U.S. SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 40-F

[Check one]

[ ] REGISTRATION STATEMENT PURSUANT TO SECTION 12 OF THE SECURITIES EXCHANGE ACT OF 1934

OR

[X] ANNUAL REPORT PURSUANT TO SECTION 13(a) or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended October 31, 2007 Commission File Number 001-13928

ROYAL BANK OF CANADA
(Exact name of registrant as specified in its charter)

Canada	6029	Not Applicable
(Province or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number (if applicable))	(I.R.S. Employer Identification No. (if applicable))

200 Bay Street
Royal Bank Plaza
Toronto, Ontario
Canada M5J 2J5
Attention: Carol J. McNamara
Vice-President & Secretary
(416) 974-0117
(Address and telephone number of registrant's principal executive offices)

Royal Bank of Canada
One Liberty Plaza
New York, New York 10006-1404
Attention: LaBrena Jones Martin
Deputy General Counsel USA
(212) 858-7110
(Name, address (including zip code) and telephone number (including area code) of agent for service in the United States)

copies of all correspondence should be sent to:

Karen E. McCarthy
Senior Counsel
Royal Bank of Canada
200 Bay Street
Toronto, Ontario
Canada M5J 2J5
Tel: (416) 974-0446

Donald R. Crawshaw
Sullivan & Cromwell LLP
125 Broad Street
New York, New York 10004-2498
Tel: (212) 558-4000

Securities registered or to be registered pursuant to Section 12(b) of the Act.

Title of each class	Name of each exchange on which registered
Common Shares	New York Stock Exchange

Securities registered or to be registered pursuant to Section 12(g) of the Act.

Not Applicable
(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

Not Applicable
(Title of Class)

For annual reports, indicate by check mark the information filed with this Form:

[x] Annual information form [x] Audited annual financial statements

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

Common Shares	1,276,215,683
First Preferred Shares	
Series N	12,000,000
Series W	12,000,000
Series AA	12,000,000
Series AB	12,000,000
Series AC	8,000,000
Series AD	10,000,000
Series AE	10,000,000
Series AF	8,000,000
Series AG	10,000,000

Indicate by check mark whether the Registrant by filing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934 (the "Exchange Act"). If "Yes" is marked, indicate the file number assigned to the Registrant in connection with such Rule.

Yes_____ No___X_____

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes___X_____ No_____

CONTROLS AND PROCEDURES

Information about disclosure controls and procedures and on internal control over financial reporting can be found under "Controls and procedures" on page 42 of our management's discussion and analysis, and Management's report on internal control over financial reporting can be found on page 112 of our Financial Review which is set forth in Exhibit 2.

AUDIT COMMITTEE FINANCIAL EXPERTS

The Registrant's board of directors has determined that it has four audit committee financial experts serving on its audit committee. Mr. Timothy Hearn, Ms. Alice Laberge, Mr. Pedro Reinhard and Mr. Victor Young have been determined to be such audit committee financial experts and are independent, as that term is defined by the New York Stock Exchange's listing standards applicable to the Registrant. The SEC has indicated that the designation of Mr. Hearn, Ms. Laberge, Mr. Reinhard and Mr. Young as audit committee financial experts does not make any of them an "expert" for any purpose, impose any duties, obligations or liability on Mr. Hearn, Ms. Laberge, Mr. Reinhard and Mr. Young that are greater than those imposed on members of the audit committee and board of directors who do not carry this designation or affect the duties, obligations or liability of any other member of the audit committee.

CODE OF ETHICS

The Registrant has adopted a code of ethics (the "Code of Conduct") that applies to all employees and officers, including its principal executive officer, principal financial officer and principal accounting officer. On October 18, 2007, the Registrant's board of directors approved certain amendments which update the Code of Conduct, including clarification of the Registrant's process for approving and disclosing waivers, increased confidentiality protection provisions, additional guidelines for conflicts of interest and updated standards for maintaining respectful workplaces. The foregoing summary is qualified in its entirety by the full text of the Code of Conduct which is set forth in Exhibit 5 and is also available on our website at rbc.com.

PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information about principal accountant fees and services and a brief description of our pre-approval policies and procedures can be found under "Audit Committee" beginning on page 24 of our annual information form, which pages are incorporated by reference. A copy of our pre-approval policies and procedures can be found in Appendix D of our annual information form, which pages are incorporated by reference.

OFF-BALANCE SHEET ARRANGEMENTS

Information about off-balance sheet arrangements can be found under "Off-balance sheet arrangements" beginning on page 77 of our management's discussion and analysis, which pages are incorporated by reference.

TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS

Tabular disclosure of contractual obligations can be found under "Risk management – Liquidity and funding risk" beginning on page 96 of our management's discussion and analysis, which pages are incorporated by reference.

IDENTIFICATION OF THE AUDIT COMMITTEE

Information about identification of the audit committee can be found under "Audit Committee" beginning on page 24 of our annual information form, which pages are incorporated by reference.

UNDERTAKING

The Registrant undertakes to make available, in person or by telephone, representatives to respond to inquiries made by the Commission staff, and to furnish promptly, when requested to do so by the Commission staff, information relating to the securities in relation to which the obligation to file an annual report on Form 40-F arises or transactions in said securities.

SIGNATURES

Pursuant to the requirements of the Exchange Act, the Registrant certifies that it meets all of the requirements for filing on Form 40-F and has duly caused this annual report to be signed on its behalf by the undersigned, thereto duly authorized.

ROYAL BANK OF CANADA

By: /s/ Gordon M. Nixon
Name: Gordon M. Nixon
Title: President and Chief Executive Officer

Date: November 30, 2007

EXHIBITS

INDEX TO EXHIBITS

Exhibit	Exhibit No.
Royal Bank of Canada Annual Information Form dated November 29, 2007	1
Financial Review	2
· Management's Discussion and Analysis	
· Caution Regarding Forward-Looking Statements	
· Management's Responsibility for Financial Reporting	
· Report of Independent Registered Chartered Accountants	
· Management's Report on Internal Control Over Financial Reporting	
· Report of Independent Registered Chartered Accountants	
· Consolidated Financial Statements	
· Reconciliation of Canadian and United States Generally Accepted Accounting Principles	
Consents of Independent Registered Chartered Accountants	3
Comments by Independent Registered Chartered Accountants on Canada – United States of America Reporting Difference	4
Code of Conduct	5
Industry Guide 3 – Return on Equity and Assets Ratios	7
2007 Management Proxy Circular	8
Rule 13a-14(a)/15d-14(a) Certifications	31
· Certification of the Registrant's Chief Executive Officer	
· Certification of the Registrant's Chief Financial Officer	
·	
Section 1350 Certifications	32
· Certification of the Registrant's Chief Executive Officer	
· Certification of the Registrant's Chief Financial Officer	

EXHIBIT 1

ROYAL BANK OF CANADA

ANNUAL INFORMATION FORM

November 29, 2007

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

From time to time, we make written or oral forward-looking statements within the meaning of certain securities laws, including the "safe harbour" provisions of the United States Private Securities Litigation Reform Act of 1995 and any applicable Canadian securities legislation. We may make forward-looking statements in this annual information form, in other filings with Canadian regulators or the United States Securities and Exchange Commission (SEC), in reports to shareholders and in other communications. Forward-looking statements include, but are not limited to, statements relating to our medium-term and 2008 objectives, our strategic goals and priorities and the economic and business outlook for us, for each of our business segments and for the Canadian, United States and international economies. Forward-looking statements are typically identified by words such as "believe", "expect", "forecast", "anticipate", "intend", "estimate", and "plan" and similar expressions of future or conditional verbs such as "will", "may", "should", "could", or "would".

