ 2,050	–
<b>Common shares</b>									
Balance at beginning of year	1,341,260	\$ 10,384	–	1,276,260	\$ 7,300	–	1,280,890	\$ 7,196	–
Issued on new acquisitions	–	–	–	59,675	2,937	–	–	–	–
Issued for general business purpose	65,263	2,301	–	–	–	–	–	–	–
Issued under Dividend Reinvestment Plan	5,279	232	–	–	–	–	–	–	–
Issued under the stock option plan <sup>(4)</sup>	5,808	158	–	6,445	153	–	7,215	170	–
Purchased for cancellation	–	–	–	(1,120)	(6)	–	(11,845)	(66)	–
Balance at end of year	1,417,610	\$ 13,075	\$ 2.00	1,341,260	\$ 10,384	\$ 2.00	1,276,260	\$ 7,300	\$ 1.82
<b>Treasury shares – Preferred shares</b>									
Balance at beginning of year	(260)	\$ (5)	–	(249)	\$ (6)	–	(94)	\$ (2)	–
Sales	618	13	–	1,060	23	–	1,345	33	–
Purchases	(423)	(10)	–	(1,071)	(22)	–	(1,500)	(37)	–
Balance at end of year	(65)	\$ (2)	–	(260)	\$ (5)	–	(249)	\$ (6)	–
<b>Treasury shares – Common shares</b>									
Balance at beginning of year	(2,258)	\$ (104)	–	(2,444)	\$ (101)	–	(5,486)	\$ (180)	–
Sales	1,364	59	–	1,269	51	–	4,756	175	–
Purchases	(1,233)	(50)	–	(1,083)	(54)	–	(1,714)	(96)	–
Balance at end of year	(2,127)	\$ (95)	–	(2,258)	\$ (104)	–	(2,444)	\$ (101)	–

(1) 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.

(2) On August 22, 2008, we redeemed Non-cumulative First Preferred Shares Series N at a redemption price equal to the carrying value.

(3) First Preferred Shares Series were issued at \$25 per share.

(4) Includes fair value adjustments to stock options of \$6 million (2008 – \$5 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 \$13 million (2008 – \$4 million), and from renounced tandem SARs, net of related income taxes, of \$7 million (2008 – \$4 million).

## Terms of preferred share liabilities and preferred shares

	Dividend per share (1)	Initial period annual yield	Dividend reset rate (6)	Redemption date (2)	Issue date	Redemption price (2), (3)	Conversion date (5)	
							At the option of the bank (2), (4)	At the option of the holder
<b>Preferred shares</b>								
<b>First preferred</b>								
Non-cumulative Series W	\$ .306250	4.90%		February 24, 2010	January 31, 2005	\$ 26.00	February 24, 2010	Not convertible
Non-cumulative Series AA	.278125	4.45%		May 24, 2011	April 4, 2006	26.00	Not convertible	Not convertible
Non-cumulative Series AB	.293750	4.70%		August 24, 2011	July 20, 2006	26.00	Not convertible	Not convertible
Non-cumulative Series AC	.287500	4.60%		November 24, 2011	November 1, 2006	26.00	Not convertible	Not convertible
Non-cumulative Series AD	.281250	4.50%		February 24, 2012	December 13, 2006	26.00	Not convertible	Not convertible
Non-cumulative Series AE	.281250	4.50%		February 24, 2012	January 19, 2007	26.00	Not convertible	Not convertible
Non-cumulative Series AF	.278125	4.45%		May 24, 2012	March 14, 2007	26.00	Not convertible	Not convertible
Non-cumulative Series AG	.281250	4.50%		May 24, 2012	April 26, 2007	26.00	Not convertible	Not convertible
Non-cumulative Series AH	.353125	5.65%		May 24, 2013	April 29, 2008	26.00	Not convertible	Not convertible
Non-cumulative, 5-Year Rate Reset Series AJ	.312500	5.00%	1.93%	February 24, 2014	September 16, 2008	25.00	Not convertible	Not convertible
Non-cumulative, 5-Year Rate Reset Series AL	.350000	5.60%	2.67%	February 24, 2014	November 3, 2008	25.00	Not convertible	Not convertible
Non-cumulative, 5-Year Rate Reset Series AN	.390625	6.25%	3.50%	February 24, 2014	December 8, 2008	25.00	Not convertible	Not convertible
Non-cumulative, 5-Year Rate Reset Series AP	.390625	6.25%	4.19%	February 24, 2014	January 14, 2009	25.00	Not convertible	Not convertible
Non-cumulative, 5-Year Rate Reset Series AR	.390625	6.25%	4.50%	February 24, 2014	January 29, 2009	25.00	Not convertible	Not convertible
Non-cumulative, 5-Year Rate Reset Series AT	.390625	6.25%	4.06%	August 24, 2014	March 9, 2009	25.00	Not convertible	Not convertible
Non-cumulative, 5-Year Rate Reset Series AV	.390625	6.25%	4.42%	August 24, 2014	April 1, 2009	25.00	Not convertible	Not convertible
Non-cumulative, 5-Year Rate Reset Series AX	.381250	6.10%	4.13%	November 24, 2014	April 29, 2009	25.00	Not convertible	Not convertible

- (1) Non-cumulative preferential dividends on Series W, AA, AB, AC, AD, AE, AF, AG, AH, AJ, AL, AN, AP, AR, AT, AV and AX 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, 2009 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; and in the case of Series AL, at a price per share of \$25, if redeemed on February 24, 2014 and on each February 24 every fifth year thereafter; and in the case of Series AN, at a price per share of \$25, if redeemed on February 24, 2014 and on each February 24 every fifth year thereafter; and in the case of Series AP, at a price per share of \$25, if redeemed on February 24, 2014 and on each February 24 every fifth year thereafter; and in the case of Series AR, at a price per share of \$25, if redeemed on February 24, 2014 and on each February 24 every fifth year thereafter; and in the case of Series AT, at a price per share of \$25, if redeemed on August 24, 2014 and on each August 24 every fifth year thereafter; and in the case of Series AV, at a price per share of \$25, if redeemed on August 24, 2014 and on each August 24 every fifth year thereafter; and in the case of Series AX, at a price per share of \$25, if redeemed on November 24, 2014 and on each November 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 W, AA, AB, AC, AD, AE, AF, AG, AH, AJ, AL, AN, AP, AR, AT, AV and AX 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.
- (6) The dividend rate will reset on the earliest redemption date and every fifth year thereafter at a rate equal to the 5-year Government of Canada bond yield plus the premium indicated. The holders have the option to convert their shares into non-cumulative floating rate First Preferred Shares subject to certain conditions on the earliest redemption date and every fifth year thereafter at a rate equal to the three-month Government of Canada Treasury Bill rate plus the premium indicated.

### 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 receive additional common shares rather than cash dividends. 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, 2009, 62.6 million common shares are available for future issue relating to our dividend reinvestment plan and potential exercise of stock options outstanding. In addition, we may issue up to 40 million shares from treasury under the RBC Umbrella Savings and Securities Purchase Plan that was approved by shareholders on February 26, 2009.

## Note 18 Preferred share liabilities and share capital (continued)

### Others

We announced on October 29, 2009, 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, 2009 and will terminate on October 31, 2010.

### Normal Course Issuer Bid

Details of common shares repurchased under NCIBs during 2009, 2008 and 2007 are given below.

NCIB period	2009				2008				2007			
	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	Number of shares eligible for repurchase (000s)	Number of shares repurchased (000s)	Average cost per share	Amount
November 1, 2008 – October 31, 2009	20,000	–	\$ –	\$ –	–	–	–	–	–	–	–	–
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

## Note 19 Non-controlling interest in subsidiaries

	2009	2008
RBC Trust Capital Securities (TruCS)		
– Series 2015	\$ 1,219	\$ 1,220
– Series 2008-1	506	511
Consolidated VIEs	7	205
Others	339	435
	\$ 2,071	\$ 2,371

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, 2009, \$20 million (2008 – \$20 million) of accrued interest was included in RBC TruCS Series 2015. Series 2008-1 includes \$11 million (2008 – \$11 million) of accrued interest, net of \$5 million (2008 – \$nil) of treasury holdings.

## 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, 2009.

Due to the market conditions in late 2008, we were required to increase our pension plans contributions before December 31, 2009 based on the results of our January 1, 2009 funding valuation.

For 2009, total contributions to our pension and other post-employment benefit plans were \$757 million and \$40 million (2008 – \$285 million and \$43 million), respectively. For 2010, total contributions to pension plans and other post-employment benefit plans are expected to be approximately \$833 million and \$43 million, respectively. The next actuarial valuation for funding purposes will be completed on January 1, 2010.

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)	
	2009	2008	2009	2008
<b>Change in fair value of plan assets</b>				
Opening fair value of plan assets	\$ 5,826	\$ 6,784	\$ 41	\$ 52
Actual return on plan assets	272	(877)	1	(4)
Company contributions (3)	610	191	40	45
Plan participant contributions	31	29	7	6
Benefits paid	(353)	(343)	(65)	(58)
Business acquisitions	-	7	-	-
Other	7	-	2	-
Change in foreign currency exchange rate	(50)	35	-	-
<b>Closing fair value of plan assets</b>	<b>\$ 6,343</b>	<b>\$ 5,826</b>	<b>\$ 26</b>	<b>\$ 41</b>
<b>Change in benefit obligation</b>				
Opening benefit obligation	\$ 6,214	\$ 6,846	\$ 1,315	\$ 1,504
Service cost	141	174	14	16
Interest cost	413	389	87	83
Plan participant contributions	31	29	7	6
Actuarial (gain) loss	389	(932)	(27)	(264)
Benefits paid	(353)	(343)	(65)	(58)
Plan amendments and curtailments	(1)	(12)	-	-
Business acquisitions	-	12	-	11
Other	9	-	2	-
Change in foreign currency exchange rate	(60)	51	(9)	17
<b>Closing benefit obligation</b>	<b>\$ 6,783</b>	<b>\$ 6,214</b>	<b>\$ 1,324</b>	<b>\$ 1,315</b>
<b>Funded status</b>				
Excess of benefit obligation over plan assets	\$ (440)	\$ (388)	\$ (1,298)	\$ (1,274)
Unrecognized net actuarial loss	1,276	769	206	272
Unrecognized transitional (asset) obligation	(6)	(8)	1	1
Unrecognized prior service cost	44	62	(259)	(283)
Contributions between September 30 and October 31 (3)	65	14	3	3
<b>Prepaid asset (accrued liability) as at October 31</b>	<b>\$ 939</b>	<b>\$ 449</b>	<b>\$ (1,347)</b>	<b>\$ (1,281)</b>
<b>Amounts recognized in our Consolidated Balance Sheets consist of:</b>				
Other assets	\$ 1,028	\$ 551	\$ -	\$ -
Other liabilities	(89)	(102)	(1,347)	(1,281)
<b>Net amount recognized as at October 31</b>	<b>\$ 939</b>	<b>\$ 449</b>	<b>\$ (1,347)</b>	<b>\$ (1,281)</b>
<b>Weighted average assumptions to calculate benefit obligation</b>				
Discount rate	6.40%	6.70%	6.39%	6.72%
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 \$6,078 million (2008 – \$5,359 million) and \$5,436 million (2008 – \$4,917 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 5.4% for medical decreasing to an ultimate rate of 4.1% in 2018 and 4.5% for dental.
- (3) As our measurement date of the pension and other post-employment plans is September 30, company contributions in the above table represent contributions from October 1, 2008 to September 30, 2009. In order to arrive at the total contributions for the year ended October 31, 2009, this amount should be adjusted for the contributions made in the month of October as well as the defined contribution pension expense presented in the Pension benefit expense table.

### Benefits payment projection for defined benefit pension and other post-employment plans

	Pension plans	Other post-employment plans
2010	\$ 375	\$ 65
2011	377	67
2012	385	70
2013	394	73
2014	405	76
2015-2019	2,203	433

### Composition of defined benefit pension plan assets

The defined benefit pension plan assets are composed of a diversified mix of equity, fixed income and alternative securities including investments in hedge fund of funds, multi-strategy hedge funds and infrastructure. The equity securities include 1.4 million (2008 – .4 million) of our common shares having a fair value of \$80 million (2008 – \$20 million). Dividends amounting to \$1.9 million (2008 – \$1.8 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	
	2009	2008
Equity securities	49%	51%
Debt securities	45%	45%
Other	6%	4%
<b>Total</b>	<b>100%</b>	<b>100%</b>

### 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:

- investment characteristics including expected returns, volatilities and correlations between plan assets and plan liabilities;
- 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**
**Pension benefit expense**

	2009	2008	2007
Service cost	\$ 141	\$ 174	\$ 178
Interest cost	413	389	362
Expected return on plan assets	(446)	(438)	(411)
Amortization of transitional asset	(2)	(2)	(2)
Amortization of prior service cost	19	22	29
Amortization of actuarial loss (gain)	47	103	129
Other	-	-	7
Defined benefit pension expense	\$ 172	\$ 248	\$ 292
Defined contribution pension expense	95	82	74
Pension benefit expense	\$ 267	\$ 330	\$ 366
<b>Weighted average assumptions to calculate pension benefit expense</b>			
Discount rate	6.70%	5.60%	5.25%
Assumed long-term rate of return on plan assets	7.25%	7.00%	7.00%
Rate of increase in future compensation	3.30%	3.30%	3.30%

**Other post-employment benefit expense**

	2009	2008	2007
Service cost	\$ 14	\$ 16	\$ 19
Interest cost	87	83	75
Expected return on plan assets	(2)	(3)	(3)
Amortization of actuarial loss (gain)	41	29	36
Amortization of prior service cost	(23)	(23)	(23)
Other post-employment benefit expense	\$ 117	\$ 102	\$ 104
<b>Weighted average assumptions to calculate other post-employment benefit expense</b>			
Discount rate	6.72%	5.62%	5.26%
Rate of increase in future compensation	3.30%	3.30%	3.30%

**Significant assumptions used in calculating the defined benefit pension and other post-employment expense**
**Overall expected long-term rate of return on assets**

The assumed expected rate of return on assets is a forward-looking estimate of the plan's return, determined by considering expectation for inflation, 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 6.75% for 2010, 7.25% for 2009, and 7% for 2006 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.

**2009 sensitivity of key assumptions**

<i>Pension benefit expense</i>	Change in obligation	Change in expense
Impact of .25% change in discount rate assumption	\$ 203	\$ 25
Impact of .25% change in rate of increase in future compensation assumption	15	2
Impact of .25% change in the long-term rate of return on plan assets assumption	-	16
<i>Other post-employment benefit expense</i>	Change in obligation	Change in expense
Impact of .25% change in discount rate assumption	\$ 43	\$ 7
Impact of .25% change in rate of increase in future compensation assumption	-	-
Impact of 1.00% increase in healthcare cost trend rates	119	9
Impact of 1.00% decrease in healthcare cost trend rates	(99)	(7)

**Reconciliation of defined benefit expense recognized with defined benefit expense incurred**

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

Actuarial gains or losses arise over time due to differences in actual experience compared to actuarial assumptions. Prior service costs arise as a result of plan amendments.

