REPORTS AND CONSOLIDATED FINANCIAL STATEMENTS

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 2, 2010

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, 2010 and 2009 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, 2010. 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, 2010 and 2009 and the results of its operations and its cash flows for each of the years in the three year period ended October 31, 2010 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, 2010 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 2, 2010 expressed an unqualified opinion on the Bank's internal control over financial reporting.

Deloitte & Touche LLP
Independent Registered Chartered Accountant
Licensed Public Accountants

Toronto, Canada
December 2, 2010

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, 19, 20, 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 2, 2010, 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 2, 2010

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, 2010, 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, 2010, 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, 2010.

The internal control over financial reporting of RBC as of October 31, 2010 has been audited by Deloitte & Touche LLP, Independent Registered Chartered Accountants, who also audited our Consolidated Financial Statements for the year ended October 31, 2010, 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 2, 2010

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, 2010 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, 2010 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, 2010 of the Bank and our report dated December 2, 2010 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 2, 2010

Consolidated Balance Sheets

As of October 31 (C$ millions)	2010	2009
Assets		
Cash and due from banks	$ 9,330	$ 8,353
Interest-bearing deposits with banks	13,252	8,923
Securities (Note 3)		
Trading	149,555	140,062
Available-for-sale	43,776	46,210
	193,331	186,272
Assets purchased under reverse repurchase agreements and securities borrowed	72,698	41,580
Loans (Note 4 and 5)		
Retail	221,828	205,224
Wholesale	73,375	78,927
	295,203	284,151
Allowance for loan losses	(2,997)	(3,188)
	292,206	280,963
Other		
Customers' liability under acceptances	7,371	9,024
Derivatives (Note 7)	106,246	92,173
Premises and equipment, net (Note 8)	2,503	2,367
Goodwill (Note 10)	8,064	8,368
Other intangibles (Note 10)	1,930	2,033
Other assets (Note 12)	19,275	14,933
	145,389	128,898
	$ 726,206	$ 654,989
Liabilities and shareholders' equity		
Deposits (Note 13)		
Personal	$ 161,693	$ 152,328
Business and government	247,197	220,772
Bank	24,143	25,204
	433,033	398,304
Other		
Acceptances	7,371	9,024
Obligations related to securities sold short	46,597	41,359
Obligations related to assets sold under repurchase agreements and securities loaned	41,582	35,150
Derivatives (Note 7)	108,910	84,390
Insurance claims and policy benefit liabilities (Note 14)	10,750	8,922
Other liabilities (Note 15)	29,348	31,007
	244,558	209,852
Subordinated debentures (Note 16)	6,681	6,461
Trust capital securities (Note 17)	727	1,395
Non-controlling interest in subsidiaries (Note 19)	2,256	2,071
Shareholders' equity (Note 18)		
Preferred shares	4,813	4,813
Common shares (shares issued – 1,424,921,817 and 1,417,609,720)	13,378	13,075
Contributed surplus	236	246
Treasury shares – preferred (shares held – 86,400 and 64,600)	(2)	(2)
– common (shares held – 1,719,092 and 2,126,699)	(81)	(95)
Retained earnings	22,706	20,585
Accumulated other comprehensive (loss)	(2,099)	(1,716)
	38,951	36,906
	$ 726,206	$ 654,989

Gordon M. Nixon
President and Chief Executive Officer

Victor L. Young
Director

Consolidated Statements of Income

For the year ended October 31 (C$ millions)	2010	2009 (1)	2008 (1)
Interest income			
Loans	$ 13,370	$ 13,539	$ 14,989
Securities	4,770	5,946	6,662
Assets purchased under reverse repurchase agreements and securities borrowed	474	931	2,889
Deposits with banks	59	162	498
	18,673	20,578	25,038
Interest expense			
Deposits	5,091	6,762	12,158
Other liabilities	2,298	1,925	3,472
Subordinated debentures	307	350	354
	7,696	9,037	15,984
Net interest income	10,977	11,541	9,054
Non-interest income			
Insurance premiums, investment and fee income	6,174	5,718	2,609
Trading revenue	1,315	2,750	(81)
Investment management and custodial fees	1,778	1,619	1,759
Mutual fund revenue	1,571	1,400	1,561
Securities brokerage commissions	1,271	1,358	1,377
Service charges	1,453	1,449	1,367
Underwriting and other advisory fees	1,193	1,050	875
Foreign exchange revenue, other than trading	614	638	646
Card service revenue	524	732	648
Credit fees	627	530	415
Securitization revenue (Note 5)	764	1,169	461
Net gain (loss) on available-for-sale securities (Note 3)	34	(630)	(617)
Other	35	(218)	1,508
Non-interest income	17,353	17,565	12,528
Total revenue	28,330	29,106	21,582
Provision for credit losses (Note 4)	1,861	3,413	1,595
Insurance policyholder benefits, claims and acquisition expense	5,108	4,609	1,631
Non-interest expense			
Human resources (Note 20 and 21)	8,824	8,978	7,779
Equipment	1,000	1,025	934
Occupancy	1,053	1,045	926
Communications	813	761	749
Professional fees	644	559	562
Outsourced item processing	290	301	341
Amortization of other intangibles (Note 10)	500	462	356
Other	1,269	1,427	704
	14,393	14,558	12,351
Goodwill impairment charge (Note 10)	–	1,000	–
Income before income taxes	6,968	5,526	6,005
Income taxes (Note 23)	1,646	1,568	1,369
Net income before non-controlling interest	5,322	3,958	4,636
Non-controlling interest in net income of subsidiaries	99	100	81
Net income	$ 5,223	$ 3,858	$ 4,555
Preferred dividends (Note 18)	(258)	(233)	(101)
Net income available to common shareholders	$ 4,965	$ 3,625	$ 4,454
Average number of common shares (in thousands) (Note 24)	1,420,719	1,398,675	1,305,706
Basic earnings per share (in dollars)	$ 3.49	$ 2.59	$ 3.41
Average number of diluted common shares (in thousands) (Note 24)	1,433,754	1,412,126	1,319,744
Diluted earnings per share (in dollars)	$ 3.46	$ 2.57	$ 3.38
Dividends per share (in dollars)	$ 2.00	$ 2.00	$ 2.00

(1) Certain comparative information has been reclassified. Refer to Note 1.

Consolidated Statements of Comprehensive Income

For the year ended October 31 (C$ millions)	2010	2009	2008
Comprehensive income			
Net income	$ 5,223	$ 3,858	$ 4,555
Other comprehensive income, net of taxes			
Net unrealized gains (losses) on available-for-sale securities	441	662	(1,376)
Reclassification of (gains) losses on available-for-sale securities to income	(261)	330	373
Net change in unrealized gains (losses) on available-for-sale securities	180	992	(1,003)
Unrealized foreign currency translation (losses) gains	(1,785)	(2,973)	5,080
Reclassification of (gains) losses on foreign currency translation to income	(5)	2	(3)
Net foreign currency translation gains (losses) from hedging activities	1,479	2,399	(2,672)
Foreign currency translation adjustments	(311)	(572)	2,405
Net (losses) gains on derivatives designated as cash flow hedges	(334)	156	(603)
Reclassification of losses (gains) on derivatives designated as cash flow hedges to income	82	(38)	49
Net change in cash flow hedges	(252)	118	(554)
Other comprehensive (loss) income	(383)	538	848
Total comprehensive income	$ 4,840	$ 4,396	$ 5,403

Consolidated Statements of Changes in Shareholders' Equity

For the year ended October 31 (C$ millions)	2010	2009	2008
Preferred shares (Note 18)			
Balance at beginning of year	$ 4,813	$ 2,663	$ 2,050
Issued	–	2,150	613
Balance at end of year	4,813	4,813	2,663
Common shares (Note 18)			
Balance at beginning of year	13,075	10,384	7,300
Issued	303	2,691	3,090
Purchased for cancellation	–	–	(6)
Balance at end of year	13,378	13,075	10,384
Contributed surplus			
Balance at beginning of year	246	242	235
Renounced stock appreciation rights	–	(7)	(5)
Stock-based compensation awards	(9)	(11)	14
Other	(1)	22	(2)
Balance at end of year	236	246	242
Treasury shares – preferred (Note 18)			
Balance at beginning of year	(2)	(5)	(6)
Sales	8	13	23
Purchases	(8)	(10)	(22)
Balance at end of year	(2)	(2)	(5)
Treasury shares – common (Note 18)			
Balance at beginning of year	(95)	(104)	(101)
Sales	64	59	51
Purchases	(50)	(50)	(54)
Balance at end of year	(81)	(95)	(104)
Retained earnings			
Balance at beginning of year	20,585	19,816	18,047
Transition adjustment – Financial instruments (1)	–	66	–
Net income	5,223	3,858	4,555
Preferred share dividends (Note 18)	(258)	(233)	(101)
Common share dividends (Note 18)	(2,843)	(2,819)	(2,624)
Premium paid on common shares purchased for cancellation	–	–	(49)
Issuance costs and other	(1)	(103)	(12)
Balance at end of year	22,706	20,585	19,816
Accumulated other comprehensive (loss) income			
Transition adjustment – Financial instruments (1)	59	59	(45)
Unrealized gains and losses on available-for-sale securities	104	(76)	(1,068)
Unrealized foreign currency translation gains and losses, net of hedging activities	(1,685)	(1,374)	(802)
Gains and losses on derivatives designated as cash flow hedges	(577)	(325)	(443)
Balance at end of year	(2,099)	(1,716)	(2,358)
Retained earnings and Accumulated other comprehensive income	20,607	18,869	17,458
Shareholders' equity at end of year	$ 38,951	$ 36,906	$ 30,638

(1) Transition adjustment relates to amendments to CICA Handbook Section 3855 that were effective November 1, 2008. Refer to Note 1 to our 2009 Annual Consolidated Financial Statements for details.

Consolidated Statements of Cash Flows

For the year ended October 31 (C$ millions)	2010	2009	2008
Cash flows from operating activities			
Net income	$ 5,223	$ 3,858	$ 4,555
Adjustments to determine net cash from (used in) operating activities			
Provision for credit losses	1,861	3,413	1,595
Depreciation	410	389	318
Future income taxes	77	(97)	(455)
Impairment of goodwill and amortization of other intangibles	500	1,462	356
Loss (gain) on sale of premises and equipment	125	5	(17)
Gain on securitizations	(163)	(934)	(207)
(Gain) loss on available-for-sale securities	(308)	(17)	1
Writedown of available-for-sale securities	267	657	631
Changes in operating assets and liabilities			
Insurance claims and policy benefit liabilities	1,828	1,537	102
Net change in accrued interest receivable and payable	(44)	(147)	164
Current income taxes	(1,789)	3,546	(2,705)
Derivative assets	(14,073)	43,961	(69,527)
Derivative liabilities	24,520	(44,315)	56,685
Trading securities	(4,124)	(11,382)	24,966
Net change in brokers and dealers receivable and payable	(2,592)	2,396	(552)
Other	(424)	3,071	(4,529)
Net cash from operating activities	11,294	7,403	11,381
Cash flows from investing activities			
Change in interest-bearing deposits with banks	(4,330)	11,118	(8,160)
Change in loans, net of securitizations	(29,345)	(17,854)	(62,725)
Proceeds from securitizations	8,473	21,788	10,047
Proceeds from sale of available-for-sale securities	11,620	12,515	8,885
Proceeds from maturity of available-for-sale securities	34,143	18,108	14,804
Purchases of available-for-sale securities	(39,863)	(32,268)	(24,864)
Net acquisitions of premises and equipment and software	(1,072)	(700)	(1,265)
Change in assets purchased under reverse repurchase agreements and securities borrowed	(31,118)	3,238	19,650
Net cash used in acquisitions	(82)	(27)	(974)
Net cash (used in) from investing activities	(51,574)	15,918	(44,602)
Cash flows from financing activities			
Change in deposits	34,729	(40,742)	61,271
Issue of RBC Trust capital Securities (RBC TruCS)	–	–	500
Redemption of RBC Trust Capital securities (RBC TruCS)	(650)	–	–
Issue of subordinated debentures	1,500	–	2,000
Repayment of subordinated debentures	(1,305)	(1,659)	(500)
Issue of preferred shares	–	2,150	613
Redemption of preferred shares for cancellation	–	–	(300)
Issue of common shares	125	2,439	149
Purchase of common shares for cancellation	–	–	(55)
Sales of treasury shares	72	72	74
Purchase of treasury shares	(58)	(60)	(76)
Dividends paid	(2,934)	(2,744)	(2,688)
Issuance costs	–	(77)	(11)
Dividends/distributions paid by subsidiaries to non-controlling interests	(93)	(4)	(33)
Change in obligations related to assets sold under repurchase agreements and securities loaned	6,432	3,097	(6,172)
Change in obligations related to securities sold short	5,238	13,852	(17,192)
Redemption of trust preferred notes	–	(140)	–
Change in short-term borrowings of subsidiaries	(1,631)	(1,967)	1,618
Net cash from (used in) financing activities	41,425	(25,783)	39,198
Effect of exchange rate changes on cash and due from banks	(168)	(271)	883
Net change in cash and due from banks	977	(2,733)	6,860
Cash and due from banks at beginning of year	8,353	11,086	4,226
Cash and due from banks at end of period	$ 9,330	$ 8,353	$ 11,086
Supplemental disclosure of cash flow information			
Amount of interest paid in year	$ 7,790	$ 9,910	$ 15,967
Amount of income taxes (recovery) paid in year	$ 4,654	$ (102)	$ 2,025

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 recorded as Other 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.

Change in financial statement presentation

During the year, we reclassified the income statement impact of certain financial instruments held by Corporate Support for funding purposes in order to better reflect management's intention for those instruments. The following table presents the increase (decrease) to the line items affected by the reclassification:

	2009	2008
Interest income – Loans	$ 35	$ 6
Non-interest income – Trading revenue	79	15
Non-interest income – Other	(114)	(21)

Significant accounting changes

No significant accounting changes were effective for us in 2010.

Financial Instruments – Recognition and measurement

Securities

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

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; (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, and (iii) loans and receivables for which we may not recover substantially all of our initial investment, other than because of credit deterioration. 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 Other comprehensive income (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. Impairments are assessed using the same impairment model for loans in accordance with the Canadian Institute of Chartered Accountant's (CICA) Handbook Section 3855. 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) there is an embedded derivative in the 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.

To determine the fair value adjustments on our 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.

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 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 SPE (QSPE) 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 for accounting purposes and the assets remain on our Consolidated Balance Sheets, with the net proceeds recognized as a liability.

In the case of with loan securitizations, we generally sell loans or package mortgage-backed securities (MBS) to SPEs or trusts that issue securities to investors, but occasionally sell to third-party investors through dealers.

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 – Acceptance 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 – Customers' liability under acceptances. 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 a 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 conditions requiring separation are met.

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 in the Hedge accounting section below.

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 are amortized to net income over the remaining life of the hedged items.

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 accumulated in Accumulated other comprehensive income (AOCI) are reclassified to Net interest income during the periods when the variability in the cash flows of the hedged item affects Net interest income. Gains and losses on derivatives are reclassified immediately to Net income when the hedged item is sold or terminated early. We predominantly use interest rate swaps to hedge the variability in cash flows related to a variable rate asset or liability.

Net investment hedges

In hedging a foreign currency exposure of a net investment in a self-sustaining foreign operation, the effective portion of foreign exchange gains and losses on the hedging instruments, net of applicable taxes, is recognized in OCI and the ineffective portion is recognized in Non-interest income. The amounts accumulated 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 generally recorded at amortized cost net of an allowance for loan losses and unearned income which comprises unearned interest and unamortized loan fees. Loans for which we have elected the fair value option or which we intend to sell immediately or in the near term must be classified as held-for-trading and carried at fair value. Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market may also be classified as loans and receivables.

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. Refer to 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 accumulated 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, causing 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.

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. Premises and equipment are tested for recoverability whenever changes in circumstances indicate that a potential impairment has occurred. An impairment loss is recorded when the projected discounted cash flows from the use of premises and equipment is less than their carrying value.

Earnings per share

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

Future accounting changes

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. 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 International Financial Reporting Standards (IFRS) over a transition period expected to end in 2011. We will begin reporting our financial statements in accordance with IFRS on November 1, 2011.

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. For financial assets and liabilities on our Consolidated Balance Sheets, we use current bid or asking price, respectively, as the quoted price. For financial assets and liabilities to be acquired, we use current asking or bid price, respectively, to value them. In the absence of an active market, we determine fair values based on quoted prices for instruments with similar characteristics and risk profiles or where appropriate a valuation model. 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.

Valuation adjustments are required to be made in certain circumstances to determine fair value of the financial instrument. 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 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 and Finance.

Valuation techniques and inputs

Trading and available-for-sale securities and derivative-related assets represent 84% of the total fair-value assets, and deposits designated as held-for-trading and derivative-related liabilities represent 72% 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 debt and equity securities.

For debt securities, equity securities and exchange traded derivatives, the fair value of these instruments is based on quoted market prices from an exchange, dealer, broker, industry group or pricing service, when available. When quoted market prices are not available, the fair value is determined by reference to quoted market prices for similar instruments, adjusted as appropriate for the specific circumstances of the instruments.

When quoted market prices for identical or similar instruments are not available, instrument fair value is determined using valuation models based on the calculation of the present value of the instrument's expected future cash flows. The inputs to these valuation models are derived from observable market data and, where relevant, assumptions in respect of unobservable inputs.

All of our derivatives transactions are accounted for on a fair value basis. Over-the-counter (non-exchange traded) derivatives are valued using valuation models. Valuation models calculate the present value of expected future cash flows using an arbitrage-free principle. The modeling approaches for most vanilla derivative products are standard in the industry. When possible, inputs to valuation models are determined from observable market data, including prices available from exchanges, dealers, brokers or pricing services.

Certain inputs may not be directly observable and these may be derived from observable prices using model calibration techniques, historical data or other sources. Examples of observable inputs include foreign exchange spot and forward rates, benchmark interest rate curves and volatilities for commonly traded option products. Examples of inputs that may be unobservable include some or all of the volatility surfaces of option products, and correlations of or between market factors such as foreign exchange rates, interest rates and equity prices.

Certificates of deposits, term deposits, bearer deposit notes and GICs designated as held-for-trading are valued by discounting future contractual cash flows at the discount rates. Discount rates are derived from our observed liability issuance and trading, and trading of comparable banks' liabilities and issuance auctions. Valuation methods and inputs used in measuring changes in fair value attributable to changes in our credit spreads 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 included 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 and interest rate structured notes. The following table summarizes changes in the aggregate amount of deferred unrealized gains at inception for our financial instruments.

Deferred unrealized gains or losses at inception

	2010	2009	2008
Deferred unrealized gains not yet recognized in net income, as at beginning of period	$ 46	$ 198	$ 186
Less: Adjustments (1)	–	(130)	–
Adjusted balance, as at beginning of the year	$ 46	$ 68	$ 186
Add: Deferred unrealized gains (losses) arising during the period	15	(5)	24
Less: Deferred gains reclassified to net income during the period	5	17	12
Deferred unrealized gains, as at end of period	$ 56	$ 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. There was no material impact on the results of operation for 2009 due to this change in accounting estimate.

Carrying value and fair value of the selected financial instruments

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

	2010							
	Carrying value and fair value of			Carrying value	Fair value			
	Financial instruments required to be classified as held-for-trading	Financial instruments designated as held-for-trading	Available-for-sale instruments measured at fair value	Loans and receivables and non-trading liabilities	Loans and receivables and non-trading liabilities	Available-for-sale instruments measured at cost (1)	Total carrying amount	Total fair value
Financial assets								
Securities								
Trading	$ 131,211	$ 18,344	$ –	$ –	$ –	$ –	$149,555	$149,555
Available-for-sale	–	–	42,467	–	–	1,309	43,776	43,776
Total securities	$ 131,211	$ 18,344	$ 42,467	$ –	$ –	$ 1,309	$193,331	$193,331
Assets purchased under reverse repurchase agreements and securities borrowed	$ –	$ 51,713	$ –	$ 20,985	$ 20,985	$ –	$ 72,698	$ 72,698
Loans								
Retail	$ –	$ –	$ –	$ 220,321	$ 218,477	$ –	$220,321	$218,477
Wholesale	–	2,899	–	68,986	67,544	–	71,885	70,443
Total loans	$ –	$ 2,899	$ –	$ 289,307	$ 286,021	$ –	$292,206	$288,920
Other								
Derivatives	$ 106,246	$ –	$ –	$ –	$ –	$ –	$106,246	$106,246
Other assets	–	296	–	19,585	19,585	–	19,881	19,881
Financial liabilities								
Deposits								
Personal	$ –	$ 3,237	$ –	$ 158,456	$ 159,255	$ –	$161,693	$162,492
Business and government (2)	–	62,654	–	184,543	183,892	–	247,197	246,546
Bank (3)	–	9,479	–	14,664	14,664	–	24,143	24,143
Total deposits	$ –	$ 75,370	$ –	$ 357,663	$ 357,811	$ –	$433,033	$433,181
Other								
Obligations related to securities sold short	$ 46,597	$ –	$ –	$ –	$ –	$ –	$ 46,597	$ 46,597
Obligations related to assets sold under repurchase agreements and securities loaned	–	26,242	–	15,340	15,340	–	41,582	41,582
Derivatives (4)	108,910	–	–	–	–	–	108,910	108,910
Other liabilities	(509)	127	–	30,598	30,833	–	30,216	30,451
Subordinated debentures	–	119	–	6,562	6,488	–	6,681	6,607
Trust capital securities	–	–	–	727	753	–	727	753

(1) Includes $225 million of our held-to-maturity investments which are carried at amortized cost.
(2) Business and government includes deposits from regulated deposit-taking institutions other than regulated banks.
(3) Bank refers to regulated banks.
(4) Includes stable value contracts on $170 million of bank-owned life insurance policies and $2 million of 401(k) plans.

	2009							
	Carrying value and fair value of			Carrying value	Fair value			
	Financial instruments required to be classified as held-for-trading	Financial instruments designated as held-for-trading	Available-for-sale instruments measured at fair value	Loans and receivables and non-trading liabilities	Loans and receivables and non-trading liabilities	Available-for-sale instruments measured at cost (1)	Total carrying amount	Total fair value
Financial assets								
Securities								
Trading	$ 127,394	$ 12,668	$ –	$ –	$ –	$ –	$140,062	$140,062
Available-for-sale	–	–	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	–	2,818	–	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
Financial liabilities								
Deposits								
Personal	$ –	$ 2,605	$ –	$ 149,723	$ 151,051	$ –	$152,328	$153,656
Business and government (2)	–	40,335	–	180,437	180,354	–	220,772	220,689
Bank (3)	–	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 (4)	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 $156 million of our held-to-maturity investments which are carried at amortized cost.
(2) Business and government includes deposits from regulated deposit-taking institutions other than regulated banks.
(3) Bank refers to regulated banks.
(4) Includes stable value contracts on $257 million of bank-owned life insurance policies and $3 million of 401(k) plans.

Financial instruments designated as held-for-trading using the fair value option

The following table presents information on loans and receivables designated as held-for-trading using the fair value option, the maximum exposure to credit risk, the extent to which the risk is mitigated by credit derivatives and similar instruments, and changes in the fair value of these assets. We measure the change in the fair value of loans and receivables designated as held-for-trading due to changes in credit risk as the difference between the total change in the fair value of the instrument during the period and the change in fair value calculated using the appropriate risk-free yield curves.

	2010						
Loans and receivables designated as held-for-trading	Carrying value of loans and receivables designated as held-for-trading	Maximum exposure to credit risk	Change in fair value since November 1, 2009 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, 2009	Cumulative change in fair value of credit derivatives or similar instruments (1)
Interest-bearing deposits with banks	$ 6,193	$ 6,193	$ –	$ –	$ –	$ –	$ –
Assets purchased under reverse repurchase agreements and securities borrowed	51,713	51,713	–	–	–	–	–
Loans – Wholesale	2,899	2,899	(51)	(180)	346	(4)	(2)
Total	$ 60,805	$ 60,805	$ (51)	$ (180)	$ 346	$ (4)	$ (2)

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

Loans and receivables designated as held-for-trading	2009 Carrying value 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)
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.

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 values of the instruments' contractual cash flows discounted at the appropriate market interest rates. Appropriate market rates comprise 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 instruments' 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	2010 Contractual maturity amount	Carrying value	Difference between carrying value and contractual maturity amount	Changes in fair value since November 1, 2009 attributable to changes in RBC credit spread	Cumulative change in fair value attributable to changes in RBC credit spread (1)
Term deposits					
Personal	$ 3,300	$ 3,237	$ (63)	$ (13)	$ (19)
Business and government (2)	62,597	62,654	57	(20)	(77)
Bank (3)	9,479	9,479	–	1	–
Total term deposits	$ 75,376	$ 75,370	$ (6)	$ (32)	$ (96)
Obligations related to assets sold under repurchase agreements and securities loaned	26,243	26,242	(1)	–	–
Other liabilities	127	127	–	–	–
Subordinated debentures	127	119	(8)	(6)	(18)
Total	$ 101,873	$ 101,858	$ (15)	$ (38)	$ (114)

(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.