By their very nature, forward-looking statements require us to make assumptions and are subject to inherent risks and uncertainties, which give rise to the possibility that our predictions, forecasts, projections, expectations or conclusions will not prove to be accurate, that our assumptions may not be correct and that our objectives, strategic goals and priorities will not be achieved. We caution readers not to place undue reliance on these statements as a number of important factors could cause our actual results to differ materially from the expectations expressed in such forward-looking statements. These factors include credit, market, operational, liquidity and funding risks, and other risks discussed in our 2007 management's discussion and analysis; general business and economic conditions in Canada, the United States and other countries in which we conduct business, including the impact from the continuing volatility in the U.S. subprime and related markets and lack of liquidity in various of the financial markets; the impact of the movement of the Canadian dollar relative to other currencies, particularly the U.S. dollar, British pound and Euro; the effects of changes in government monetary and other policies; the effects of competition in the markets in which we operate; the impact of changes in laws and regulations; judicial or regulatory judgments and legal proceedings; the accuracy and completeness of information concerning our clients and counterparties; our ability to successfully execute our strategies and to complete and integrate strategic acquisitions and joint ventures successfully; changes in accounting standards, policies and estimates, including changes in our estimates of provisions and allowances; and our ability to attract and retain key employees and executives.

We caution that the foregoing list of important factors is not exhaustive and other factors could also adversely affect our results. When relying on our forward-looking statements to make decisions with respect to us, investors and others should carefully consider the foregoing factors and other uncertainties and potential events. Unless required by law, we do not undertake to update any forward-looking statement, whether written or oral, that may be made from time to time by us or on our behalf.

Additional information about these and other factors can be found under the Risk management section and the Additional risks that may affect future results section of our 2007 management's discussion and analysis.

TABLE OF CONTENTS

	Annual Information Form	Management's Discussion and Analysis Incorporated by Reference
CORPORATE STRUCTURE	4	
· Name, Address and Incorporation	4	
· Intercorporate Relationships	4	
GENERAL DEVELOPMENT OF THE BUSINESS	4	
· Three Year History	4	34-38
DESCRIPTION OF THE BUSINESS	6	
· General Summary	6	34-38 53-70
· Seasonality	7	51-52
· Competition	7	
· Government Supervision and Regulation – Canada	9	
· Government Supervision and Regulation – United States	10	
· Risk Factors	13	80-103
· Environmental Policies	13	80-102
DESCRIPTION OF CAPITAL STRUCTURE	14	
· General Description	14	71-77
· Prior Sales	15	71-77
· Constraints	15	
· Ratings	16	80-103
MARKET FOR SECURITIES	17	
· Trading Price and Volume	17	
DIVIDENDS	19	
DIRECTORS AND EXECUTIVE OFFICERS	19	
· Directors	19	
· Committees of the Board	21	
· Executive Officers	21	
· Ownership of Securities	22	
· Cease Trade Orders, Bankruptcies, Penalties or Sanctions	22	
· Conflicts of Interest	23	
LEGAL PROCEEDINGS AND REGULATORY ACTIONS	23	156-159*
INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS	23	
TRANSFER AGENT AND REGISTRAR	23	
EXPERTS	23	
AUDIT COMMITTEE	24	
· Audit Committee Mandate	24	
· Composition of the Audit Committee	24	
· Relevant Education and Experience of Audit Committee Members	24	
· Pre-Approval Policies and Procedures	25	
· Independent Registered Fees	25	
ADDITIONAL INFORMATION	26	
TRADEMARKS	26	
APPENDIX A – PRINCIPAL SUBSIDIARIES	27	
APPENDIX B – EXPLANATION OF RATING & OUTLOOK	28	
APPENDIX C – AUDIT COMMITTEE MANDATE	30	
APPENDIX D – PRE-APPROVAL POLICIES AND PROCEDURES	34	

INFORMATION IS AT OCTOBER 31, 2007, UNLESS OTHERWISE NOTED.

*Note 27 to Royal Bank of Canada's 2007 annual financial statements is incorporated by reference herein.

CORPORATE STRUCTURE

NAME, ADDRESS AND INCORPORATION[1]

Royal Bank of Canada is a Schedule I bank under the *Bank Act* (Canada), which constitutes its charter. The Bank was created as Merchants Bank in 1864 and was incorporated under the "Act to Incorporate the Merchants' Bank of Halifax" assented to June 22, 1869. The Bank changed its name to The Royal Bank of Canada in 1901 and to Royal Bank of Canada in 1990.