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**

	2009	2008	2007
Defined benefit pension expense recognized	\$ 172	\$ 248	\$ 292
Difference between expected and actual return on plan assets	175	1,315	(227)
Difference between actuarial losses (gains) amortized and actuarial losses (gains) arising	342	(1,035)	(246)
Difference between prior service costs amortized and prior service costs arising	(20)	(34)	(38)
Amortization of transitional asset	2	2	2
Defined benefit pension expense incurred	\$ 671	\$ 496	\$ (217)

**Other post-employment benefit expense incurred**

	2009	2008	2007
Other post-employment benefit expense recognized	\$ 117	\$ 102	\$ 104
Difference between expected and actual return on plan assets	1	8	(1)
Difference between actuarial losses (gains) amortized and actuarial losses (gains) arising	(67)	(293)	(33)
Difference between prior service costs amortized and prior service costs arising	23	24	23
Other post-employment benefit expense incurred	\$ 74	\$ (159)	\$ 93

**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 expense of \$8 million for the year ended October 31, 2009 (2008 – \$21 million gain; 2007 – \$19 million expense).

**A summary of our stock option activity and related information**

	2009		2008		2007	
	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	21,773	\$ 31.66	26,623	\$ 27.71	32,243	\$ 24.66
Granted	2,659	35.29	2,020	52.87	1,835	55.06
Exercised – Common shares (1), (2)	(5,808)	22.69	(6,445)	21.72	(7,215)	21.10
– SARs	(397)	19.84	(148)	19.30	(204)	21.50
Cancelled	(350)	33.72	(277)	48.36	(36)	36.42
Outstanding at end of year	17,877	\$ 35.32	21,773	\$ 31.66	26,623	\$ 27.71
Exercisable at end of year	12,806	\$ 31.68	17,247	\$ 26.92	21,924	\$ 24.17
Available for grant	17,999		19,925		21,527	

(1) Cash received for options exercised during the year was \$132 million (2008 – \$140 million; 2007 – \$152 million).

(2) New shares were issued for all options exercised in 2009, 2008 and 2007. Refer to Note 18.

Options outstanding and options exercisable as at October 31, 2009 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
\$10.17 <sup>(1)</sup>	57	\$ 10.17	.2	57	\$ 10.17
\$15.00 - \$19.11	232	16.21	.2	232	16.21
\$21.79 - \$25.00	4,865	24.56	1.6	4,865	24.56
\$26.10 - \$35.37	7,469	32.11	5.6	5,121	30.66
\$44.13 - \$57.90	5,254	50.94	7.1	2,531	49.53
Total	17,877	\$ 35.32	4.9	12,806	\$ 31.68

(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**

We adopted the fair value method of accounting prospectively for new awards granted after November 1, 2002. 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. The fair value compensation expense recorded for the year ended October 31, 2009, in respect of these plans was \$10 million (2008 – \$12 million; 2007 – \$13 million). The compensation expenses related to non-vested awards were \$8 million at October 31, 2009 (2008 – \$11 million; 2007 – \$14 million), to be recognized over the weighted average period of 1.8 years (2008 – 2.0 years; 2007 – 2.2 years).

The weighted average fair value of options granted during 2009 was estimated at \$2.59 (2008 – \$6.57; 2007 – \$7.84) using an option pricing model on the date of grant. The following assumptions were used:

For the year ended October 31	2009	2008	2007
<b>Weighted average assumptions</b>			
Risk-free interest rate	2.33%	3.93%	3.82%
Expected dividend yield	4.15%	3.27%	3.06%
Expected share price volatility	14%	14%	16%
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 2009, we contributed \$68 million (2008 – \$68 million; 2007 – \$64 million), under the terms of these plans, towards the purchase of our common shares. As at October 31, 2009, an aggregate of 35.7 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, 2009, was \$200 million (2008 – \$200 million; 2007 – \$285 million). The share price fluctuations and dividend equivalents compensation

expense recorded for the year ended October 31, 2009, in respect of these plans was \$31 million (2008 – \$37 million gain; 2007 – \$37 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 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, 2009, was \$693 million (2008 – \$473 million; 2007 – \$490 million). The share price fluctuations and dividend equivalents compensation expense for the year ended October 31, 2009, in respect of this plan was \$85 million (2008 – \$75 million gain; 2007 – \$62 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 granted under some plans can be increased or decreased up to 50% for awards granted in December 2007 and 2006 and up to 25% for awards granted in December 2008, 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, 2009, was 1.5 million (2008 – 2.0 million; 2007 – 2.3 million). The value of the DSUs liability as at October 31, 2009 was \$211 million (2008 – \$164 million; 2007 – \$250 million). The compensation expense recorded for the year ended October 31, 2009, in respect of these plans was \$140 million (2008 – \$96 million; 2007 – \$168 million).

We maintain a non-qualified deferred compensation plan for key employees in the United States. 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, 2009, was \$304 million (2008 – \$244 million; 2007 – \$285 million). The compensation expense recorded for the year ended October 31, 2009, was \$157 million (2008 – \$123 million gain; 2007 – \$157 million expense).

For other stock-based plans, compensation expense of \$14 million was recognized for the year ended October 31, 2009 (2008 – \$5 million; 2007 – \$9 million). The liability for the share units held under these plans as at October 31, 2009, was \$60 million (2008 – \$35 million; 2007 – 21 million). The number of our common shares held under these plans was .1 million (2008 – .2 million; 2007 – .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 \$2,377 million increase in the fair values of our net financial assets classified as held-for-trading for the year ended October 31, 2009 (2008 – increased by \$102 million; 2007 – increased by \$1,912 million).

	2009	2008	2007
Net interest income (expense)	\$ 2,294	\$ 686	\$ (220)
Non-interest (expense) income	2,671	(96)	1,999
<b>Total</b>	<b>\$ 4,965</b>	<b>\$ 590</b>	<b>\$ 1,779</b>
By product line			
Interest rate and credit	\$ 3,304	\$ (259)	\$ 640
Equities	1,008	265	784
Foreign exchange, commodities, and precious metals	653	584	355
<b>Total</b>	<b>\$ 4,965</b>	<b>\$ 590</b>	<b>\$ 1,779</b>

### 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 increased by \$495 million (2008 – decreased by \$341 million; 2007 – increased by \$80 million).

### Financial instruments measured at amortized cost

The following were recognized in Non-interest income during 2009, 2008 and 2007:

	2009	2008	2007
Net fee income which does not form an integral part of the effective interest rate of financial assets and liabilities other than held-for-trading	\$ 3,505	\$ 3,183	\$ 2,617
Net fee income arising from trust and other fiduciary activities	5,314	5,405	5,779
Net gains arising from financial instruments measured at amortized cost	7	–	–
<b>Total</b>	<b>\$ 8,826</b>	<b>\$ 8,588</b>	<b>\$ 8,396</b>

## Note 23 Income taxes

	2009	2008	2007
<b>Income taxes (recoveries) in Consolidated Statements of Income</b>			
Current			
Canada – Federal	\$ 590	\$ 1,350	\$ 696
– Provincial	491	664	416
International	829	85	322
	<b>1,910</b>	<b>2,099</b>	<b>1,434</b>
Future			
Canada – Federal	153	(533)	14
– Provincial	90	(211)	3
International	(585)	14	(59)
	<b>(342)</b>	<b>(730)</b>	<b>(42)</b>
	<b>1,568</b>	<b>1,369</b>	<b>1,392</b>
<b>Income taxes (recoveries) in Consolidated Statements of Comprehensive Income and Changes in Shareholders' Equity</b>			
Other comprehensive income			
Net unrealized gains (losses) on available-for-sale securities	330	(778)	(26)
Reclassification of losses on available-for-sale securities to income	165	201	15
Net foreign currency translation gains (losses), net of hedging activities	1,102	(1,361)	911
Net unrealized gains (losses) on derivatives designated as cash flow hedges	69	(304)	43
Reclassification of (gains) losses on derivatives designated as cash flow hedges to income	(17)	23	16
Issuance costs	(34)	(6)	(12)
Stock appreciation rights	7	2	5
Other	84	(2)	(6)
	<b>1,706</b>	<b>(2,225)</b>	<b>946</b>
<b>Total income taxes (recoveries)</b>	<b>\$ 3,274</b>	<b>\$ (856)</b>	<b>\$ 2,338</b>

Net future income tax assets are included in Other assets (refer to Note 12) and result from tax loss carryforwards and temporary differences between the tax basis of assets and liabilities and their carrying amounts on our Consolidated Balance Sheets. The tax loss carry-forwards amount of future income tax assets related to losses in our Canadian, Japanese and U.S. operations will expire starting in 2010.

Our review regarding the realizability of our future tax assets as at October 31, 2009 included an assessment of the tax benefit associated with our U.S. banking operations, which is currently generating negative earnings and contributing to the body of negative evidence. Based on our review, we concluded that there is sufficient positive evidence to overcome the negative evidence that the future tax asset associated with our U.S. banking operations is realizable. Overall, we believe that, based on all available evidence, it is more likely than not that the future income tax assets will be realized through a combination of future reversals of temporary differences and taxable income.

### Sources of future income taxes

	2009	2008
<b>Future income tax asset</b>		
Allowance for credit losses	\$ 871	\$ 719
Deferred compensation	775	721
Pension related	–	189
Business realignment charges	4	6
Tax loss carryforwards	325	106
Deferred income	112	31
Enron-litigation provision	26	27
Other comprehensive income	112	234
Other	565	708
	<b>2,790</b>	<b>2,741</b>
Valuation allowance	(87)	(78)
	<b>2,703</b>	<b>2,663</b>
<b>Future income tax liability</b>		
Premises and equipment	(172)	(240)
Deferred expense	(117)	(64)
Pension related	(48)	–
Intangibles	(196)	(185)
Other	(444)	(468)
	<b>(977)</b>	<b>(957)</b>
<b>Net future income tax asset</b>	<b>\$ 1,726</b>	<b>\$ 1,706</b>



**Reconciliation to statutory tax rate**

	2009		2008		2007	
Income taxes at Canadian statutory tax rate	\$ 1,735	31.4%	\$ 1,952	32.5%	\$ 2,431	34.6%
(Decrease) increase in income taxes resulting from						
Lower average tax rate applicable to subsidiaries	(359)	(6.5)	(450)	(7.5)	(734)	(10.4)
Goodwill impairment charge	314	5.7	–	–	–	–
Tax-exempt income from securities	(300)	(5.4)	(326)	(5.4)	(272)	(3.9)
Tax rate change	–	–	51	.8	30	.4
Other	178	3.2	142	2.4	(63)	(0.9)
<b>Income taxes reported in Consolidated Statements of Income and effective tax rate</b>	<b>\$ 1,568</b>	<b>28.4%</b>	<b>\$ 1,369</b>	<b>22.8%</b>	<b>\$ 1,392</b>	<b>19.8%</b>

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 \$821 million as at October 31, 2009 (2008 – \$920 million; 2007 – \$843 million).

**Note 24 Earnings per share**

	2009		2008		2007	
<b>Basic earnings per share</b>						
Net income	\$ 3,858		\$ 4,555		\$ 5,492	
Preferred share dividends	(233)		(101)		(88)	
Net income available to common shareholders	\$ 3,625		\$ 4,454		\$ 5,404	
Average number of common shares (in thousands)	1,398,675		1,305,706		1,273,185	
Basic earnings per share	\$ 2.59		\$ 3.41		\$ 4.24	
<b>Diluted earnings per share</b>						
Net income available to common shareholders	\$ 3,625		\$ 4,454		\$ 5,404	
Average number of common shares (in thousands)	1,398,675		1,305,706		1,273,185	
Stock options (1)	5,002		8,497		13,254	
Issuable under other stock-based compensation plans	2,036		2,148		2,875	
Exchangeable shares (2)	6,413		3,393		–	
Average number of diluted common shares (in thousands)	1,412,126		1,319,744		1,289,314	
Diluted earnings per share	\$ 2.57		\$ 3.38		\$ 4.19	

(1) The dilutive effect of stock options was calculated using the treasury stock method. For 2009, we excluded from the calculation of diluted EPS 5,294,977 average options outstanding with an exercise price of \$50.89 as the exercise price of these options was greater than the average market price of our common shares. 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.

(2) During 2008, exchangeable shares were issued for the acquisition of PH&N. Refer to Note 11.

**Guarantees**

The table below summarizes significant guarantees we have provided to third parties. As the carrying value of the 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.

	2009		2008	
	Maximum potential amount of future payments	Carrying amount	Maximum potential amount of future payments	Carrying amount
Credit derivatives and written put options (1)	\$ 19,720	\$ 1,049	\$ 43,700	\$ 5,742
Backstop liquidity facilities (2)	24,982	66	40,892	59
Stable value products (3)	21,777	260	24,876	–
Financial standby letters of credit and performance guarantees (4)	18,082	96	22,185	75
Credit enhancements	3,240	45	4,873	22
Mortgage loans sold with recourse	1,103	–	210	–

- (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, 2009, these loans totalled US\$1.6 billion (C\$1.7 billion) before the allowance for loan losses of US\$2 million (C\$2 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 \$8.3 billion (October 31, 2008 – \$9.4 billion) for bank-owned life insurance policies and \$13.5 billion (October 31, 2008 – \$15.4 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 unrealized losses of approximately \$111 million (2008 – \$149 million) in connection with the bank-owned life insurance policies stable value contracts. Almost all of the unrealized losses, mostly related to changes in cash flow projections and discount rates, were related to one contract that was restructured to remove the economic consequences of an early surrender of the bank-owned life insurance policy and establish a fixed derivative maturity date.
- (4) The carrying amount is included in Other – Other liabilities on our Consolidated Balance Sheets. The amount includes \$ .8 billion (2008 – \$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, 2009, RBC Dexia IS securities lending indemnifications totalled \$34.7 billion (2008 – \$45.7 billion); we are exposed to 50% of this amount.

Except for credit derivatives and written put options, our clients generally have the right to request settlement of, or draw on, our guarantees within one year; however, these guarantees can only be drawn if certain conditions are met. These conditions, along with collateral requirements, are described below. Generally, our credit derivatives and written put options are effective immediately upon execution of the contract. The settlement of these instruments is dependent on the occurrence of specified events, which are also described below. We believe that it is highly unlikely that all or substantially all of the guarantees will be drawn or settled within one year, and contracts may expire without being drawn or settled.

*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 generally expire within 10 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 nine 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, policyholders surrender their life insurance policies, or the contract is settled at the termination date when market value is below book value.

*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, fiduciary, agency, licensing and 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.

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.

Our credit review process, our policy for requiring collateral security and the types of collateral security held are generally the same as for loans. Except for our securities lending and uncommitted amounts, our other off-balance sheet credit instruments can generally be drawn at any time within the term to maturity, and our clients may draw on these facilities within one year from October 31, 2009. However, 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.

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

#### Other off-balance sheet credit instruments

	2009	2008
Commitments to extend credit (1)		
Original term to maturity of 1 year or less	\$ 28,989	\$ 44,135
Original term to maturity of more than 1 year	52,475	60,572
Securities lending	22,746	27,547
Uncommitted amounts (2)	181,172	170,780
Documentary and commercial letters of credit	481	558
	<b>\$ 285,863</b>	<b>\$ 303,592</b>

(1) Includes liquidity facilities.