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 spread	Cumulative change in fair value attributable to changes in RBC credit spread (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)
Total term deposits	$ 53,652	$ 53,820	$ 168	$ 550	$ (64)
Obligations related to assets sold under repurchase agreements and securities loaned	21,626	21,628	2	–	–
Other liabilities	240	240	–	–	–
Subordinated debentures	120	110	(10)	36	(12)
Total	$ 75,638	$ 75,798	$ 160	$ 586	$ (76)

(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, *Financial Instruments – Disclosures*. Section 3862 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.

	As at October 31, 2010						As at October 31, 2009					
	Fair value measurements using (1)						Fair value measurements using (1)					
	Level 1	Level 2	Level 3	Total gross fair value	Netting adjustments (2)	Assets/ liabilities at fair value	Level 1	Level 2	Level 3	Total gross fair value	Netting adjustments (2)	Assets/ liabilities at fair value
Financial assets												
Interest bearing deposits with banks	$ –	$ 6,193	$ –	$ 6,193	$ –	$ 6,193	$ –	$ 2,773	$ –	$ 2,773	$ –	$ 2,773
Securities												
Trading												
Canadian government debt (3)												
Federal	–	29,337	14	29,351	–	29,351	–	25,269	5	25,274	–	25,274
Provincial and municipal	–	7,243	5	7,248	–	7,248	–	5,073	54	5,127	–	5,127
U.S. state, municipal and agencies debt (3)	–	13,637	41	13,678	–	13,678	–	13,289	9	13,298	–	13,298
Other OECD government debt (4)	–	12,114	42	12,156	–	12,156	–	8,033	–	8,033	–	8,033
Mortgage–backed securities (3)	–	10	975	985	–	985	–	20	1,052	1,072	–	1,072
Asset–backed securities												
CDOs (5)	–	–	2,460	2,460	–	2,460	–	–	3,074	3,074	–	3,074
Non–CDO securities	–	276	541	817	–	817	–	211	321	532	–	532
Corporate debt and other debt	30	43,529	771	44,330	–	44,330	–	46,015	303	46,318	–	46,318
Equities	35,767	221	2,542	38,530	–	38,530	34,313	119	2,902	37,334	–	37,334
	$35,797	$106,367	$ 7,391	$149,555	$ –	$149,555	$ 34,313	$ 98,029	$ 7,720	$ 140,062	$ –	$140,062
Available–for–sale (6)												
Canadian government debt (3)												
Federal	–	14,685	–	14,685	–	14,685	–	12,161	–	12,161	–	12,161
Provincial and municipal	–	1,536	–	1,536	–	1,536	237	897	–	1,134	–	1,134
U.S. state, municipal and agencies debt (3)	–	3,246	1,697	4,943	–	4,943	–	3,435	2,358	5,793	–	5,793
Other OECD government debt (4)	1,450	3,630	–	5,080	–	5,080	908	2,622	–	3,530	–	3,530
Mortgage–backed securities (3)	–	–	1,027	1,027	–	1,027	–	4	1,848	1,852	–	1,852
Asset–backed securities												
CDOs (5)	–	9	215	224	–	224	–	–	222	222	–	222
Non–CDO securities	–	2,379	896	3,275	–	3,275	–	3,050	1,155	4,205	–	4,205
Corporate debt and other debt	378	7,776	2,635	10,789	–	10,789	177	10,802	3,580	14,559	–	14,559
Equities	173	144	399	716	–	716	537	147	560	1,244	–	1,244
Loan substitute securities	–	192	–	192	–	192	–	150	–	150	–	150
	$ 2,001	$ 33,597	$ 6,869	$ 42,467	$ –	$ 42,467	$ 1,859	$ 33,268	$ 9,723	$ 44,850	$ –	$ 44,850
Assets purchased under reverse repurchase agreements and securities borrowed	–	51,713	–	51,713	–	51,713	–	18,911	–	18,911	–	18,911
Loans	–	2,307	592	2,899	–	2,899	–	2,441	377	2,818	–	2,818
Other												
Derivatives												
Interest rate contracts	3	66,803	780	67,586			24	53,070	842	53,936		
Foreign exchange contracts	–	29,619	101	29,720			1	25,331	236	25,568		
Credit derivatives	–	965	1,038	2,003			–	2,865	2,455	5,320		
Other contracts	1,960	2,207	3,743	7,910			3,394	2,869	1,987	8,250		
Valuation adjustments determined on a pooled basis	(1)	(228)	(490)	(719)			(6)	(396)	(231)	(633)		
Total gross derivative	1,962	99,366	5,172	106,500			3,413	83,739	5,289	92,441		
Netting adjustments (2)					(254)						(268)	
Total derivatives	1,962	99,366	5,172	106,500	(254)	106,246	3,413	83,739	5,289	92,441	(268)	92,173
Other assets	286	10	–	296	–	296	244	–	–	244	–	244
	$40,046	$299,553	$20,024	$359,623	$ (254)	$359,369	$ 39,829	$ 239,161	$ 23,109	$ 302,099	$ (268)	$301,831

(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 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, 2010 residential and commercial MBS included in Trading securities were $11,995 million and $194 million, respectively (2009 – $12,414 million and $185 million, respectively), and in Available-for-sale securities, $8,720 million and $152 million, respectively (2009 – $8,454 million and $213 million, respectively).
(4) OECD stands for Organisation for Economic Co-operation and Development.
(5) CDOs stand for Collateralized Debt Obligations.
(6) Excludes $1,309 million of Available-for-sale and held-to-maturity securities (2009 – $1,360 million) that are carried at cost.

	As at October 31, 2010						As at October 31, 2009					
	Fair value measurements using (1)			Total gross fair value	Netting adjustments (2)	Assets/ liabilities at fair value	Fair value measurements using (1)			Total gross fair value	Netting adjustments (2)	Assets/ liabilities at fair value
	Level 1	Level 2	Level 3				Level 1	Level 2	Level 3			
Financial Liabilities												
Deposits												
Personal	$ –	$ –	$ 3,237	$ 3,237	$ –	$ 3,237	$ –	$ –	$ 2,605	$ 2,605	$ –	$ 2,605
Business and government	–	59,510	3,144	62,654	–	62,654	–	35,994	4,341	40,335	–	40,335
Bank	–	9,479	–	9,479	–	9,479	–	10,880	–	10,880	–	10,880
Other												
Obligations related to securities sold short	14,780	31,577	240	46,597	–	46,597	14,006	27,203	150	41,359	–	41,359
Obligations related to assets sold under repurchase agreements and securities loaned	–	26,242	–	26,242	–	26,242	–	21,628	–	21,628	–	21,628
Derivatives												
Interest rate contracts	1	61,683	415	62,099			18	47,688	423	48,129		
Foreign exchange contracts	–	34,960	27	34,987			–	23,983	16	23,999		
Credit derivatives	–	1,112	606	1,718			–	2,863	1,555	4,418		
Other contracts	1,203	3,742	5,415	10,360			1,350	3,290	3,472	8,112		
Total gross derivative	1,204	101,497	6,463	109,164			1,368	77,824	5,466	84,658		
Netting adjustments (2)					(254)						(268)	
Total derivatives	1,204	101,497	6,463	109,164	(254)	108,910	1,368	77,824	5,466	84,658	(268)	84,390
Other liabilities	–	–	(382)	(382)	–	(382)	–	–	240	240	–	240
Subordinated debentures	–	–	119	119	–	119	–	–	110	110	–	110
	$15,984	$228,305	$12,821	$257,110	$ (254)	$256,856	$ 15,374	$173,529	$ 12,912	$201,815	$ (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 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.

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:

	2010								
	Fair value November 1, 2009	Total realized/ unrealized gains (losses) included in earnings (1)	Total unrealized gains (losses) included in other comprehensive income (2)	Purchases of assets/ 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, 2010	Changes in unrealized gains (losses) included in earnings for assets and liabilities for the year ended October 31, 2010 for positions still held
Assets									
Securities									
Trading									
Canadian government debt									
Federal	$ 5	$ –	$ –	$ 24	$ (1)	$ 4	$ (18)	$ 14	$ –
Provincial and municipal	54	1	–	12	5	–	(67)	5	–
U.S. state, municipal and agencies debt	9	15	(8)	70	(32)	–	(13)	41	8
Other OECD government debt	–	–	–	42	–	–	–	42	–
Mortgage-backed securities	1,052	199	(59)	2,253	(2,458)	21	(33)	975	91
Asset-backed securities									
CDOs	3,074	(467)	(166)	36	(67)	50	–	2,460	(24)
Non-CDO securities	321	22	(9)	4,838	(4,618)	–	(13)	541	6
Corporate debt and other debt	303	269	(33)	3,639	(3,757)	512	(162)	771	336
Equities	2,902	182	(137)	714	(1,114)	–	(5)	2,542	124
	$ 7,720	$ 221	$ (412)	$ 11,628	$ (12,042)	$ 587	$ (311)	$ 7,391	$ 541
Available-for-sale									
U.S. state, municipal and agencies debt	$ 2,358	$ (9)	$ (75)	$ 191	$ (768)	$ –	$ –	$ 1,697	$ –
Other OECD government debt	–	–	–	–	1	112	(113)	–	–
Mortgage-backed securities	1,848	23	66	18	(928)	–	–	1,027	–
Asset-backed securities									
CDOs	222	–	(6)	–	(1)	–	–	215	–
Non-CDO securities	1,155	(22)	(75)	60	(222)	–	–	896	–
Corporate debt and other debt	3,580	(22)	(122)	486	(970)	218	(535)	2,635	–
Equities	560	–	(31)	45	(179)	4	–	399	–
	$ 9,723	$ (30)	$ (243)	$ 800	$ (3,067)	$ 334	$ (648)	$ 6,869	$ –
Loans – Wholesale	$ 377	$ (32)	$ (17)	$ 155	$ (244)	$ 467	$ (114)	$ 592	$ (33)
Other									
Derivatives, net of derivative related liabilities (4)	(177)	(1,057)	78	62	(114)	(35)	(48)	(1,291)	(1,172)
	$ 17,643	$ (898)	$ (594)	$ 12,645	$ (15,467)	$ 1,353	$ (1,121)	$ 13,561	$ (664)
Liabilities									
Deposits									
Personal	$ (2,605)	$ (358)	$ 61	$ (3,295)	$ 2,960	$ –	$ –	$ (3,237)	$ (143)
Business and government	(4,341)	207	212	(1,407)	2,185	–	–	(3,144)	50
Other									
Obligations related to securities sold short	(150)	83	2	(1,265)	1,108	(18)	–	(240)	(4)
Other liabilities	(240)	469	13	(1)	141	–	–	382	622
Subordinated debentures	(110)	(2)	(8)	–	1	–	–	(119)	(2)
	$ (7,446)	$ 399	$ 280	$ (5,968)	$ 6,395	$ (18)	$ –	$ (6,358)	$ 523

(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 same column of the reconciliation. During the year ended October 31, 2010, there were no significant transfers into or out of Level 3.
(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 $253 million for the year, excluding the translation gains or losses.
(3) Other includes amortization of premiums or discounts recognized in net income.
(4) Net derivatives as at October 31, 2010 included derivative assets of $5,172 million and derivative liabilities of $6,463 million.

	2009								
	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 assets/ 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	Changes in unrealized gains (losses) included earnings for assets and liabilities for the year ended October 31, 2009 for positions still held
Assets									
Securities									
Trading									
Canadian government debt									
Federal	$ –	$ –	$ –	$ 5	$ –	$ –	$ –	$ 5	$ –
Provincial and municipal	–	(13)	–	2	16	51	(2)	54	–
U.S. state, municipal and agencies debt	206	4	(3)	42	3	–	(243)	9	(2)
Other OECD government debt	150	9	7	22	(110)	–	(78)	–	–
Mortgage-backed securities	1,531	110	(191)	2,788	(1,645)	101	(1,642)	1,052	117
Asset-backed securities									
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
Available-for-sale									
U.S. state, municipal and agencies debt	$ 2,522	$ (16)	$ (215)	$ 1,104	$ (1,035)	$ 797	$ (799)	$ 2,358	$ –
Other OECD government debt	402	–	9	–	(411)	–	–	–	–
Mortgage-backed securities	2,646	(183)	(1)	69	(895)	212	–	1,848	–
Asset-backed securities									
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	$ –
Loans – Wholesale	$ 651	$ (202)	$ (45)	$ 26	$ (53)	$ –	$ –	$ 377	$ 18
Other									
Derivatives, net of derivative related liabilities (4)	(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
Liabilities									
Deposits									
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)
Other									
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) 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 (ABS) including Collateralized Loan Obligations and CDOs, auction-rate securities (ARS) 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 derivatives, equity-linked and interest-rate-linked structured notes, and deposit notes with long-dated maturities and significant unobservable spreads.

Positive and negative fair value movement of Level 3 financial instruments from using reasonably possible alternative assumptions
There may be uncertainty about valuation of Level 3 financial instruments using valuation techniques based on assumptions that are not supported by market observable prices or rates. The following table summarizes the impact to fair values of Level 3 financial instruments using reasonably possible alternative assumptions:

	2010			2009 (1)		
	Level 3 fair value	Positive fair value movement from using reasonably possible alternative assumptions	Negative fair value movement from using reasonably possible alternative assumptions	Level 3 fair value	Positive fair value movement from using reasonably possible alternative assumptions	Negative fair value movement from using reasonably possible alternative assumptions
Securities (2)						
Trading						
Mortgage-backed securities	$ 975	$ 37	$ (33)	$ 1,052	$ 31	$ (38)
Asset-backed securities (3)	3,001	20	(31)	3,395	18	(21)
Corporate debt and other debt (3)	771	16	(11)	303	13	(6)
Equities (4)	2,542	–	–	2,902	–	–
Available-for-sale						
U.S. state, municipal and agencies debt	1,697	25	(49)	2,358	25	(106)
Mortgage-backed securities	1,027	38	(39)	1,848	79	(101)
Asset-backed securities	1,111	17	(29)	1,377	17	(60)
Corporate debt and other debt	2,635	39	(31)	3,580	33	(96)
Equities (5)	399	–	–	560	–	–
Loans	592	3	(18)	377	–	(13)
Derivatives (3)	5,172	197	(173)	5,289	280	(252)
Total	$ 19,922	$ 392	$ (414)	$ 23,041	$ 496	$ (693)
Deposits	(6,381)	10	(10)	(6,946)	–	–
Derivatives	(6,463)	96	(86)	(5,466)	136	(125)
Obligations related to securities sold short, other liabilities and subordinated debentures (5)	23	–	–	(500)	–	–
Total	$ (12,821)	$ 106	$ (96)	$ (12,912)	$ 136	$ (125)

(1) During the year, we revisited the scope and methodologies for calculating the reasonably possible alternative assumptions. As a result, the comparatives have been prepared on this basis and thus, are different from those previously reported.
(2) Exclude Securities – Trading Canadian government debt, U.S. state, municipal and agencies debt, and Other OECD government debt as their Level 3 balances were not material for both years.
(3) The sensitivity of our MBIA asset, which is included in Derivatives (Assets), arises from the variability of the underlying assets which are included in Asset-backed securities and Corporate debt and other debt. The fair value movements in these assets from using reasonably possible alternative assumptions have been reported on a net basis in Derivatives (Assets).
(4) Include primarily hedge funds units to which we have not applied another reasonably possible alternative assumption as the fair value movements of the hedge funds units and the associated client hedges in the Derivatives (Liability) would be symmetrical.
(5) Positive or negative fair value movement from using reasonably possible alternative assumptions is not material.

The fair value of Level 3 financial instruments is in whole or in part based on unobservable inputs. In preparing the financial statements, appropriate levels for these unobservable input parameters are chosen so that they are consistent with prevailing market evidence or management judgment. The effects of applying other reasonably possible alternative assumptions to the Level 3 asset positions would be an increase of $392 million and a reduction of $414 million in fair value, of which $119 million and $148 million would be recorded in Accumulated other comprehensive income, and to the Level 3 liability positions a decrease of $106 million and an increase of $96 million in fair value.

This sensitivity disclosure is intended to illustrate the potential impact of the relative uncertainty in the fair value of Level 3 financial instruments. However, it is unlikely in practice that all reasonably possible alternative assumptions would be simultaneously realized.

The following is a summary of our approach to develop reasonably possible alternative assumptions used to determine sensitivity. For fixed income instruments valued using pricing services, such as mortgage-backed securities, the positive and negative sensitivity was calculated using the high and low range of the pricing services' values (i.e. over and above bid-offer valuation adjustments). Alternatively, for some corporate bonds, private placements, ARS and non-OECD government debt, we changed the discount margin between .1% and 1.0%, depending on the specific reasonable range of fair value uncertainty for each particular financial instrument's market. The sensitivity for the derivative credit valuation adjustment was calculated using a combination of changing the credit default swap (CDS) spread by .1% and an amount for model uncertainty. For monoline insurers, the recovery rate, CDS spread and asset duration were all changed for negative and positive results and, as this would impact a number of financial instrument valuations, the sensitivities were aggregated and reported under Derivatives (Assets). For certain structured interest rate and currency derivatives, the model parameter uncertainties were stressed to determine the reasonably possible alternative assumptions. For other derivative positions, such as commodity swaps, a one-standard deviation range of commodity prices were used on the net exposure. Similarly, a one-standard deviation range of model inputs for equity derivatives was applied to equity and foreign exchange volatility, dividends and correlation to assess the reasonably possible outcome. For bank owned life insurance contracts, the sensitivity of a range of values was determined by adjusting the default rates, prepayments and severity by 10%.

Certain Level 3 instruments, such as hedge funds units reported in the Securities-Trading Equities and the associated client hedges in Derivatives (Liability), are valued using net asset values provided by the fund managers, and we have not applied another reasonably possible alternative assumption to those positions as the impacted value would be symmetrical.

Note 3 Securities

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

	Term to maturity (1)								
	Within 3 months	3 months to 1 year	1 to 5 years	Over 5 years to 10 years	Over 10 years	With no specific maturity	2010 Total	2009 Total	2008 Total
Trading account									
Canadian government debt	$ 2,065	$ 5,346	$ 19,296	$ 5,195	$ 4,697	$ –	**$ 36,599**	$ 30,401	$ 20,911
U.S. government debt	948	1,193	3,876	2,539	5,122	–	**13,678**	13,298	8,728
Other OECD government debt (2)	1,055	2,802	4,390	2,271	1,638	–	**12,156**	8,033	2,488
Mortgage-backed securities (3)	7	20	337	205	617	–	**1,186**	1,310	2,476
Asset-backed securities (3)	50	203	1,836	565	421	–	**3,075**	2,994	4,551
Corporate debt and other debt (3)									
Bankers' acceptances	508	249	–	–	–	–	**757**	428	13
Certificates of deposit	1,645	1,906	500	15	43	–	**4,109**	1,866	2,174
Other (4), (5)	2,569	5,098	19,860	5,139	6,717	82	**39,465**	44,398	39,063
Equities	–	–	–	–	–	38,530	**38,530**	37,334	42,104
	8,847	16,817	50,095	15,929	19,255	38,612	**149,555**	140,062	122,508
Available-for-sale securities (6)									
Canadian government debt									
Federal									
Amortized cost	145	4,331	9,231	534	64	–	**14,305**	11,764	13,123
Fair value	145	4,374	9,562	540	64	–	**14,685**	12,161	13,544
Yield (7)	.8%	4.4%	2.5%	3.1%	3.9%	–	**3.1%**	3.3%	3.6%
Provincial and municipal									
Amortized cost	22	144	1,148	32	147	–	**1,493**	1,104	674
Fair value	22	144	1,179	34	157	–	**1,536**	1,134	678
Yield (7)	1.6%	2.3%	3.7%	5.0%	4.3%	–	**3.6%**	3.7%	4.8%
U.S. state, municipal and agencies debt									
Amortized cost	596	1,011	354	15	2,958	–	**4,934**	5,781	9,230
Fair value	596	1,013	357	15	2,962	–	**4,943**	5,793	8,890
Yield (7)	.7%	1.0%	1.7%	5.0%	1.0%	–	**1.0%**	2.4%	3.8%
Other OECD government debt (2)									
Amortized cost	1,418	1,152	2,311	183	–	–	**5,064**	3,513	1,267
Fair value	1,418	1,152	2,326	184	–	–	**5,080**	3,530	1,270
Yield (7)	.1%	.6%	4.3%	3.9%	–	–	**2.3%**	1.6%	1.5%
Mortgage-backed securities (4)									
Amortized cost	3	2	79	75	920	–	**1,079**	2,057	4,278
Fair value	3	3	82	78	861	–	**1,027**	1,852	3,548
Yield (7)	6.6%	5.1%	4.5%	4.7%	3.4%	–	**3.6%**	4.6%	5.6%
Asset-backed securities									
Amortized cost	5	331	416	1,162	1,685	–	**3,599**	4,516	5,192
Fair value	5	336	424	1,156	1,578	–	**3,499**	4,427	4,796
Yield (7)	3.7%	4.6%	2.4%	.7%	3.5%	–	**2.5%**	1.9%	4.5%
Corporate debt and other debt (4)									
Amortized cost	2,325	2,255	3,573	655	1,908	48	**10,764**	14,566	13,102
Fair value	2,328	2,267	3,730	624	1,782	58	**10,789**	14,559	12,785
Yield (7)	4.1%	2.2%	2.5%	5.7%	2.6%	.1%	**3.0%**	2.5%	5.5%
Equities (8)									
Cost	–	–	–	–	–	1,719	**1,719**	2,437	3,057
Fair value	–	–	–	–	–	1,764	**1,764**	2,412	2,683
Loan substitute									
Cost	–	–	–	–	–	256	**256**	256	256
Fair value	–	–	–	–	–	228	**228**	186	227
Yield (7)	–	–	–	–	–	3.7%	**3.7%**	3.7%	5.6%
Amortized cost	4,514	9,226	17,112	2,656	7,682	2,023	**42,213**	45,994	50,179
Fair value	4,517	9,289	17,660	2,631	7,404	2,050	**43,551**	46,054	48,421
Held-to-maturity securities (6)									
Amortized cost	122	40	34	28	1	–	**225**	156	205
Fair value	122	40	34	28	1	–	**225**	156	205
Total carrying value of securities (6)	$ 13,486	$ 26,146	$ 67,789	$ 18,588	$ 26,660	$ 40,662	**$ 193,331**	$ 186,272	$ 171,134

(1) Actual maturities may differ from contractual maturities shown above since borrowers may have the right to prepay obligations with or without prepayment penalties.
(2) OECD stands for Organisation for Economic Co-operation and Development.
(3) 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.
(4) 2008 balances include certain held-for-trading and available-for-sale securities that were subsequently reclassified to loans on November 1, 2008 in accordance with the CICA's amendments to Section 3855.
(5) Primarily comprise corporate debt and floating rate notes, supra-national debt and floating rate notes, and commercial paper.
(6) Available-for-sale securities, including loan substitutes, are carried at fair value and held-to-maturity securities are carried at amortized cost.
(7) 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.
(8) Includes the value of the shares received in 2008 upon the Visa Inc. restructuring which are carried at cost.

Reclassification of financial instruments

The following table provides information regarding certain securities that we reclassified from held-for-trading to available-for-sale effective August 1, 2008, in accordance with amendments to Sections 3855, 3861 and 3862. Refer to Note 3 to our 2009 Annual Consolidated Financial Statements for details.

	As at and for the year ended October 31, 2010			As at and for the year ended October 31, 2009		
Financial assets	Total carrying value and fair value	Change in fair value during the year (1)	Interest income/gains (losses) recognized in net income during the year (2)	Total carrying value and fair value	Change in fair value during the year (1)	Interest income/gains (losses) recognized in net income during the year (2)
U.S. state, municipal and agency debt	$ 1,126	$ 64	$ (5)	$ 1,904	$ 13	$ 54
Mortgage-backed securities (MBS)	69	47	13	500	67	28
Asset-backed securities	748	(16)	1	1,007	48	29
Corporate debt and other debt	408	32	5	641	(2)	17
	$ 2,351	$ 127	$ 14	$ 4,052	$ 126	$ 128

(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 gain of $4 million related to securities and debt redeemed or sold during the year ended October 31, 2010 (2009 – net gain of $27 million).

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

	2010				2009			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Canadian government debt								
Federal	$ 14,305	$ 381	$ (1)	$ 14,685	$ 11,764	$ 404	$ (7)	$ 12,161
Provincial and municipal	1,493	43	–	1,536	1,104	31	(1)	1,134
U.S. federal, state, municipal and agency debt	4,934	65	(56)	4,943	5,781	129	(117)	5,793
Other OECD government debt	5,068	24	(8)	5,084	3,517	18	(1)	3,534
Mortgage-backed securities	1,079	20	(72)	1,027	2,057	24	(229)	1,852
Asset-backed securities								
CDOs	220	12	(17)	215	234	11	(24)	222
Non-CDO securities	3,379	37	(132)	3,284	4,282	67	(143)	4,205
Corporate debt and other debt	10,985	273	(248)	11,010	14,718	382	(389)	14,711
Equities	1,719	58	(13)	1,764	2,437	45	(70)	2,412
Loan substitute securities	256	–	(28)	228	256	–	(70)	186
	$ 43,438	$ 913	$ (575)	$ 43,776	$ 46,150	$ 1,111	$ (1,051)	$ 46,210

(1) Includes $225 million (2009 – $156 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 $148 million, $4 million, $nil and $152 million, respectively for 2010 (2009 – $224 million, $1million, $(11) million and $213 million).