The Bank's corporate headquarters are located at Royal Bank Plaza, 200 Bay Street, Toronto, Ontario, Canada and its head office is located at 1 Place Ville-Marie, Montreal, Quebec, Canada.

INTERCORPORATE RELATIONSHIPS

Information about intercorporate relationships with principal subsidiaries, including place of incorporation and percentage of securities owned by the Bank, is provided in Appendix A.

GENERAL DEVELOPMENT OF THE BUSINESS

THREE YEAR HISTORY

Over the last three years, we have been striving to achieve our vision of "Always earning the right to be our clients' first choice" by continuing to find new ways to generate stronger revenue growth and streamline our organization to meet the financial needs of our clients more effectively across all of our businesses. Broadly described as our Client First philosophy, this approach to all our business activities took root in September 2004.

Beginning in 2005, we realigned our five previous business segments into three, structured around client needs and geographic location: RBC Canadian Personal and Business, RBC U.S. and International Personal and Business, and RBC Capital Markets. We also consolidated at the enterprise level our corporate support team of Global Technology and Operations and Global Functions, which allowed us to provide more focused, efficient and responsive support to each of our businesses. We also divested non-strategic operations and assets, expanded our distribution network and product offerings, sought out new revenue growth opportunities, and took other steps to enhance our service to clients in a cost-efficient manner.

In 2006, our business strategies and actions continued to be guided by Client First and our strategic goals which are:

- to be the undisputed leader in financial services in Canada;
- to build on our strengths in banking, wealth management, and capital markets in the U.S.; and
- to be a premier provider of selected global financial services.

We focused on enhancing client satisfaction and loyalty, while generating strong revenue and earnings growth, continuously improving productivity, and seeking to deliver top quartile financial performance versus our North American peer group. We focused on driving business growth, both domestically and internationally, by leveraging and building on our corporate and geographical strengths. In Canada, we continued to strengthen our leadership position in most major product categories by enhancing our products and services and expanding our distribution network to better meet our clients' needs and deepen client relationships. In the U.S., we continued to build scale and capability in all our major businesses

[1] When we say "we", "us", "our", or "RBC", we mean Royal Bank of Canada and its subsidiaries, as applicable. Reference to "the Bank" means Royal Bank of Canada without its subsidiaries.

through a combination of organic growth and acquisitions. Internationally, we expanded our distribution network, products and services, and focused our expansion in high growth markets and regions.

In early 2007, in light of our view that global demand for wealth management products and services will continue to increase as global economies develop and populations mature, we created a new Wealth Management business segment consisting of businesses that directly serve the growing wealth management needs of affluent and high net worth clients in Canada, the U.S. and outside North America, and businesses that provide asset management and trust products through us and our external partners. Our other three business segments were renamed Canadian Banking, U.S. & International Banking and Capital Markets. During 2007, Client First continued to be a guiding business philosophy as we worked to achieve the three strategic goals articulated in 2006. We offered new and innovative products and services in Canada across all of our business segments. We continue to expand our business through organic growth and by making a number of strategic acquisitions internationally.

Our acquisitions and dispositions that have influenced the general development of our business over the past three years are summarized in the following table:

BUSINESS	ACQUISITION/DISPOSITION	KEY CHARACTERISTICS
Canadian Banking	Liberty Insurance Services Corporation (2005)	▪ Sold to IBM Corporation. ▪ Long-term agreement with IBM to perform key business processes for our U.S. insurance operations.
Wealth Management	J.B. Hanauer & Co. (2007)	▪ Acquisition expanded our retail fixed income and wealth management capabilities in New Jersey, Florida and Pennsylvania.
	American Guaranty & Trust Company (2006)	▪ Renamed RBC Trust Company (Delaware) Limited, the acquisition has provided us with U.S. trust solutions capability for high net worth clients, including administering more than 1,000 personal trusts and holding more than US$1.3 billion in trust and investment accounts.
	Abacus Financial Services Group Limited (2006)	▪ Acquisition strengthened our position in wealth management services in the U.K. and Channel Islands, and added assets under administration of US$41 billion.
U.S. & International Banking	AmSouth Bank branches (2007)	▪ Acquisition of 39 AmSouth Bank branches marked entry into the state of Alabama and extended our footprint in high-growth markets in U.S. Southeast.
	Flag Financial Corporation and its bank subsidiary, Flag Bank (2007)	▪ Acquisition extended our branch presence in high-growth markets by adding 17 branches in Georgia.
	RBC Dexia Investor Services (RBC Dexia IS) (2006)	▪ We combined our Institutional & Investor Services business with the Dexia Fund services business of Dexia Banque Internationale à Luxembourg in return for a 50% joint venture interest in RBC Dexia IS.
	Certain assets of RBC Mortgage Company (2005)	▪ We completed the sale of certain assets to Home123 Corporation in September 2005, and the remaining business was substantially wound down effective October 31, 2006.
Capital Markets	Seasongood & Mayer, LLC (2007)	▪ Acquisition strengthened our franchise as one of the leading municipal finance platforms in the U.S.
	Daniels & Associates, L.P. (2007)	▪ The acquisition provided us with a U.S. mergers and acquisitions advisory firm specializing in the communications, media and entertainment, and technology sectors.
	Carlin Financial Group (2007)	▪ The acquisition provided us with a best-in-class North American electronic trade execution platform.

We also announced our intention to either acquire, or enter into joint venture agreements with, the following subject to regulatory approvals and other customary closing conditions:

BUSINESS	PROPOSED ACQUISITION	KEY CHARACTERISTICS
U.S. & International Banking	RBTT Financial Group (RBTT) (announced October 2007)	▪ Acquiring RBTT will expand our banking footprint and create one of the most extensive retail banking networks in the Caribbean, with a presence in 18 countries and territories across the region. ▪ Expected to close in the middle of calendar 2008.
	Alabama National BanCorporation (announced September 2007)	▪ Acquiring the parent of 10 subsidiary banks and other affiliated businesses in Alabama, Florida and Georgia and will add 103 branches and strengthen our retail distribution by growing our footprint to over 450 locations in the high-growth U.S. Southeast. ▪ Expected to close in early calendar 2008.
	Royal Fidelity Merchant Bank & Trust Limited (announced April 2007)	▪ Acquiring a 50% interest in Fidelity Merchant Bank & Trust Limited, the Bahamas-based wholly-owned subsidiary of Fidelity Bank & Trust International Limited to form a joint venture to provide certain corporate finance and advisory, investment management, stock brokerage, share registrar and transfer agency, pension and mutual fund administration services. ▪ Expected to close the first quarter of 2008.
Wealth Management	China Minsheng Banking Corp., Ltd. (China Minsheng Bank) (announced October 2006)	▪ We entered into a joint venture agreement with China Minsheng Banking Corp., Ltd. to launch a new Chinese joint venture fund management company of which we would own 30%. ▪ The joint venture company will create, manage, and sell mutual funds in local currency to retail and institutional investors in China.

Additional information about our three year history can also be found under the "Overview" section beginning on page 34 of our 2007 management's discussion and analysis, which pages are incorporated by reference herein.

DESCRIPTION OF THE BUSINESS

GENERAL SUMMARY

The Bank and its subsidiaries operate under the master brand name RBC. We are Canada's largest bank as measured by assets and market capitalization and one of North America's leading diversified financial services companies. We provide personal and commercial banking, wealth management services, insurance, corporate and investment banking, and transaction processing services on a global basis. We employ more than 70,000 full- and part-time employees who serve more than 15 million personal, business, public sector and institutional clients through offices in Canada, the U.S. and 36 countries around the world.