(2) Uncommitted amounts include uncommitted liquidity loan facilities of \$24.9 billion (2008 - \$41.4 billion) provided to RBC-administered multi-seller conduits. As at October 31, 2009, \$nil (2008 - \$nil) was drawn upon on these facilities and is included in Loans.

#### 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 re-pledge 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 assets amount is not included in the table below. For the year ended October 31, 2009, we had on average \$4.5 billion (2008 - \$3.2 billion) of assets 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, 2009 and October 31, 2008.

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

#### **Pledged assets**

	2009	2008
Cash and due from banks	\$ 665	\$ 2,443
Interest-bearing deposits with banks	2,696	9,960
Loans	7,422	9,821
Securities	53,276	45,920
Assets purchased under reverse repurchase agreements	27,479	23,362
Other assets	205	989
	<b>\$ 91,743</b>	<b>\$ 92,495</b>

	2009	2008
Assets pledged to:		
Foreign governments and central banks	\$ 2,824	\$ 5,706
Clearing systems, payment systems and depositories	2,574	2,226
Assets pledged in relation to:		
Securities borrowing and lending	27,429	25,613
Obligations related to securities sold under repurchase agreements	44,155	30,919
Derivative transactions	8,040	17,664
Covered bonds	5,187	5,142
Other	1,534	5,225
	<b>\$ 91,743</b>	<b>\$ 92,495</b>

#### **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, 2009, the approximate market value of collateral accepted that may be sold or repledged by us was \$78.9 billion (2008 – \$83.0 billion). This collateral was received in connection with reverse repurchase agreements, securities borrowings and loans, and derivative transactions. Of this amount, \$26.1 billion (2008 – \$32.6 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** <sup>(1), (2)</sup>

2010	\$ 566
2011	499
2012	427
2013	360
2014	308
Thereafter	1,202
	<b>\$ 3,362</b>

(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 \$10 million.

#### **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.

In 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. Our evaluation of several important developments that occurred during 2008, individually and in aggregate, led us to conclude that a litigation provision of \$60 million (US \$50 million) or \$33 million after-tax (US\$27 million) is reasonable. Management reviews this provision regularly and on at least a quarterly basis.

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, 2009, would result in a change in the under-one-year gap from \$(70.5) billion to \$(67.7) billion (2008 – \$(63.0) billion to \$(48.7) billion).

	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
<b>Assets</b>								
Cash and deposits with banks	\$ –	\$ 15,396	\$ –	\$ –	\$ –	\$ –	\$ 1,880	\$ 17,276
Effective interest rate	–	2.68%	–	–	–	–	–	–
Securities								
Trading	–	7,928	5,027	10,875	44,126	34,301	37,805	140,062
Effective interest rate	–	5.32%	3.14%	2.50%	2.62%	3.83%	–	–
Available-for-sale	–	7,482	5,605	705	18,041	11,587	2,790	46,210
Effective interest rate	–	1.09%	.62%	3.40%	3.63%	4.07%	–	–
Assets purchased under reverse repurchase agreements and securities borrowed								
Effective interest rate	–	.40%	–	–	–	–	–	–
Loans (net of allowance for loan losses) (1)	140,133	32,369	11,872	16,345	73,972	5,896	376	280,963
Effective interest rate	–	1.68%	3.37%	4.97%	5.04%	5.30%	–	–
Derivatives	60,439	6,199	9	–	–	–	25,526	92,173
Effective interest rate	–	.40%	.28%	–	–	–	–	–
Other assets	–	–	–	–	–	–	36,725	36,725
	\$200,572	\$110,954	\$22,513	\$27,925	\$136,139	\$51,784	\$105,102	\$654,989
<b>Liabilities</b>								
Deposits	\$166,137	\$108,959	\$16,125	\$29,130	\$ 71,041	\$ 5,773	\$ 1,139	\$398,304
Effective interest rate	–	1.49%	1.44%	2.44%	2.86%	6.12%	–	–
Obligations related to assets sold under repurchase agreements and securities loaned								
Effective interest rate	–	2.41%	3.11%	–	2.62%	3.91%	–	–
Obligations related to securities sold short								
Effective interest rate	–	.46%	1.41%	2.85%	2.85%	3.97%	–	–
Derivatives	55,575	4,394	–	–	–	–	24,421	84,390
Effective interest rate	–	.40%	–	–	–	–	–	–
Other liabilities	–	1	248	–	731	4,745	43,228	48,953
Effective interest rate	–	2.22%	2.44%	–	4.08%	5.63%	–	–
Subordinated debentures								
Effective interest rate	–	6.44%	–	3.70%	5.24%	6.97%	–	–
Trust capital securities								
Effective interest rate	–	–	–	–	7.23%	–	–	–
Non-controlling interest in subsidiaries								
Effective interest rate	–	–	–	–	4.87%	6.82%	–	–
Shareholders' equity	–	–	300	–	4,188	325	32,093	36,906
	\$221,712	\$162,706	\$17,745	\$30,269	\$ 89,053	\$18,415	\$115,089	\$654,989
<b>Total gap based on contractual repricing</b>								
Canadian dollar	(21,117)	(51,850)	4,741	(2,381)	47,003	33,334	(9,741)	(11)
Foreign currency	(23)	98	27	37	83	35	(246)	11
<b>Total gap</b>	<b>\$ (21,140)</b>	<b>\$ (51,752)</b>	<b>\$ 4,768</b>	<b>\$ (2,344)</b>	<b>\$ 47,086</b>	<b>\$33,369</b>	<b>\$ (9,987)</b>	<b>\$ –</b>
Canadian dollar – 2008								
Foreign currency – 2008	(34)	75	63	53	56	34	(248)	(1)
<b>Total gap – 2008</b>	<b>\$ (29,255)</b>	<b>\$ (36,563)</b>	<b>\$ 3,237</b>	<b>\$ (460)</b>	<b>\$ 31,220</b>	<b>\$24,281</b>	<b>\$ 7,540</b>	<b>\$ –</b>

(1) Includes loans totalling \$2,736 million (2008 – \$3,147 million) to variable interest entities administered by us.

## 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, 2009, the aggregate indebtedness, excluding routine indebtedness, to RBC or its subsidiaries of current directors and executive officers was approximately \$.2 million (2008 – \$.6 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

2009	Canadian Banking	Wealth Management	Insurance	International Banking	Capital Markets (1)	Corporate Support (1)	Total	Canada	United States	Other International
Net interest income	\$ 6,947	\$ 397	\$ –	\$ 1,687	\$ 3,399	\$ (924)	\$ 11,506	\$ 7,828	\$ 2,134	\$ 1,544
Non-interest income	2,943	3,683	5,715	903	3,524	832	17,600	9,464	5,565	2,571
Total revenue	9,890	4,080	5,715	2,590	6,923	(92)	29,106	17,292	7,699	4,115
Provision for credit losses	1,275	–	–	980	702	456	3,413	1,479	1,821	113
Insurance policyholder benefits, claims and acquisition expense	–	–	4,609	–	–	–	4,609	2,100	1,571	938
Non-interest expense	4,729	3,262	559	2,346	3,628	34	14,558	7,632	4,572	2,354
Goodwill impairment charge	–	–	–	1,000	–	–	1,000	–	1,000	–
Net income (loss) before income taxes	3,886	818	547	(1,736)	2,593	(582)	5,526	6,081	(1,266)	710
Income taxes (recoveries)	1,223	235	51	(299)	826	(468)	1,568	1,707	(132)	(7)
Non-controlling interest	–	–	–	9	(1)	92	100	92	(1)	9
Net income (loss)	\$ 2,663	\$ 583	\$ 496	\$ (1,446)	\$ 1,768	\$ (206)	\$ 3,858	\$ 4,282	\$ (1,132)	\$ 708
Less: Preferred dividends	56	30	10	58	62	17	233	118	78	37
Net income (loss) available to common shareholders	\$ 2,607	\$ 553	\$ 486	\$ (1,504)	\$ 1,706	\$ (223)	\$ 3,625	\$ 4,164	\$ (1,210)	\$ 671
Average assets (2)	\$ 258,900	\$ 20,500	\$ 13,100	\$ 63,700	\$ 347,900	\$ (8,800)	\$ 695,300	\$ 375,000	\$ 144,500	\$ 175,800

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	\$ 1,527	\$ (995)	\$ 9,048	\$ 6,929	\$ 1,132	\$ 987
Non-interest income	2,868	3,519	2,610	771	2,408	358	12,534	8,220	2,521	1,793
Total revenue	9,586	3,987	2,610	2,101	3,935	(637)	21,582	15,149	3,653	2,780
Provision for 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 (loss)	\$ 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

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 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

(1) Taxable equivalent basis.

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

**Revenue by business line**

	2009	2008	2007
Banking <sup>(1)</sup>	\$ 11,770	\$ 10,832	\$ 10,485
Wealth management	4,080	3,987	3,992
Insurance	5,715	2,610	3,192
Capital markets sales and trading <sup>(2)</sup>	5,247	1,824	2,453
Corporate and investment banking <sup>(2)</sup>	1,676	2,111	1,936
RBC Dexia IS	710	855	759
Other <sup>(3)</sup>	(92)	(637)	(355)
<b>Total</b>	<b>\$ 29,106</b>	<b>\$ 21,582</b>	<b>\$ 22,462</b>

(1) Includes cards and payment solutions.

(2) Taxable equivalent basis.

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

**Composition of business segments**

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

Wealth Management serves affluent and high net worth clients in Canada, the United States, Latin America, Europe and Asia with a full suite of investment, trust and other wealth management solutions. We also provide asset management products and services directly, through other RBC distribution channels and through third-party distributors, to institutional and individual clients.

Insurance comprises Canadian Insurance, U.S. Insurance, and International & Other. In Canada, we offer our products and services through our growing proprietary channels including retail insurance branches, call centers, and our career sales force as well as through independent insurance advisors and travel agencies. In the U.S., we offer products through independent marketing organizations, call centres, financial institutions, and our career sales force. Outside North America, we operate in reinsurance businesses across the globe.

International Banking comprises Banking and our joint venture, RBC Dexia IS. Banking includes our banking businesses in the U.S. and Caribbean, which offer a range of financial products and services to individuals, business clients and public institutions in their respective markets. RBC Dexia IS offers an integrated suite of products to institutional investors worldwide.

Capital Markets comprises our global wholesale banking businesses providing corporate, public sector and institutional clients with a wide range of products and services. In North America we offer a full suite of products and service capabilities. Internationally, we have a select but diversified set of capabilities, which includes fixed income, equity, foreign exchange, structured products, and investment banking.

**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.

**Changes made in 2009**

We made the following key changes to our business segments during the year. Unless specifically stated, comparative amounts have been revised and did not have an impact on our consolidated results. These realignments did not impact the presentation of consolidated results for Capital Markets and Insurance.

- In the first quarter, we realigned Capital Markets into two main businesses, Capital Markets Sales and Trading, and Corporate and Investment Banking.
- In the fourth quarter, we realigned Insurance into three main businesses, Canadian Insurance, U.S. Insurance, and International & Other Insurance.

**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 credit, market and liquidity and funding risks as a result of holding financial instruments. Our risk measurement and objectives, policies and methodologies for managing these risks are disclosed in the shaded text along with those tables specifically marked with an asterisk(\*) on pages 40 to 54 of the Management Discussion and Analysis. These shaded text and tables are an integral part of these Consolidated Financial Statements.

Concentrations of credit risk exist if a number of clients are engaged in similar activities, 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

	2009									2008									
	Canada	%	United States	%	Europe	%	Other International	%	Total	Canada	%	United States	%	Europe	%	Other International	%	Total	
<b>On-balance sheet assets other than derivatives (1)</b>																			
Derivatives before master netting agreement (2), (3)	\$245,193	73%	50,463	15%	\$28,778	9%	\$10,321	3%	\$334,755	\$240,620	69%	\$ 56,382	16%	\$ 40,519	12%	\$10,337	3%	\$347,858	
	14,668	16	19,854	22	48,412	54	6,778	8	89,712	24,033	18	27,106	21	69,728	53	10,716	8	131,583	
	\$259,861	61%	\$ 70,317	17%	\$77,190	18%	\$17,099	4%	\$424,467	\$264,653	55%	\$ 83,488	18%	\$110,247	23%	\$21,053	4%	\$479,441	
<b>Off-balance sheet credit instruments (4)</b>																			
Committed and uncommitted (5)	\$180,369	69%	\$ 47,227	18%	\$15,672	6%	\$19,368	7%	\$262,636	\$177,317	64%	\$ 62,932	23%	\$ 17,388	6%	\$17,850	7%	\$275,487	
Other	22,805	57	8,187	21	8,116	20	627	2	39,735	24,820	51	11,047	23	10,615	22	1,998	4	48,480	
	\$203,174	67%	\$ 55,414	18%	\$23,788	8%	\$19,995	7%	\$302,371	\$202,137	62%	\$ 73,979	23%	\$ 28,003	9%	\$19,848	6%	\$323,967	

(1) Includes assets purchased under reverse repurchase agreements and securities borrowed, loans and customers' liability under acceptances. The largest concentrations in Canada are Ontario at 50% (2008 – 51%), the Prairies at 18% (2008 – 16%), British Columbia and the territories at 17% (2008 – 16%) and Quebec at 11% (2008 – 12%). No industry accounts for more than 18% (2008 – 19%) of total on-balance sheet credit instruments.

(2) The largest concentration of credit exposure by counterparty type is banks at 67% (2008 – 62%).

(3) Excludes credit derivatives classified as other than trading with a replacement cost of \$128 million (2008 – \$400 million).

(4) Represents financial instruments with contractual amounts representing credit risk.

(5) Retail and wholesale commitments comprise 39% (2008 – 32%) and 61% (2008 – 68%), respectively, of our total commitments. The largest sector concentration in the wholesale portfolio relates to Non-bank financial services at 20% (2008 – 34%), Financing products at 16% (2008 – 6%), Energy at 10% (2008 – 9%), Real estate and related at 7% (2008 – 7%), Other services at 7% (2008 – 5%), Bank at 3% (2008 – 11%), and Sovereign at 6% (2008 – 6%).

## 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 on Banking Supervision. Regulatory capital is allocated to two tiers: Tier 1 and Tier 2. Tier 1 capital comprises the highest quality capital and is a core measure of a bank's financial strength. Tier 1 capital consists of more permanent components of capital, is free of mandatory fixed charges against earnings and has a subordinate legal position to the rights of depositors and other creditors of the financial institution. Tier 2 capital is composed of supplementary capital instruments that contribute to the overall strength of a financial institution as a going concern. Total capital is defined as the sum of Tier 1 and Tier 2 capital.

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 greater than or equal to 7% and a Total capital

ratio of greater than or equal to 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.