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

	2010	2009	2008
Realized gains	$ 440	$ 296	$ 99
Realized losses and writedowns	(399)	(936)	(731)
Net gains (losses) on available-for-sale securities	$ 41	$ (640)	$ (632)

(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 – 2010 – $12 million, 2009 – $12 million, and 2008 – $1 million; Realized losses and writedowns – 2010 – $5 million, 2009 – $22 million, and 2008 – $16 million.

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

	2010 (1)					
	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	$ 510	$ 1	$ –	$ –	$ 510	$ 1
Provincial and municipal	154	–	–	–	154	–
U.S. state, municipal and agencies debt	832	13	493	43	1,325	56
Other OECD government debt	3,119	8	–	–	3,119	8
Mortgage-backed securities	51	3	637	69	688	72
Asset-backed securities	–	–	–	–	–	–
CDOs	–	–	198	17	198	17
Non-CDO securities	1,441	37	843	95	2,284	132
Corporate debt and other debt	2,519	76	1,230	172	3,749	248
Equities	35	8	46	5	81	13
Loan substitute securities	–	–	192	28	192	28
Total temporarily impaired securities	$ 8,661	$ 146	$ 3,639	$ 429	$ 12,300	$ 575

(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 $20 million and $0.1 million, respectively.

	2009 (1)					
	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	154	7	1,081	110	1,235	117
Other OECD government debt	456	1	44	–	500	1
Mortgage-backed securities	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	924	42	1,321	347	2,245	389
Equities	60	42	103	28	163	70
Loan substitute securities	–	–	150	70	150	70
Total temporarily impaired securities	$ 3,568	$ 119	$ 5,100	$ 932	$ 8,668	$ 1,051

(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.

Available-for-sale 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, 2010, our gross unrealized losses on available-for-sale securities were $575 million (2009 – $1,051 million).

When assessing other-than-temporary impairment for debt instruments we primarily considered counterparty ratings and security-specific factors, including collateral, external ratings, subordination and other market factors. For complex debt instruments including U.S. non-agency MBS, ABS and other structured products, we also 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. For U.S. non-agency MBS, recovery rates are largely dependent upon forecasted property prices which were assessed at the municipal level, provided by a third-party vendor. In addition, we also consider the transaction structure and credit enhancement for the structured securities. If the model predicts that it is probable that we will not be able to recover the entire principal and interest amount, we do a further review of the security 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 the 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 suggests 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 and 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 and which have 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 $56 million (2009 – $117 million) unrealized loss on U.S. state, municipal and agencies debt securities are related to U.S. 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 U.S. non-agency Alt-A and prime securities. The Alt-A and prime securities are high quality super senior tranches with credit support through subordination, overcollateralization, and excess spread. The unrealized losses of $72 million (2009 – $229 million) are primarily on Alt-A and prime securities reflecting the impact of the current credit spreads. The losses on U.S. non-agency MBS are significantly lower compared to the prior year as we exited certain positions in order to effectively manage our exposure

ABS mainly comprise 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 $149 million (2009 – $167 million) which primarily relate to U.S. ARS and uninsured student loans.

Corporate and other debt mainly includes certificate of deposits, corporate debt and bonds, Non-Organization for Economic Co-operation and Development (OECD) government securities, tender option bonds and hybrid instruments. The Non-OECD government securities primarily relate to Caribbean countries where we have ongoing operations. The unrealized losses of $248 million (2009 – $389 million) are significantly lower compared to a year ago and mainly reflect the decreasing interest rate environment along with improved credit spreads.

Equity holdings largely comprise publicly traded common and preferred shares. To a lesser extent, we also hold investments in private and venture companies. As at October 31, 2010, there were unrealized losses of $13 million, compared to unrealized losses of $70 million a year ago due to the impairment losses recognized in 2010 in net income on certain common shares as well as fair value improvements on equities mainly for listed common and preferred shares. The loan substitute securities are predominantly perpetual preferred shares of highly rated Canadian entities.

Management believes that the unrealized losses on the above-mentioned securities as at October 31, 2010, are temporary in nature and intends 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 and interest. The 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. Management is of the view that there is no impairment on held-to-maturity investments as at October 31, 2010.

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 its fair value and the previous loss in AOCI is reclassified to net income. During 2010, $41 million of net gains were recognized in net income (2009 – net losses of $640 million) on available-for sale securities. The net gains in the current year largely reflected net gains of $309 million on the sale of certain U.S. agency MBS classified as government and agency and listed common shares as well as gains from capital distributions from private equities. These gains were mainly offset by net losses of $268 million primarily on securities that were deemed to be impaired such as corporate trust preferreds which are included in corporate debt and other debt, certain listed common shares and private equities and U.S. non-agency MBS. Included in this amount is $3 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 (2009 – $21 million).

Interest and dividends on available-for-sale and held-to-maturity securities (1), (2)

	2010	2009	2008
Taxable interest income	$ 1,602	$ 2,362	$ 2,089
Non-taxable interest income	97	110	99
Dividends	35	82	110
	$ 1,734	$ 2,554	$ 2,298

(1) Available-for-sale securities 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 – 2010 – $640 million, 2009 – $601 million, and 2008 – $452 million; Non-taxable interest income – 2010 – $39 million, 2009 – $33 million and 2008 – $29 million; Dividends – 2010 – $14 million, 2009 – $15 million, and 2008 – $17 million.

Note 4 Loans

	2010				2009			
	Canada	United States	Other International	Total	Canada	United States	Other International	Total
Retail (1)								
Residential mortgages	$ 124,064	$ 2,350	$ 2,418	$ 128,832	$ 117,292	$ 2,490	$ 2,348	$ 122,130
Personal	69,291	8,551	2,332	80,174	60,493	8,975	2,074	71,542
Credit cards	9,704	220	186	10,110	8,285	213	203	8,701
Small business (2)	2,712	–	–	2,712	2,851	–	–	2,851
	205,771	11,121	4,936	221,828	188,921	11,678	4,625	205,224
Wholesale (1)								
Business (3), (4)	39,015	20,616	9,216	68,847	38,624	25,206	10,336	74,166
Bank (5)	808	233	875	1,916	1,096	177	1,243	2,516
Sovereign (6)	1,632	–	980	2,612	860	–	1,385	2,245
	41,455	20,849	11,071	73,375	40,580	25,383	12,964	78,927
Total loans (7)	247,226	31,970	16,007	295,203	229,501	37,061	17,589	284,151
Allowance for loan losses	(1,490)	(1,144)	(363)	(2,997)	(1,474)	(1,460)	(254)	(3,188)
Total loans net of allowance for loan losses	$ 245,736	$ 30,826	$ 15,644	$ 292,206	$ 228,027	$ 35,601	$ 17,335	$ 280,963

(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 2010 are loans totalling $nil (2009 – $1.0 billion) and $1.5 billion (2009 – $1.7 billion), respectively, to VIEs administered by us.
(5) Bank refers primarily to regulated deposit-taking institutions and securities firms.
(6) Sovereign refers to all central governments and agencies, central banks, as well as other qualifying public sector entities and multilateral development banks.
(7) Loans are net of unearned income of $306 million (2009 – $229 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, intangible assets and securities, and (ii) recourse to the commercial real estate properties being financed.

Loan maturities and rate sensitivity

	2010							
	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	$ 95,579	$ 103,183	$ 23,066	$ 221,828	$ 112,263	$ 106,781	$ 2,784	$ 221,828
Wholesale	39,351	20,818	13,206	73,375	40,101	32,778	496	73,375
Total loans	$ 134,930	$ 124,001	$ 36,272	$ 295,203	$ 152,364	$ 139,559	$ 3,280	$ 295,203
Allowance for loan losses	–	–	–	(2,997)	–	–	–	(2,997)
Total loans net of allowance for loan losses	$ 134,930	$ 124,001	$ 36,272	$ 292,206	$ 152,364	$ 139,559	$ 3,280	$ 292,206

	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	45,922	23,148	9,857	78,927	47,756	30,497	674	78,927
Total loans	$ 145,480	$ 111,104	$ 27,567	$ 284,151	$ 154,383	$ 126,672	$ 3,096	$ 284,151
Allowance for loan losses	–	–	–	(3,188)	–	–	–	(3,188)
Total loans net of allowance for loan losses	$ 145,480	$ 111,104	$ 27,567	$ 280,963	$ 154,383	$ 126,672	$ 3,096	$ 280,963

(1) Generally, based on the earlier of contractual repricing or maturity date.
(2) Included in Wholesale are loans totalling $1.5 billion (2009 – $2.7 billion) 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.

During the year ended October 31, 2010, we acquired $336 million of assets in respect of problem loans (2009 – $1,658 million). The related reduction in the Allowance for credit losses was $331 million (2009 – $156 million).

Allowance for loan losses and impaired loans

	2010						2009
	Balance at beginning of year	Write-offs	Recoveries	Provision for credit losses	Other adjustments (1)	Balance at end of year	Balance at end of year
Retail							
Residential mortgages	$ 54	$ (46)	$ 2	$ 60	$ 7	$ 77	$ 54
Personal	197	(690)	91	595	(11)	182	197
Credit cards	–	(477)	64	413	–	–	–
Small business (2)	22	(56)	7	45	–	18	22
	$ 273	$(1,269)	$ 164	$ 1,113	$ (4)	$ 277	$ 273
Wholesale							
Business (3)	$ 976	$ (949)	$ 72	$ 707	$ (15)	$ 791	$ 976
Bank (4)	20	–	–	15	(1)	34	20
Sovereign (5)	10	–	–	–	(1)	9	10
	$ 1,006	$ (949)	$ 72	$ 722	$ (17)	$ 834	$1,006
Specific allowances	$ 1,279	$(2,218)	$ 236	$ 1,835	$ (21)	$1,111	$1,279
Retail							
Residential mortgages	$ 50	$ –	$ –	$ 30	$ (3)	$ 77	$ 50
Personal	671	–	–	49	(11)	709	671
Credit cards	327	–	–	7	50	384	327
Small business (2)	47	–	–	–	13	60	47
	$ 1,095	$ –	$ –	$ 86	$ 49	$1,230	$1,095
Wholesale							
Business (3)	$ 814	$ –	$ –	$ (58)	$ (100)	$ 656	$ 814
Bank (4)	–	–	–	–	–	–	–
Sovereign (5)	–	–	–	–	–	–	–
	$ 814	$ –	$ –	$ (58)	$ (100)	$ 656	$ 814
Allowance for off-balance sheet and other items (6)	$ 114	$ –	$ –	$ (2)	$ (13)	$ 99	$ 114
General allowance (6)	$ 2,023	$ –	$ –	$ 26	$ (64)	$1,985	$2,023
Total allowance for credit losses	$ 3,302	$(2,218)	$ 236	$ 1,861	$ (85)	$3,096	$3,302
Allowance for off-balance sheet and other items (7)	(114)	–	–	2	13	(99)	(114)
Total allowance for loan losses	$ 3,188	$(2,218)	$ 236	$ 1,863	$ (72)	$2,997	$3,188

(1) Primarily represents; (i) the translation impact of foreign currency-denominated allowance for loan losses and (ii) a reclassification of $30 million of the general allowance to specific allowance to more appropriately reflect the nature of these provisions.
(2) Includes small business exposure managed on a pooled basis.
(3) Includes small business exposure managed on an individual client basis. Includes $2 million (2009 – $2 million) of provisions related to loans extended under liquidity facilities drawn on by RBC-administered multi-seller asset-backed commercial paper conduit programs.
(4) Bank refers primarily to regulated deposit-taking institutions and securities firms.
(5) Sovereign refers to all central governments and agencies, central banks, as well as other qualifying public sector entities and multilateral development banks.
(6) Includes $99 million related to off-balance sheet and other items (2009 – $114 million).
(7) The allowance for off-balance sheet is reported separately under Other liabilities.

Net interest income after provision for credit losses

	2010	2009	2008
Net interest income	$ 10,977	$ 11,541	$ 9,054
Provision for credit losses	1,861	3,413	1,595
Net interest income after provision for credit losses	$ 9,116	$ 8,128	$ 7,459

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

Loans past due but not impaired

	2010				2009			
	1-29 days	30-89 days	90 days and greater	Total	1-29 days	30-89 days	90 days and greater	Total
Retail	$ 2,641	$ 1,239	$ 184	$ 4,064	$ 2,841	$ 1,359	$ 323	$ 4,523
Wholesale	1,206	496	18	1,720	1,313	563	36	1,912
Total	$ 3,847	$ 1,735	$ 202	$ 5,784	$ 4,154	$ 1,922	$ 359	$ 6,435

Impaired loans (1)

	2010			2009
	Gross	Specific allowances	Net	Net
Retail				
Residential mortgages	$ 808	$ (77)	$ 731	$ 587
Personal	383	(182)	201	212
Small business (2)	49	(18)	31	37
	$ 1,240	$ (277)	$ 963	$ 836
Wholesale				
Business (3)	$ 3,716	$ (791)	$ 2,925	$ 3,300
Sovereign (4)	9	(9)	–	–
Bank (5)	34	(34)	–	42
	$ 3,759	$ (834)	$ 2,925	$ 3,342
Total	$ 4,999	$ (1,111)	$ 3,888	$ 4,178

(1) Average balance of gross impaired loans for the year was $5.1 billion (2009 – $4.6 billion).
(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 $57 million (2009 – $65 million) and $55 million (2009 – $63 million), respectively, related to loans extended under liquidity facilities drawn on by RBC-administered multi-seller asset-backed commercial paper conduit programs.
(4) Sovereign refers to all central governments and agencies, central banks, as well as other qualifying public sector entities and multilateral development banks.
(5) 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 we participate in bond securitization 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 Available-for-sale (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. We may own some senior securities as investments or for market-making activities and retain a cash reserve account from time to time. The subordinated securities and senior securities owned by us represent approximately 4.5% and 5.98% of the total securities issued by the QSPE as at October 31, 2010, respectively. The subordinated securities 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.

Canadian residential mortgage loans
We securitize insured Canadian residential mortgage loans through the creation of MBS pools under the NHA MBS program and sell them to third party investors, or pre-dominantly to a government sponsored trust under the Canada Mortgage Bond (CMB) program. The trust periodically issues CMB, which are guaranteed by the government, and sells them to third-party investors. Proceeds of the CMB issuances are used by the trust to purchase the MBS pools from eligible MBS issuers who participate in the issuance of a particular CMB series.

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 the CMB program which we pay the SPE the coupon interest due to CMB investors and receive the interest on the underlying MBS which we sold to the trust.

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.

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. We have not securitized commercial mortgages since 2008.

Bond Securitizations

We participate in bond securitizations activities where we purchase government, government related and corporate bonds, and repackage those bonds in participation certificates. A structuring fee is charged and is recognized in our Income Statement at the time of sale of the participation certificates 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 2010, 2009 and 2008.

	2010			2009			2008				
	Credit card receivables (1), (2)	**Canadian residential mortgage loans** (1), (3), (5)	**U.S. residential mortgage loans** (4)	Canadian residential mortgage loans (1), (3), (5)	U.S. residential mortgage loans (4)	Bond participation certificates (1), (6)	Credit card receivables (1), (2)	Canadian residential mortgage loans (1), (3), (5)	U.S. residential mortgage loans (4)	Commercial mortgage loans (1)	Bond participation certificates (1), (6)
Securitized and sold (7)	**$ 1,283**	**$ 6,512**	**$ 754**	$21,392	$ 568	$ 15	$ 1,470	$ 7,892	$ 516	$ 166	$ 47
Net cash proceeds received	**1,225**	**6,427**	**763**	21,202	570	16	1,404	7,846	519	156	48
Asset-backed securities purchased	**58**	**–**	**–**	–	–	–	65	–	–	9	–
Retained rights to future excess interest	**9**	**230**	**–**	1,121	–	–	9	242	–	–	–
Pre-tax gain (loss) on sale, net of hedging activities	**9**	**98**	**9**	770	2	1	8	168	3	(1)	1

(1) 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.
(2) With respect to the securitization of credit card receivables in 2010, the net cash proceeds received represent gross cash proceeds of $1,283 million (2008 – $1,469 million) less funds used to purchase notes of $58 million (2008 – $65 million) issued by Golden Credit Card Trust. The principal value of the purchased notes was $58 million (2008 – $65 million). We did not securitize any credit card loans during 2009.
(3) Canadian insured residential mortgage loans securitized during the year through the creation of MBS and retained as at October 31, 2010 were $6,845 million (2009 – $6,456 million; 2008 –$9,464 million). These securities are carried at fair value.
(4) 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.
(5) Pre-tax gain (loss) on sale includes the results of our economic hedging activities of $(47) million (2009 – $(161) million; 2008 – $(28) million).
(6) Includes bond securitizations activities of RBTT. None of the securities sold were retained. There were no bond securitization activities during 2010.
(7) Includes Canadian residential mortgage loans securitized during the period and prior periods.

Cash flows from securitizations (1)

	2010		2009		2008	
	Credit card receivables	**Canadian residential mortgage loans**	Credit card receivables	Canadian residential mortgage loans (4)	Credit card receivables	Canadian residential mortgage loans (4)
Proceeds reinvested in revolving securitizations	**$ 16,173**	**$ 6,551**	$ 17,157	$ 4,959	$ 17,934	$ 2,228
Cash flows from excess spread (2)	**472**	**692**	270	629	254	179
Other cash flows received (3)	**40**	**–**	42	–	39	–

(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 payments received.
(4) Comparative amounts presented have been revised from those previously reported.

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

Key assumptions (1), (2)

	2010		2009 (3)	2008	
	Credit card receivables	Canadian residential mortgage loans	Canadian residential mortgage loans	Credit card receivables	Canadian residential mortgage loans
Expected weighted average life of prepayable receivables (in years)	.25	3.53	2.70	.25	4.05
Payment rate	38.00%	19.28%	26.76%	37.02%	27.55%
Excess spread, net of credit losses	4.66	1.30	2.34	3.86	1.05
Discount rate	10.50%	.40% – 3.19%	.40 – 3.07%	10.00%	2.22 – 4.77%
Expected credit losses	3.88	–	–	2.49	–

(1) All rates are annualized except the payment rate for credit card receivables 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 receivables during the period.

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, 2010 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)

	2010		2009	
	Credit card receivables	Canadian residential mortgage loans	Credit card receivables	Canadian residential mortgage loans
Fair value of retained interests	$ 15.3	$ 1,090.1	$ 33.5	$ 1,240.6
Weighted average remaining service life (in years)	.25	2.57 – 4.49	.25	2.90 – 3.77
Payment rate	38.81%	16.07 – 23.74%	38.33%	9.00 – 28.00%
Impact on fair value of 10% adverse change	$ (1.0)	$ (27.4)	$ (2.0)	$ (35.0)
Impact on fair value of 20% adverse change	(1.9)	(53.9)	(4.1)	(68.9)
Excess spread, net of credit losses	3.10%	.97% – 1.87%	5.61%	.8 – 1.98%
Impact on fair value of 10% adverse change	$ (3.8)	$ (123.8)	$ (6.1)	$ (137.8)
Impact on fair value of 20% adverse change	(7.6)	(247.4)	(12.2)	(296.1)
Expected credit losses	3.05%	–%	3.86%	–%
Impact on fair value of 10% adverse change	$ (1.5)	$ –	$ (2.3)	$ –
Impact on fair value of 20% adverse change	(3.1)	–	(4.6)	–
Discount rate	10.00%	1.19% – 2.04%	10.50%	.4 – 2.76%
Impact on fair value of 10% adverse change	$ –	$ (2.1)	$ –	$ (1.8)
Impact on fair value of 20% adverse change	–	(3.9)	(.1)	(4.2)

(1) All rates are annualized except for the credit card receivables 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.

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 receivables at October 31, 2010 was .77% (2009 –.87%). Static pool credit 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

	2010			2009		
	Loan principal	Past due (1)	Net write–offs	Loan principal	Past due (1)	Net write–offs
Retail	$ 262,601	$ 1,782	$ 1,234	$ 245,430	$ 1,746	$ 1,300
Wholesale	73,375	3,777	877	78,927	4,384	1,233
Total loans managed (2)	335,976	5,559	2,111	324,357	6,130	2,533
Less: Loans securitized and managed						
Credit card receivables	3,265	50	129	3,870	57	140
Canadian residential mortgage-backed securities created and sold	28,238	232	–	28,815	204	–
Canadian residential mortgage-backed securities created and retained	9,270	76	–	7,521	53	–
Total loans reported on the Consolidated Balance Sheets	$ 295,203	$ 5,201	$ 1,982	$ 284,151	$ 5,816	$ 2,393

(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.

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

Loan sales (1)

	2010 (2)		2009			2008		
	Wholesale loans (3)	**Commercial mortgage loans**	Wholesale loans (3)	Residential mortgage loans	Commercial mortgage loans	Wholesale loans (3)	Residential mortgage loans	Commercial mortgage loans
Sold	**$ 58**	**$ 129**	$ 25	$ 1,021	$ 23	$ 31	$ 237	$ 70

(1) Gains on whole loan sales are nominal.
(2) No residential mortgage loans were sold during the year.
(3) Includes only the portions that are funded by Royal Bank of Canada.

Note 6 Variable interest entities (VIEs)

The following table provides information about VIEs as at October 31, 2010 and 2009, in which we have significant variable interests, and those we consolidate under AcG-15 because we are the Primary Beneficiary.

	2010		2009	
	Total assets	**Maximum exposure to loss**	Total assets	Maximum exposure to loss
Unconsolidated VIEs in which we have significant variable interests (1)				
Multi-seller conduits (2)	**$ 21,847**	**$ 22,139**	$ 26,181	$ 26,550
Structured finance VIEs (3)	**4,669**	**2,030**	5,907	2,527
Credit investment product VIEs	**502**	**19**	930	505
Third-party conduits	**–**	**–**	575	250
Investment funds	**249**	**61**	84	28
Other	**165**	**39**	340	103
	$ 27,432	**$ 24,288**	$ 34,017	$ 29,963
Consolidated VIEs (4), (5)				
Structured finance VIEs	**$ 2,998**		$ 2,620	
Investment funds	**1,012**		588	
Compensation vehicles	**53**		64	
Other	**3**		3	
	$ 4,066		$ 3,275	

(1) The maximum exposure to loss resulting from our significant variable interests in these VIEs consists mostly of investments, loans, liquidity facilities and fair value of derivatives. We have recognized $2,918 million (2009 – $4,020 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, 2010. Actual assets held by these conduits as at October 31, 2010, were $13,969 million (2009 – $18,908 million).
(3) Our October 31, 2009 comparatives have been revised to present information related to a certain entity on a net basis that was previously presented on a gross basis. The total gross and net assets related to this entity as at October 31, 2009 were $4,177 million and $471 million, respectively.
(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 $76 million (2009 – $120 million), Trading securities of $740 million (2009 – $272 million), Available-for-sale securities of $1,786 million (2009 – $1,234 million), Loans of $1,346 million (2009 – $1,496 million) and Other assets of $65 million (2009 – $91 million). The compensation vehicles hold $53 million (2009 – $64 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 of a consolidated VIE have recourse only to the assets of that VIE and do not have recourse to our general assets unless we breach our contractual obligations relating to that VIE, provide liquidity facilities or credit enhancement facilities to, or enter into derivative transactions with, that VIE.

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 (greater than fifty percent) 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 held 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.

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 subject 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 certain of these U.S. ARS VIEs where our expected loss calculations indicate that we are exposed to a majority of the expected loss through our note holdings in these entities.

We also sold ARS into Tender Option Bond (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 successfully 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. We consolidate certain of these ARS TOB programs where our expected loss calculations indicate 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 exposes us to interest rate basis risk and may provide liquidity facilities and/or 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.

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 commitments 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.

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 to the referenced funds, and we hedge our exposure from these derivatives by investing in those referenced funds. We consolidate the referenced 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 information about our VIEs are provided in Note 31.

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.

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 payments in one currency for the receipt of payments in another currency. Cross currency interest rate swaps may 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 applied hedge accounting to anticipated transactions and 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, 2010, after-tax net unrealized losses of $334 million (2009 – after-tax net unrealized gain of $156 million) were recognized in AOCI, representing the cumulative effective portions of our cash flow hedges.

After-tax unrealized losses relating to de-designated hedges of $386 million (before-tax unrealized losses of $269 million) included in AOCI as at October 31, 2010 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

	2010 (1)				2009 (1)			
	Designated as hedging instruments in hedging relationships				Designated as hedging instruments in hedging relationships			
	Cash flow hedges	Fair value hedges	Net investment hedges	Not designated in a hedging relationship (2)	Cash flow hedges	Fair value hedges	Net investment hedges	Not designated in a hedging relationship (2)
Assets								
Derivative instruments	$ 505	$ 2,059	$ 307	$ 103,375	$ 1,130	$ 2,107	$ 139	$ 88,797
Liabilities								
Derivative instruments	$ 812	$ 60	$ 119	$ 107,919	$ 1,493	$ 82	$ 327	$ 82,488
Non-derivative instruments	–	1,002	8,732	n.a.	–	278	5,233	n.a.