Canadian Banking

Canadian Banking comprises our domestic personal and business banking operations, certain retail investment businesses and our global insurance operations. This segment has four business lines: *Personal Financial Services*, *Business Financial Services*, *Cards and Payment Solutions,* and *Global Insurance.*

Wealth Management

Wealth Management comprises businesses that directly serve the growing wealth management needs of affluent and high net worth clients in Canada, the U.S. and outside North America, and businesses that provide asset management and trust products through RBC and external partners. The segment has three business lines: *Canadian Wealth Management*, *U.S. & International Wealth Management* and *Global Asset Management.*

U.S. & International Banking

U.S. & International Banking comprises our banking businesses outside Canada, including our banking operations in the U.S. and Caribbean. In addition, this segment includes our 50% ownership in RBC Dexia Investor Services (RBC Dexia IS). The segment has two business lines: *Banking* and *RBC Dexia IS*.

Capital Markets

Capital Markets comprises our global wholesale banking business, which provides a wide range of corporate and investment banking, sales and trading, research and related products and services to corporations, public sector and institutional clients in North America, and specialized products and services in select global markets. This segment has two business lines: *Global Markets* and *Global Investment Banking and Equity Markets.* All other businesses, including Global Credit and Research, are grouped under *Other*.

Corporate Support

Corporate Support segment activities include our global technology and operations group, corporate treasury, finance, human resources, risk management, internal audit and other global functions, the costs of which are largely allocated to the business segments.

Additional information about our business and each segment (including segment results) can be found under "Overview" beginning on page 34 and under "Business segment results" beginning on page 53 of our 2007 management's discussion and analysis, which pages are incorporated by reference herein.

SEASONALITY

Information about seasonality is provided under "Quarterly financial information" beginning on page 51 of our 2007 management's discussion and analysis, which pages are incorporated by reference herein.

COMPETITION

As we enter and expand into new lines of business, our competition has grown to include other banks, credit unions, companies that offer products and services traditionally offered by financial institutions, investment dealers, self-directed brokers, mutual fund companies, money managers, custody service providers, insurance companies, virtual banks and specialty financial service providers. Key competitive factors include the range and features of financial products, pricing, distribution, and service quality.

Canadian Banking

The competitive landscape of our Banking-related operations in the Canadian financial services industry consists of 21 Schedule I banks (including the Bank and our five peer banks), and approximately 35 independent trust companies, 52 foreign banks (as subsidiaries or Canadian branches) and approximately 1,300 credit unions and caisses populaires. Competition has intensified with respect to our Banking-related operations over the years as foreign financial service providers and non-traditional competitors (retailers, online players, etc.) enter the Canadian financial services industry to provide credit cards, mutual funds, small business loans, consumer finance and retail and investment services. In this competitive environment, we have top rankings in market share for most retail product categories.

Competition for our Global Insurance operations is also intense. In Canada, we compete against approximately 300 other insurance companies in Canada. We are one of the leading Canadian life insurers in Canada as measured by new individual policies issued, and are also a leader in travel insurance, creditor products and individual disability insurance. We are growing our market position in our life, health, home and auto products. In the U.S. we compete in a fragmented market with over 2000 active life and health carriers. We offer traditional life insurance products, as well as mortgage, life, fixed annuities

and travel insurance. We also participate in selected international lines of business in the global reinsurance market through our wholly-owned reinsurance subsidiaries in Barbados and Ireland. We underwrite reinsurance and retrocession risks in defined life and non-life lines of business with a strategy to grow these lines and to identify new business opportunities to serve our client base.

Wealth Management

Our Canadian Wealth Management business competes with investment counselling firms, bank-owned full service brokerage and boutique brokerages/mutual fund companies. Bank-owned providers are emerging as the major players in these areas. Our full service brokerage business is number one in market share based on assets under administration, and we are one of the largest providers of discretionary investment management for affluent and high net worth clients.

Our U.S. & International Wealth Management business operates in a fragmented and extremely competitive industry. There are more than 5,000 registered broker-dealers in the U.S., comprising independents, global and regional players. We rank as the 7th largest full-service broker, based on number of financial consultants, with a presence in 39 states. Competitors in international wealth management comprise a few major banks and many small specialist operations. We are one of the top 20 private banks in the world as measured by assets under administration, and the top trust provider in the United Kingdom. We also have a strong presence in the United States and Latin America and a growing business in Asia.