### Regulatory capital and capital ratios

	2009	2008
<b>Capital</b>		
Tier 1 capital	\$ 31,774	\$ 25,031
Total capital	34,881	30,710
<b>Risk-adjusted assets</b>		
Credit risk	185,051	229,537
Market risk	23,321	17,220
Operational risk	36,465	31,822
<b>Total risk-adjusted assets</b>	\$ 244,837	\$ 278,579
<b>Capital ratios</b>		
Tier 1 capital	13.0%	9.0%
Total capital	14.2%	11.0%
Assets-to-capital multiple	16.3X	20.1X



## 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

	2009			2008		
	Canadian GAAP	Differences	U.S. GAAP	Canadian GAAP	Differences	U.S. GAAP
<b>Assets</b>						
Cash and due from banks	\$ 8,353	\$ (119)	\$ 8,234	\$ 11,086	\$ (133)	\$ 10,953
Interest-bearing deposits with banks	8,923	(6,047)	2,876	20,041	(12,503)	7,538
Securities (1)	186,272	(5,472)	180,800	171,134	677	171,811
Assets purchased under reverse repurchase agreements and securities borrowed	41,580	(1,135)	40,445	44,818	(3,086)	41,732
Loans, net of allowance for loan losses	280,963	(978)	279,985	289,540	(2,638)	286,902
Other (2)	128,898	(53,703)	75,195	187,240	(54,895)	132,345
	<b>\$ 654,989</b>	<b>\$ (67,454)</b>	<b>\$ 587,535</b>	<b>\$ 723,859</b>	<b>\$ (72,578)</b>	<b>\$ 651,281</b>
<b>Liabilities and shareholders' equity</b>						
Deposits	\$ 398,304	\$ (20,766)	\$ 377,538	\$ 438,575	\$ (21,069)	\$ 417,506
Other (3)	209,852	(46,053)	163,799	242,744	(50,930)	191,814
Subordinated debentures	6,461	–	6,461	8,131	41	8,172
Trust capital securities	1,395	(1,395)	–	1,400	(1,400)	–
Non-controlling interest in subsidiaries	2,071	1,427	3,498	2,371	1,396	3,767
<b>Shareholders' equity (4)</b>	<b>36,906</b>	<b>(667)</b>	<b>36,239</b>	<b>30,638</b>	<b>(616)</b>	<b>30,022</b>
	<b>\$ 654,989</b>	<b>\$ (67,454)</b>	<b>\$ 587,535</b>	<b>\$ 723,859</b>	<b>\$ (72,578)</b>	<b>\$ 651,281</b>

- (1) On October 1, 2008, we reclassified \$3,476 million of securities from Trading securities to Available-for-sale securities. Refer to the Reclassification of securities and impairment of available-for-sale debt securities section later in this note.
- (2) Includes adjustments of \$70,824 million related to Derivatives, which are primarily due to offsetting amounts under master netting agreements under U.S. GAAP. Refer to the section, Material differences between Canadian and U.S. GAAP - Right of offset, later in this note.
- (3) Includes adjustments of \$66,546 million related to Derivatives, which are primarily due to offsetting amounts under master netting agreements under U.S. GAAP. Refer to the section, Material differences between Canadian and U.S. GAAP - Right of offset, later in this note.
- (4) Included in our consolidated net income as at October 31, 2009 was \$582 million (2008 – \$538 million) of undistributed earnings of our joint ventures and investments accounted for using the equity method under U.S. GAAP.

### Condensed Consolidated Statements of Income

	2009	2008	2007
Net income, Canadian GAAP	\$ 3,858	\$ 4,555	\$ 5,492
Differences:			
Net interest income			
Joint ventures	(153)	(165)	(115)
Liabilities and equity	101	112	115
Non-interest income			
Insurance accounting	(2,000)	289	(202)
Derivative instruments and hedging activities	31	(107)	56
Classification and measurement of certain financial instruments and application of the fair value option	(290)	(506)	9
Joint ventures	(646)	(681)	(650)
Insurance policyholder benefits, claims and acquisition expense	1,917	(368)	137
Non-interest expense			
Insurance accounting	82	72	69
Joint ventures	719	724	653
Other	116	(91)	12
Income taxes and net difference in income taxes due to the above items	99	342	66
Non-controlling interest in net income of subsidiaries			
Liabilities and equity	(101)	(101)	(101)
Net income, U.S. GAAP	\$ 3,733	\$ 4,075	\$ 5,541
Basic earnings per share (1)			
Canadian GAAP	\$ 2.59	\$ 3.41	\$ 4.24
U.S. GAAP	\$ 2.50	\$ 3.03	\$ 4.26
Diluted earnings per share (1)			
Canadian GAAP	\$ 2.57	\$ 3.38	\$ 4.19
U.S. GAAP	\$ 2.48	\$ 3.00	\$ 4.21

- (1) 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 the section, Material differences between Canadian and U.S. GAAP later in this note for details of this two-class method.

### Condensed Consolidated Statements of Cash Flows

	2009	2008	2007
Cash flows from operating activities, Canadian GAAP	\$ 7,403	\$ 11,381	\$ 22,500
U.S. GAAP adjustment for net income	(125)	(480)	49
Adjustments to determine net cash used in operating activities	(3,990)	(1,875)	(1,419)
<b>Net cash from operating activities, U.S. GAAP</b>	<b>3,288</b>	<b>9,026</b>	<b>21,130</b>
Cash flows from (used in) investing activities, Canadian GAAP	15,918	(44,602)	(39,717)
Adjustments to determine net cash from investing activities	2,009	5,059	2,450
<b>Net cash from (used in) investing activities, U.S. GAAP</b>	<b>17,927</b>	<b>(39,543)</b>	<b>(37,267)</b>
Cash flows (used in) from financing activities, Canadian GAAP	(25,783)	39,198	17,374
Adjustments to determine net cash from (used in) investing activities	2,120	(2,759)	(1,057)
<b>Net cash (used in) from financing activities, U.S. GAAP</b>	<b>(23,663)</b>	<b>36,439</b>	<b>16,317</b>
Effect of exchange rate changes on cash and due from banks	(271)	883	(332)
<b>Net change in cash and due from banks</b>	<b>\$ (2,719)</b>	<b>\$ 6,805</b>	<b>\$ (152)</b>
Cash and due from banks at beginning of year	10,953	4,148	4,300
<b>Cash and due from banks at end of year, U.S. GAAP</b>	<b>\$ 8,234</b>	<b>\$ 10,953</b>	<b>\$ 4,148</b>

### Accumulated other comprehensive income (loss), net of income taxes

	2009			2008			2007
	Canadian GAAP	Differences	U.S. GAAP	Canadian GAAP	Differences	U.S. GAAP	U.S. GAAP
Transition adjustments (1)	\$ 59	\$ (80)	\$ (21)	\$ (45)	\$ 45	\$ -	\$ -
Unrealized gains (losses) on available-for-sale securities:							
Transition adjustment and unrealized gains (losses) of other-than-temporarily-impaired debt securities (2), (3)	-	(39)	(39)	-	-	-	-
Net unrealized gains (losses) of other securities	(76)	440	364	(1,068)	57	(1,011)	68
Unrealized foreign currency translation gains (losses), net of hedging activities	(1,374)	45	(1,329)	(802)	45	(757)	(3,211)
Gains (losses) on derivatives designated as cash flow hedges	(325)	(56)	(381)	(443)	(86)	(529)	20
Additional pension obligation	-	(956)	(956)	-	(523)	(523)	(541)
<b>Accumulated other comprehensive income (loss), net of income taxes</b>	<b>\$ (1,716)</b>	<b>\$ (646)</b>	<b>\$ (2,362)</b>	<b>\$ (2,358)</b>	<b>\$ (462)</b>	<b>\$ (2,820)</b>	<b>\$ (3,664)</b>

- (1) Transition adjustment differences consist of: (i) \$(104) million related to the reclassification, as of November 1, 2008, of certain securities from available-for-sale to loans in accordance with the CICA's amendments to Section 3855 (refer to Note 1); (ii) \$(18) million related to the adoption of the fair value option standard in Topic 825-10 (FAS 159); refer to the section, Application of the fair value option, below; (iii) \$(3) million related to the implementation of measurement date requirements in Topic 715 (FAS 158); refer to the section, Pensions and other post-employment benefits, below; and (iv) \$45 million in 2008 related to the adoption of CICA Section 1530, *Comprehensive Income*, on November 1, 2006.
- (2) For the debt securities that we do not intend to sell or it is more likely than not that we will not be required to sell before recovery of the amortized costs, the credit related portion of the unrealized loss was recognized in income and the non-credit related portion in OCI under U.S. GAAP.
- (3) Transitional adjustment upon adoption of Topic 320 (FSP FAS 115-2 and FAS 124-2) as at May 1, 2009 was a net unrealized loss of \$225 million after taxes. Refer to the section, Other-than-temporary impairment of securities, below.

### Consolidated Statements of Comprehensive Income

	2009			2008			2007
	Canadian GAAP	Differences	U.S. GAAP	Canadian GAAP	Differences	U.S. GAAP	U.S. GAAP
Net income	\$ 3,858	\$ (125)	\$ 3,733	\$ 4,555	\$ (480)	\$ 4,075	\$ 5,541
Other comprehensive income, net of taxes							
Net unrealized gains (losses) on available-for-sale securities, net of reclassification adjustments:							
Unrealized gains (losses) of other-than-temporarily impaired debt securities (1)	-	186	186	-	-	-	-
Net unrealized gains (losses) of other securities (2)	992	383	1,375	(1,003)	(76)	(1,079)	(123)
Unrealized foreign currency translation (losses) gains	(2,973)	2	(2,971)	5,080	46	5,126	(3,014)
Reclassification of losses (gains) on foreign currency translation to income	2	(2)	-	(3)	3	-	(1)
Net foreign currency translation gains (losses) from hedging activities	2,399	-	2,399	(2,672)	-	(2,672)	1,804
Net gains (losses) on derivatives designated as cash flow hedges	156	29	185	(603)	-	(603)	81
Reclassification of (gains) losses on derivatives designated as cash flow hedges to income	(38)	1	(37)	49	5	54	26
Additional pension obligation	-	(433)	(433)	-	18	18	50
<b>Total comprehensive income</b>	<b>\$ 4,396</b>	<b>\$ 41</b>	<b>\$ 4,437</b>	<b>\$ 5,403</b>	<b>\$ (484)</b>	<b>\$ 4,919</b>	<b>\$ 4,364</b>
Income taxes (recovery) deducted from the above items:							
Net unrealized gains (losses) on available-for-sale securities (3)	\$ 495	\$ 243	\$ 738	(577)	\$ 64	\$ (513)	\$ (48)
Net foreign currency translation gains (losses) from hedging activities	1,102	-	1,102	(1,361)	-	(1,361)	911
Net gains (losses) on derivatives designated as cash flow hedges	69	13	82	(304)	-	(304)	43
Reclassification of (gains) losses on derivatives designated as cash flow hedges to income	(17)	1	(16)	23	3	26	13
Additional pension obligation	-	(199)	(199)	-	9	9	27
<b>Total income taxes (recovery)</b>	<b>\$ 1,649</b>	<b>\$ 58</b>	<b>\$ 1,707</b>	<b>\$ (2,219)</b>	<b>\$ 76</b>	<b>\$ (2,143)</b>	<b>\$ 946</b>

- (1) Represents unrealized gains and losses of other-than-temporarily impaired debt securities since May 1, 2009, the adoption date of Topic 320 (FSP FAS 115-2 and FAS 124-2); refer to the section, Other-than-temporary impairment of securities, below.
- (2) The difference includes \$26 million related to the reclassification, as of November 1, 2008, of certain securities from available-for-sale to loans in accordance with the CICA's amendments to Section 3855. Refer to Note 1.
- (3) The difference includes \$15 million related to the reclassification, as of November 1, 2008, of certain securities from available-for-sale to loans in accordance with the CICA's amendments to Section 3855. Refer to Note 1.

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.

	Canadian GAAP	Joint ventures	Insurance accounting	Classification and measurement of certain financial instruments	Application of the fair value option	Limited partnerships	Stock appreciation rights	Liabilities and equity	Additional pension obligation	Trade date accounting	Non-cash collateral	Right of offset	Guarantees, loan commitments and other minor items	Differences	U.S. GAAP
2009															
<b>Assets</b>															
Cash and due from banks	\$ 8,353	(119)	-	-	-	-	-	-	-	-	-	-	-	(119)	\$ 8,234
Interest-bearing deposits with banks	8,923	(4,078)	-	-	-	-	-	-	-	-	-	(1,969)	-	(6,047)	2,876
Securities	186,272	(3,425)	-	(406)	-	(233)	-	-	-	189	-	(1,598)	1	(5,472)	180,800
Assets purchased under reverse repurchase agreements and securities borrowed	41,580	(1,135)	-	-	-	-	-	-	-	-	-	-	-	(1,135)	40,445
Loans	280,963	(704)	-	(953)	-	-	-	-	-	-	-	669	10	(978)	279,985
Other assets	128,898	(5,172)	3,167	1,190	-	255	(18)	-	71	8,474	8,940	(70,767)	157	(53,703)	75,195
<b>Liabilities and shareholders' equity</b>															
Deposits	398,304	(12,860)	-	-	-	-	-	-	-	-	-	(7,899)	(7)	(20,766)	377,538
Other liabilities	209,852	(1,771)	2,881	4	-	-	(42)	(34)	1,044	8,663	8,940	(65,766)	28	(46,053)	163,799
Subordinated debentures	6,461	-	-	-	-	-	-	-	-	-	-	-	-	-	6,461
Trust capital securities	1,395	-	-	-	-	-	-	(1,395)	-	-	-	-	-	(1,395)	-
Non-controlling interest in subsidiaries	2,071	(2)	-	-	-	-	-	1,429	-	-	-	-	-	1,427	3,498
Shareholders' equity	36,906	-	286	(173)	-	22	24	-	(973)	-	-	-	147	(667)	36,239

	Canadian GAAP	Joint ventures	Insurance accounting	Classification and measurement of certain financial instruments	Application of the fair value option	Limited partnerships	Stock appreciation rights	Liabilities and equity	Additional pension obligation	Trade date accounting	Non-cash collateral	Right of offset	Guarantees, loan commitments and other minor items	Differences	U.S. GAAP
2008															
<b>Assets</b>															
Cash and due from banks	\$ 11,086	(133)	-	-	-	-	-	-	-	-	-	-	-	(133)	\$ 10,953
Interest-bearing deposits with banks	20,041	(5,017)	-	-	-	-	-	-	-	-	-	(7,486)	-	(12,503)	7,538
Securities	171,134	(1,460)	-	(940)	-	(240)	-	-	-	3,316	-	-	1	677	171,811
Assets purchased under reverse repurchase agreements and securities borrowed	44,818	(3,085)	-	-	(1)	-	-	-	-	-	-	-	-	(3,086)	41,732
Loans	289,540	(2,635)	-	-	(3)	-	-	-	-	-	-	-	-	(2,638)	286,902
Other assets	187,240	(5,893)	3,538	1,023	51	280	(19)	-	(256)	14,108	13,360	(81,208)	121	(54,895)	132,345
<b>Liabilities and shareholders' equity</b>															
Deposits	438,575	(16,124)	-	-	91	-	-	-	-	-	-	(5,029)	(7)	(21,069)	417,506
Other liabilities	242,744	(2,061)	3,801	-	1	-	(46)	(34)	267	17,424	13,360	(83,665)	23	(50,930)	191,814
Subordinated debentures	8,131	-	-	-	41	-	-	-	-	-	-	-	-	41	8,172
Trust capital securities	1,400	-	-	-	-	-	-	(1,400)	-	-	-	-	-	(1,400)	-
Non-controlling interest in subsidiaries	2,371	(38)	-	-	-	-	-	1,434	-	-	-	-	-	1,396	3,767
Shareholders' equity	30,638	-	(263)	83	(86)	40	27	-	(523)	-	-	-	106	(616)	30,022

Accounting Standards Codification

In June 2009, the Financial Accounting Standards Board (FASB) issued FASB Statement No. 168, *FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles – a replacement of FASB Statement No. 162* (FAS 168 or Codification), which was applicable to us for the year ended October 31, 2009. The new standard represents the FASB's codification of its accounting standard into a single source of authoritative non-governmental U.S. GAAP. Our references to U.S. GAAP are based on using the new codification topic numbers, with the previous references in parenthesis. The FASB will no longer issue new standards in the form of Statements, FASB Interpretations (FINs), FASB Staff Positions (FSPs), or Emerging Issues Task Force Abstracts (EITFs). Instead, it will issue Accounting Standards Updates (ASUs), which will serve to update the Codification, provide background information

about the guidance and bases for conclusions on changes to the Codification.