(1) All derivative instruments are carried at fair value while all non-derivative instruments are carried at amortized cost.
(2) Derivative liabilities include stable value contracts on $170 million (2009 – $257 million) of bank-owned life insurance policies and $2 million (2009 – $3 million) of 401(k) plans.
n.a. not applicable

Results of hedge activities recorded in Net income and OCI

	2010			2009		
	Net gains (losses) included in Non–interest income	Net gains (losses) included in Net interest income	After-tax unrealized gains (losses) included in OCI	Net gains (losses) included in Non-interest income	Net gains (losses) included in Net interest income	After-tax unrealized gains (losses) included in OCI
Fair value hedges						
Ineffective portion	$ (5)	$ n.a.	$ n.a.	$ 9	$ n.a.	$ n.a.
Cash flow hedges						
Ineffective portion	(20)	n.a.	n.a.	9	n.a.	n.a.
Effective portion	n.a.	n.a.	(334)	n.a.	n.a.	156
Reclassified to income during the period (1)	n.a.	(118)	n.a.	n.a.	56	n.a.
Net investment hedges						
Foreign currency (losses)	n.a.	n.a.	(1,785)	n.a.	n.a.	(2,973)
Gains (losses) from hedges	n.a.	n.a.	1,479	n.a.	n.a.	2,399
	$ (25)	$ (118)	$ (639)	$ 18	$ 56	$ (418)

(1) After-tax losses of $82 million were reclassified from AOCI to income for the year ended October 31, 2010 (2009 – gains of $38 million).
n.a. not applicable

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

	2010						2009	
	Term to maturity							
	Within 1 year	1 to 5 years	Over 5 years (1)	Total	Trading	Other than Trading	Trading	Other than Trading
Over-the-counter contracts								
Interest rate contracts								
Forward rate agreements	$ 560,552	$ 188,012	$ –	$ 748,564	$ 748,564	$ –	$ 356,064	$ –
Swaps	1,316,860	1,645,185	829,809	3,791,854	3,585,016	206,838	2,467,890	208,104
Options purchased	21,888	32,555	31,801	86,244	86,244	–	113,067	324
Options written	23,560	48,037	84,429	156,026	156,026	–	176,826	–
Foreign exchange contracts								
Forward contracts	860,528	31,738	579	892,845	821,974	70,871	585,913	58,583
Cross currency swaps	6,029	6,881	12,056	24,966	24,789	177	25,198	288
Cross currency interest rate swaps	94,034	241,216	114,243	449,493	414,750	34,743	315,253	36,854
Options purchased	29,947	7,996	2,456	40,399	40,392	7	38,399	3
Options written	29,935	7,969	2,004	39,908	39,908	–	37,746	1
Credit derivatives (2)	8,026	57,273	24,252	89,551	88,072	1,479	127,012	2,173
Other contracts (3)	41,275	39,962	11,466	92,703	90,946	1,757	85,248	1,216
Exchange–traded contracts								
Interest rate contracts								
Futures – long positions	34,281	18,314	42,655	95,250	95,241	9	91,133	48
Futures – short positions	39,135	18,212	56,372	113,719	113,719	–	98,490	–
Options purchased	32,205	4,557	97	36,859	36,859	–	25,666	–
Options written	19,149	3,572	–	22,721	22,721	–	28,602	–
Foreign exchange contracts								
Futures – long positions	140	–	–	140	140	–	14	–
Futures – short positions	28	–	–	28	28	–	32	–
Other contracts (3)	92,507	36,990	9,503	139,000	139,000	–	119,625	–
	$ 3,210,079	$ 2,388,469	$ 1,221,722	$ 6,820,270	$ 6,504,389	$ 315,881	$ 4,692,178	$307,594

(1) Includes contracts maturing in over 10 years with a notional value of $337.9 billion (2009 – $287.0 billion). The related gross positive replacement cost is $21.7 billion (2009 – $14.1 billion).
(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 $1.5 billion (2009 – $2.2 billion) are economic hedges. Trading credit derivatives comprise protection purchased of $48.0 billion (2009 – $68.6 billion) and protection sold of $40.1 billion (2009 – $58.4 billion); other–than-trading credit derivatives comprise protection purchased of $1.5 billion (2009 –$2.2 billion) and protection sold of $nil (2009 – $10 million).
(3) Comprises precious metal, commodity, stable value and equity derivative contracts.

Fair value of derivative instruments

	2010				2009			
	Average fair value for year ended (1)		Year-end fair value		Average fair value for year ended (1)		Year-end fair value	
	Positive	Negative	Positive	Negative	Positive	Negative	Positive	Negative
Held or issued for trading purposes								
Interest rate contracts								
Forward rate agreements	$ 288	$ 245	$ 316	$ 286	$ 336	$ 274	$ 221	$ 196
Swaps	52,912	48,114	62,197	57,351	56,487	51,138	47,660	43,119
Options purchased	1,601	–	2,099	–	1,744	–	1,712	–
Options written	–	2,009	–	2,486	–	2,353	–	2,007
	54,801	50,368	64,612	60,123	58,567	53,765	49,593	45,322
Foreign exchange contracts								
Forward contracts	9,988	9,820	12,201	12,134	17,465	17,631	8,790	8,923
Cross currency swaps	2,001	1,690	1,902	1,540	2,004	1,665	2,219	1,614
Cross currency interest rate swaps	11,128	13,838	12,211	17,797	13,787	12,725	10,846	9,993
Options purchased	1,266	–	1,421	–	1,685	–	1,377	–
Options written	–	1,110	–	1,190	–	1,591	–	1,385
	24,383	26,458	27,735	32,661	34,941	33,612	23,232	21,915
Credit derivatives (2)	2,943	2,500	1,996	1,690	11,739	10,343	5,192	4,398
Other contracts (3)	7,081	8,400	7,769	10,360	12,298	10,774	8,148	8,112
	$ 89,208	$ 87,726	$ 102,112	$ 104,834	$ 117,545	$ 108,494	$ 86,165	$ 79,747
Held or issued for other than trading purposes								
Interest rate contracts								
Swaps			$ 2,974	$ 1,976			$ 4,334	$ 2,807
Options purchased			–	–			9	–
			2,974	1,976			4,343	2,807
Foreign exchange contracts								
Forward contracts			533	480			466	490
Cross currency swaps			2	3			4	7
Cross currency interest rate swaps			1,450	1,843			1,866	1,587
			1,985	2,326			2,336	2,084
Credit derivatives (2)			7	28			128	20
Other contracts (3)			141	–			102	–
			5,107	4,330			6,909	4,911
Total gross fair values before netting (4)			107,219	109,164			93,074	84,658
Valuation adjustments determined on a pooled basis			(719)	–			(633)	–
Impact of master netting agreements								
With intent to settle net or simultaneously (5)			(254)	(254)			(268)	(268)
			$ 106,246	$ 108,910			$ 92,173	$ 84,390
Impact of master netting agreements								
Without intent to settle net or simultaneously (6)			(76,383)	(76,383)			(62,868)	(62,868)
			$ 29,863	$ 32,527			$ 29,305	$ 21,522

(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.
(4) Total gross fair values before netting include market and credit valuation adjustments that are determined on an instrument-specific basis. Certain warrants and loan commitments that meet the definition of derivatives are also included.
(5) Impact of offsetting credit exposures on contracts where we have both a legally enforceable netting agreement in place and we intend to settle the contracts on either a net basis or simultaneously.
(6) Additional impact of offsetting credit exposures on contracts where we have a legally enforceable 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

	2010				2009
	Less than 1 year	1 to 5 years	Over 5 years	Total	Total
Derivative assets (1)	$ 22,213	$38,485	$45,548	$106,246	$92,173
Derivative liabilities (2)	23,662	40,635	44,613	108,910	84,390

(1) Market and credit valuation adjustments that are determined on an instrument-specific basis and on a pooled basis are included.
(2) Includes stable value contracts on $170 million (2009 – $257 million) of bank-owned life insurance policies and $2 million (2009 – $3 million) of 401(k) plans.

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 $2,278 million (2009 – $3,234 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 weighted amount is determined by applying the standard OSFI-defined measures of counterparty risk to the credit equivalent amount.

Derivative-related credit risk

	2010 (1)			2009 (1)		
	Replacement cost	Credit equivalent amount (2)	Risk-weighted balance (3)	Replacement cost	Credit equivalent amount (2)	Risk-weighted balance (3)
Interest rate contracts						
Forward rate agreements	$ 41	$ 479	$ 91	$ 152	$ 365	$ 352
Swaps	14,081	17,693	6,577	11,794	15,773	5,485
Options purchased	356	562	269	466	975	316
	14,478	18,734	6,937	12,412	17,113	6,153
Foreign exchange contracts						
Forward contracts	4,290	8,954	2,024	3,280	6,663	1,214
Swaps	3,709	12,956	3,101	4,697	12,744	2,888
Options purchased	1,035	1,716	583	892	1,504	346
	9,034	23,626	5,708	8,869	20,911	4,448
Credit derivatives (4)	937	2,379	2,553	2,409	4,140	4,096
Other contracts (5)	3,849	6,776	5,039	2,886	4,868	2,476
Total	$ 28,298	$ 51,515	$ 20,237	$ 26,576	$ 47,032	$ 17,173

(1) The amounts presented are net of master netting agreements.
(2) The total credit equivalent amount includes collateral applied of $7.4 billion (2009 – $7.3 billion).
(3) The risk-weighted 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 $7 million (2009 – $128 million). Credit derivatives issued for other-than-trading purposes related to sold protection with a replacement cost of $nil (2009 – $nil), credit equivalent amount of $nil (2009 – $10 million) and risk-adjusted asset amount of $nil (2009 – $3 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

	2010								
	Risk rating (1)					Counterparty type (2)			
	AAA, AA	A	BBB	BB or lower	Total	Banks	OECD governments	Other	Total
Gross positive replacement cost	$ 31,724	$ 49,339	$ 16,544	$ 7,334	$ 104,941	$ 68,475	$ 11,118	$ 25,348	$ 104,941
Impact of master netting agreements	24,228	38,862	10,889	2,658	76,637	55,638	8,141	12,858	76,637
Replacement cost (after netting agreements) (3)	$ 7,496	$ 10,477	$ 5,655	$ 4,676	$ 28,304	$ 12,837	$ 2,977	$ 12,490	$ 28,304
Replacement cost (after netting agreements) – 2009 (3)	$ 9,349	$ 9,991	$ 4,077	$ 3,287	$ 26,704	$ 11,166	$ 2,835	$ 12,703	$ 26,704

(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 $7 million (2009 – $128 million).

Note 8 Premises and equipment

	2010			2009		
	Cost	Accumulated depreciation	Net book value	Cost	Accumulated depreciation	Net book value
Land	$ 236	$ –	$ 236	$ 250	$ –	$ 250
Buildings	1,002	(498)	504	942	(479)	463
Computer equipment	2,041	(1,512)	529	2,018	(1,537)	481
Furniture, fixtures and other equipment	1,485	(993)	492	1,401	(972)	429
Leasehold improvements	1,745	(1,003)	742	1,642	(898)	744
	$ 6,509	$ (4,006)	$ 2,503	$ 6,253	$ (3,886)	$ 2,367

The depreciation expense for premises and equipment for 2010 was $410 million (2009 – $389 million; 2008 – $318 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:

	2010	2009
Consolidated Balance Sheets		
Assets (1)	$ 15,465	$ 15,502
Liabilities	14,213	14,438

(1) Includes $107 million (2009 – $73 million) of goodwill and $154 million (2009 – $137 million) of intangible assets.

	2010	2009	2008
Consolidated Statements of Income			
Net interest income	$ 57	$ 152	$ 162
Non-interest income	528	496	647
Non-interest expense	541	593	602
Net income	29	34	135
Consolidated Statements of Cash Flows			
Cash flows from (used in) operating activities	$ 1,916	$ 446	$ (1,433)
Cash flows from (used in) investing activities	(1,594)	2,869	(2,158)
Cash flows (used in) from financing activities	(260)	(3,328)	3,713

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 Royal Bank of Canada are as follows:

	2010	2009	2008
Net interest income	$ 11	$ 49	$ 145
Non-interest income	28	25	28
Non-interest expense	31	37	38

Note 10 Goodwill and other intangibles

Goodwill

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, 2010 (2009 – $ 1 billion; 2008 – $nil).

The following tables disclose the changes in goodwill during 2009 and 2010.

	Canadian Banking	Wealth Management	Insurance (1)	International Banking	Capital Markets	Total
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
Goodwill acquired during the year	–	–	–	35	2	37
Other adjustments (2)	(5)	(79)	(14)	(203)	(40)	(341)
Balance at October 31, 2010	$ 1,931	$ 2,066	$ 126	$ 3,040	$ 901	$ 8,064

(1) Other adjustments for 2010 include $7 million of goodwill attributable to the sale of Liberty Life Insurance Company. Refer to Note 11.
(2) Other adjustments primarily include the impact of foreign exchange translations on foreign currency-denominated goodwill.

Note 10 Goodwill and other intangibles (continued)

Other intangibles

	2010			2009		
	Gross carrying amount	Accumulated amortization (1)	Net carrying amount	Gross carrying amount	Accumulated amortization (1)	Net carrying amount
Core deposit intangibles	$ 648	$ (387)	$ 261	$ 738	$ (378)	$ 360
Customer lists and relationships	1,074	(420)	654	1,121	(388)	733
Computer software	2,482	(1,483)	999	2,136	(1,213)	923
	$ 4,204	$ (2,290)	$ 1,914	$ 3,995	$ (1,979)	$ 2,016

(1) Total amortization expense for 2010 was $500 million (2009 – $462 million).

Other intangibles presented in the Consolidated Balance Sheet include $16 million of mortgage servicing rights that are carried at fair value (2009 – $17 million). The projected amortization of Other intangibles for each of the years ending October 31, 2011 to October 31, 2015 is approximately $146 million. There was $1 million in writedowns of intangible assets due to impairment for the year ended October 31, 2010 (2009 – $nil).

Note 11 Significant acquisitions and dispositions

Pending acquisition

On October 18, 2010, RBC Wealth Management and BlueBay Asset Management plc (BlueBay) announced that they had reached an agreement on terms for a recommended acquisition of BlueBay. Under the terms of the acquisition, BlueBay shareholders will be entitled to receive 485 pence in cash for each BlueBay share, for a total purchase price of approximately £963 million (C$1.56 billion). This transaction is subject to regulatory approval and other customary closing conditions and is expected to be completed by the end of December 2010.

Dispositions

On October 22, 2010, we announced our intention to sell Liberty Life Insurance Company (Liberty Life), our U.S. life insurance business, to Athene Holding Ltd. for US$628 million (C$641 million). The transaction is expected to close in early 2011, and this is subject to regulatory approval and other customary closing conditions. An estimated loss of $116 million, before and after-taxes, has been recorded in Non-interest income – Other. This amount includes a write-off of $7 million of goodwill. Refer to Note 10.

Our consolidated financial statements include the results of Liberty Life for the year ended October 31, 2010. Selected financial information for Liberty, including the loss on sale, is set out below.

	2010	2009
Non interest income	$ 1,581	$ 1,652
Insurance policyholder benefits, claims and actuarial expenses	(1,562)	(1,567)
Net interest expense	(85)	(102)
Net loss before tax	(66)	(17)
Net loss	$ (78)	$ (30)

	October 31 2010	October 31 2009
Total assets	$ 5,366	$ 4,591
Total liabilities	$ 4,638	$ 3,899

Note 12 Other assets

	2010	2009
Receivable from brokers, dealers and clients	$ 4,263	$ 3,185
Accrued interest receivable	1,685	1,735
Investment in associated corporations and limited partnerships	171	637
Insurance-related assets (1)	1,563	1,297
Net future income tax asset (refer to Note 23)	1,648	1,726
Prepaid pension benefit cost (2) (refer to Note 20)	1,992	1,028
Other	7,953	5,325
	$ 19,275	$ 14,933

(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.

	2010				2009
	Demand (1)	Notice (2)	Term (3), (4), (5)	Total	Total
Personal	$ 85,774	$ 12,206	$ 63,713	$ 161,693	$ 152,328
Business and government (4), (5)	111,490	2,394	133,313	247,197	220,772
Bank	3,607	11	20,525	24,143	25,204
	$ 200,871	$ 14,611	$ 217,551	$ 433,033	$ 398,304
Non-interest-bearing					
Canada				$ 47,337	$ 41,175
United States				4,988	4,893
Other International				3,639	3,041
Interest-bearing					
Canada (4), (5)				185,636	174,345
United States				62,359	47,930
Other International				129,074	126,920
				$ 433,033	$ 398,304

(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, 2010, the balance of term deposits also includes senior deposit Notes we have issued to provide long-term funding of $60 billion (2009 – $58 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)

	2010	2009 (2)
Within 1 year	$ 340,820	$ 295,910
1 to 2 years	31,370	42,277
2 to 3 years	26,585	27,751
3 to 4 years	8,340	15,916
4 to 5 years	11,992	6,194
Over 5 years	13,926	10,256
	$ 433,033	$ 398,304

(1) The aggregate amount of term deposits in denominations of 100,000 or more as at October 31, 2010 was $181 billion (2009 – $167 billion).
(2) Certain amounts have been reclassified from those previously reported.

The following table presents the average deposit balances and average rate of interest during 2010 and 2009.

Average deposit balances and average of interest paid rates

	Average balances		Average rates	
	2010	2009 (1)	2010	2009 (1)
Canada	$ 221,555	$ 210,873	1.19%	1.40%
United States	59,364	63,507	0.56	1.23
Other International	129,760	147,578	1.63	2.06
	$ 410,679	$ 421,958	1.24%	1.60%

(1) Certain amounts have been reclassified from those previously reported.

Note 14 Insurance

Insurance claims and policy benefit liabilities

	2010	2009
Life and Health	$ 9,842	$ 8,151
Property and Casualty	675	532
Reinsurance	233	239
Total	$ 10,750	$ 8,922
Future policy benefit liabilities	9,746	8,093
Claims liabilities	1,004	829
Total	$ 10,750	$ 8,922

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

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

	2010	2009	2008
Gross premiums	$ 5,541	$ 4,884	$ 3,760
Ceded premiums	(1,057)	(995)	(896)
	$ 4,484	$ 3,889	$ 2,864

Note 15 Other liabilities

	2010	2009
Short-term borrowings of subsidiaries	$ 1,664	$ 3,295
Payable to brokers, dealers and clients	3,408	4,922
Accrued interest payable	1,958	2,052
Accrued pension and other post-employment benefit expense (1) (refer to Note 20)	1,477	1,436
Insurance-related liabilities	560	488
Dividends payable	778	775
Payroll and related compensation	5,357	5,010
Trade payables and related accounts	1,893	1,500
Taxes payable	109	1,946
Cheques and other items in transit	2,675	2,099
Other	9,469	7,484
	$ 29,348	$ 31,007

(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	2010	2009
November 14, 2014		10.00%		259	264
January 25, 2015	January 25, 2010 (1)	7.10% (2)		–	506
June 24, 2015	June 24, 2010 (1)	3.70% (2)		–	809
April 12, 2016	April 12, 2011 (3)	6.30% (2)		405	403
March 11, 2018	March 11, 2013 (4)	4.84% (5)		1,050	1,048
June 6, 2018	June 6, 2013 (6)	5.00% (7)		1,002	1,013
November 4, 2018	November 4, 2013 (8)	5.45% (2)		1,096	1,106
June 15, 2020	June 15, 2015 (9)	4.35% (10)		1,562	–
June 8, 2023		9.30%		110	110
June 26, 2037	June 26, 2017 (11)	2.86% (12)	JPY 10,000	120	110
October 1, 2083	(13)	(14)		224	224
June 6, 2085	(13)	(15)	US$184	187	205
June 18, 2103	June 18, 2009 (16)	5.95% (17)		676	673
				$ 6,691	$ 6,471
Deferred financing costs				(10)	(10)
				$ 6,681	$ 6,461

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 22 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 42.5 basis points and (ii) par value, and thereafter at any time at par value.
(5) 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.
(6) Redeemable at any time prior to the earliest par value redemption date at the greater of (i) the fair value of the subordinated debentures based on the yield on Government of Canada bonds plus 44 basis points and (ii) par value, and thereafter at any time at par value.
(7) 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.
(8) Redeemable at any time prior to the earliest par value redemption date at the greater of (i) the fair value of the subordinated debentures based on the yield on Government of Canada bonds plus 14 basis points and (ii) par value, and thereafter at any time at par value.
(9) Redeemable on or after June 15, 2015 at par value.
(10) Interest at stated interest rate until earliest par value redemption date, and thereafter at a rate of 1.41% above the 90-day Bankers' Acceptance rate.
(11) Redeemable on or after June 26, 2017 at par value.
(12) Fixed interest rate at 2.86% per annum, payable semi-annually.
(13) Redeemable on any interest payment date at par value.
(14) Interest at a rate of 40 basis points above the 30-day Bankers' Acceptance rate.
(15) 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.
(16) 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.
(17) 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.

On November 1, 2010 , we issued $1.5 billion of subordinated debentures that bear interest at a fixed rate of 3.18% per annum (paid semi-annually) until November 2, 2015, and at the 90-day Banker's Acceptance rate plus 1.21% thereafter until their maturity on November 2, 2020 (paid quarterly).

Maturity schedule

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

	2010
Within 1 year	$ –
1 to 5 years	259
5 to 10 years	5,115
Thereafter	1,317
	$ 6,691

Note 17 Trust capital securities

In prior years, we issued 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.

We also issued non-voting RBC Trust Capital Securities Series 2010, 2011, 2015 and 2008-1 (RBC TruCS 2010, 2011, 2015 and 2008-1) through the Trust. RBC TruCS 2010 were redeemed for cash, at a redemption price of $1,000 per unit for a total of $650 million on June 30, 2010. RBC TruCS 2011 are classified as Trust capital securities. The proceeds of the RBC TruCS 2011 were used to fund the Trust's acquisition of trust assets. Holders of RBC TruCS 2011 are eligible to receive semi-annual non-cumulative fixed cash distributions.

Unlike the RBC TruCS 2011, the holders of RBC TruCS 2015 and 2008-1 do not have any conversion rights or any other redemption rights. As a result, upon consolidation of the Trust, RBC TruCS 2015 and 2008-1 are classified as Non-controlling interest in subsidiaries (refer to Note 19). Holders of RBC TruCS 2015 and 2008-1 are eligible to receive semi-annual non-cumulative fixed cash distributions until December 31, 2015 and June 30, 2018, respectively, and a floating-rate cash distribution thereafter.

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

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

In 2007, we issued $1 billion innovative subordinated debentures, RBC TSNs – Series A, through Trust III. Trust III is a closed-end trust. 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, 2010 and 2009.

Issuer	Issuance date	Distribution dates	Annual yield	Redemption date At the option of the issuer	Conversion date At the option of the holder	2010 Principal amount	2009 Principal amount
RBC Capital Trust (1),(2),(3),(4),(5),(6),(7)							
Included in Trust capital securities							
650,000 Trust Capital Securities – Series 2010 (8)	July 24, 2000	June 30, December 31	7.288%	December 31, 2005	December 31, 2010	**$ –**	$ 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
						$ 750	$ 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% (9)	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% (9)	June 30, 2013	Holder does not have conversion option	**500**	500
						$ 2,450	$ 3,100
RBC Capital Trust II (2),(3),(4),(6),(7),(10)							
900,000 Trust Capital Securities – Series 2013	July 23, 2003	June 30, December 31	5.812%	December 31, 2008	Any time	**$ 900**	$ 900
RBC Subordinated Notes Trust (3),(4),(5),(6),(7),(11),(12)							
$1 billion 4.58% Trust Subordinated Notes – Series A	April 30, 2007	April 30, October 30	4.584%	Any time	Holder does not have conversion option	**$ 1,000**	$ 1,000

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

(1) Subject to the approval of OSFI, the Trust may, in whole (but not in part), on the Redemption date specified above, and on any Distribution date thereafter, redeem the RBC TruCS 2008-1, 2011 and 2015, without the consent of the holders.

(2) Subject to the approval of OSFI, upon occurrence of a special event as defined, prior to the Redemption date specified above, the trusts may redeem all, but not part of, RBC TruCS 2008-1, 2011, 2013 or 2015 without the consent of the holders.

(3) Issuer Redemption Price: The RBC TruCS 2008-1 may be redeemed for cash equivalent to (i) the Early Redemption Price if the redemption occurs prior to June 30, 2018 or (ii) the Redemption Price if the redemption occurs on or after June 30, 2018. The RBC TruCS 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, 2011, plus 40 basis points, for RBC TruCS 2011 and a maturity date of December 31, 2013 and 2015, plus 23 basis points and 19.5 basis points, for RBC TruCS 2013 and 2015, respectively; and a maturity date of April 30, 2012, plus 11 basis points for RBC TSNs – Series A.

(4) Automatic Exchange Event: Without the consent of the holders, each RBC TruCS 2008-1 will be exchanged automatically for 40 of our non-cumulative redeemable Bank Preferred Shares Series AI, each RBC TruCS 2011, 2013 and 2015 will be exchanged automatically for 40 of our non-cumulative redeemable First Preferred Shares Series R, T and Z, respectively, and each RBC TSN-Series A will be exchanged automatically for an equal principal amount of Bank Series 10 Subordinated Notes upon occurrence of any one of the following events: (i) proceedings are commenced for our winding-up; (ii) OSFI takes control of us; (iii) we have Tier 1 capital ratio of less than 5% or Total capital ratio of less than 8%; or (iv) OSFI has directed us to increase our capital or provide additional liquidity and we elect such automatic exchange or we fail to comply with such direction. The Bank Preferred Shares Series AI and the First Preferred Shares Series T and Z pay semi-annual non-cumulative cash dividends and Series T is convertible at the option of the holder into a variable number of common shares.