Our Global Asset Management business faces competition in Canada from major banks, insurance companies and asset management organizations as well as boutique firms. Canadian fund management is a large, mature but still relatively fragmented industry. We are one of Canada's largest money managers and the largest single fund company, with over 10% market share based on assets under management. Our U.S. asset manager competes with independent asset management firms, as well as those that are part of national/international banks, insurance companies and boutique asset managers.

U.S. & International Banking

In retail banking, we compete against approximately 2,000 other banks, thrifts and credit unions in the high-growth, highly competitive markets in the U.S. Southeast and now operate 350 banking centres. We are growing market share in the U.S. as we are now ranked 5th as measured by deposits in North Carolina, and are among the top 15 in deposits within our state banking footprint (North Carolina, South Carolina, Virginia, Georgia, Alabama and Florida).

RBC Dexia IS ranks among the world's top 10 global custodians. Through its offices in 15 countries, RBC Dexia IS is a global provider of investor services solutions to asset managers, pension plans, insurance companies and financial institutions. Services provided include global custody, fund and pension administration of client assets as well as the provision of shareholder services, foreign exchange, securities lending and other related services.

Internationally, our Caribbean banking business is ranked in the top three in deposits in most markets in which it operates, which are small and relatively concentrated. In the Caribbean, we compete against banks, mortgage corporations, credit unions, trust companies, investment companies and other deposit taking institutions in eight countries in the Caribbean and offer current accounts, savings deposits and term deposits.

Capital Markets

Capital markets are by their nature international, and we operate via 74 offices around the world, including New York and London. In Canada, where we are a leader in capital markets in debt, equity and mergers and acquisitions, we compete with Canadian Schedule I banks, bulge bracket investment banks and smaller boutique firms. In the U.S., where we target middle market companies, competition is vigorous from boutiques, middle market and global wholesale banks, and we continue to move up several

industry league table rankings. Globally, Capital Markets' strengths in Canadian dollar debt issuance and foreign exchange, mining, energy, structured products and infrastructure and public finance puts us against global wholesale banks and dominant regional players.

GOVERNMENT SUPERVISION AND REGULATION – CANADA

As a Canadian Schedule I Bank, the Bank and its Canadian trust and loan and insurance subsidiaries are federally regulated financial institutions governed by respectively, the *Bank Act* (Canada) (Bank Act), the *Trust and Loan Companies Act* (Canada) and the *Insurance Companies Act* (Canada). The activities of the Bank's trust and loan and insurance subsidiaries are also regulated under provincial and territorial laws in respect of their activities in the provinces and territories.

The Office of the Superintendent of Financial Institutions (OSFI) reports to the Minister of Finance (the Minister) for the supervision of the Bank, as well as its Canadian trust and loan and insurance subsidiaries. The OSFI is required, at least once a year, to examine the affairs and business of each institution for the purpose of determining whether statutory requirements are duly observed and the institution is in sound financial condition, and report to the Minister. The Bank is also required to make periodic reports to the OSFI, the Minister and the Bank of Canada.

The Bank is subject to regulation under the *Financial Consumer Agency of Canada Act* (FCAC Act). The Financial Consumer Agency of Canada (Agency) enforces consumer-related provisions of the federal statutes which govern financial institutions. The Commissioner of the Agency must report to the Minister on all matters connected with the administration of the FCAC Act and consumer provisions of other federal statutes, including the Bank Act, *Trust and Loan Companies Act* and *Insurance Companies Act*.

The Bank and its subsidiaries Royal Trust Corporation of Canada, The Royal Trust Company and Royal Bank Mortgage Corporation are member institutions of the Canada Deposit Insurance Corporation (CDIC). The CDIC insures certain deposits held at the member institutions.

Under the Bank Act, the Bank is prohibited from engaging in or carrying on any business other than the business of banking. The Bank can provide, amongst other services, any financial services, investment counselling services and portfolio management services, as well as provide general insurance advice, act as a financial agent and issue and operate payment, credit or charge card plans.