Material differences between Canadian and U.S. GAAP

Joint ventures

Investments in joint ventures, other than VIEs, are accounted for using the equity method under U.S. GAAP and are proportionately consolidated under Canadian GAAP.

Insurance accounting

*Classification of securities:* Under U.S. GAAP, 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. Under Canadian GAAP 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 income. Refer to "Application of the fair value option" below.

**Insurance claims and policy benefit liabilities:** Under U.S. GAAP, 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. Under Canadian GAAP, liabilities for life insurance contracts are determined using the CALM, 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 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:** Under U.S. GAAP, 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 is included in Non-interest income when earned. Payments upon maturity or surrender are reflected as reductions in the Insurance claims and policy benefit liabilities. Under Canadian GAAP, premiums for universal life and other investment-type contracts are recorded as Non-interest income, and changes in the liabilities for future policy benefits are recorded in Insurance policy holder benefits, claims and acquisition expense.

**Policy acquisition costs:** Under U.S. GAAP, acquisition costs are deferred in Other assets. The amortization method of the acquisition costs is dependent on the product to which the costs relate. 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. Under Canadian GAAP, 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:** Under U.S. GAAP, 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. Under Canadian GAAP, the value of life insurance in-force policies acquired in a business combination is implicitly recognized as a reduction in policy benefit liabilities.

**Reinsurance:** Under U.S. GAAP, reinsurance recoverables are recorded as an asset on our Consolidated Balance Sheets while under Canadian GAAP, 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 under U.S. GAAP. Under Canadian GAAP, assets and liabilities of separate accounts (known as segregated funds in Canada) are not recognized on our Consolidated Balance Sheets.

#### **Classification and measurement of certain financial instruments**

**Differences in presentation on the balance sheet:** Certain investments in private equities measured at cost are included in Other assets under U.S. GAAP and presented under Securities under Canadian GAAP. In addition, certain MBS, where management intends to sell them in the near term, are classified as available-for-sale under U.S. GAAP and as held-for-trading under Canadian GAAP.

**Differences in reclassification of securities:** As described in Note 3, pursuant to the CICA's amendments to sections 3855, 3861 and 3862, we reclassified certain securities from held-for-trading to available-for-sale as of August 1, 2008 under Canadian GAAP. For purposes of our U.S. GAAP results, these were reclassified on October 1, 2008. Excluded from reclassification for U.S. GAAP purposes were U.S. Municipal guaranteed investment contracts and U.S. MBS because the entities which hold those securities are prohibited from classifying securities as available-for-sale.

Under Canadian GAAP, as of November 1, 2008, certain held-for-trading and available-for-sale securities were reclassified to loans, and certain loans were reclassified to held-for-trading. Refer to Note 1 for details. Such reclassifications are not permitted under U.S. GAAP.

**Differences in measurement of other-than-temporary impairment losses for available-for-sale debt securities:** Under U.S. GAAP, the unrealized loss of an available-for-sale debt security is an other-than-temporary impairment when: (i) the entity has the intent to sell the security; (ii) it is more likely than not that the entity will be required to sell the security before recovery of the amortized cost; or (iii) the entity does not expect to recover the entire amortized cost of the security (credit loss) even though it will not sell the security. If one of the first two conditions is met, the full amount of the unrealized loss in AOCI should be recognized in income. If these two conditions are not met but the entity has incurred a credit loss on the security, the credit loss and the non-credit related loss are recognized in income and OCI, respectively. Under Canadian GAAP, if an impairment on an available-for-sale security is deemed to be other-than-temporary, the total unrealized losses are recognized in income.

Under Canadian GAAP, an impairment loss on an available-for-sale debt security is reversed if, in a subsequent period, the fair value of the instrument increases and the increase can be objectively related to an event occurring after the loss was recognized. Under U.S. GAAP, reversal of impairment losses is not permitted for available-for-sale debt securities.

#### **Application of the fair value option**

Between November 1, 2006 and November 1, 2008, U.S. GAAP only 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. Effective November 1, 2008, U.S. GAAP was revised to permit an entity to report additional financial assets and liabilities at fair value pursuant to Topic 825-10, *Financial Instruments* (Topic 825-10) (FASB Statement No. 159, *The Fair Value Option for Financial Assets and Liabilities*). As of November 1, 2006, Canadian GAAP permitted any financial instrument to 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. Our GAAP difference arises primarily due to our application of the fair value option to: (i) our investments supporting the policy benefit liabilities on life and health insurance contracts issued by our insurance operations under Canadian GAAP but not U.S. GAAP, and (ii) certain U.S. residential mortgages under U.S. GAAP and not Canadian GAAP.

#### **Limited partnerships**

Under U.S. GAAP, 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. Under Canadian GAAP, we use the equity method for these investments, if we have the ability to exercise significant influence, generally indicated by an ownership interest of 20% or more.

#### **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. Under U.S. GAAP, 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 guidance under Topic 718, *Compensation – Stock Compensation* (Topic 718) (FASB Statement No. 123 (revised 2004), *Share-Based Payment*, and its related FSPs) which requires that the compensation expense associated with these awards be measured assuming that all participants will exercise SARs. Under the transition guidelines of the guidance, the requirements of Topic 718 are applicable to awards granted after the adoption. Since these SARs were awarded prior to adoption of the guidance, they continue to be accounted for under the previous accounting guidance. Under Canadian GAAP, 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.

#### **Liabilities and equity**

Under U.S. GAAP, shares issued with conversion or conditional redemption features are classified as equity. Shares that are mandatorily redeemable, requiring the issuer to redeem the instruments upon a specified date or upon an event that is certain to occur are classified as liabilities. Under Canadian GAAP, financial instruments that can be settled by a variable number of our common shares upon their conversion by the holder are classified as liabilities. As a result, certain of our preferred shares and RBC TruCS are classified as liabilities under Canadian GAAP. Dividends and yield distributions on these instruments are included in Interest expense in our Consolidated Statements of Income.

#### **Pension and other post-employment benefits**

Topic 715, *Compensation – Retirement Benefits* (Topic 715) (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)*) requires 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. We are also required to measure defined benefit plan assets and obligations as at the year-end date. We adopted these requirements in 2009 and the impact is disclosed in the Pensions and other post-employment benefits section presented later in this note.

Canadian GAAP does not have the same requirements as Topic 715. 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.

#### **Trade date accounting**

For securities transactions, under U.S. GAAP, trade date basis of accounting is used for both our Consolidated Balance Sheets and our Consolidated Statements of Income. Under Canadian GAAP 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.

#### **Non-cash collateral**

Under U.S. GAAP, 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 whereas under Canadian GAAP, it is not recognized on our Consolidated Balance Sheets.

#### **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 under U.S. GAAP and Canadian GAAP. As a result of recent amendments to U.S. GAAP, an entity is permitted to report on a net basis the fair value of its derivative contracts and related cash collateral with a counterparty with whom it has a master netting agreement, regardless of whether there is intent to settle on a net basis; however, this is not permitted under Canadian GAAP. Refer to Significant accounting changes – Offsetting of amounts related to certain contracts, later in this note for additional details on this amendment. In addition, the netting criteria may be applied to a tri-party transaction under Canadian GAAP.

#### **Deferred unrealized gains or losses at inception**

An unrealized gain or loss at inception for financial instruments is the difference between the transaction price and its fair value on the trade date. U.S. GAAP eliminates the deferral of unrealized gains or losses at inception on certain derivative instruments whose fair value is measured using unobservable market inputs. Under Canadian GAAP, these unrealized gains or losses at inception are deferred.

#### **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 income, resulting in a mismatch. Under Canadian GAAP, a non-derivative hedging instrument can be used to hedge any foreign currency risk exposure.

#### **Two-class method of calculating earnings per share**

When calculating earnings per share under U.S. GAAP, 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.

#### **Cumulative translation adjustment**

Under U.S. GAAP, foreign currency translation gains and losses relating to our self-sustaining foreign operations that have been accumulated in AOCI can be recognized in income only when the foreign operation has been substantially or fully liquidated. Under Canadian GAAP these gains and losses can be recognized in income when there is a reduction in the net investment of our foreign operations which may be even due to dividend distribution.

#### **Loans held-for-sale**

Under U.S. GAAP, loans held-for-sale are recorded at the lower of cost or fair value. Under Canadian GAAP loans held-for-sale in the near term are measured at fair value.

### 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, 2009, restricted net assets of these subsidiaries were \$15.5 billion (2008 – \$16.3 billion).

### Pensions and other post-employment benefits

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

In 2009, we changed our measurement date from September 30 to October 31 as described in the section, Material differences between Canadian and U.S. GAAP earlier in this note. The impact to Retained Earnings and AOCI, net of taxes, of adopting this measurement date requirement are presented in the following table:

	2009		
	Balance at the beginning of the year		
	Before adopting measurement requirements in Topic 715-20	Adjustments	After adopting measurement requirements in Topic 715-20
Retained earnings	\$ –	\$ (14)	\$ (14)
Accumulated other comprehensive loss	\$ 523	\$ 3	\$ 526

The funded status and discount rate using the new measurement date as at October 31, 2009 are as follows:

	2009		
	Pension plans	Other post-employment plans	Total
<b>Other assets</b>			
Prepaid pension benefit cost	\$ 6,268	\$ 25	\$ 6,293
<b>Other liabilities</b>			
Accrued pension and other post-employment benefit expense	6,810	1,340	8,150
<b>Funded status – excess of benefit obligation over plan assets</b>	\$ (542)	\$ (1,315)	\$ (1,857)
<b>Weighted average assumptions to calculate benefit obligation</b>			
Discount rate	6.30%	6.32%	

The under-funded status of the pension plans and other post-employment plans of \$542 million and \$1,315 million (2008 – \$355 million and \$1,272 million), respectively, is recognized on our

Consolidated Balance Sheet in Other liabilities. The accumulated benefit obligations for the pension plans were \$6,451 million as at October 31, 2009 (2008 – \$5,757 million).

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

	2009			2008		
	Pension plans	Other post-employment plans	Total	Pension plans	Other post-employment plans	Total
Net actuarial loss	\$ 1,436	\$ 221	\$ 1,657	\$ 761	\$ 267	\$ 1,028
Prior service cost (benefit)	42	(258)	(216)	62	(283)	(221)
Transitional (asset) obligation	(6)	1	(5)	(8)	1	(7)
<b>Accumulated other comprehensive income (1)</b>	<b>\$ 1,472</b>	<b>\$ (36)</b>	<b>\$ 1,436</b>	<b>\$ 815</b>	<b>\$ (15)</b>	<b>\$ 800</b>

(1) Amount recognized in AOCI, net of tax, is \$959 million (2008 – \$523 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 2010 are \$131 million and \$17 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 Other post-employment plans that will be amortized from AOCI, on a pre-tax basis, into pension expense during 2010 are \$10 million and \$nil, respectively, and pension expense will be reduced by \$23 million relating to the amortization of prior service benefit.

### Securities

The following table presents 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, 2009. 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 using the fair value option and also due to the reclassification of certain available-for-sale securities to loans under Canadian GAAP.

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

	2009					
	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	\$ 1,213	\$ 8	\$ –	\$ –	\$ 1,213	\$ 8
Provincial and municipal	148	4	93	2	241	6
U.S. state, municipal and agencies debt	162	1	487	27	649	28
Other OECD government debt	503	2	74	2	577	4
Mortgage-backed securities (1)	496	118	2,113	379	2,609	497
Asset-backed securities						
CDOs	–	–	205	24	205	24
Non-CDO Securities	724	15	275	68	999	83
Corporate debt and other debt	1,382	42	1,887	305	3,269	347
Equities	59	40	97	23	156	63
Loan substitute securities	–	–	–	–	–	–
	<b>\$ 4,687</b>	<b>\$ 230</b>	<b>\$ 5,231</b>	<b>\$ 830</b>	<b>\$ 9,918</b>	<b>\$ 1,060</b>

(1) The majority of the MBS are residential. Fair value and unrealized losses of commercial MBS for less than 12 months are \$nil and \$nil, respectively and for 12 months or more are \$197 million and \$23 million, respectively.

	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	5,715	259	335	41	6,049	300
Other OECD government debt	132	3	21	4	153	7
Mortgage-backed securities (1)	2,265	363	1,270	443	3,535	806
Asset-backed securities						
CDOs	–	–	246	82	246	82
Non-CDO securities	3,546	294	155	26	3,701	320
Corporate debt and other debt	4,762	494	1,369	382	6,131	876
Equities	994	216	347	161	1,341	377
Loan substitute securities	–	–	191	29	191	29
	<b>\$ 19,255</b>	<b>\$ 1,712</b>	<b>\$ 3,960</b>	<b>\$ 1,173</b>	<b>\$ 23,214</b>	<b>\$ 2,885</b>

(1) The majority of the MBS are residential. Fair value and unrealized losses of commercial MBS for less than 12 months are \$103 million and \$3 million, respectively and for 12 months or more are \$109 million and \$11 million, respectively.

**Average assets, U.S. GAAP**

	2009		2008		2007	
	Average assets	% of total average assets	Average assets	% of total average assets	Average assets	% of total average assets
Canada	\$ 377,572	61%	\$ 369,378	60%	\$ 334,729	60%
United States	147,697	24%	147,196	24%	139,556	25%
Other International	90,276	15%	98,162	16%	86,409	15%
	<b>\$ 615,545</b>	<b>100%</b>	<b>\$ 614,736</b>	<b>100%</b>	<b>\$ 560,694</b>	<b>100%</b>

## Income taxes

Under Topic 740, *Income Taxes* (Topic 740) (FIN No. 48, *Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109*), 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 this guidance 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 October 31, 2008 to October 31, 2009 is as follows:

### Reconciliation of the Change in Unrecognized Tax Benefits

Balance, October 31, 2008	\$ 858
Add: Increases related to positions taken during prior years	34
Add: Increases related to positions taken during the current year	185
Add: Positions acquired or assumed in business combinations	14
Less: Expiration of statute of limitations	(38)
Less: Settlements	(20)
Less: Foreign exchange and other	(15)
Less: Decreases related to positions taken during prior years	(11)
Balance, October 31, 2009	\$1,007

As at October 31, 2009 and 2008, the balances of our UTBs, excluding any related accrual for interest, were \$1,007 million and \$858 million, respectively, of which \$988 million and \$827 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 Topic 740, we continue our policy of accruing income tax-related interest and penalties within income tax expense. As at October 31, 2009 and 2008, our accrual for interest and penalties that relate to income taxes, net of payments on deposit to taxing authorities, were \$40 million and \$23 million, respectively. There was a net increase of \$17 million in the accrual for interest and penalties during the year ended October 31, 2009.