(5) From time to time, we purchase some of the innovative capital instruments and hold them temporarily. As at October 31, 2010, we held none of RBC TruCS 2008-1 (2009 – $5 million), none of RBC TruCS 2010 (2009 – $2 million), $22 million of RBC TruCS 2011 (2009 – $2 million) and $4 million of RBC TSNs – Series A (2009 – $10 million) as treasury holdings which were deducted from regulatory capital.

(6) 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, 2010, $3,327 million represents Tier 1 capital (2009 – $3,991 million), $1,023 million represents Tier 2B capital (2009 – $1,017 million) and $26 million of our treasury holdings of innovative capital is deducted for regulatory capital purposes (2009 – $19 million).

(7) Holder Exchange Right: Holders of RBC TruCS 2011 may exchange, on any distribution date on or after the conversion date specified above, RBC TruCS 2011 for 40 non-cumulative redeemable Bank First Preferred Shares, Series R. 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 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) On June 30, 2010, the Trust redeemed all issued and outstanding RBC TruCS 2010 for cash, at a redemption price of $1,000 per unit for a total of $650 million.

(9) 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.

(10) 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.

(11) 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.

(12) 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 (1)

	2010			2009			2008		
	Number of shares (000s)	Amount	Dividends declared per share	Number of shares (000s)	Amount	Dividends declared per share	Number of shares (000s)	Amount	Dividends declared per share
Preferred share liabilities									
First preferred									
Non-cumulative Series N (2)	–	$ –	$ –	–	$ –	$ –	–	$ –	$ .88
Preferred share liabilities, net of treasury holdings	–	$ –		–	$ –		–	$ –	
Preferred shares									
First preferred (3)									
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	1.15
Non-cumulative Series AD	10,000	250	1.13	10,000	250	1.13	10,000	250	1.13
Non-cumulative Series AE	10,000	250	1.13	10,000	250	1.13	10,000	250	1.13
Non-cumulative Series AF	8,000	200	1.11	8,000	200	1.11	8,000	200	1.11
Non-cumulative Series AG	10,000	250	1.13	10,000	250	1.13	10,000	250	1.13
Non-cumulative Series AH	8,500	213	1.41	8,500	213	1.41	8,500	213	.81
Non-cumulative, 5-Year Rate Reset Series AJ	16,000	400	1.25	16,000	400	1.49	16,000	400	–
Non-cumulative, 5-Year Rate Reset Series AL	12,000	300	1.40	12,000	300	1.48	–	–	–
Non-cumulative, 5-Year Rate Reset Series AN	9,000	225	1.56	9,000	225	1.50	–	–	–
Non-cumulative, 5-Year Rate Reset Series AP	11,000	275	1.56	11,000	275	1.34	–	–	–
Non-cumulative, 5-Year Rate Reset Series AR	14,000	350	1.56	14,000	350	1.27	–	–	–
Non-cumulative, 5-Year Rate Reset Series AT	11,000	275	1.56	11,000	275	1.11	–	–	–
Non-cumulative, 5-Year Rate Reset Series AV	16,000	400	1.56	16,000	400	1.01	–	–	–
Non-cumulative, 5-Year Rate Reset Series AX	13,000	325	1.53	13,000	325	.87	–	–	–
		$ 4,813			$ 4,813			$ 2,663	
Common shares									
Balance at beginning of year	1,417,610	$ 13,075		1,341,260	$ 10,384		1,276,260	$ 7,300	
Issued on new acquisitions	–	–		–	–		59,675	2,937	
Issued for general business purpose	–	–		65,263	2,301		–	–	
Issued under Dividend Reinvestment Plan	2,862	161		5,279	232		–	–	
Issued under the stock option plan (4)	4,450	142		5,808	158		6,445	153	
Purchased for cancellation	–	–		–	–		(1,120)	(6)	
Balance at end of year	1,424,922	$ 13,378	$ 2.00	1,417,610	$ 13,075	$ 2.00	1,341,260	$10,384	$ 2.00
Treasury shares – Preferred shares									
Balance at beginning of year	(65)	$ (2)		(260)	$ (5)		(249)	$ (6)	
Sales	313	8		618	13		1,060	23	
Purchases	(334)	(8)		(423)	(10)		(1,071)	(22)	
Balance at end of year	(86)	$ (2)		(65)	$ (2)		(260)	$ (5)	
Treasury shares – Common shares									
Balance at beginning of year	(2,127)	$ (95)		(2,258)	$ (104)		(2,444)	$ (101)	
Sales	1,262	64		1,364	59		1,269	51	
Purchases	(854)	(50)		(1,233)	(50)		(1,083)	(54)	
Balance at end of year	(1,719)	$ (81)		(2,127)	$ (95)		(2,258)	$ (104)	

(1) The 6.75 million exchangeable shares of a wholly owned subsidiary of Royal Bank of Canada issued for the acquisition of Phillips, Hager & North Investment Management Ltd. (PH&N) are not included in this table.

(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 $7 million (2009 – $6 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 $17 million (2009 – $13 million), and from renounced tandem SARs, net of related income taxes, which are nominal for the current period (2009 – $7 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
Preferred shares								
First preferred								
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, 2010 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, 2010, 57.5 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)

Normal Course Issuer Bid

Details of common shares repurchased under NCIBs during 2010, 2009 and 2008 are given below.

	2010				2009				2008			
NCIB period	**Number of shares eligible for repurchase (000s)**	**Number of shares repurchased (000s)**	**Average cost per share**	**Amount**	Number of shares eligible for repurchase (000s)	Number of shares repurchased (000s)	Average cost per share	Amount	Number of shares eligible for repurchase (000s)	Number of shares repurchased (000s)	Average cost per share	Amount
November 1, 2009 – October 31, 2010	20,000	–	$ –	$ –	–	–	$ –	$ –	–	–	$ –	$ –
November 1, 2008 – October 31, 2009	–	–	–	–	20,000	–	–	–	–	–	–	–
November 1, 2007 – October 31, 2008	–	–	–	–	–	–	–	–	20,000	1,120	49.50	55

Note 19 Non-controlling interest in subsidiaries

	2010	2009
RBC Trust Capital Securities (TruCS)		
– Series 2015	$ 1,219	$ 1,219
– Series 2008-1	511	506
Consolidated VIEs	163	7
Others	363	339
	$ 2,256	$ 2,071

We consolidate VIEs in which we are the Primary Beneficiary. These VIEs include structured finance VIEs, investment funds, 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, 2010, $20 million (2009 – $20 million) of accrued interest was included in RBC TruCS Series 2015. Series 2008-1 includes $11 million (2009 – $11 million) of accrued interest, net of $nil (2009 – $5 million) 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, 2010. Based on the results of this valuation, we increased our pension plan contributions for 2010 for an amount that is in excess of the minimum funding requirement set by pension regulators.

For 2010, total contributions to our pension and other post-employment benefit plans were $1,318 million and $43 million (2009 – $757 million and $40 million), respectively. For 2011, total contributions to pension plans and other post-employment benefit plans are expected to be approximately $276 million and $51 million, respectively. For our principal pension plans, the next actuarial valuation for funding purposes will be completed on January 1, 2011.

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)	
	2010	2009	**2010**	2009
Change in fair value of plan assets				
Opening fair value of plan assets	**$ 6,343**	$ 5,826	**$ 26**	$ 41
Actual return on plan assets	**644**	272	**1**	1
Company contributions (3)	**1,288**	610	**43**	40
Plan participant contributions	**33**	31	**8**	7
Benefits paid	**(369)**	(353)	**(66)**	(65)
Other	**(3)**	7	**1**	2
Change in foreign currency exchange rate	**(39)**	(50)	**–**	–
Closing fair value of plan assets	**$ 7,897**	$ 6,343	**$ 13**	$ 26
Change in benefit obligation				
Opening benefit obligation	**$ 6,783**	$ 6,214	**$ 1,324**	$ 1,315
Service cost	**151**	141	**19**	14
Interest cost	**425**	413	**83**	87
Plan participant contributions	**33**	31	**8**	7
Actuarial (gain) loss	**1,118**	389	**60**	(27)
Benefits paid	**(369)**	(353)	**(66)**	(65)
Plan amendments and curtailments	**1**	(1)	**–**	–
Other	**(7)**	9	**1**	2
Change in foreign currency exchange rate	**(51)**	(60)	**(5)**	(9)
Closing benefit obligation	**$ 8,084**	$ 6,783	**$ 1,424**	$ 1,324
Funded status				
Excess of benefit obligation over plan assets	**$ (187)**	$ (440)	**$ (1,411)**	$ (1,298)
Unrecognized net actuarial loss	**2,082**	1,276	**237**	206
Unrecognized transitional (asset) obligation	**(4)**	(6)	**1**	1
Unrecognized prior service cost	**27**	44	**(236)**	(259)
Contributions between September 30 and October 31 (3)	**3**	65	**3**	3
Prepaid asset (accrued liability) as at October 31	**$ 1,921**	$ 939	**$ (1,406)**	$ (1,347)
Amounts recognized in our Consolidated Balance Sheets consist of:				
Other assets	**$ 1,992**	$ 1,028	**$ –**	$ –
Other liabilities	**(71)**	(89)	**(1,406)**	(1,347)
Net amount recognized as at October 31	**$ 1,921**	$ 939	**$ (1,406)**	$ (1,347)
Weighted average assumptions to calculate benefit obligation				
Discount rate	**5.20%**	6.40%	**5.25%**	6.39%
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 $7.3 billion (2009 – $6.1 billion) and $7.0 billion (2009 – $5.4 billion), 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 5.3% for medical decreasing to an ultimate rate of 3.3% in 2026 and 4.1% for dental decreasing to an ultimate rate of 4.0% in 2011.
(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, 2009 to September 30, 2010. In order to arrive at the total contributions for the year ended October 31, 2010, 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
2011	**400**	**70**
2012	**407**	**72**
2013	**418**	**75**
2014	**431**	**79**
2015	**444**	**82**
2016-2020	**2,395**	**462**

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 1.2 million (2009 – 1.4 million) of our common shares having a fair value of $67 million (2009 – $80 million). Dividends amounting to $3 million (2009 – $2 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 allocations of defined benefit pension plans (1)

	2010		2009	
	Target	Actual	Target	Actual
Equity securities	**41%**	**44%**	48%	49%
Debt securities	**41%**	**43%**	47%	45%
Other	**18%**	**13%**	5%	6%
Total	**100%**	**100%**	100%	100%

(1) Target asset allocation of the pension plans is based on the Canadian principal plans, the assets of which represent 88% of the total assets of all the plans.

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 pension plan asset mix policy was developed within an asset/liability framework. Factors taken into consideration in developing our asset allocation include but are not limited to the following:

(i) the nature of the pension plans' underlying benefit obligations, including the duration and the economic structure of the liabilities;
(ii) the pension plans' demographics, including normal retirements, terminations, deaths and new entrants, based on the assumptions used for funding valuation purposes;
(iii) the financial position of the pension plans;
(iv) the diversification benefits obtained by the inclusion of multiple asset classes, and
(v) expected return, volatility and correlation for both assets and liabilities.

To implement our asset allocation policy, we may invest in equities, fixed income securities, alternative investments and derivative instruments. Our holdings in certain investments, including common shares, emerging market equities, fixed income securities rated lower than BBB and residential and commercial mortgages, cannot exceed a defined percentage of the market value of our pension plans. We may use derivative instruments as either a synthetic investment to more efficiently replicate the performance of an underlying security, or as a hedge against financial risks associated with the underlying portfolio. To ensure appropriate diversification of our credit risk exposure, counterparties of our derivative instruments are subject to minimum credit rating requirements.

Pension and other post-employment benefit expense

Pension benefit expense

	2010	2009	2008
Service cost	$ 151	$ 141	$ 174
Interest cost	425	413	389
Expected return on plan assets	(463)	(446)	(438)
Amortization of transitional asset	(1)	(2)	(2)
Amortization of prior service cost	18	19	22
Amortization of actuarial loss (gain)	120	47	103
Other	(1)	–	–
Defined benefit pension expense	$ 249	$ 172	$ 248
Defined contribution pension expense	92	95	82
Pension benefit expense	$ 341	$ 267	$ 330
Weighted average assumptions to calculate pension benefit expense			
Discount rate	6.40%	6.70%	5.60%
Assumed long-term rate of return on plan assets	6.75%	7.25%	7.00%
Rate of increase in future compensation	3.30%	3.30%	3.30%

Other post-employment benefit expense

	2010	2009	2008
Service cost	$ 19	$ 14	$ 16
Interest cost	83	87	83
Expected return on plan assets	(1)	(2)	(3)
Amortization of actuarial loss (gain)	29	41	29
Amortization of prior service cost	(23)	(23)	(23)
Other post-employment benefit expense	$ 107	$ 117	$ 102
Weighted average assumptions to calculate other post-employment benefit expense			
Discount rate	6.39%	6.72%	5.62%
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 6.5% for 2011, 6.75% for 2010, and 7.25% for 2009, and 7% for 2008 and 2007.

Discount rate

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

Sensitivity analysis

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

2010 Sensitivity of key assumptions

Pension benefit expense	Change in obligation	Change in expense
Impact of .25% change in discount rate assumption	$ 273	$ 34
Impact of .25% change in rate of increase in future compensation assumption	22	5
Impact of .25% change in the long-term rate of return on plan assets assumption	–	19
Other post-employment benefit expense	**Change in obligation**	**Change in expense**
Impact of .25% change in discount rate assumption	$ 59	$ 10
Impact of .25% change in rate of increase in future compensation assumption	–	–
Impact of 1.00% increase in healthcare cost trend rates	117	7
Impact of 1.00% decrease in healthcare cost trend rates	(97)	(6)

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

	2010	2009	2008
Defined benefit pension expense recognized	**$ 249**	$ 172	$ 248
Difference between expected and actual return on plan assets	**(181)**	175	1,315
Difference between actuarial losses (gains) amortized and actuarial losses (gains) arising	**998**	342	(1,035)
Difference between prior service costs amortized and prior service costs arising	**(17)**	(20)	(34)
Amortization of transitional asset	**1**	2	2
Defined benefit pension expense incurred	**$ 1,050**	$ 671	$ 496

Other post-employment benefit expense incurred

	2010	2009	2008
Other post-employment benefit expense recognized	**$ 107**	$ 117	$ 102
Difference between expected and actual return on plan assets	**–**	1	8
Difference between actuarial losses (gains) amortized and actuarial losses (gains) arising	**32**	(67)	(293)
Difference between prior service costs amortized and prior service costs arising	**23**	23	24
Other post-employment benefit expense incurred	**$ 162**	$ 74	$ (159)

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 calendar year, with the exercise price determined at least five business days after the release of the year-end financial results. The options vest over a four-year period for employees and are exercisable for a period not exceeding 10 years from the grant date.

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

Between November 29, 1999 and June 5, 2001, grants of options under the employee stock option plan were accompanied by tandem SARs. With tandem SARs, participants could choose to exercise a SAR instead of the corresponding option. In such cases, the participants received a cash payment equal to the difference between the closing price of common shares on the day immediately preceding the day of exercise and the exercise price of the option. During the last quarter of 2002 and first quarter of 2003, certain executive participants voluntarily renounced their SARs while retaining the corresponding options. SARs obligations are now fully vested and give rise to compensation expense as a result of changes in the market price of our common shares. These grants, which are accompanied by tandem SARs, resulted in a compensation expense of $nil for the year ended October 31, 2010 (2009 – $8 million expense; 2008 – $21 million gain).

A summary of our stock option activity and related information

	2010		2009		2008	
	Number of options (000's)	Weighted average exercise price	Number of options (000's)	Weighted average exercise price	Number of options (000's)	Weighted average exercise price
Outstanding at beginning of year	17,877	$ 35.32	21,773	$ 31.66	26,623	$ 27.71
Granted	2,368	55.04	2,659	35.29	2,020	52.87
Exercised – Common shares (1), (2)	(4,450)	26.51	(5,808)	22.69	(6,445)	21.72
– SARs	(74)	18.74	(397)	19.84	(148)	19.30
Cancelled	(62)	28.46	(350)	33.72	(277)	48.36
Outstanding at end of year	15,659	$ 40.90	17,877	$ 35.32	21,773	$ 31.66
Exercisable at end of year	10,170	$ 36.86	12,806	$ 31.68	17,247	$ 26.92
Available for grant	15,741		17,999		19,925	

(1) Cash received for options exercised during the year was $118 million (2009 – $132 million; 2008 – $140 million).
(2) New shares were issued for all options exercised in 2010, 2009 and 2008. Refer to Note 18.

Options outstanding and options exercisable as at October 31, 2010 by range of exercise price

	Options outstanding			Options exercisable	
	Number outstanding (000's)	Weighted average exercise price	Weighted average remaining contractual life	Number exercisable (000's)	Weighted average exercise price
$23.21 – $25.00	1,946	$ 24.53	1.0	1,946	$ 24.53
$29.00 – $35.37	6,226	32.34	4.9	4,486	31.20
$44.13 – $57.90	7,487	52.28	7.1	3,738	50.06
Total	15,659	$ 40.90	5.5	10,170	$ 36.86

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, 2010, in respect of these plans was $11 million (2009 – $10 million; 2008 – $12 million). The compensation expenses related to non-vested awards were $9 million at October 31, 2010 (2009 – $8 million; 2008 – $11 million), to be recognized over the weighted average period of 1.4 years (2009 – 1.8 years; 2008 – 2.0 years).

The weighted average fair value of options granted during 2010 was estimated at $5.06 (2009 – $2.59; 2008 – $6.57) using an option pricing model on the date of grant. The following assumptions were used:

For the year ended October 31	2010	2009	2008
Weighted average assumptions			
Risk-free interest rate	2.74%	2.33%	3.93%
Expected dividend yield	4.71%	4.15%	3.27%
Expected share price volatility	17%	14%	14%
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, 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 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 2010, we contributed $68 million (2009 – $68 million; 2008 – $68 million), under the terms of these plans, towards the purchase of our common shares. As at October 31, 2010, an aggregate of 35.2 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 withdraw 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, 2010, was $204 million (2009 – $200 million; 2008 – $200 million). The share price fluctuations and dividend equivalents compensation expense recorded for the year ended October 31, 2010, in respect of these plans was $5 million (2009 – $31 million expense; 2008 – $37 million gain).

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, 2010, was $953 million (2009 – $693 million; 2008 – $473 million). The share price fluctuations and dividend equivalents compensation gain for the year ended October 31, 2010, in respect of this plan was $5 million (2009 – $85 million expense; 2008 – $75 million gain).

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 up to 25% for awards granted in December 2008 and 2009, depending on our total shareholder return compared to a defined peer group of North

American financial institutions for awards granted in December 2007 and 2008 and to a defined peer group of global financial institutions for awards granted in December 2009. 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, 2010, was 1.1 million (2009 – 1.5 million; 2008 – 2.0 million). The value of the DSUs liability as at October 31, 2010 was $225 million (2009 – $211 million; 2008 – $164 million). The compensation expense recorded for the year ended October 31, 2010, in respect of these plans was $116 million (2009 – $140 million; 2008 – $96 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, 2010, was $304 million (2009 – $304 million; 2008 – $244 million). The compensation expense recorded for the year ended October 31, 2010, was $111 million (2009 – $157 million expense; 2008 – $123 million gain).

For other stock-based plans, compensation expense of $13 million was recognized for the year ended October 31, 2010 (2009 – $14 million; 2008 – $5 million). The liability for the share units held under these plans as at October 31, 2010, was $59 million (2009 – $60 million; 2008 – $35 million). The number of our common shares held under these plans was 0.3 million (2009 – 0.1 million; 2008 – 0.2 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 $834 million increase in the fair values of our net financial assets classified as held-for-trading for the year ended October 31, 2010 (2009 – increased by $2,099 million; 2008 – increased by $548 million).

	2010	2009 (1)	2008
Net interest income	$ 1,443	$ 2,316	$ 680
Non-interest (loss) income	1,315	2,750	(81)
Total	$ 2,758	$ 5,066	$ 599
By product line			
Interest rate and credit	$ 1,992	$ 3,405	$ (250)
Equities	351	1,008	265
Foreign exchange, commodities, and precious metals	415	653	584
Total	$ 2,758	$ 5,066	$ 599

(1) Certain amounts have been revised from results previously reported. Refer to Change in financial statement presentation described in Note 1.

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 $806 million (2009 – increased by $500 million; 2008 – decreased by $340 million).

Financial instruments measured at amortized cost

Non-interest income reflects the following for financial instruments measured amortized cost:

	2010	2009	2008
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	$ 3,628	$ 3,505	$ 3,183
Net fee income arising from trust and other fiduciary activities	5,831	5,314	5,405
Net gains arising from financial instruments measured at amortized cost	8	7	–
Total	$ 9,467	$ 8,826	$ 8,588

	2010	2009	2008
Income taxes (recoveries) in Consolidated Statements of Income			
Current			
Canada – Federal	$ 829	$ 590	$ 1,350
– Provincial	576	491	664
International	456	829	85
	1,861	1,910	2,099
Future			
Canada – Federal	124	153	(533)
– Provincial	65	90	(211)
International	(404)	(585)	14
	(215)	(342)	(730)
	1,646	1,568	1,369
Income taxes (recoveries) in Consolidated Statements of Comprehensive Income and Changes in Shareholders' Equity			
Other comprehensive income			
Net unrealized gains (losses) on available-for-sale securities	150	330	(778)
Reclassification of (gains) losses on available-for-sale securities to income	(55)	165	201
Net foreign currency translation gains (losses), net of hedging activities	676	1,102	(1,361)
Net unrealized (losses) gains on derivatives designated as cash flow hedges	(144)	69	(304)
Reclassification of losses (gains) on derivatives designated as cash flow hedges to income	36	(17)	23
Issuance costs	–	(34)	(6)
Stock appreciation rights	17	7	2
Other	5	84	(2)
	685	1,706	(2,225)
Total income (recoveries) taxes	$ 2,331	$ 3,274	$ (856)

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 carryforwards amount included in future income tax assets of $500 million (2009 – $325 million) relates to losses in our Canadian, Japanese and U.S. operations which will expire in various years from 2011 through 2030. In addition, we have capital losses included in the tax loss carryforwards amount which will expire in various years from 2012 through 2016.

Our review regarding the realizability of our future tax assets as at October 31, 2010 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

	2010	2009
Future income tax asset		
Allowance for credit losses	$ 744	$ 871
Deferred compensation	864	775
Business realignment charges	–	4
Tax loss carryforwards	500	325
Deferred income	67	112
Enron-litigation provision	–	26
Other comprehensive income	52	112
Other	426	565
	2,653	2,790
Valuation allowance	(130)	(87)
	2,523	2,703
Future income tax liability		
Premises and equipment	(187)	(172)
Deferred expense	(61)	(117)
Pension related	(144)	(48)
Intangibles	(82)	(196)
Other	(401)	(444)
	(875)	(977)
Net future income tax asset	$ 1,648	$ 1,726

Reconciliation to statutory tax rate

	2010		2009		2008	
Income taxes at Canadian statutory tax rate	$ 2,111	30.3%	$ 1,735	31.4%	$ 1,952	32.5%
(Decrease) increase in income taxes resulting from Lower average tax rate applicable to subsidiaries	(398)	(5.7)%	(359)	(6.5)%	(450)	(7.5)%
Goodwill impairment charge	–	–%	314	–%	–	–%
Tax-exempt income from securities	(369)	(5.3)%	(300)	(5.4)%	(326)	(5.4)%
Tax rate change	–	–%	–	–%	51	.8%
Other	302	4.3%	178	3.2%	142	2.4%
Income taxes reported in Consolidated Statements of Income and effective tax rate	$ 1,646	23.6%	$ 1,568	28.4%	$ 1,369	22.8%

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 $763 million as at October 31, 2010 (2009 – $821 million; 2008 – $920 million).

Note 24 Earnings per share

	2010	2009	2008
Basic earnings per share			
Net income	$ 5,223	$ 3,858	$ 4,555
Preferred share dividends	(258)	(233)	(101)
Net income available to common shareholders	$ 4,965	$ 3,625	$ 4,454
Average number of common shares (in thousands)	1,420,719	1,398,675	1,305,706
Basic earnings per share	$ 3.49	$ 2.59	$ 3.41
Diluted earnings per share			
Net income available to common shareholders	$ 4,965	$ 3,625	$ 4,454
Average number of common shares (in thousands)	1,420,719	1,398,675	1,305,706
Stock options (1)	4,829	5,002	8,497
Issuable under other stock-based compensation plans	1,793	2,036	2,148
Exchangeable shares (2)	6,413	6,413	3,393
Average number of diluted common shares (in thousands)	1,433,754	1,412,126	1,319,744
Diluted earnings per share	$ 3.46	$ 2.57	$ 3.38

(1) The dilutive effect of stock options was calculated using the treasury stock method. When the exercise price of options outstanding is greater than the average market price of our common shares, the options are excluded from the calculation of diluted earnings per share. The following amounts were excluded from the calculations of diluted earnings per share: for 2010 – 41,124 average options outstanding with an exercise price of $57.90; for 2009 – 5,294,977 average options outstanding with an exercise price of $50.89 and for 2008 – 3,541,989 average options outstanding with an exercise price of $53.99.
(2) During 2008, exchangeable shares were issued for the acquisition of PH&N.

Note 25 Guarantees, commitments and contingencies

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.

	2010		2009	
	Maximum potential amount of future payments	Carrying value	Maximum potential amount of future payments	Carrying value
Credit derivatives and written put options (1)	$ 11,604	$ 365	$ 19,720	$ 1,049
Backstop liquidity facilities (2), (3)	20,827	55	24,982	66
Stable value products (4)	19,683	172	21,777	260
Financial standby letters of credit and performance guarantees (3)	17,854	90	18,082	96
Credit enhancements (3)	3,211	66	3,240	45
Mortgage loans sold with recourse	323	–	1,103	–

(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) During 2008 and 2009, certain RBC-admininstered multi-seller asset-backed commercial paper conduit programs drew down certain of our backstop liquidity facilities. The 2009 draw amounted to less than 30 bps of total assets. There were no liquidity draws during 2010 and we continue to receive principle repayments. As at October 31, 2010, the outstanding loan amounts associated with these draws totalled US$1.5 billion (C$1.5 billion) before an 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 carrying amount is included in Other – Other liabilities on our Consolidated Balance Sheets. The amount includes $1.2 billion (2009 – $0.8 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.
(4) The notional amount of the contract approximates the maximum potential amount of future payments without consideration of or possible recoveries from collateral held or pledged. The maximum potential amount of future payments comprise $7.8 billion (October 31, 2009 – $8.3 billion) for bank-owned life insurance policies and $11.8 billion (October 31, 2009 – $13.5 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 gains of approximately $75 million (2009 – unrealized losses of $111 million) in connection with the bank-owned life insurance policies stable value contracts.

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 Investor Services (RBC Dexia IS). As at October 31, 2010, RBC Dexia IS securities lending indemnifications totalled $52.1 billion (2009 – $34.7 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 first loss protection 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 certain specified conditions, other than standard representations and warranties, are experienced. Examples of such conditions might be failure to obtain government or private insurance, payments default, early prepayment or material documentation errors. 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 different borrowing options including 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, 2010. 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

	2010	2009
Commitments to extend credit (1)		
Original term to maturity of 1 year or less	$ 24,708	$ 28,989
Original term to maturity of more than 1 year	61,692	52,475
Securities lending	14,637	14,984
Uncommitted amounts (2)	166,980	181,172
Documentary and commercial letters of credit	255	481
	$ 268,272	$ 278,101

(1) Includes liquidity facilities.
(2) Uncommitted amounts include uncommitted liquidity loan facilities of $20.6 billion (2009 – $24.9 billion) provided to RBC-administered multi-seller conduits. As at October 31, 2010 and October 31, 2009, no amount was drawn upon on these facilities.

Pledged assets

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

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

We are also required to provide intraday pledges to the Bank of Canada when we use the Large Value Transfer System (LVTS), which is a real-time electronic wire transfer system that continuously processes all Canadian dollar large-value or time-critical payments throughout the day. The pledged assets earmarked for LVTS activities are normally released back to us at the end of the settlement cycle each day. Therefore, the pledged assets amount with respect to the LVTS is not included in the table below. For the year ended October 31, 2010, we had on average $3.6 billion (2009 – $4.5 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, 2010 and October 31, 2009.

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

Pledged assets

	2010	2009
Cash and due from banks	$ 506	$ 665
Interest-bearing deposits with banks	6,092	2,696
Loans	12,822	7,422
Securities	45,034	53,276
Assets purchased under reverse repurchase agreements	42,847	27,479
Other assets	1,264	205
	$108,565	$ 91,743

	2010	2009
Assets pledged to:		
Foreign governments and central banks	$ 2,332	$ 2,824
Clearing systems, payment systems and depositories	2,154	2,574
Assets pledged in relation to:		
Securities borrowing and lending	31,359	27,429
Obligations related to securities sold under repurchase agreements	47,786	44,155
Derivative transactions	15,232	8,040
Covered bonds	8,557	5,187
Other	1,145	1,534
	$108,565	$ 91,743

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. Examples of our general terms and conditions on collateral assets that we may sell, pledge or repledge are listed in the pledge assets section above.

As at October 31, 2010, the approximate market value of collateral accepted that may be sold or repledged by us was $113.3 billion (2009 – $78.9 billion). This collateral was received in connection with reverse repurchase agreements, securities borrowings and loans, and derivative transactions. Of this amount, $41.1 billion (2009 – $26.1 billion) has been sold or repledged, generally as collateral under repurchase agreements or to cover short sales.

Lease commitments

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

Lease commitments (1), (2)

2011	$ 572
2012	518
2013	447
2014	386
2015	314
Thereafter	1,123
	$ 3,360

(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 $11 million.

Litigation

Enron Corp. (Enron) litigation

Royal Bank of Canada and certain related entities were defendants in a class action brought by the Regents of the University of Southern 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. As a result of this development, during the first quarter we determined that the $60 million provision (US$50 million or $53 million using the exchange rate at January 31, 2010) that we had established for this particular litigation was no longer necessary; its reversal was recorded in Non-interest expense – Other in our Consolidated Statement of Income where the provision was initially recorded.

Royal Bank of Canada is also named as a defendant by one individual investor in respect of the losses suffered by that investor as a purchaser of Enron publicly traded equity and debt securities. We have not recorded a provision in respect of this lawsuit as it is not possible to predict its ultimate outcome or when it will be resolved; however, we do not believe the ultimate resolution of this lawsuit will have a significant adverse impact on our consolidated financial position. We review the status of this matter on an ongoing basis and will exercise our judgment in resolving it in such a manner as we believe to be our best interests.

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 contractual repricing and maturity schedule as at October 31, 2010, would result in a change in the under-one-year gap from $(70.4) billion to $(60.1) billion (2009 – $(70.5) billion to $(67.7) 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
Assets								
Cash and deposits with banks	$ –	$ 16,710	$ 992	$ 2,271	$ –	$ –	$ 2,609	$ 22,582
Effective interest rate	–	.83%	.34%	–	–	–	–	–
Securities								
Trading	–	8,846	12,683	4,134	50,095	35,185	38,612	149,555
Effective interest rate	–	.41%	.21%	1.68%	1.81%	3.48%	–	–
Available-for-sale	–	4,640	8,771	557	17,694	10,064	2,050	43,776
Effective interest rate	–	4.20%	1.73%	1.59%	2.66%	3.32%	–	–
Assets purchased under reverse repurchase agreements and securities borrowed	–	72,698	–	–	–	–	–	72,698
Effective interest rate	–	.82%	–	–	–	–	–	–
Loans (net of allowance for loan losses) (1)	144,285	32,974	12,493	12,800	77,723	7,331	4,600	292,206
Effective interest rate	–	2.55%	2.82%	4.26%	4.64%	4.63%	–	–
Derivatives	76,822	4,424	–	–	–	–	25,000	106,246
Effective interest rate	–	1.10%	–	–	–	–	–	–
Other assets	–	–	–	–	–	–	39,143	39,143
	$ 221,107	$140,292	$34,939	$19,762	$145,512	$52,580	$112,014	$726,206
Liabilities								
Deposits	$ 178,904	$ 95,279	$41,426	$25,211	$ 78,288	$13,925	–	$433,033
Effective interest rate	–	.72%	1.11%	1.15%	2.19%	4.19%	–	–
Obligations related to assets sold under repurchase agreements and securities loaned	–	40,344	941	297	–	–	–	41,582
Effective interest rate	–	.28%	.35%	.31%	–	–	–	–
Obligations related to securities sold short	–	19,761	757	–	8,596	5,442	12,041	46,597
Effective interest rate	–	.33%	.40%	–	1.59%	6.81%	–	–
Derivatives	78,091	3,818	–	–	–	–	27,001	108,910
Effective interest rate	–	1.10%	–	–	–	–	–	–
Other liabilities	–	459	233	–	689	4,775	41,313	47,469
Effective interest rate	–	2.26%	2.44%	–	4.08%	5.63%	–	–
Subordinated debentures	–	–	405	–	4,961	1,315	–	6,681
Effective interest rate	–	–	6.30%	–	5.12%	4.22%	–	–
Trust capital securities	–	–	–	–	727	–	–	727
Effective interest rate	–	–	–	–	7.18%	–	–	–
Non-controlling interest in subsidiaries	–	–	–	–	1,219	511	526	2,256
Effective interest rate	–	–	–	–	4.87%	6.82%	–	–
Shareholders' equity	–	–	–	600	4,213	–	34,138	38,951
	$ 256,995	$159,661	$43,762	$26,108	$ 98,693	$25,968	$115,019	$726,206
Total gap based on contractual repricing	$ (35,888)	$ (19,369)	$ (8,823)	$ (6,346)	$ 46,819	$26,612	$ (3,005)	$ –
Canadian dollar	(35,866)	(19,378)	(8,751)	(6,340)	46,692	26,578	(2,982)	(47)
Foreign currency	(22)	9	(72)	(6)	127	34	(23)	47
Total gap	$ (35,888)	$ (19,369)	$ (8,823)	$ (6,346)	$ 46,819	$26,612	$ (3,005)	$ –
Canadian dollar – 2009	$ (21,117)	$ (51,850)	$ 4,741	$ (2,381)	$ 47,003	$33,334	$ (9,741)	(11)
Foreign currency – 2009	(23)	98	27	37	83	35	(246)	11
Total gap – 2009	$ (21,140)	$ (51,752)	$ 4,768	$ (2,344)	$ 47,086	$33,369	$ (9,987)	$ –

(1) Includes loans totalling $1.5 billion to variable interest entities administered by us, with maturity terms exceeding five years.

Note 27 Related party transactions

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

We grant loans to directors, officers and other employees at rates normally accorded to preferred clients. As at October 31, 2010, the aggregate indebtedness, excluding routine indebtedness, to RBC current directors and executive officers was approximately $1.5 million (2009 – $.2 million). Routine indebtedness includes: (i) loans made on terms no more favourable than loans to employees generally, for which the amount remaining unpaid does not exceed $50,000 at any time during the last completed financial year, to any director or executive officer, or proposed nominee together with his or her associates; (ii) loans to full-time employees, fully secured against their residence and not exceeding their annual salary; (iii) loans, other than to full-time employees, on substantially the same terms available to other customers with comparable credit 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, or similar reasons, with repayment arrangements in accordance with usual commercial practice.

Note 28 Results by business and geographic segment

2010	Canadian Banking	Wealth Management	Insurance (1)	International Banking	Capital Markets (2)	Corporate Support (2)	Total	Canada	United States	Other International
Net interest income	$ 7,488	$ 305	$ –	$ 1,367	$ 2,719	$ (902)	$ 10,977	$ 8,405	$ 1,718	$ 854
Non-interest income	3,067	3,883	6,062	869	3,168	304	17,353	8,869	4,647	3,837
Total revenue	10,555	4,188	6,062	2,236	5,887	(598)	28,330	17,274	6,365	4,691
Provision for credit losses	1,191	3	–	743	20	(96)	1,861	1,026	675	160
Insurance policyholder benefits, claims and acquisition expense	–	–	5,108	–	–	–	5,108	2,343	1,582	1,183
Non-interest expense	4,995	3,295	552	2,105	3,420	26	14,393	7,944	4,055	2,394
Net income (loss) before income taxes	4,369	890	402	(612)	2,447	(528)	6,968	5,961	53	954
Income taxes (recoveries)	1,325	221	(3)	(297)	795	(395)	1,646	1,633	(79)	92
Non-controlling interest				2	5	92	99	96	2	1
Net income (loss)	$ 3,044	$ 669	$ 405	$ (317)	$ 1,647	$ (225)	$ 5,223	$ 4,232	$ 130	$ 861
Less: Preferred dividends							258			
Net income (loss) available to common shareholders							$ 4,965			
Total assets (4)	$ 288,600	$ 19,600	$ 15,400	$ 56,700	$ 354,400	$ (8,500)	$ 726,200	$ 404,000	$ 145,600	$ 176,400

2009	Canadian Banking	Wealth Management	Insurance	International Banking	Capital Markets (2)	Corporate Support (2), (3)	Total (3)	Canada	United States	Other International
Net interest income	$ 6,947	$ 397	$ -	$ 1,687	$ 3,399	$ (889)	$ 11,541	$ 7,863	$ 2,134	$ 1,544
Non-interest income	2,943	3,683	5,715	903	3,524	797	17,565	9,429	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	(1,265)	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							233			
Net income (loss) available to common shareholders							$ 3,625			
Total assets (4)	$ 271,000	$ 19,200	$ 13,400	$ 58,200	$ 306,500	$ (13,300)	$ 655,000	$ 368,600	$ 127,000	$ 159,400

2008	Canadian Banking	Wealth Management	Insurance	International Banking	Capital Markets (2)	Corporate Support (2), (3)	Total (3)	Canada	United States	Other International
Net interest income	$ 6,718	$ 468	$ –	$ 1,330	$ 1,527	$ (989)	$ 9,054	$ 6,935	$ 1,132	$ 987
Non-interest income	2,868	3,519	2,610	771	2,408	352	12,528	8,214	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							101			
Net income (loss) available to common shareholders							$ 4,454			
Total assets (4)	$ 204,900	$ 34,100	$ 7,800	$ 69,200	$ 324,700	$ 83,200	$ 723,900	$ 435,100	$ 126,600	$ 162,200

(1) Includes the loss on sale of Liberty Life. Refer to Notes 11 and 31.
(2) Taxable equivalent basis (Teb). Teb adjustments gross up Net interest income from certain tax-advantaged sources (Canadian taxable corporate dividends) to their effective tax equivalent value with the corresponding offset recorded in the provision for income taxes.
(3) Certain amounts have been revised from results previously reported. Refer to the Change in financial statement presentation described in Note 1.
(4) Includes spot balances and securitized mortgage amounts.

Revenue by business line

	2010	2009	2008
Banking (1)	$ 12,134	$ 11,770	$ 10,832
Capital markets sales and trading (2)	3,743	5,247	1,824
Corporate and investment banking (2)	2,144	1,676	2,111
Wealth management	4,188	4,080	3,987
Insurance	6,062	5,715	2,610
RBC Dexia IS	657	710	855
Other (3)	(598)	(92)	(637)
Total	$ 28,330	$ 29,106	$ 21,582

(1) Includes cards and payment solutions.
(2) Taxable equivalent basis.
(3) Consists of Global Credit and Research business, and includes the Teb adjustment .

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, Europe, Asia and Latin America with a full suite of investment, trust and other wealth management solutions. We also provide asset management products and services directly, through other Royal Bank of Canada 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. Outside North America, we operate in reinsurance market globally.

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. Outside of North America, we have a select but diversified set of global capabilities, which includes fixed income origination and distribution, structuring and trading, foreign exchange, commodities 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. This framework also 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 five business segments are reported under Corporate Support.

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

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

Note 29 Nature and extent of risks arising from financial instruments

We are exposed to 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 39 to 47 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

	2010									2009									
	Canada	%	United States	%	Europe	%	Other International	%	Total	Canada	%	United States	%	Europe	%	Other International	%	Total
On-balance sheet assets other than derivatives (1)	$267,945	71%	$ 51,147	14%	$37,427	10%	$18,753	5%	$375,272	$245,193	73%	$ 50,463	15%	$28,778	9%	$10,321	3%	$334,755
Derivatives before master netting agreement (2), (3)	13,608	13	25,067	24	58,831	56	7,428	7	104,934	14,668	16	19,854	22	48,412	54	6,778	8	89,712
	$281,553	13%	$ 76,214	24%	$96,258	56%	$26,181	7%	$480,206	$259,861	61%	$ 70,317	17%	$77,190	18%	$17,099	4%	$424,467
Off-balance sheet credit instruments (4)																			
Committed and uncommitted (5)	$180,894	71%	$ 50,370	20%	$13,451	5%	$ 8,665	4%	$253,380	$180,369	69%	$ 47,227	18%	$15,672	6%	$19,368	7%	$262,636
Other	16,511	50	9,176	28	6,850	21	277	1	32,814	16,137	47	9,490	28	8,175	24	367	1	34,169
	$197,405	69%	$ 59,546	21%	$20,301	7%	$ 8,942	3%	$286,194	$196,506	67%	$ 56,717	18%	$23,847	8%	$19,735	7%	$296,805

(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% (2009 – 50%), the Prairies at 18% (2009 – 18%), British Columbia and the territories at 16% (2009 – 17%) and Quebec at 11% (2009 – 11%). No industry accounts for more than 28% (2009 – 18%) of total on-balance sheet credit instruments.
(2) The largest concentration of credit exposure by counterparty type is banks at 65% (2009 – 67%).
(3) Excludes credit derivatives classified as other than trading with a replacement cost of $7 million (2009 – $128 million).
(4) Represents financial instruments with contractual amounts representing credit risk.
(5) Retail and wholesale commitments comprise 46% (2009 – 39%) and 54% (2009 – 61%), respectively, of our total commitments. The largest sector concentration in the wholesale portfolio relates to Non-bank financial services at 14% (2009 – 20%), Financing products at 17% (2009– 16%), Energy at 14% (2009 – 10%), Real estate and related at 8% (2009 – 7%), Other services at 4% (2009 – 7%), Bank at 2% (2009 – 3%), and Sovereign at 8% (2009 – 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-weighted assets (RWA). 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. RWA is calculated for each of these risk types and added together to determine total RWA.

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 level prescribed by OSFI.

Regulatory capital, risk-weighted assets and capital ratios

	2010	2009
Capital		
Tier 1 capital	$ 33,972	$ 31,774
Total capital	37,625	34,881
Risk-weighted assets		
Credit risk	$ 197,195	$ 185,051
Market risk	24,828	23,321
Operational risk	38,433	36,465
Total risk-weighted assets	$ 260,456	$ 244,837
Capital ratios		
Tier 1 capital	13.0%	13.0%
Total capital	14.4%	14.2%
Assets-to-capital multiple	16.5X	16.3X

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.

Certain of the MBS that we classified as held-for-trading under Canadian GAAP are classified as available-for-sale under U.S. GAAP. During the year, we identified that some of the reconciling adjustments recorded in prior periods in connection with this Canadian GAAP to U.S. GAAP difference were incorrect. We also identified that our U.S. GAAP adjustments for a certain insurance product was incorrect. The following table sets out the corrections recorded during the current period to the years presented. Opening retained earnings for 2008 were also increased by $27 million to reflect the income statement impact for the preceding years. The cumulative impact of these errors was not material to the periods to which they relate.

	2009	2008
Increase (decrease):		
Securities	$ 136	$ –
Assets – Other	(24)	(27)
Liabilities – Other	(25)	(62)
RBC Shareholder's equity	137	35
Revenue	150	(3)
Insurance policyholder benefits, claims and acquisition expense	(13)	(12)
Net Income	112	6

Condensed Consolidated Balance Sheets

	2010			2009		
	Canadian GAAP	Differences	U.S. GAAP	Canadian GAAP	Differences	U.S. GAAP
Assets						
Cash and due from banks	$ 9,330	$ (181)	$ 9,149	$ 8,353	$ (119)	$ 8,234
Interest-bearing deposits with banks	13,252	(8,676)	4,576	8,923	(6,047)	2,876
Securities	193,331	(7,299)	186,032	186,272	(5,336)	180,936
Assets purchased under reverse repurchase agreements and securities borrowed	72,698	(1,595)	71,103	41,580	(1,135)	40,445
Loans, net of allowance for loan losses	292,206	(551)	291,655	280,963	(978)	279,985
Other (1), (2)	145,389	(63,564)	81,825	128,898	(47,913)	80,985
	$ 726,206	$ (81,866)	$ 644,340	$ 654,989	$ (61,528)	$ 593,461
Liabilities and shareholders' equity						
Deposits (2)	$ 433,033	$ (20,071)	$ 412,962	$ 398,304	$ (16,615)	$ 381,689
Other (2), (3)	244,558	(61,156)	183,402	209,852	(44,415)	165,437
Subordinated debentures	6,681	–	6,681	6,461	–	6,461
Trust capital securities	727	(727)	–	1,395	(1,395)	–
Total liabilities	684,999	(81,954)	603,045	616,012	(62,425)	553,587
RBC shareholders' equity (4)	38,951	(654)	38,297	36,906	(530)	36,376
Non-controlling interest in subsidiaries	2,256	742	2,998	2,071	1,427	3,498
Total equity	41,207	88	41,295	38,977	897	39,874
	$ 726,206	$ (81,866)	$ 644,340	$ 654,989	$ (61,528)	$ 593,461

(1) Includes adjustments of $85,782 million related to Derivatives, which is 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.
(2) $3,654 million (2009 – $5,814 million) has been reclassified from other assets to other liabilities and deposits to properly reflect accounting treatment under U.S. GAAP.
(3) Includes adjustments of $84,378 million related to Derivatives, which is 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, 2010 was $583 million (2009 – $582 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

	2010	2009	2008
Net income, Canadian GAAP	$ 5,223	$ 3,858	$ 4,555
Differences:			
Net interest income			
Joint ventures	(60)	(153)	(165)
Liabilities and equity	85	101	112
Non-interest income			
Insurance accounting	(2,219)	(2,000)	289
Derivative instruments and hedging activities	(22)	31	(107)
Reclassification of securities, impairment of available-for-sale securities and application of the fair value option	66	(140)	(509)
Joint ventures	(695)	(646)	(681)
Other (1)	(298)	–	–
Insurance policyholder benefits, claims and acquisition expense	1,834	1,930	(356)
Non-interest expense			
Insurance accounting	57	82	72
Joint ventures	683	719	724
Other	112	116	(91)
Income taxes and net difference in income taxes due to the above items	(13)	48	339
Non-controlling interest in net income of subsidiaries			
Liabilities and equity	(85)	(101)	(101)
Net income, U.S. GAAP	$ 4,966	$ 3,845	$ 4,081
Basic earnings per share (2)			
Canadian GAAP	$ 3.49	$ 2.59	$ 3.41
U.S. GAAP	$ 3.41	$ 2.58	$ 3.03
Diluted earnings per share (2)			
Canadian GAAP	$ 3.46	$ 2.57	$ 3.38
U.S. GAAP	$ 3.38	$ 2.56	$ 3.00

(1) Relates to the loss on sale of Liberty Life. Refer to the subsection 'Disposition of Liberty Life' later in this Note.
(2) The impact of calculating earnings per share using the two-class method reduced U.S. GAAP basic and diluted earnings per share for all periods presented by less than one cent. Please refer to 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

	2010	2009	2008
Cash flows from operating activities, Canadian GAAP	$ 11,294	$ 7,403	$ 11,381
U.S. GAAP adjustment for net income	(257)	(13)	(474)
Adjustments to determine net cash used in operating activities	4,141	(3,790)	(5,119)
Net cash from operating activities, U.S. GAAP	15,178	3,600	5,788
Cash flows (used in) from investing activities, Canadian GAAP	(51,574)	15,918	(44,602)
Adjustments to determine net cash from investing activities	(486)	2,009	5,059
Net cash (used in) from investing activities, U.S. GAAP	(52,060)	17,927	(39,543)
Cash flows from (used in) financing activities, Canadian GAAP	41,425	(25,783)	39,198
Adjustments to determine net cash from (used in) financing activities	(3,460)	1,808	479
Net cash from (used in) financing activities, U.S. GAAP	37,965	(23,975)	39,677
Effect of exchange rate changes on cash and due from banks	(168)	(271)	883
Net change in cash and due from banks	$ 915	$ (2,719)	$ 6,805
Cash and due from banks at beginning of year	8,234	10,953	4,148
Cash and due from banks at end of year, U.S. GAAP	$ 9,149	$ 8,234	$ 10,953

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

	2010			2009			2008
	Canadian GAAP	Differences	U.S. GAAP	Canadian GAAP	Differences	U.S. GAAP	U.S. GAAP
Transition adjustments (1)	$ 59	$ (80)	$ (21)	$ 59	$ (80)	$ (21)	$ –
Unrealized (losses) gains on available-for-sale securities:							
Transition adjustment and unrealized gains (losses) of other-than-temporarily-impaired debt securities (2), (3)	–	83	83	–	(39)	(39)	–
Net unrealized (losses) gains of other securities	104	704	808	(76)	432	356	(1,009)
Unrealized foreign currency translation (losses), net of hedging activities	(1,685)	37	(1,648)	(1,374)	45	(1,329)	(757)
(Losses) on derivatives designated as cash flow hedges	(577)	(56)	(633)	(325)	(56)	(381)	(529)
Additional pension obligation	–	(1,209)	(1,209)	–	(956)	(956)	(523)
Accumulated other comprehensive (loss) income, net of income taxes	$ (2,099)	$ (521)	$(2,620)	$ (1,716)	$ (654)	$(2,370)	$(2,818)

(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; (ii) $(18) million related to the adoption of the fair value option standard in Accounting Standards Codification (ASC) Topic 825-10 (FAS 159); refer to the section, Application of the fair value option, later in this Note; (iii) $(3) million related to the implementation of measurement date requirements in ASC Topic 715 (FAS 158); refer to the section, Pensions and other post-employment benefits, later in this Note.

(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 ASC 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, later in this Note.