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: Canada – 2005, United States – 2003 and United Kingdom – 2008.

## Significant accounting changes

### Framework on fair value measurement

Topic 820, *Fair Value Measurements and Disclosures* (Topic 820) (FASB Statement No. 157, *Fair Value Measurements* and related pronouncements), 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.

Topic 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Topic 820 requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs to measure the fair values of its assets and liabilities and requires an entity to include the impact of its own credit risk in measuring derivatives and other liabilities measured at fair value. It also eliminates the deferral of unrealized gains or losses at inception on certain derivative instruments whose fair value is measured using unobservable market inputs and precludes the use of block discounts that were previously applied to large holdings of securities traded in an active market. On adoption, any unrealized gains or losses at inception and adjustments for block discounts, if any, would be recognized as a transition adjustment in retained earnings.

Topic 820 prescribes a three-level fair value hierarchy for disclosure purposes based on the transparency of the inputs used to measure the fair values of assets and liabilities. Specific guidance under Topic 820 (FSP FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*), issued on April 9, 2009 by the FASB and effective for us on May 1, 2009, provides additional factors to consider while measuring fair value when there has been significant decrease in the level of market activity for an asset or a liability and to determine whether quoted prices are associated with transactions that are not considered to be orderly. It also expands the disclosure requirements of the fair value of financial instruments. Additional guidance under Topic 820 (ASU 2009-05, *Measuring Fair Value Liabilities*), issued in August 2009, specifies the valuation techniques that are required to be applied to measure fair value when a quoted price in an active market of an identical liability is not available.

Refer to Note 2 for the fair value hierarchy and the reconciliation of Level 3 financial instruments under Canadian GAAP. Balances of financial instruments in the U.S. GAAP fair value hierarchy differ from those of Canadian GAAP primarily due to non-cash collateral, trade-date accounting, election of the fair value option under Canadian GAAP for investments supporting the policy benefit liabilities on life and health insurance contracts as opposed to available-for-sale classification under U.S. GAAP, and joint ventures accounting. Refer to the Material balance sheet reconciling items table for the amounts of these reconciling differences.

With the adoption of Topic 820, deferral of inception gains and losses previously required under U.S. GAAP (EITF 02-3, *Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities*) is no longer required. Valuation adjustments for unrealized gains or losses at inception, recognized in accordance with the previous guidance, were reclassified into other valuation adjustment categories. The reclassification had no impact on the overall amount of valuation adjustments. The remaining balance of \$38 million, net of taxes, relating to the allowance for unrealized gains or losses at inception has been recognized as a transition adjustment as an increase to our opening retained earnings under U.S. GAAP.



### Fair value option for financial assets and liabilities

On February 15, 2007, the FASB issued guidance under Topic 825-10. This guidance, which gives 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, became effective for us on November 1, 2008. The difference between the carrying amount and the fair value of the eligible items for which the fair value option was elected as at November 1, 2008 was included in opening retained earnings as a cumulative-effect adjustment which was an increase of \$81 million after taxes.

Our accounting policy on electing the fair value option is described in Note 1 and in the 'Material differences between Canadian and U.S. GAAP' section of this note. The following table presents, as at October 31, 2009, the categories of financial assets and liabilities elected for fair value option in accordance with guidance under Topic 815-15-25, *Derivatives and Hedging – Embedded Derivatives* (FASB Statement No. 155, *Accounting for Certain Hybrid Financial Instruments – an amendment of FASB Statements No. 133 and 140*) and Topic 825-10, as well as the difference between the aggregate fair value and the aggregate remaining contractual maturity amount for loans and long-term debt for which the fair value option has been elected under these standards:

	2009		
	Aggregate fair value carrying amount	Contractual maturity amount	Fair value over (under) contractual maturity amount
<b>Financial assets</b>			
Interest-bearing deposits with banks	\$ 2,773	\$ 2,773	\$ –
Securities – Trading	1,718	n/a	n/a
Assets purchased under reverse repurchase agreements and securities borrowed	18,911	18,914	(3)
Loans – Retail	214	214	–
Loans – Wholesale	2,818	2,934	(116)
Performing loans 90 days or more past due but not impaired	2,441	2,557	(116)
	377	377	–
<b>Financial liabilities</b>			
Deposits			
Personal	\$ 2,605	\$ 2,605	\$ –
Business and government	40,335	40,167	168
Bank	10,880	10,880	–
Obligations related to assets sold under repurchase agreements and securities loaned	21,628	21,626	2
Other liabilities	240	240	–
Subordinated debentures	110	120	(10)

The unrealized losses of these assets and liabilities recognized in income for the year ended October 31, 2009 was \$443 million. The amount of changes in fair value attributable to changes in credit risk for loans and receivables and attributable to our credit spreads for our financial liabilities, and the methodology to determine these amounts are disclosed in Note 2. Changes in fair value since November 1, 2008 attributable to changes in our credit spreads increased the fair value of our term deposit liabilities by \$550 million. This increase is primarily due to the reduction in our credit spreads for both Canadian and U.S. denominated term deposit liabilities as the credit market conditions improved. Changes in fair value in this period attributable to changes in credit risk or our credit spreads on Loans – Wholesale and Subordinated debentures, respectively, were not material.

Interest income and expense of these debt securities and loans are measured based on their interest rates and are reported in Net interest income.

### Derivatives and hedging activities

On March 19, 2008, the FASB issued guidance under Topic 815, *Derivatives and Hedging* (Topic 815) (FASB Statement No. 161, *Disclosures about Derivative Instruments and Hedging Activities – an amendment of FASB Statement No. 133*). This guidance requires an entity to disclose how and why it uses derivatives, how it accounts for derivatives and any related hedged item, and how derivatives and hedged items affect the entity's financial position, performance and cash flows. The guidance, which was effective for us on February 1, 2009, did not change the accounting for derivatives and hedged items, and therefore, our adoption of this standard did not affect our consolidated financial position or results of operations. Refer to Notes 1 and 7 for more information regarding our use of derivative instruments and hedging activities.

### Fair value of derivatives by major types of products

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

	2009			
	Designated as hedging instruments in hedging relationships			
	Cash flow hedges	Fair value hedges	Net investment hedges	Not designated in a hedging relationship (1)
<b>Assets</b>				
Derivative financial instruments				
Interest rate contracts	\$ 1,130	\$ 2,107	\$ –	\$ 50,732
Foreign exchange contracts	–	–	139	25,598
Credit derivatives	–	–	–	5,320
Other contracts	–	–	–	7,359
Total	\$ 1,130	\$ 2,107	\$ 139	\$ 89,009
<b>Liabilities</b>				
Derivative financial instruments				
Interest rate contracts	\$ 1,493	\$ 82	\$ –	\$ 46,551
Foreign exchange contracts	–	–	327	23,832
Credit derivatives	–	–	–	4,418
Other contracts	–	–	–	7,844
Total	\$ 1,493	\$ 82	\$ 327	\$ 82,645
Non-derivative financial instruments	\$ –	\$ –	\$ 5,233	\$ n.a.

(1) Derivative liabilities include stable value contracts on \$257 million of bank-owned life insurance policies and \$3 million of 401(k) plans.  
n.a. not applicable

### Hedging activities by major types of products

	2009		
	Net gains (losses) included in Non-interest income	Net (losses) included in Net interest income	After-tax unrealized gains (losses) included in OCI
<b>Fair value hedges</b>			
Ineffective portion			
Interest rate contracts	\$ 9	\$ n.a.	\$ n.a.
<b>Cash flow hedges</b>			
Ineffective portion			
Interest rate contracts	9	n.a.	n.a.
Effective portion			
Interest rate contracts	n.a.	n.a.	185
Reclassified to income during the period (1)			
Interest rate contracts	n.a.	53	n.a.
<b>Net investment hedges</b>			
Foreign currency losses	n.a.	n.a.	(2,971)
Gains from hedges			
Foreign exchange contracts	n.a.	n.a.	1,982
Non-derivative financial instruments	n.a.	n.a.	417
	\$ 18	\$ 53	\$ (387)

(1) After-tax gains of \$37 million were reclassified from AOCI to income for the year ended October 31, 2009.

n.a. not applicable

### Revenue from trading and selected non-trading financial instruments

	2009
<b>Non-interest income</b>	
Interest rate and credit	\$ 1,789
Equities	169
Foreign exchange and commodities (1)	641
<b>Total</b>	\$ 2,599

(1) Includes precious metals.

### Contingent features

Certain derivative instruments contain provisions that link our collateral posting requirements to our credit ratings from the major credit rating agencies. If our credit ratings were to fall, certain counterparties to the derivative instruments could request immediate payment or demand immediate and ongoing overnight collateralization on net derivative liability positions. The aggregate net fair value of all derivative instruments with collateral posting requirements that are in a net liability position on October 31, 2009, is \$10.5 billion for which we have posted collateral of \$6.4 billion in the normal course of business. If our credit ratings had been downgraded to BBB on October 31, 2009, we would have been required to post an additional \$2.2 billion of collateral to the counterparties of these contracts. If our credit ratings were to fall below BBB, we do not expect that the additional collateral that we would be required to post would be material.

### Credit Derivatives and guarantees

On September 12, 2008, the FASB issued guidance under Topic 815 (FSP FAS 133-1 and FIN 45-4, *Disclosures about Credit Derivatives and Certain Guarantees: An Amendment of FASB Statement No. 133 and FASB Interpretation No. 45; and Clarification of the Effective Date of FASB Statement No. 161*). This guidance amends previous guidance under this topic by requiring more information about the potential adverse effects of changes in credit risk on the financial position, financial performance and cash flows of the sellers of credit derivatives, including credit derivatives embedded in hybrid instruments. The guidance also amends Topic 460, *Guarantees* (FIN 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness to Others*), to require additional disclosure about the current status of the payment/performance risk of a guarantee. The above specific guidance under Topic 815, which was effective for us November 1, 2008, amends disclosure requirements for credit derivatives and certain guarantees, and therefore, it had no impact on our consolidated financial position or results of operations.

### Events or circumstances that would require seller to perform under the credit derivative

Credit derivatives are over-the-counter contracts that transfer credit risk related to an underlying financial instrument (referenced asset) from one counterparty to another. Credit derivatives provide protection against the decline in value of the referenced asset as a result of specified credit events such as default or bankruptcy.

### Credit derivative instruments sold

Credit derivative instruments for which we are the seller of credit protection are summarized in the table below. These instruments have been classified as investment and non-investment grade based on the credit quality of the underlying referenced asset within the credit derivative. For most credit derivatives, the notional value represents the maximum amount payable by us. However, we do not exclusively monitor our exposure to credit derivatives based on notional value because this measure does not take into consideration the probability of occurrence. As such, the notional value is not a reliable indicator of our exposure to these contracts.

### Credit derivatives – protection sold by ratings/maturity profile

	2009					
	Maximum Payout / Notional				Fair value	
	Within 1 year	1 to 5 years	Over 5 years	Total	Positive	Negative
<b>Credit default swaps (1)</b>						
Investment grade (2)	\$ 6,380	\$ 19,864	\$ 5,338	\$ 31,582	\$ 227	\$ 1,105
Non-investment grade (2)	1,668	6,880	1,489	10,037	74	1,377
Non-rated	707	7,279	532	8,518	33	368
	\$ 8,755	\$ 34,023	\$ 7,359	\$ 50,137	\$ 334	\$ 2,850
<b>Credit default baskets</b>						
Not rated (3)	\$ 1,161	\$ 4,538	\$ 2,543	\$ 8,242	\$ –	\$ 1,074
<b>Total (4)</b>	\$ 9,916	\$ 38,561	\$ 9,902	\$ 58,379	\$ 334	\$ 3,924

(1) Credit default swaps include total return swaps which are nominal to the entire portfolio.

(2) Credit ratings of AAA, AA, A and BBB represent investment grade ratings and ratings of BB or lower represent non-investment grade ratings. These credit ratings largely reflect those assigned by external rating agencies and represent the payment or performance risk of the underlying security or referenced asset. Where external ratings were not available, our internal ratings were used.

(3) 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; consequently, ratings have not been assigned because the underlying asset(s) cannot be reasonably rated.

(4) At October 31, 2009, the notional value and net carrying value of credit protection sold in which we held purchased protection with identical underlying assets was \$48.7 billion and \$2.5 billion.

### Guarantees

The following table summarizes significant guarantees we have provided to third parties by investment grade and non-investment grade.

	2009				
	Maximum potential amount of future payments				Carrying amount
	Investment grade (1)	Non-investment grade (1)	Not rated	Total	
Credit derivatives and written put options (2)	\$ 7,508	\$ 3,813	\$ 8,399	\$ 19,720	\$ 1,049
Backstop liquidity facilities	23,806	1,176	–	24,982	66
Stable value products	21,777	–	–	21,777	260
Financial standby letters of credit and performance guarantees (3)	11,236	6,778	68	18,082	96
Credit enhancements	3,240	–	–	3,240	45
Mortgage loans sold with recourse	1,103	–	–	1,103	–

(1) Credit ratings of AAA, AA, A and BBB represent investment grade ratings and ratings of BB or lower represent non-investment grade ratings. These credit ratings largely reflect those assigned by external rating agencies and represent the payment or performance risk of the underlying security or referenced asset. Where external ratings were not available, our internal ratings were used.

(2) Ratings could not be assigned to credit default baskets of \$1.9 billion and written put options of \$6.5 billion.

(3) Ratings could not be assigned to financial standby letters of credit and performance guarantees with a maximum potential amount of future payments of \$68 million as the rating of the underlying entity for these guarantees is not available at this time.

### Securizations and VIEs

On December 11, 2008, the FASB amended disclosure guidance under Topic 860, *Transfers and Servicing* (Topic 860) and Topic 810, *Consolidation* (Topic 810) (FSP FAS 140-4 and FIN 46(R)-8, *Disclosures by Public Entities about Transfer of Financial Assets and Interests in Variable Interest Entities*), which amends previous disclosure requirements of FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* by requiring public entities to provide additional disclosures related to their continuing involvement with transferred financial assets and the related risk retained as well as any contractual or non-contractual support provided and any future financial support to the special purpose entities (SPEs). It also amends previous disclosure requirements of FIN 46 (revised December 2003), *Consolidation of Variable Interest Entities*, to require public enterprises, including sponsors that have a variable interest in a variable interest entity, to provide additional disclosures about their involvement with variable interest entities. The new disclosures requirements were effective for us on November 1, 2008, and had no impact on our consolidated financial position or results of operations.

### Securizations

Our securitization activities by major product type, our continuing involvement with the transferred asset and the related risk retained are described in Note 5.

The following table presents the total assets of the QSPE used for credit card securitizations and the classification of assets and liabilities recorded on our Consolidated Balance Sheets associated with our transactions with QSPE and SPEs. Refer to Note 5 for additional information.