Consolidated Statements of Comprehensive Income

	2010			2009			2008
	Canadian GAAP	Differences	U.S. GAAP	Canadian GAAP	Differences	U.S. GAAP	U.S. GAAP
Net income	$ 5,223	$ (257)	$ 4,966	$ 3,858	$ (13)	$ 3,845	$ 4,081
Other comprehensive income, net of taxes							
Net unrealized gains (losses) on available-for-sale securities, net of reclassification adjustments:							
Unrealized gains of other-than-temporarily impaired debt securities (1)	–	122	122	–	186	186	–
Net unrealized gains (losses) of other securities	180	272	452	992	373	1,365	(1,077)
Unrealized foreign currency translation (losses)	(1,785)	(13)	(1,798)	(2,973)	2	(2,971)	5,126
Reclassification of (gains) losses on foreign currency translation to income	(5)	5	–	2	(2)	–	–
Net foreign currency translation gains (losses) from hedging activities	1,479	–	1,479	2,399	–	2,399	(2,672)
Net gains (losses) on derivatives designated as cash flow hedges	(334)	–	(334)	156	29	185	(603)
Reclassification of losses (gains) on derivatives designated as cash flow hedges to income	82	–	82	(38)	1	(37)	54
Additional pension obligation	–	(253)	(253)	–	(433)	(433)	18
Total comprehensive income	$ 4,840	$ (124)	$ 4,716	$ 4,396	$ 143	$ 4,539	$ 4,927
Income taxes (recovery) deducted from the above items:							
Net unrealized gains (losses) on available-for-sale securities	$ 95	$ 146	$ 241	$ 495	$ 238	$ 733	$ (512)
Net foreign currency translation gains (losses) from hedging activities	676	–	676	1,102	–	1,102	(1,361)
Net gains (losses) on derivatives designated as cash flow hedges	(144)	–	(144)	69	13	82	(304)
Reclassification of losses (gains) on derivatives designated as cash flow hedges to income	36	–	36	(17)	1	(16)	26
Additional pension obligation	–	(110)	(110)	–	(199)	(199)	9
Total income taxes (recovery)	$ 663	$ 36	$ 699	$ 1,649	$ 53	$ 1,702	$(2,142)

(1) Represents unrealized gains and losses of other-than-temporarily impaired debt securities since May 1, 2009, the adoption date of ASC Topic 320 (FSP FAS 115-2 and FAS 124-21); refer to the section, Other-than-temporary impairment of securities, later in this Note.

Material balance sheet reconciling items

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

2010	Canadian GAAP	Joint ventures	Insurance accounting	Classification and measurement of certain financial instruments	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
Assets														
Cash and due from banks	$ 9,330	(181)	–	–	–	–	–	–	–	–	–	–	(181)	$ 9,149
Interest-bearing deposits with banks	13,252	(4,189)	–	–	–	–	–	–	–	–	(4,487)	–	(8,676)	4,576
Securities	193,331	(4,468)	–	155	(585)	–	–	–	860	–	(3,261)	–	(7,299)	186,032
Assets purchased under reverse repurchase agreements and securities borrowed	72,698	(1,595)	–	–	–	–	–	–	–	–	–	–	(1,595)	71,103
Loans	292,206	(624)	–	(629)	–	–	–	–	–	–	682	20	(551)	291,655
Other assets	145,389	229	3,013	470	605	(14)	–	249	9,771	7,575	(85,602)	140	(63,564)	81,825
Liabilities and shareholders' equity														
Deposits	433,033	(10,846)	–	–	–	–	–	–	–	–	(9,220)	(5)	(20,071)	412,962
Other liabilities	244,558	21	2,651	3	–	(27)	(18)	1,475	10,631	7,575	(83,448)	(19)	(61,156)	183,402
Subordinated debentures	6,681	–	–	–	–	–	–	–	–	–	–	–	–	6,681
Trust capital securities	727	–	–	–	–	–	(727)	–	–	–	–	–	(727)	–
Non-controlling interest in subsidiaries	2,256	(3)	–	–	–	–	745	–	–	–	–	–	742	2,998
Shareholders' equity	38,951	–	362	(7)	20	13	–	(1,226)	–	–	–	184	(654)	38,297

2009	Canadian GAAP	Joint ventures	Insurance accounting	Classification and measurement of certain financial instruments	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
Assets														
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)	–	(270)	(233)	–	–	–	189	–	(1,598)	1	(5,336)	180,936
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	642	3,143	1,190	255	(18)	–	71	8,474	8,940	(70,767)	157	(47,913)	80,985
Liabilities and shareholders' equity														
Deposits	398,304	(8,709)	–	–	–	–	–	–	–	–	(7,899)	(7)	(16,615)	381,689
Other liabilities	209,852	(108)	2,813	47	–	(42)	(34)	1,044	8,663	8,940	(65,766)	28	(44,415)	165,437
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	–	330	(80)	22	24	–	(973)	–	–	–	147	(530)	36,376

GAAP References

The GAAP references in the remainder of this note reflect the Financial Accounting Standards Board (FASB) codification of standards which became effective for us in 2009 (*FAS 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). In certain cases, we have included the previous FASB references in parentheses.

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", later in this Note.

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 cost*s: 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. 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 U.S. GAAP, reversal of impairment losses is not permitted for available-for-sale debt securities. 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.

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). 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.

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 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 OCI, 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.

Disposition of Liberty Life

As stated in Note 11, we agreed to sell Liberty Life to Athene Holding Ltd. on October 22, 2010. Under U.S. GAAP, an estimated loss of $414 million, before and after-taxes, has been recorded in Non-interest income – Other. The loss is higher under U.S. GAAP primarily due to accounting differences in the valuation of actuarial liabilities. This amount includes a write-off of $5 million of goodwill. Our U.S. GAAP consolidated financial statements include the results of Liberty Life for the year ended October 31, 2010. Selected financial information for Liberty Life, including the loss on sale, is set out below.

	2010	2009
Non interest income	$ 35	$ 411
Insurance policyholder benefits, claims and actuarial expenses	(371)	(366)
Net interest expense	(62)	(76)
Net loss before tax	(398)	(31)
Net loss	(400)	(39)

	October 31 2010	October 31 2009
Total assets	$ 6,270	$ 5,426
Total liabilities	$ 5,262	$ 4,582

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, 2010, restricted net assets of these subsidiaries were $15.8 billion (2009 – $15.5 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 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 October 31, 2010 measurement date are as follows:

	2010			2009		
	Pension plans	Other post-employment plans	Total	Pension plans	Other post-employment plans	Total
Other assets						
Prepaid pension benefit cost	$ 7,901	$ 12	$ 7,913	$ 6,268	$ 25	$ 6,293
Other liabilities						
Accrued pension and other post-employment benefit expense	7,833	1,409	9,242	6,810	1,340	8,150
Funded status – excess of benefit obligation over plan assets	$ 68	$ (1,397)	$(1,329)	$ (542)	$ (1,315)	$(1,857)
Weighted average assumptions to calculate benefit obligation						
Discount rate	5.40%	5.34%		6.30%	6.32%	

The (over)/under-funded status of the pension plans and other post-employment plans of $(68) million and $1,397 million (2009 – $542 million and $1,315 million), respectively, is recognized on our Consolidated Balance Sheet in Other liabilities. The accumulated benefit obligations for the pension plans were $7,414 million as at October 31, 2010 (2009 – $6,451 million).

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

	2010			2009		
	Pension plans	Other post-employment plans	Total	Pension plans	Other post-employment plans	Total
Net actuarial loss	$ 1,793	$ 218	$2,011	$ 1,436	$ 221	$1,657
Prior service cost (benefit)	26	(234)	(208)	42	(258)	(216)
Transitional (asset) obligation	(5)	1	(4)	(6)	1	(5)
Accumulated other comprehensive income (1)	$ 1,814	$ (15)	$1,799	$ 1,472	$ (36)	$1,436

(1) Amount recognized in AOCI, net of tax, is $1.2 billion (2009 – $959 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 2011 are $291 million and $10 million, respectively, and pension expense will be reduced by $1 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 2011 are $11 million and $nil, respectively, and pension expense will be reduced by $23 million relating to the amortization of prior service benefit.

Fair value of pension plan assets and liabilities

Defined benefit pension plan net assets are recorded at fair value and the following is a description of the valuation methodologies used for our pension plan assets which are measured at fair value.

Cash and cash equivalents: Treasury Bills and short-term interest bearing notes are priced at face value due to the short-term nature of the instruments.

Federal, provincial and municipal bonds and corporate bonds and debentures: Either an average of the bid and ask price or bid price is used for North American bonds.

Mortgages: Mortgages are valued by independent third-party pricing services, based on current interest yields for similar mortgage loans.

Canadian and other corporate shares: For North American publicly traded securities, current closing price from the exchange having the highest volume traded for the valuation date is used. If there is no current closing price, the current bid price or the next most recently available closing or bid is used. For international publicly traded securities, closing price of the primary stock exchange is used. Fair values of unlisted North American securities and warrants are based on quoted prices from third-party pricing services.

Alternative investments and pooled funds: Fair value of pooled and hedge funds as well as hedge fund of funds is based on the net asset value of the funds.

Derivatives: Interest rate swaps are valued by model using interest rate swap curve based on mid prices. All futures, including such type as interest rate, index and bond are valued at settlement price or last traded price if settlement price is not available. Exchange traded equity options are valued using the mid price at closing for the valuation date. Over-the-counter equity or bond options are valued by model using a number of assumptions such as historical prices of underlying instrument, volatilities, dividend yields, repo rate, overnight and deposit rate. Currency forwards are priced by Bloomberg and Reuters. Fair value of credit default swaps are provided by pricing services and internal modelled values.

The following table presents the plan assets measured at fair value using the fair value hierarchy. Refer to Note 2 for the definition of the three levels.

	Defined benefit pension plans			
	As at October 31, 2010			
	Fair value measurements using			Total
	Level 1	Level 2	Level 3	fair value
Cash and cash equivalents	$ (26)	$ 335	$ –	$ 309
Fixed income securities and mortgages (1)				
Federal, provincial and municipal bonds	$ 24	$ 2,007	$ –	$ 2,031
Corporate bonds and debentures	53	1,180	–	$ 1,233
Mortgages	–	93	53	146
	$ 77	$ 3,280	$ 53	$ 3,410
Equity securities				
Canadian corporate shares	$ 1,353	$ –	$ –	$ 1,353
Other Corporate shares	2,025	–	–	2,025
	$ 3,378	$ –	$ –	$ 3,378
Alternative investments (2)	$ –	$ –	$ 749	$ 749
Derivative-related assets	$ 338	$ 43	$ 2	$ 383
Total assets at fair value	$ 3,767	$ 3,658	$ 804	$ 8,229
Derivative-related liabilities	$ 222	$ 82	$ 12	$ 316
Total liabilities at fair value	$ 222	$ 82	$ 12	$ 316
Net plan assets at fair value	$ 3,545	$ 3,576	$ 792	$ 7,913

(1) Include pooled fund investments which are presented in the asset categories based on the nature of the underlying investments of the funds.

(2) Alternative investments include hedge fund of funds of $225 million, multi-strategy hedge funds of $477 million and infrastructure funds of $47 million. The investment strategies of the alternative investment funds are as follows:

(i) Hedge fund of funds invest in a portfolio of underlying hedge funds, providing broad exposure to a mixture of hedge fund strategies and thus diversifying the risk associated with a single hedge fund.

(ii) Multi-strategy hedge funds comprise multiple underlying strategies, typically including Commodity Trading Advisor (CTA)/Managed Futures, Global Macro, Long/Short Equity and Long/Short Credit hedge funds. CTA/Managed Futures hedge funds take both long and short positions in futures contracts and options on futures contracts in global commodity, interest rate, equity, and currency markets. Global Macro hedge funds take positions in financial derivatives and other securities on the basis of movements in global financial markets. The strategies may position their portfolios based on forecasts and analysis on global systemic factors. Long/Short Equity hedge funds involve simultaneous purchase and sale equities where the long positions are perceived to be undervalued and the short positions perceived to be overvalued. Long/Short Credit hedge funds similarly invest in long credit positions perceived to be undervalued and sell short credit positions that are perceived to be overvalued.

(iii) Infrastructure funds are private investments in essential assets that provide core services or facilities necessary for an economy to function including roads, water, sewers, power grids, telecommunications.

The following table presents the changes in fair value measurements for instruments included in Level 3 of the fair value hierarchy.

Net level 3 defined benefit pension plan assets

	2010					
		Actual return of plan assets				
	Fair value November 1, 2009	Realized gains (losses) (1)	Unrealized gains (losses) (1)	Purchases, sales and settlements	Transfers into and/or out of Level 3 (1)	Fair value October 31, 2010
Fixed income securities and mortgages						
Mortgages	$ 57	$ –	$ –	$ (4)	$ –	$ 53
Alternative investments	441	(1)	33	276	–	749
Derivatives, net of related liabilities	(8)	(3)	(7)	8	–	(10)
Net pension plan assets at fair value	$ 490	$ (4)	$ 26	$ 280	$ –	$ 792

(1) Transfers in or 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 Actual return of plan assets columns 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 same columns of the reconciliation.

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, 2010. 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

	2010					
	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	$ 510	$ 1	$ –	$ –	$ 510	$ 1
Provincial and municipal	17	1	10	–	27	1
U.S. state, municipal and agencies debt	748	3	42	1	790	4
Other OECD government debt	774	3	16	1	790	4
Mortgage-backed securities (1)	119	7	1,390	186	1,509	193
Asset-backed securities					–	–
CDOs	–	–	198	17	198	17
Non-CDO securities	1,099	6	508	29	1,607	35
Corporate debt and other debt	2,486	87	774	182	3,260	269
Equities	26	6	45	5	71	11
Loan substitute securities	–	–	–	–	–	–
	$ 5,779	$ 114	2,983	$ 421	$ 8,762	$ 535

(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 $58 million and $2 million, respectively.

	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	–	–	150	70	150	70
	$ 4,687	$ 230	$ 5,381	$ 900	$ 10,068	$ 1,130

(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.

Average assets, U.S. GAAP

	2010		2009 (1)		2008 (1)	
	Average assets	% of total average assets	Average assets	% of total average assets	Average assets	% of total average assets
Canada	$ 363,540	59%	$ 380,065	61%	$ 371,183	60%
United States	139,189	22%	147,722	24%	147,233	24%
Other International	116,217	19%	93,918	15%	100,266	16%
	$ 618,946	100%	$ 621,705	100%	$ 618,682	100%

(1) Average assets have been revised due to the corrections explained at the beginning of this Note and the reclassification explained in footnote 2 to the Condensed Balance Sheets in this note.

Income taxes

Under Topic 740*, Income Taxes* (Topic 740), 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 and penalties) from October 31, 2009 to October 31, 2010 is as follows:

Reconciliation of the Change in Unrecognized Tax Benefits

Balance, October 31, 2009	$1,007
Add: Increases related to positions taken during prior years	31
Add: Increases related to positions taken during the current year	201
Less: Expiration of statute of limitations	(74)
Less: Settlements	(29)
Less: Foreign exchange and other	(4)
Less: Decreases related to positions taken during prior years	(123)
Balance, October 31, 2010	$1,009

As at October 31, 2010 and 2009, the balances of our UTBs, excluding any related accrual for interest and penalties, were $1,009 million and $1,007 million, respectively, of which $1,005 million and $988 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, 2010 and 2009, our accrual for interest and penalties that relate to income taxes, net of payments on deposit to taxing authorities, were $53 million and $40 million, respectively. There was a net increase of $13 million in the accrual for interest and penalties during the year ended October 31, 2010.

RBC 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 operate and the earliest tax year subject to examination: Canada – 2006, United States – 2003 and United Kingdom – 2009.

Framework on fair value measurement

Topic 820, *Fair Value Measurements and Disclosures* (Topic 820) (FASB Statement No. 157, *Fair Value Measurements* and related pronouncements), 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 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, had been recognized as a transition adjustment in retained earnings.

With the adoption of Topic 820, deferral of inception gains and losses previously required under U.S. GAAP 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 as at October 31, 2009, net of taxes, relating to the adjustment 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 hierarchy

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, which became 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*) 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 earlier in this note for the amounts of these reconciling differences.

Valuation models and inputs

Fair values of certain instruments classified as level 2 or 3 in the fair value hierarchy disclosure in Note 2 are determined using valuation models. The significant financial instruments below are valued using an income approach, and their significant inputs are primarily interest rate yield curves, correlation, commodity forward prices, currency forward points, dividend rates, and volatility rates for their respective currency and term to maturity. The following are some of the short and long-term model inputs we used:

- Interest rate inputs of commercial paper, Certificates of Deposit, Banker Acceptances, LIBOR loans, bank deposits, bank loans and bank notes include: (a) Bank deposits – .25% to .27% (U.S.) from one week to three months, (b) Bank loans and notes – .91% to 1.41% for Canadian instruments and .24% to .36% for U.S. instruments from less than one month to over six months, (c) Banker Acceptances – .98% to 1.34% from less than one month to over six months, (d) Certificate of Deposits – .30% (Swiss Franc) and .85% (Euro) for three months, (e) U.S. commercial paper – .30% to .32% from one week to three months, (f) Canadian commercial paper – 1.01% to 1.18% from one week to three months and (g) U.S. LIBOR loans – .24% to .36% from less than one month to over 6 months.
- Overnight interest rates of assets purchased under reverse repurchase agreements and obligations related to assets sold under repurchase agreements (pound sterling, Euro, Canadian, U.S. and Australian dollars) range from .23% to 3.00%, while the medium–term rates (one week) and long-term rates (one month) are from .25% to 4.51% and from .25% to 4.60%, respectively.
- Interest rate inputs of the interest rate swaps are: (a) two to 20-year Canadian dollar swaps – 1.51% to 3.68%, (b) two to 20-year U.S. dollar swaps – .45% to 3.47%, (c) two to 30-year Japanese yen swaps – .38% to 1.90%, (d) two to 30-year pound sterling swaps – 1.28% to 3.87%, (e) two to 30-year Euro swaps – 1.59% to 2.97%, (f) two to 30-year Swiss Franc swaps – .53% to 1.87% and (g) two to 30-year Australian dollar swaps – 5.15% to 5.42%.
- Volatility inputs of non-vanilla interest rate options consist of: (a) one-month to 20-year Canadian dollar options – 29.67% to 12.18%, (b) one-month to 20-year U.S. dollar options – 106.2% to 17.5%, (c) one-month to 20-year Japanese yen options – 44.2% to 23.9% and (d) one-month to 20-year pound sterling options – 40.6% to 11.7%.
- Volatility inputs of vanilla interest rate options consist of: (a) one-month to 20-year Euro options – 40.5% to 26.7% and (b) 1 month to 25 year U.S. options – 134.0% to 26.0%.
- Volatility inputs of one-month to 20-year Canadian dollar swaptions range from 32% to 19%.
- Volatility inputs of over-the-counter currency options are: (a) six months to 5-year Canadian dollar options – 12.70% to 13.45%, (b) one to 20-year Japanese yen options – 13.60% to 19.55%,

(c) six months to 5-year pound sterling options – 12.50% to 14.20%, and (d) six months to 5-year Euro options – 14.02% to 12.70%.
- Number of basis points added to spot rate to calculate forward rate of the currency forward range from .21 points for overnight and 101.5 points for one year.
- Dividend rates of equity forwards and swaps comprise 0% to 3% for both 1.5 years and 3.5 years.
- Forward rates of gold are .42% for one month and .82% for one year.
- Correlation of 1.7 to 7.2-year Canadian and U.S. dollar CDOs range from 45.07% to 69.10% and from 40.00% to 41.77%, respectively.

Fair value measurement on non-financial assets and liabilities
Guidance on fair value measurement and disclosures (Topic 820) for nonfinancial assets and liabilities became effective for us on November 1, 2009. Under the new guidance, fair value hierarchy model, as discussed above for financial instruments, are also applicable to assets and liabilities that are measured at fair value on a nonrecurring basis in periods subsequent to initial recognition. Additional disclosures, if applicable, are also required to enable users to assess inputs used to develop those measurements that are related to impairment and other fair value calculations.

Investments in certain entities that calculate net asset value per share
Our alternative investments primarily include hedge funds held in connection with hedging of exposure related to fee-based equity derivative transactions with third parties. Fair value of these investments is based on the net asset value of the hedge funds. As at October 31, 2010, the fair value of our investments in the U.S. domiciled and the non-U.S. domiciled hedge funds were $553 million and $2,021 million, respectively, and there were no unfunded commitments related to these funds. These U.S. domiciled and the non-U.S. domiciled hedge funds employ a broad variety of investment strategies using equities, fixed income securities and other financial instruments. The redemption provisions of such hedge funds generally (a) require notice periods ranging from 5 days to over 180 days, (b) allow redemptions on a weekly, monthly, quarterly, semi-annually or annual basis, (c) may have lockup provisions restricting the ability to redeem for the first 3 to 36 months from the date of investment and (d) often have mechanisms to gate or otherwise restrict redemptions notwithstanding (a) – (c) above.

Fair value option for financial assets and liabilities
Topic 825-10, 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 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:

	2010			2009		
	Aggregate fair value carrying amount	Contractual maturity amount	Fair value over (under) contractual maturity amount	Aggregate fair value carrying amount	Contractual maturity amount	Fair value over (under) contractual maturity amount
Financial assets						
Interest-bearing deposits with banks	$ 6,193	$ 6,193	$ –	$ 2,773	$ 2,773	$ –
Securities – Trading	6,258	n.a.	n.a.	1,718	n.a.	n.a.
Assets purchased under reverse repurchase agreements and securities borrowed	51,713	51,747	(34)	18,911	18,914	(3)
Loans – Retail	179	176	3	214	214	–
Loans – Wholesale	2,899	3,000	(101)	2,818	2,934	(116)
Performing loans	2,899	3,000	(101)	2,441	2,557	(116)
90 days or more past due but not impaired	–	–	–	377	377	–
Financial liabilities						
Deposits						
Personal	$ 3,237	$ 3,300	$ (63)	$ 2,605	$ 2,605	$ –
Business and government	62,654	62,597	57	40,335	40,167	168
Bank	9,479	9,479	–	10,880	10,880	–
Obligations related to assets sold under repurchase agreements and securities loaned	26,242	26,243	(1)	21,628	21,626	2
Other liabilities	127	127	–	240	240	–
Subordinated debentures	119	127	(8)	110	120	(10)

The unrealized gains of these assets and liabilities recognized in income for the year ended October 31, 2010 was $52 million (October 31, 2009 – unrealized loss of $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, 2009 attributable to changes in our credit spreads decreased the fair value of our term deposit liabilities by $32 million (October 31, 2009 – $550 million). This decrease is primarily due to the increase in our credit spreads for both Canadian and U.S. denominated term deposit liabilities. Changes in fair value in the period attributable to changes in credit risk or our credit spreads on Loans – Wholesale, Other liabilities and Subordinated debentures were $(51) million, $nil and $(6) million, respectively (2009 – $27 million, $nil and $36 million).

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

Topic 815, *Derivatives and Hedging* (Topic 815) 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 was effective for us on February 1, 2009, but did not change the accounting for derivatives and hedged items. 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.

	2010				2009			
	Designated as hedging instruments in hedging relationships				Designated as hedging instruments in hedging relationships			
	Cash flow hedges	Fair value hedges	Net investment hedges	Not designated in a hedging relationship (1)	Cash flow hedges	Fair value hedges	Net investment hedges	Not designated in a hedging relationship (1)
Assets								
Derivative financial instruments								
Interest rate contracts	$ 505	$2,059	$ –	$ 65,030	$1,130	$2,107	$ –	$ 50,732
Foreign exchange contracts	–	–	307	29,448	–	–	139	25,598
Credit derivatives	–	–	–	2,023	–	–	–	5,320
Other contracts	–	–	–	3,757	–	–	–	7,359
Total	$ 505	$2,059	$ 307	$ 100,258	$1,130	$2,107	$ 139	$ 89,009
Liabilities								
Derivative financial instruments								
Interest rate contracts	$ 812	$ 60	$ –	$ 61,226	$1,493	$ 82	$ –	$ 46,551
Foreign exchange contracts	–	–	119	34,873	–	–	327	23,832
Credit derivatives	–	–	–	1,718	–	–	–	4,418
Other contracts	–	–	–	5,346	–	–	–	7,844
Total	$ 812	$ 60	$ 119	$ 103,163	$1,493	$ 82	$ 327	$ 82,645
Non–derivative financial instruments	$ –	$ –	$ 8,732	n.a.	$ –	$ –	$ 5,233	n.a.

(1) Derivative liabilities include stable value contracts on $170 million (October 31, 2009 – $257 million) of bank-owned life insurance policies and $2 million (October 31, 2009 – $3 million) of 401(k) plans.
n.a. not applicable

Hedging activities by major types of products

	2010			2009		
	Net gains (losses) included in Non-interest income	Net gains (losses) included in Net interest income	After-tax unrealized gains (losses) included in OCI	Net gains (losses) included in Non-interest income	Net gains (losses) included in Net interest income	After-tax unrealized gains (losses) included in OCI
Fair value hedges						
Ineffective portion						
Interest rate contracts	$ (4)	$ n.a.	$ n.a.	$ 9	$ n.a.	$ n.a.
Cash flow hedges						
Ineffective portion						
Interest rate contracts	(20)	n.a.	n.a.	9	n.a.	n.a.
Effective portion						
Interest rate contracts	n.a.	n.a.	(332)	n.a.	n.a.	185
Other contracts	n.a.	n.a.	(2)	n.a.	n.a.	–
Reclassified to income during the period (1)						
Interest rate contracts	n.a.	(112)	n.a.	n.a.	53	n.a.
Other contracts	n.a.	(6)	n.a.	n.a.	–	n.a.
Net investment hedges						
Foreign currency losses	n.a.	n.a.	(1,798)	n.a.	n.a.	(2,971)
Gains from hedges						
Foreign exchange contracts	n.a.	n.a.	1,209	n.a.	n.a.	1,982
Non-derivative financial instruments	n.a.	n.a.	270	n.a.	n.a.	417
	$ (24)	$ (118)	$ 1,146	$ 18	$ 53	$ (387)

(1) After-tax loss of $82 million (October 31, 2009 – $37 million) were reclassified from AOCI to income for the year ended October 31, 2010.
n.a. not applicable

Revenue from trading and selected non-trading financial instruments

	2010	2009
Non-interest income		
Interest rate and credit	$ 1,114	$ 1,954
Equities	(140)	169
Foreign exchange and commodities (1)	407	641
Total	$ 1,381	$ 2,764

(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, 2010, is $18.3 billion (October 31, 2009 – $10.5 billion) for which we have posted collateral of $14.9 billion (October 31, 2009 – $6.4 billion) in the normal course of business. If our credit ratings had been downgraded to BBB on October 31, 2010, we would have been required to post an additional $2.7 billion of collateral (October 31, 2009 – $2.2 billion) 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

ASC Topic 815, requires more disclosure 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* to require additional disclosure about the current status of the payment/performance risk of a guarantee. The following disclosure is provided pursuant to ASC Topic 815.

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

	2010						2009					
	Maximum Payout / Notional				Fair value		Maximum Payout / Notional				Fair value	
	Within 1 year	1 to 5 years	Over 5 years	Total	Positive	Negative	Within 1 year	1 to 5 years	Over 5 years	Total	Positive	Negative
Credit default swaps (1)												
Investment grade (2)	$1,718	$ 5,759	$1,351	$ 8,828	$ 85	$ 79	$6,380	$19,864	$5,338	$31,582	$ 227	$1,105
Non-investment grade (2)	1,906	8,708	2,639	13,253	200	646	1,668	6,880	1,489	10,037	74	1,377
Non-rated	213	8,071	3,120	11,404	74	90	707	7,279	532	8,518	33	368
	$3,837	$22,538	$7,110	$33,485	$ 359	$ 815	$8,755	$34,023	$7,359	$50,137	$ 334	$2,850
Credit default baskets												
Not rated (3)	$ 66	$ 4,320	$2,216	$ 6,602	$ –	$ 493	$1,161	$ 4,538	$2,543	$ 8,242	$ –	$1,074
Total (4)	$3,903	$26,858	$9,326	$40,087	$ 359	$1,308	$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, 2010 the notional value and net carrying value of credit protection sold in which we held purchased protection with identical underlying assets was $30.5 billion and $0.7 billion, respectively (October 31, 2009 – $48.7 billion and $2.5 billion, respectively).

Guarantees

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

	2010					2009				
	Maximum potential amount of future payments					Maximum potential amount of future payments				
	Investment grade (1)	Non-investment grade (1)	Not rated	Total	Carrying amount	Investment grade (1)	Non-investment grade (1)	Not rated	Total	Carrying amount
Credit derivatives and written put options (2)	$ 1,450	$ 2,306	$7,848	$11,604	$ 365	$ 7,508	$ 3,813	$8,399	$19,720	$1,049
Backstop liquidity facilities	20,184	643	–	20,827	55	23,806	1,176	–	24,982	66
Stable value products	19,683	–	–	19,683	172	21,777	–	–	21,777	260
Financial standby letters of credit and performance guarantees (3)	12,505	5,271	78	17,854	90	11,236	6,778	68	18,082	96
Credit enhancements	3,211	–	–	3,211	66	3,240	–	–	3,240	45
Mortgage loans sold with recourse	–	323	–	323	–	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 swaps of $2.9 billion (October 31, 2009 – $1.9 billion) and written put options of $4.9 billion (October 31, 2009 – $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 $78 million as the rating of the underlying entity for these guarantees is not available at this time.

Securitizations and VIEs

ASC Topic 860, *Transfers and Servicing* and ASC Topic 810, *Consolidation* require 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). In addition, the amendments also 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.

Securitizations

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 the QSPE and the SPEs.

	2010		2009	
	Interest in securitizations		Interest in securitizations	
	Credit cards	Commercial and Residential mortgages	Credit cards	Commercial and Residential mortgages
Total assets of QSPE (1)	$4,000	n.a.	$3,923	n.a.
On-balance sheet assets				
Securities – Trading and Available-for-sale	$ 436	$ 1,092	$1,014	$ 1,479
Loans – Retail and Wholesale	9	–	6	–
Derivatives	19	617	–	203
Total	$ 464	$ 1,709	$1,020	$ 1,682
On balance sheet liabilities				
Derivatives	$ –	$ 1,407	$ 6	$ 673
Total	$ –	$ 1,407	$ 6	$ 673

(1) Represents the remaining principal balance of assets held by the QSPE using the most current information available.
n.a. not applicable.

Loans managed

	2010			2009		
	Loan principal	Past due (1)	Net write-offs	Loan principal	Past due (1)	Net write-offs
Retail	$263,391	$1,786	$ 1,234	$246,038	$1,752	$ 1,300
Wholesale	72,520	2,969	877	77,581	3,246	1,233
Total loans managed (2)	$335,911	$4,755	$ 2,111	$323,619	$4,998	$ 2,533
Less: Loans securitized and managed						
Credit card loans	3,265	50	129	3,870	57	140
Canadian residential mortgage-backed securities created and sold	28,238	232	–	28,815	204	–
Canadian residential mortgage-backed securities created and retained	9,270	76	–	7,521	53	–
U.S. residential mortgage-backed securities created and sold	667	4	–	429	6	–
Total loans reported on the Consolidated Balance Sheets	$294,471	$4,393	$ 1,982	$282,984	$4,678	$ 2,393

(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.

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, ASC 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.

	2010					2009					
	Multi-seller conduits (1)	Structured finance VIEs	Credit investment product VIEs (2)	Other (3)	Total	Multi-seller conduits (1)	Structured finance VIEs (4)	Credit investment product VIEs (2)	Third-party conduits	Other (3)	Total
Total assets of unconsolidated VIEs	$ 21,847	$ 5,380	$ 1,372	$132,239	$160,838	$ 26,181	$ 7,160	$ 2,662	$ 575	$123,691	$160,269
On-balance sheet assets											
Cash and due from banks	–	–	–	–	–	–	–	–	–	27	27
Interest-bearing deposits with banks	–	–	–	–	–	–	–	–	–	119	119
Securities – Trading and Available-for-sale	4	834	20	196	1,054	4	1,308	–	–	125	1,437
Loans – Retail and Wholesale	1,517	426	–	–	1,943	1,683	1,499	–	119	–	3,301
Derivatives	–	20	79	–	99	–	30	698	–	–	728
Other assets	–	–	–	263	263	–	–	–	–	240	240
Total	$ 1,521	$ 1,280	$ 99	$ 459	$ 3,359	$ 1,687	$ 2,837	$ 698	$ 119	$ 511	$ 5,852
On-balance sheet liabilities											
Derivatives	$ –	$ –	$ –	$ –	$ –	$ –	$ –	$ 168	$ –	$ 25	$ 193
Other liabilities	62	–	186	99	347	86	–	904	–	1	991
Total	$ 62	$ –	$ 186	$ 99	$ 347	$ 86	$ –	$ 1,072	$ –	$ 26	$ 1,184
Maximum exposure to loss	$ 22,139	$ 3,095	$ 19	$ 244	$ 25,497	$ 26,550	$ 3,577	$ 505	$ 250	$ 228	$ 31,110

(1) Total assets represent maximum assets that may have to be purchased by the conduits under purchase commitments outstanding as at October 31, 2010. Actual assets held by these conduits as at October 31, 2010, were $14.0 billion (October 31, 2009 – $18.9 billion).
(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, 2010. The transfers do not meet the sale recognition criteria under ASC Topic 860; as a result, these assets remain on our Consolidated Balance Sheets and are accounted for as secured borrowings.
(3) Includes tax credit funds and mutual funds that we sponsor which are described in our Other significant vehicles discussion.
(4) Our October 31, 2009 comparatives have been revised to present information related to a certain entity on a net basis that was previously presented on a gross basis. The total gross and net assets related to this entity as at October 31, 2009 were $4,177 million and $471 million, respectively.

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

VIEs

	2010				2009			
	Structured finance VIEs	Investment funds	Other (1)	Total	Structured finance VIEs	Investment funds	Other (1)	Total
Consolidated assets (2), (3)								
Cash	$ 29	$ 47	$ –	$ 76	$ 55	$ 65	$ –	$ 120
Securities – Trading and Available-for-sale	1,615	911	–	2,526	1,025	481	–	1,506
Loans – Retail and Wholesale	1,346	–	15,738	17,084	1,496	–	11,356	12,852
Other assets	8	55	26	89	44	42	34	120
	$ 2,998	$ 1,013	$ 15,764	$ 19,775	$ 2,620	$ 588	$ 11,390	$ 14,598
Consolidated liabilities								
Other liabilities (4)	$ 2,989	$ 17	$ 42	$ 3,048	$ 2,445	$ 62	$ –	$ 2,507

(1) Includes the assets of RBC Covered Bond Guarantor Limited Partnership (Guarantor LP).

(2) As at October 31, 2010, our compensation vehicles held $53 million (October 31, 2009 — $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.

(3) Investors of a consolidated VIE have recourse only to the assets of that VIE and do not have recourse to our general assets unless we breach our contractual obligations relating to that VIE, provide liquidity facilities or credit enhancement facilities to, or enter into derivative transactions with, that VIE. 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 Royal Bank of Canada. The loan provided by us to Guarantor LP to purchase the mortgages is eliminated by us upon consolidation.

(4) 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. In 2008 and 2009, certain multi-seller conduits drew down some of our transaction-specific liquidity facilities. There were no liquidity draws during 2010. Refer to Notes 4 and 25 for additional details.

Each transaction is structured with transaction-specific first loss protection provided by the third-party seller. This enhancement can take various forms, including but not limited to overcollateralization, 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 use 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.

In 2008, 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.

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.

Offsetting of amounts related to certain contracts
Under FASB 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*) an entity is permitted 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 have offset fair value amounts on our U.S. GAAP Consolidated Balance Sheets pursuant to this guidance as follows, including the comparative periods presented: as at October 31, 2010, the fair value amounts of derivative instruments that have been netted against derivative assets and derivative liabilities was $76.4 billion (October 31, 2009 – $62.9 billion); as at October 31, 2010, the cash collateral applied against derivative assets and derivative liabilities was $9.2 billion and $7.7 billion, respectively (October 31, 2009 – $7.9 billion and $3.5 billion, respectively); as at October 31, 2010, we held $10.7 billion (October 31, 2009 – $9.1 billion) of collateral on derivative positions, of which $7.4 billion (October 31, 2009 – $7.3 billion) could be applied against credit risk.

Other-than-temporary impairment of securities
ASC Topic 320, *Investments – Debt and Equity Securities* provides 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.

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

	2010	2009
Credit related losses for securities which we do not intend to sell or more-likely-than-not will not be required to sell	$ 99	$ 102
Total losses for securities which we intend to sell or more-likely-than-not will be required to sell	57	165
Total write-downs of debt securities recognized in income	$ 156	$ 267
Add: Non-credit related losses of debt securities recognized in OCI (before income taxes) (1)	37	21
Total realized and unrealized other-than-temporary impairment losses (2)	$ 193	$ 288

(1) The balance presented excludes $207 million (October 31, 2009 – $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-downs 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

	2010	2009
Balance at beginning of the period	$ 401	$ –
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	38	64
Credit losses recognized in income on debt securities that have previously been impaired	61	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	(6)	(19)
Reductions due to securities sold or matured during the period	(105)	(4)
Balance at end of the period	$ 389	$ 401

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

Significant accounting changes

On November 1, 2009, ASC Topic 820 became effective for us for certain non-financial assets and non-financial liabilities. In January 2010, the FASB issued ASU 2010-06, *Fair Value Measurements and Disclosures* which amends ASC Topic 820 to add new requirements for disclosures about transfers into and out of Levels 1 and 2 and separate disclosures about purchases, sales, issuances, and settlements relating to Level 3 financial instruments. It also clarifies existing fair value disclosures about the level of disaggregation and about inputs and valuation techniques used to measure fair value. This guidance became effective for us on February 1, 2010. The disclosures related to financial instruments, non-financial assets, non-financial liabilities and transfers of financial instruments are provided in the "Framework on fair value measurement section" earlier in this note. Set forth below is a description of the remaining standards that became effective for us in 2010.

Investments in certain entities that calculate net asset value per share

The FASB issued ASU 2009-12–*Investments in Certain Entities that Calculate Net Asset Value Per Share (or its Equivalent)* in September 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 and are disclosed in the "Framework on fair value measurement section." The impact of adopting this standard is not material to our consolidated financial position or results of operations.

Non-controlling interest

In December 2007, the FASB issued guidance under ASC Topic 810, *Consolidation*, which was effective for us on November 1, 2009. Significant requirements include:

- Ownership interests in subsidiaries held by parties other than the parent must be reclassified to equity and 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;
- Non-controlling interest should continue to be attributed its share of losses even if that attribution results in a deficit non-controlling interest balance, and
- 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.

Compensation – Retirement Benefits – Defined Benefit Plans – General

In December 2008, the FASB issued guidance under ASC Topic 715-20 (FAS 132(R) – 1, *Employer's Disclosures about Postretirement Benefit Plan Assets*), which was effective for us on October 31, 2010. This guidance requires an employer to disclose the following:

- How investment allocation decisions are made, including the factors that are pertinent to an understanding of investment policies and strategies;
- The major categories of plan assets;
- The inputs and valuation techniques used to measure the fair value of plan assets;
- The effect of fair value measurements using significant unobservable inputs (Level 3) on changes in plan assets for the period;
- Significant concentrations of risk within plan assets, and
- A description of the basis used to determine the overall expected long-term-rate-of-return-on-assets assumption.

Refer to Note 20 and "Fair value of pension plan assets and liabilities section" of this note for the expanded note disclosure.

The following new U.S. GAAP accounting pronouncements issued by the FASB were effective for us on November 1, 2009 but the impact of adopting these pronouncements is not material to our consolidated financial position or results of operations.

Business combinations

In December 2007, the FASB replaced the guidance on ASC Topic 805, *Business Combinations*. The new guidance 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.

There is no impact to our 2010 Annual Consolidated Financial Statements as we did not close any acquisitions during the year.

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

In April 2009, the FASB issued guidance under ASC Topic 805-20, *Business Combinations – Identifiable Assets and Liabilities and Any Noncontrolling Interest*, which 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 ASC Topic 450, *Contingencies* and ASC Topic 450-20, *Contingencies – Loss Contingencies*, apply. Following initial recognition, a company shall develop a systematic and rational basis for subsequent measurement of liabilities, depending on their nature. There were no acquisitions during the year.

Convertible debt instruments

In May 2008, the FASB issued guidance under ASC Topic 470-20, *Debt with Conversion and Other Options*. 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.

Accounting for transfers of financial assets and repurchase financing transactions
In February 2008, the FASB issued guidance under ASC Topic 860, which 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.

Accounting for financial guarantee insurance contracts
In May 2008, the FASB issued guidance under ASC Topic 944, *Financial Services – Insurance*. This 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 ASC Topic 815, which 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.

Derivatives and hedging – scope exception related to embedded credit derivatives
In March 2010, the FASB issued ASU No. 2010-11, *Derivatives and Hedging – Scope Exception Related to Embedded Credit Derivatives*. The guidance clarifies the determination of embedded credit derivative features, and permits a one-time election to apply the fair value option method to measure any investment in securitized financial assets, regardless of whether such investments contain embedded derivatives.

Effect of a loan modification when the loan is part of a pool that is accounted for as a single asset
In April 2010, the FASB issued ASU No. 2010-18, *Receivables: Effect of a Loan Modification When the Loan is Part of a Pool that is accounted for as a Single Asset*. For loans that are accounted for within a pool under Subtopic 310-30, this update prohibits the removal of such loans from the pool of assets when the loans are modified. If the cash flows for the pool change, the pool is required to be considered for impairment.

Participating Securities
In June 2008, the FASB issued guidance under ASC Topic 260, *Earnings per Share*, which 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 ASC Topic 350, *Intangibles – Goodwill* and Other (FSP FAS 142-3, *Determination of the Useful Life of Intangible Assets*). The guidance amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life or recognized intangible assets.

Measuring liabilities at fair value
In August 2009, the FASB issued ASU 2009-5, *Fair Value Measurements and Disclosures* (ASC Topic 820) — *Measuring Liabilities at Fair Value*. 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.

Subsequent events
In February 2010, the FASB issued ASU No. 2010-09, *Subsequent Events – Amendments to Certain Recognition and Disclosure Requirements*, which was effective for us on May 1, 2010. This update provides guidance on evaluating subsequent events, and exempts SEC filers from disclosing the date through which subsequent events are evaluated.

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.

Variable interest entity
In June 2009, the FASB issued guidance under ASC Topic 810-10-15 (FAS 167 – *Amendments to FASB Interpretation No. 46(R)*). This update replaces the quantitative approach for determining the primary beneficiary in a variable interest entity with an approach focused on identifying which reporting entity has the power to direct the activities of the variable interest entity that most significantly impacts the entity's performance, and the obligation to absorb losses of the entity that could potentially be significant to the variable interest entity or the right to receive benefits from the entity. The scope of the new guidance includes entities that were previously designated as QSPEs. Additional disclosures are also required regarding involvement with variable interest entities. Based on our current assessments, we will consolidate two trusts established for securitization or investment purposes but will deconsolidate certain investment funds and certain U.S. ARS VIEs.

In February 2010, the FASB issued ASU 2010-10, *Consolidation: Amendments for Certain Investment Funds*. This update defers the application of Statement 167 (Codified in Topic 810-10) for a reporting enterprise's interest in mutual funds, money market mutual funds, hedge funds, private equity funds and venture capital funds if certain conditions are met.

These new consolidation standards are retrospectively applicable and will be effective for us on November 1, 2010.

Accounting for transfers of financial assets
In June, 2009, the FASB issued guidance under ASC Topic 860, *Transfers and Servicing* (FAS 166 – *Accounting for Transfers of Financial Assets – an amendment of FASB Statement No. 140*). This guidance eliminates the concept of qualifying special purpose entities (QSPEs) for accounting purposes and provides additional criteria and clarifies certain principles of sale accounting requirements in FAS 140 that the transferors must use to assess transfers of financial assets. The adoption of this standard also eliminates the reclassification of mortgage loans to securities unless the transfer to a guaranteed mortgage securitization meets all conditions for sale accounting. Based on our preliminary assessment, the main impact of adopting this new accounting standard includes the elimination of sale accounting for transfer of credit card receivables to a former QSPE and transfer of mortgage backed securities (MBS) to a government-sponsored trust. These amendments are effective for us on November 1, 2010 with prospective application for transfers that occurred on and after the effective date.

Multiple-deliverable revenue arrangements
In October 2009, the FASB issued ASU No. 2009-13, *Revenue Recognition: Multiple-Deliverable Revenue Arrangements*. This guidance, which will be effective for us on November 1, 2010, requires that consideration in multiple-deliverable arrangements be allocated to all deliverables using the relative selling price method, and eliminates the residual method of allocation.

Disclosure about the credit quality of financing receivables and the allowance for credit losses
In July 2010, the FASB issued guidance ASU 2010-20, *Disclosure about the Credit Quality of Financing Receivables and the Allowance for Credit Losses.* This update, which will be effective for us on November 1, 2010, requires an entity to provide disclosures on financing receivables and the related allowances for credit losses on a disaggregated basis. Under the new guidance, the following disclosure will be required to be presented on either portfolio segment or class of financing receivables:

- A roll forward schedule of the allowance for credit losses;
- The related investment in financing receivables;
- Nonaccrual status of financing receivables;
- Credit quality indicators at the end of the reporting period;
- The aging of past due financing receivables;
- Significant sales or purchases of financing receivables, and
- Information regarding troubled debt restructurings.

Accounting for costs associated with acquiring or renewing insurance contracts
In October 2010, FASB issued guidance ASU 2010-26, *Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts*, which addresses the diversity currently in practice in capitalizing deferrable acquisition costs associated with acquisition of new or renewal insurance contracts. This update, which will be effective for us on November 1, 2011, specifies that incremental direct costs associated with contract acquisition, and certain costs related to underwriting, policy issuance and processing, medial and inspection, and sales force contract selling activities should be capitalized as deferred acquisition costs. All other costs should be treated as period costs and expensed.

Other changes
The following guidance issued by the FASB will be effective for us on November 1, 2011: ASU No. 2010-15, *Financial services – Insurance – How Investments Held through Separate Accounts Affect an Insurer's Consolidation Analysis of Those Investments,* and ASU No. 2010-13, *Compensation – Stock Compensation – Effect of denominating the Exercise Price of a Share-Based Payment Award in the Currency of the Market in Which the Underlying Equity Security Trades*.

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	2010	2009
Assets		
Cash and due from banks	$ 4,553	$ 3,397
Interest-bearing deposits with banks	7,284	3,350
Securities	102,372	93,441
Investments in bank subsidiaries and associated corporations	28,306	27,882
Investments in other subsidiaries and associated corporations	23,200	21,153
Assets purchased under reverse repurchase agreements	6,367	5,519
Loans, net of allowances for loan losses	236,699	225,595
Net balances due from bank subsidiaries	8,489	2,690
Net balances due from other subsidiaries	12,467	1,718
Other assets	119,445	106,737
	$ 549,182	$ 491,482
Liabilities and shareholders' equity		
Deposits	$ 353,566	$ 318,996
Other liabilities	149,984	129,120
	503,550	448,116
Subordinated debentures	6,681	6,460
Shareholders' equity	38,951	36,906
	$ 549,182	$ 491,482

Condensed Statements of Income

For the year ended October 31	2010	2009	2008
Interest income (1)	$ 16,660	$ 13,824	$ 18,615
Interest expense	5,155	6,280	11,302
Net interest income	11,505	7,544	7,313
Non-interest income (2)	1,725	4,276	3,882
Total revenue	13,230	11,820	11,195
Provision for credit losses	1,070	2,125	1,116
Non-interest expense	6,638	6,477	5,372
Income before income taxes	5,522	3,218	4,707
Income taxes	1,397	180	1,257
Net income before equity in undistributed income of subsidiaries	4,125	3,038	3,450
Equity in undistributed income of subsidiaries	1,098	820	1,105
Net income	$ 5,223	$ 3,858	$ 4,555

(1) Includes dividend income from investments in subsidiaries and associated corporations of $3,359 million, $18 million and $415 million for 2010, 2009 and 2008, respectively.
(2) Includes loss from associated corporations of $13 million for 2010, loss of $7 million for 2009 and income of $4 million for 2008.

Condensed Statements of Cash Flows

For the year ended October 31	2010	2009	2008
Cash flows from operating activities			
Net income	$ 5,223	$ 3,858	$ 4,555
Adjustments to determine net cash from operating activities:			
Change in undistributed earnings of subsidiaries	(1,098)	(820)	(1,105)
Other operating activities, net	5,110	10,795	(5,091)
Net cash from (used in) operating activities	9,235	13,833	(1,641)
Cash flows from investing activities			
Change in interest-bearing deposits with banks	(3,937)	8,147	(6,343)
Change in loans, net of securitizations	(29,853)	(33,651)	(44,567)
Proceeds from securitizations	7,710	21,494	9,480
Proceeds from sale of available-for-sale securities	4,829	9,143	5,221
Proceeds from maturity of available-for-sale securities	11,757	7,239	6,060
Purchase of available-for-sale securities	(12,044)	(13,346)	(11,743)
Net acquisitions of premises and equipment	(688)	(439)	(616)
Change in assets purchased under reverse repurchase agreements and securities borrowed	(848)	100	4,990
Change in cash invested in subsidiaries	(1,679)	497	(6,055)
Change in net funding provided to subsidiaries	(16,096)	13,236	9,436
Net cash (used in) from investing activities	(40,849)	12,420	(34,137)
Cash flows from financing activities			
Change in deposits	35,706	(32,290)	45,163
Issue of subordinated debentures	1,500	–	2,000
Repayment of subordinated debentures	(1,305)	(1,659)	(500)
Issue of preferred shares	–	2,150	613
Redemption of preferred shares for cancellation	–	–	(300)
Issuance costs	–	(77)	(11)
Issue of common shares	125	2,439	149
Purchase of common shares for cancellation	–	–	(55)
Sale of treasury shares	72	72	74
Purchase of treasury shares	(58)	(60)	(76)
Dividends paid	(2,934)	(2,744)	(2,688)
Change in obligations related to assets sold under repurchase agreements and securities loaned	150	2,649	3,541
Change in obligations related to securities sold short	(486)	3,015	(11,475)
Net cash from (used in) financing activities	32,770	(26,505)	36,435
Net change in cash and due from banks	1,156	(252)	657
Cash and due from banks at beginning of year	3,397	3,649	2,992
Cash and due from banks at end of year	$ 4,553	$ 3,397	$ 3,649
Supplemental disclosure of cash flow information			
Amount of interest paid in year	$ 5,231	$ 7,565	$ 11,524
Amount of income taxes (recovered) paid in year	$ 3,227	$ (947)	$ 1,052