	2009	
	Interest in securitizations	
	Credit cards	Commercial and residential mortgages
<b>Total assets of QSPE (1)</b>	\$ 3,923	\$ n.a.
<b>On-balance sheet assets</b>		
Securities – Trading and Available-for-sale	\$ 1,014	\$ 1,479
Loans – Retail and Wholesale	6	–
Derivatives	–	203
<b>Total</b>	\$ 1,020	\$ 1,682
<b>On balance sheet liabilities</b>		
Derivatives	\$ 6	\$ 673
<b>Total</b>	\$ 6	\$ 673

(1) Represents the remaining principal balance of assets held by QSPE using the most current information available.

n.a. not applicable.

### VIEs

We perform qualitative, and in certain cases, quantitative, analyses to determine whether we are the Primary Beneficiary of a VIE based on the facts and circumstances and our interests in the VIE. We may also hold significant variable interests in VIEs, and while we do not consolidate these VIEs, we have recorded on our Consolidated Balance Sheets assets and liabilities arising from our transactions and involvement with these VIEs. This information is set forth in the table below. In addition, Topic 810 requires disclosures for VIEs that we sponsor and in which we hold variable interests. In determining whether we are a sponsor of a VIE, we consider both qualitative and quantitative factors, including the purpose and nature of the VIE, our continuing involvement in the VIE and whether we hold subordinated interests in the VIE. This table also includes VIEs for which we are sponsors of and hold a variable interest in, even if not significant.

	2009						
	Multi-seller conduits (1)	Structured finance VIEs	Credit investment product VIEs (2)	Third-party conduits	Investment funds	Other (3)	Total
<b>Total assets of unconsolidated VIEs</b>	\$ 26,181	\$ 10,866	\$ 2,662	\$ 575	\$ 110	\$ 123,581	\$ 163,975
<b>On-balance sheet assets</b>							
Cash and due from banks	\$ –	\$ –	\$ –	\$ –	\$ –	\$ 27	\$ 27
Interest-bearing deposits with banks	–	–	–	–	–	119	119
Securities – Trading and Available-for-sale	4	1,308	–	–	32	93	1,437
Loans – Retail and Wholesale	1,683	1,499	–	119	–	–	3,301
Derivatives	–	30	698	–	–	–	728
Other assets	–	–	–	–	–	240	240
<b>Total</b>	<b>\$ 1,687</b>	<b>\$ 2,837</b>	<b>\$ 698</b>	<b>\$ 119</b>	<b>\$ 32</b>	<b>\$ 479</b>	<b>\$ 5,852</b>
<b>On-balance sheet liabilities</b>							
Derivatives	\$ –	\$ –	\$ 168	\$ –	\$ 25	\$ –	\$ 193
Other liabilities	86	–	904	–	–	1	991
<b>Total</b>	<b>\$ 86</b>	<b>\$ –</b>	<b>\$ 1,072</b>	<b>\$ –</b>	<b>\$ 25</b>	<b>\$ 1</b>	<b>\$ 1,184</b>
<b>Maximum exposure to loss</b>	<b>\$ 26,550</b>	<b>\$ 3,577</b>	<b>\$ 505</b>	<b>\$ 250</b>	<b>\$ 32</b>	<b>\$ 196</b>	<b>\$ 31,110</b>

- (1) Total assets represent maximum assets that may have to be purchased by the conduits under purchase commitments outstanding as at October 31, 2009. Actual assets held by these conduits as at October 31, 2009, were \$18,908 million.
- (2) Excluded from this table are trading securities that we have transferred to these VIEs as collateral for the funded notes issued by the VIEs as at October 31, 2009. The transfers do not meet the sale recognition criteria under Topic 860; as a result, these assets remain on our Consolidated Balance Sheets and are accounted for as secured borrowings. See subsequent discussion on Creation of credit investment products.
- (3) Includes tax credit funds and mutual funds that we sponsor which are described in our Other significant vehicles discussion.

The following table presents the assets and liabilities of consolidated VIEs recorded on our Consolidated Balance Sheets.

	2009			
	Structured finance VIEs	Investment funds	Other (1)	Total
<b>Consolidated assets (2), (3)</b>				
Cash	\$ 55	\$ 65	\$ –	\$ 120
Securities – Trading and Available-for-sale	1,025	481	–	1,506
Loans – Retail and Wholesale	1,496	–	11,356	12,852
Other assets	44	42	34	120
	<b>\$ 2,620</b>	<b>\$ 588</b>	<b>\$ 11,390</b>	<b>\$ 14,598</b>
<b>Consolidated liabilities</b>				
Other liabilities (4)	\$ 2,445	\$ 62	\$ –	\$ 2,507

- (1) Includes the assets of RBC Covered Bond Guarantor Limited Partnership (Guarantor LP). As at October 31, 2009, our compensation vehicles held \$64 million of our common shares, which are reported as Treasury shares and this amount represents the total assets of these vehicles. 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.
- (2) Investors have recourse only to the assets of the related consolidated 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. In the ordinary course of business, the assets of each consolidated VIE can generally only be used to settle the obligations of the VIE. Upon the occurrence of certain credit events, the assets of Guarantor LP, which are mortgages, will be used to settle the covered bonds issued by RBC. The loan provided by us to Guarantor LP to purchase the mortgages is eliminated by us upon consolidation.
- (3) Other liabilities generally represent notes issued by the VIEs.

The disclosures provided below should be read in conjunction with those provided in Note 6.

### Multi-seller and third-party conduits

We do not maintain any ownership or retained interests in the six multi-seller asset-backed commercial paper conduit programs (multi-seller conduits) that we administer and have no rights to, or control of, their assets. As the administrative agent, we earn a residual fee for providing services such as coordinating funding activities, transaction structuring, documentation execution and monitoring of transactions. The commercial paper issued by each multi-seller conduit is in the conduit's own name with recourse to the financial assets owned by each multi-seller conduit, and is non-recourse to us except through our participation in liquidity and/or credit enhancement facilities. We may also purchase commercial paper issued by our multi-seller

conduits in our capacity as placement agent in order to facilitate the overall program liquidity.

We provide transaction-specific and program-wide liquidity facilities to the multi-seller conduits. Our transaction-specific liquidity facilities are committed facilities and are generally equal to 102% of the financing limits established by the conduits under the receivable purchase agreements. Our program-wide liquidity facilities are uncommitted and provide us with the option, but not the obligation, to make advances in the form of loans to the multi-seller conduits. These facilities provide the multi-seller conduits with an alternative source of financing in the event that the multi-seller conduits are unable to access the commercial paper market. In addition, we provide program-wide credit enhancement to the multi-seller conduits which obligate us to purchase assets or advance funds in the event the multi-seller conduit does not otherwise have funds from other sources, such as from the liquidity facilities, to settle maturing commercial paper. The credit enhancement is sized at a minimum of 10% of the face amount of commercial paper outstanding. In some cases, we or another third party may provide transaction-specific credit enhancement which can take various forms. We receive market-based fees for providing these liquidity and credit facilities. Certain multi-seller conduits drew down some of our transaction-specific liquidity facilities. Refer to Notes 4 and 25 for additional details on these draws.

Each transaction is structured with transaction-specific credit enhancement provided by the third-party seller. This enhancement can take various forms, including but not limited to over collateralization, excess spread, subordinated classes of financial assets, guarantees or letters of credit. The amount of this enhancement varies but is generally sized to cover a multiple of loss experience.

An unrelated third party is exposed to a "multi-seller conduit first-loss position" as defined in Note 6. The multi-seller first-loss position is exposed to losses, should they occur, prior to us in our capacity as program wide credit enhancer or liquidity provider. To determine whether we are the Primary Beneficiary of the multi-seller conduits, we performed quantitative analyses which involve determining the cash flows of the assets of the multi-seller conduits and their probability of default or credit downgrade based on a Monte-Carlo simulation technique for which credit risk is a key variable. We also analyzed the variability that we are exposed to as a result of the administrative expenses incurred by the entities. This expected loss amount was then added to the expected losses from credit risk to arrive at the total expected losses of a multi-seller conduit. Based on our analysis, we are not the Primary Beneficiary and do not consolidate these conduits.

We hold significant variable interest in third-party asset-backed security conduits (third-party conduits) primarily through providing backstop liquidity facilities. We, as well as other financial institutions are obligated to provide funding under these facilities if these third party conduits have insufficient funding to settle outstanding commercial paper. Our liquidity support facilities do not expose us to the majority of the expected losses; therefore, we do not consolidate these conduits.

#### Structured finance VIEs

We purchased U.S. ARS from U.S. ARS VIEs. We also sell ARS into ARS TOB programs. In certain cases, we used expected loss analyses to determine whether we are the Primary Beneficiary of U.S. ARS VIEs and in ARS TOBs when it is not qualitatively apparent. The expected loss calculations consider the credit rating of assets, recovery rate and corporate ratings as inputs to project various cash flow and credit loss scenarios. In the case of U.S. ARS VIEs, the expected loss analyses are based on the credit risk on the portion of the debt that is not government guaranteed. We also take into consideration basis risk through projecting the interest rates of various indices. Using all of these inputs, we calculate the variability of excess spread cash flows, and determine whether we are exposed to the majority of the variability based on our note holdings in the U.S. ARS VIEs, or the letters of credit and liquidity facilities in the case of ARS TOB programs.

We sold ARS to an unaffiliated and unconsolidated VIE 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. Our loan is exposed to credit losses of the ARS, but is mitigated by high credit quality of the ARS. The entity also enters in derivative transactions for which we may be a guarantor of the obligations of the VIE. Our credit risk exposure to the VIE as a result of the guarantees is not significant because they are secured by cash collateral and the derivatives are subject to daily margining requirements. We serve various administrative roles for the VIE, including the remarketing agent for the ARS, and receive a fee commensurate with the services we provide. The counterparties to the interest rate derivatives are exposed to the majority of the VIE's variability; as a result, we do not consolidate this entity.

#### Offsetting of amounts related to certain contracts

On April 30, 2007, the FASB issued guidance FSP FIN 39-1, *Amendment of FASB Interpretation No. 39* which amended certain aspects of Topic 210-20, *Balance Sheet – Offsetting* and Topic 815, *Derivatives and Hedging* (FIN 39, *Offsetting of Amounts Related to Certain Contracts*). These amendments to permit a reporting entity to offset the fair value of derivative instruments and the right to reclaim cash collateral (a receivable) or the obligation to return cash collateral (a payable) against the fair value of derivative instruments executed with the same counterparty under the same master netting agreement, regardless of whether there is an intention to settle on a net basis. We adopted the guidance on November 1, 2008, and have offset fair value amounts on our U.S. GAAP Consolidated Balance

#### Creation of credit investment products

In certain instances, we invest in the funded and unfunded notes issued by the credit investment product VIEs. We may transfer our assets to the VIEs as collateral for the funded notes with an obligation to buy these assets back in the future. The investors of the funded notes are not exposed to the credit or market risks of the collateral assets as we are required to repurchase the assets at their par value, but we mitigate substantially all of the credit and market risks of the collateral as we have the ability to substitute the collateral. The unfunded notes are in a senior position to the funded notes. The investors of these funded and unfunded notes are exposed to credit risk as a result of the credit protection provided by the VIEs, subject to their level of seniority. In our role of derivative counterparty to the VIEs, we also assume the associated counterparty credit risk of the VIEs. Currently, we act as sole arranger and swap provider for certain VIEs and, in most cases, act as the paying and issuing agent as well. Other independent third parties fulfill the remainder of the functions required for such a product.

#### Investment funds

Investment funds are generally financed through investments made by us or other third party investors. We also act as custodian or administrator for several funds. Our investments in certain funds may expose us to the market risk of the underlying investments. We may also be exposed to counterparty risk due to the equity derivative transactions.

#### Other significant vehicles

We created certain funds to pass through tax credits received from underlying low-income housing or historic rehabilitation real estate projects to third parties (tax credit funds). We are sponsors of the tax credit funds as a result of our responsibility to manage the assets, arrange the financing, and perform the administrative duties of these tax credit funds. We are also sponsors of our mutual funds as a result of our ability to influence the investment decisions of the mutual funds and our continuing involvement in the administration of these funds.

Sheets pursuant to this guidance as follows, including the comparative periods presented: as at October 31, 2009, the fair value amounts of derivative instruments that have been netted against derivative assets and derivative liabilities was \$62.9 billion (October 31, 2008 – \$76.2 billion); as at October 31, 2009, the cash collateral applied against derivative assets and derivative liabilities was \$7.9 billion and \$3.5 billion, respectively (October 31, 2008 – \$5.0 billion and \$7.5 billion, respectively); as at October 31, 2009, we held \$9.1 billion (October 31, 2008 – \$6.3 billion) of collateral on derivative positions, of which \$7.3 billion (October 31, 2008 – \$4.7 billion) could be applied against credit risk.

#### Amendment to impairment guidance of EITF Issue No. 99-20

On January 12, 2009, the FASB amended the impairment guidance in Topic 325-40, *Investments – Other – Beneficial Interests in Securitized Financial Assets* (FSP EITF 99-20-1, *Amendments to the Impairment Guidance of EITF Issue No. 99-20* which amends EITF 99-20, *Recognition of Interest Income and Impairment on Purchased and Retained Beneficial Interests That Continue to Be Held by a Transferor in Securitized Financial Assets*) in order to more closely align the impairment model with that of Topic 320-10, *Investments – Debt and*

*Equity Securities* (FASB Statement No. 115, *Accounting for certain Investments in Debt and Equity Securities*). In particular, the amendments require management to assess whether it is probable that there has been an adverse change in the estimated cash flows for certain beneficial interest in securitized financial assets rather than using market participants assumptions when determining the future cash flows. The amendments became effective for us on November 1, 2008 and the impact of adopting it is not material to our consolidated financial position or results of operations.

### Income tax benefits of dividends on share-based payment awards

In June 2007, the FASB ratified the consensus reached by the EITF on Topic 718-740, *Compensation – Stock Compensation – Income Taxes* (EITF 06-11, *Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards*), regarding realized tax benefits on dividend payments related to certain share-based payment arrangements which can be treated as deductible compensation expense for income tax purposes. Under this guidance, 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 under Topic 718. 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 guidance became effective for us on November 1, 2008, and the impact of adopting it is not material to our consolidated financial position or results of operations.

### Other-than-temporary impairment of securities

On April 9, 2009, the FASB issued guidance under Topic 320, *Investments – Debt and Equity Securities* (Topic 320) (FSP FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-than-Temporary Impairments*), which amends the impairment assessment guidance and recognition principles of other-than-temporary impairment for debt securities and enhances the presentation and disclosure requirements for debt as well as equity securities. In accordance with this guidance, the unrealized loss of an available-for-sale debt security is an other-than-temporary impairment when: (i) the entity has the intent to sell the security; (ii) it is more likely than not that the entity will be required to sell the security before recovery of the amortized cost; or (iii) the entity does not expect to recover the entire amortized cost of the security (credit loss) even though it will not sell the security. If one of the first two conditions is met, the full amount of the unrealized loss in AOCI should be recognized in income. If these two conditions are not met but the entity has incurred a credit loss on the security, the credit loss and the non-credit related loss are recognized in income and OCI, respectively. This guidance became effective for us on May 1, 2009. Upon adoption of the standard, our opening Retained earnings increased and Accumulated other comprehensive income decreased by \$225 million after taxes.

### Other-than-temporary impairment losses of available-for-sale debt securities

	2009
Credit related losses for securities which we do not intend to sell or more-likely-than-not will not be required to sell	\$ 102
Total losses for securities which we intend to sell or more-likely-than-not will be required to sell	165
Total write-downs of debt securities recognized in income	\$ 267
Add: Non-credit related losses of debt securities recognized in OCI (before income taxes) (1)	21
Total realized and unrealized other-than-temporary impairment losses (2)	\$ 288

(1) The balance presented excludes \$519 million of gross unrealized gains recorded in OCI related to the securities which fair values have recovered above the amortized costs since the initial write-downs.

(2) Represents total write-down and non-credit related losses of other-than-temporarily impaired debt securities recognized in income and OCI since May 1, 2009, our adoption date of Topic 320.

### Cumulative other-than-temporary impairment credit losses of available-for-sale debt securities

	2009
Credit losses of other-than-temporarily impaired debt securities upon the adoption of Topic 320 (FSP FAS 115-2 and 124-2) as at May 1, 2009	\$ 322
Credit losses recognized in income on debt securities not previously impaired	64
Credit losses recognized in income on debt securities that have previously been impaired	38
Reductions related to securities that we intend to or it is more likely than not that we will be required to sell before recovery of amortized costs	(19)
Reductions due to securities sold or matured during the period	(4)
<b>Balance at end of the year</b>	<b>\$ 401</b>

Refer to Note 3 for the methodology and significant inputs used to determine credit losses.

### Subsequent events

In May, 2009, the FASB issued guidance under Topic 855-10, *Subsequent Events* (Topic 855-10) (FASB Statement No. 165, *Subsequent Events*) which is effective for our October 31, 2009 year end. Topic 855-10 requires disclosure of the date through which an entity

has evaluated subsequent events and the basis for that date. We have evaluated subsequent events up to and including December 3, 2009, which is the date that our Board of Directors approved our 2009 Annual Consolidated Financial Statements.

### Future accounting changes

We are currently assessing the impact of adopting the new accounting standards described below on our consolidated financial position and results of operations.

#### Business combinations

In December 2007, the FASB replaced the guidance on Topic 805, *Business Combinations* (FASB Statement No. 141 (revised 2007),

*Business Combinations*), which replaces FASB Statement No. 141, *Business Combinations*). The new guidance, which will be effective for us on November 1, 2009, retains the fundamental requirements in original guidance, 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 by the revisions are as follows:

- More assets acquired and liabilities assumed to be measured at fair value as of the acquisition date;

- All acquisition-related costs must be expensed; and
- Non-controlling interest in subsidiaries initially to be measured at fair value and classified as a separate component of equity.

*Accounting for Assets acquired and liabilities assumed in a business combination that arise from contingencies*

In April 2009, the FASB issued guidance under Topic 805-20, *Business Combinations – Identifiable Assets and Liabilities and Any Noncontrolling Interest* (FSP No. 141 (R)-1, *Accounting for assets acquired and liabilities assumed in a business combination that arise from contingencies*), which will be effective for us on November 1, 2009. This guidance requires an acquirer to measure assets acquired and liabilities assumed in a business combination that arise from contingencies at their acquisition-date fair value if they can be determined. If fair value cannot be determined, then the recognition criteria and guidance of Topic 450, *Contingencies* (FASB Statement No. 5, *Accounting for Contingencies*) and Topic 450-20, *Contingencies – Loss Contingencies* (FIN 14, *Reasonable Estimation of the Amount of a Loss, an interpretation of FASB Statement No. 5*) apply. Following initial recognition, a company shall develop a systematic and rational basis for subsequent measurement of liabilities, depending on their nature.

*Non-controlling interest*

In December 2007, the FASB issued guidance under Topic 810, *Consolidation* (FASB Statement No. 160, *Non-controlling Interests in Consolidated Financial Statements – an amendment of ARB No. 51*), which will be effective for us on November 1, 2009. Significant requirements include:

- Ownership interests in subsidiaries held by parties other than the parent must be presented separately from the parent's equity;
- The amount of consolidated net income attributable to the parent and to the non-controlling interest must 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.

*Convertible debt instruments*

In May 2008, the FASB issued guidance under Topic 470-20, *Debt with Conversion and Other Options* (FSP APB 14-1, *Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)*). This guidance 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. The guidance will be effective for us on November 1, 2009.

*Accounting for Transfers of Financial Assets and Repurchase Financing Transactions*

In February, 2008, the FASB issued guidance under Topic 860 (FSP FAS 140-3, *Accounting for Transfers of Financial Assets and Repurchase Financing Transactions*), which will be effective for us on November 1, 2009. This guidance requires that an initial transfer of a financial asset and a repurchase financing that was entered into contemporaneously with, or in contemplation of, the initial transfer be evaluated together as a linked transaction unless certain criteria are met.

*Determining Whether an Instrument (or Embedded Feature) is Indexed to an Entity's Own Stock*

In June 2008, the FASB issued guidance under Topic 815-40, *Derivatives and Hedging – Contracts in Entity's Own Equity* (EITF 07-5, *Determining Whether an Instrument (or Embedded Feature) is Indexed to an Entity's Own Stock*), which will be effective for us on November 1, 2009. This guidance establishes a two-step process for evaluating whether equity-linked financial instruments and embedded features are indexed to a company's own stock for purposes of determining whether the derivative scope exception in Topic 815, *Derivatives and Hedging* should be applied.

*Accounting for Financial Guarantee Insurance Contracts*

In May 2008, the FASB issued guidance under Topic 944, *Financial Services – Insurance* (FASB Statement No. 163, *Accounting for Financial Guarantee Insurance Contracts – an interpretation of FASB Statement No. 60*), which will be effective for us on November 1, 2009. The guidance requires an insurance enterprise to recognize a claim liability prior to an event of default when there is evidence that credit deterioration has occurred in an insured financial obligation, and clarifies the recognition and measurement of premium revenue and claim liabilities. It also requires expanded disclosures.

*Accounting for an Instrument (or an Embedded Feature) with a Settlement Amount Based on the Stock of an Entity's Consolidated Subsidiary*

In November 2008, the FASB issued guidance under Topic 815 (EITF 08-8, *Accounting for an Instrument (or an Embedded Feature) with a Settlement Amount that is Based on the Stock of an Entity's Consolidated Subsidiary*), which will be effective for us on November 1, 2009. The guidance clarifies whether a financial instrument for which the payoff to the counterparty is based in whole or in part on the stock of an entity's consolidated subsidiary, is indexed to the reporting entity's own stock, and therefore should not be precluded from qualifying for the derivatives scope exception.

*Equity Method Investment Accounting*

In November 2008, the FASB issued guidance under Topic 323, *Investments – Equity Method and Joint Ventures* (EITF 08-6, *Equity Method Investment Accounting Considerations*) which will be effective for us on November 1, 2009. The guidance clarifies the accounting for certain transactions and impairment considerations involving equity method investments.

*Maintenance Deposits under Lease Arrangements*

In June 2008, the FASB issued guidance under Topic 840, *Leases* (EITF 08-3, *Accounting by Lessees for Maintenance Deposits under Lease Arrangements*) which will be effective for us on November 1, 2009. Guidance is provided on whether a lessee should account for maintenance deposits as a deposit or as contingent rental expense.

*Participating Securities*

In June 2008, the FASB issued guidance under Topic 260, *Earnings per Share* (FSP EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities*) which will be effective for us on November 1, 2009. The guidance defines unvested share-based payment awards that contain non-forfeitable rights to dividends as participating securities that should be included in computing earnings per share using the two-class method.

*Determining the Useful Life of Intangible Assets*

In April 2008, the FASB issued guidance under Topic 350, *Intangibles – Goodwill and Other* (FSP FAS 142-3, *Determination of the Useful Life of Intangible Assets*) which will be effective for us on November 1, 2009. The guidance amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of recognized intangible assets.

### Measuring Liabilities at Fair Value

In August 2009, the FASB issued ASU 2009-5, *Fair Value Measurements and Disclosures (Topic 820)—Measuring Liabilities at Fair Value*, which will be effective for us on November 1, 2009. The guidance specifies the methods to be used to fair value a liability where a quoted price in an active market for an identical liability is unavailable and clarifies that the fair value of a liability can be measured in relation to the quoted price of the liability when it trades as an asset in an active market, without adjusting the price for restrictions that prevent the sale of the liability.

### Investments in Certain Entities that Calculate Net Asset Value Per Share

In September 2009, the FASB issued ASU 2009-12, *Fair Value Measurements and Disclosures (Topic 820)—Investments in Certain Entities that Calculate Net Asset Value Per Share (or its Equivalent)* which will be effective for us on November 1, 2009. This update provides guidance on measuring the fair value of certain alternative

investments, and permits entities to use net asset value as a practical expedient to measure the fair value of its investments in certain investment funds. Additional disclosures are also required regarding the nature and risk of such investments.

### Other changes

The FASB issued guidance under Topic 715 (FSP FAS 132(R)-1, *Employers' Disclosures about Postretirement Benefit Plan Assets*) which will be effective for us on October 31, 2010. In addition, the following guidance issued by the FASB will be effective for us on November 1, 2010: FASB Statement No. 166, *Accounting for Transfers of Financial Assets – an amendment of FASB Statement No. 140*, FASB Statement No. 167, *Amendments to FASB Interpretation No. 46(R)*, ASU 2009-15, *Accounting for Own-Share Lending Arrangements in Contemplation of Convertible Debt Issuance or Other Financing*, and ASU 2009-13, *Multiple-Deliverable Revenue Arrangements*.

## 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	2009	2008
<b>Assets</b>		
Cash and due from banks	\$ 3,397	\$ 3,649
Interest-bearing deposits with banks	3,350	11,497
Securities	93,441	93,981
Investments in bank subsidiaries and associated corporations	27,882	27,661
Investments in other subsidiaries and associated corporations	21,153	21,786
Assets purchased under reverse repurchase agreements	5,519	5,619
Loans, net of allowances for loan losses	225,595	218,449
Net balances due from bank subsidiaries	2,690	16,778
Net balances due from other subsidiaries	1,718	1,232
Other assets	106,737	156,701
	<b>\$ 491,482</b>	<b>\$ 557,353</b>
<b>Liabilities and shareholders' equity</b>		
Deposits	\$ 318,996	\$ 351,286
Other liabilities	129,120	167,448
	<b>448,116</b>	<b>518,734</b>
Subordinated debentures	6,460	7,981
Shareholders' equity	36,906	30,638
	<b>\$ 491,482</b>	<b>\$ 557,353</b>

### Condensed Statements of Income

For the year ended October 31	2009	2008	2007
Interest income (1)	\$ 13,824	\$ 18,615	\$ 17,563
Interest expense	6,280	11,302	12,940
<b>Net interest income</b>	<b>7,544</b>	<b>7,313</b>	<b>4,623</b>
Non-interest income (2)	4,276	3,882	4,408
<b>Total revenue</b>	<b>11,820</b>	<b>11,195</b>	<b>9,031</b>
Provision for credit losses	2,125	1,116	702
Non-interest expense	6,477	5,372	5,905
<b>Income before income taxes</b>	<b>3,218</b>	<b>4,707</b>	<b>2,424</b>
Income taxes	180	1,257	454
<b>Net income before equity in undistributed income of subsidiaries</b>	<b>3,038</b>	<b>3,450</b>	<b>1,970</b>
Equity in undistributed income of subsidiaries	820	1,105	3,522
<b>Net income</b>	<b>\$ 3,858</b>	<b>\$ 4,555</b>	<b>\$ 5,492</b>

(1) Includes dividend income from investments in subsidiaries and associated corporations of \$18 million, \$415 million and \$420 million for 2009, 2008 and 2007, respectively.

(2) Includes loss from associated corporations of \$7 million for 2009 and income of \$4 million and \$4 million for 2008 and 2007, respectively.



**Condensed Statements of Cash Flows**

For the year ended October 31	2009	2008	2007
<b>Cash flows from operating activities</b>			
Net income	\$ 3,858	\$ 4,555	\$ 5,492
Adjustments to determine net cash from operating activities:			
Change in undistributed earnings of subsidiaries	(820)	(1,105)	(3,522)
Other operating activities, net	10,795	(5,091)	9,741
<b>Net cash from (used in) operating activities</b>	<b>13,833</b>	<b>(1,641)</b>	<b>11,711</b>
<b>Cash flows from investing activities</b>			
Change in interest-bearing deposits with banks	8,147	(6,343)	(2,234)
Change in loans, net of loan securitizations	(33,651)	(44,567)	(43,229)
Proceeds from loan securitizations	21,494	9,480	8,117
Proceeds from sale of available-for-sale securities	9,143	5,221	2,438
Proceeds from maturity of available-for-sale securities	7,239	6,060	4,891
Purchase of available-for-sale securities	(13,346)	(11,743)	(6,739)
Net acquisitions of premises and equipment	(439)	(616)	(481)
Change in assets purchased under reverse repurchase agreements and securities borrowed	100	4,990	(1,388)
Change in cash invested in subsidiaries	497	(6,055)	(2,101)
Change in net funding provided to subsidiaries	13,236	9,436	8,062
<b>Net cash from (used in) investing activities</b>	<b>12,420</b>	<b>(34,137)</b>	<b>(32,664)</b>
<b>Cash flows from financing activities</b>			
Change in deposits	(32,290)	45,163	20,225
Issue of subordinated debentures	-	2,000	87
Repayment of subordinated debentures	(1,659)	(500)	(989)
Issue of preferred shares	2,150	613	1,150
Redemption of preferred shares for cancellation	-	(300)	(150)
Issuance costs	(77)	(11)	(23)
Issue of common shares	2,439	149	155
Purchase of common shares for cancellation	-	(55)	(646)
Sale of treasury shares	72	74	208
Purchase of treasury shares	(60)	(76)	(133)
Dividends paid	(2,744)	(2,688)	(2,278)
Change in obligations related to assets sold under repurchase agreements and securities loaned	2,649	3,541	(553)
Change in obligations related to securities sold short	3,015	(11,475)	3,968
<b>Net cash (used in) from financing activities</b>	<b>(26,505)</b>	<b>36,435</b>	<b>21,021</b>
<b>Net change in cash and due from banks</b>	<b>(252)</b>	<b>657</b>	<b>68</b>
Cash and due from banks at beginning of year	3,649	2,992	2,924
<b>Cash and due from banks at end of year</b>	<b>\$ 3,397</b>	<b>\$ 3,649</b>	<b>\$ 2,992</b>
<b>Supplemental disclosure of cash flow information</b>			
Amount of interest paid in year	\$ 7,565	\$ 11,524	\$ 13,061
Amount of income taxes (recovered) paid in year	\$ (947)	\$ 1,052	\$ (165)

**Note 33 Subsequent Event**

As discussed in Note 25, Royal Bank of Canada and certain related entities were defendants in a class action brought by the Regents of the University of California which was consolidated with the lead action entitled *Newby v Enron Corp.*, which was the main consolidated purported Enron shareholder class action. This class

action against Royal Bank of Canada and certain related entities was dismissed with prejudice on December 2, 2009. We are evaluating the \$60 million (US\$50 million) provision that we had established in light of this development for possible adjustment in the first quarter of 2010.