The Bank has broad powers to invest in securities, but is limited in making "substantial investments" or in controlling certain types of entities. A "substantial investment" will arise through direct or indirect beneficial ownership of voting shares carrying more than 10% of the voting rights attached to all outstanding voting shares of a company, shares representing more than 25% of the shareholders' equity in a company, or interests representing more than 25% of the ownership interests in any other entity.

The Bank can however, make controlling, and in certain circumstances, non-controlling substantial investments in Canadian banks, trust or loan companies, insurance companies, cooperative credit societies and entities primarily engaged in dealing in securities; in foreign regulated entities which are primarily engaged outside Canada in a business that if carried on in Canada would be the business of banking, the business of a cooperative credit society, the business of insurance, the business of providing fiduciary services or the business of dealing in securities; and in factoring; finance; financial leasing; specialized financing and financial holding entities. Certain substantial investments may be made only with the prior approval of the Minister or the OSFI.

The Bank and its Canadian trust and loan and insurance subsidiaries are also required to maintain, in relation to operations, adequate capital and adequate and appropriate forms of liquidity and the OSFI may direct financial institutions to increase capital or to provide additional liquidity.

The *Proceeds of Crime (Money Laundering) and Terrorist Financing Act* (Canada) implements measures to assist in detecting, deterring, and facilitating the investigation of money laundering and terrorist financing offences. This Act and its associated regulations impose reporting, record keeping and "know

your customer" obligations on the Bank, its Canadian trust and loan and insurance subsidiaries and its broker-dealer/investment subsidiaries.

Broker-Dealer/Investment Subsidiaries

The activities of the Bank's subsidiaries, such as RBC Dominion Securities Inc., RBC Direct Investing Inc., Royal Mutual Funds Inc., RBC Asset Management Inc. and RBC Private Counsel Inc., who act as securities dealers (including investment dealers and mutual fund dealers) or advisors (including investment counsel and portfolio managers) are regulated in Canada under provincial and territorial securities laws (which are administered and enforced by securities regulatory authorities) and, in some cases, by the rules of the applicable self regulatory organization (the Investment Dealers Association of Canada for investment dealers and the Mutual Fund Dealers Association of Canada for mutual fund dealers).

Insurance

The activities of the Bank's regulated Canadian insurance subsidiaries, RBC Life Insurance Company (RBC Life), RBC General Insurance Company (RBC General) and RBC Insurance Company of Canada (RICC), are federally governed by the Insurance Companies Act and by provincial regulation in each province and territory in which they carry on business. In addition, the Bank is federally governed by the Bank Act for any insurance activities it is permitted to carry out. The Bank may administer, promote and provide advice in relation to certain authorized types of insurance and is also permitted to conduct any aspect of the business of insurance, other than the underwriting of insurance, outside Canada and in respect of risks outside Canada. However, in Canada, the Bank may not act as agent for any person in the placing of insurance. The Bank can promote an insurance company, agent or broker or non-authorized types of insurance (e.g. life and home and automobile insurance) to certain prescribed groups where the promotion takes place outside bank branches.

RBC Life, RBC General and RICC are also subject to regulation under the FCAC Act. The Agency enforces consumer-related provisions of the federal statutes which govern financial institutions.

RBC Life is a member of Assuris which is a not for profit organization that protects Canadian life insurance policyholders against loss of benefits due to the financial failure of a member company. RICC and RBC General are members of the Property and Casualty Insurance Compensation Corporation which is the corporation protecting Canadian property and casualty policyholders against loss of benefits due to the financial failure of a member company.

GOVERNMENT SUPERVISION AND REGULATION – UNITED STATES

Banking

In the U.S., the Bank is characterized as a foreign banking organization (FBO). Generally, the operations of an FBO and its U.S. subsidiaries and offices are subject to the same comprehensive regulatory regime that governs the operations of U.S. domestic banking organizations. The Bank's U.S. businesses are subject to supervision and oversight by various U.S. authorities, including federal and state regulators, as well as self-regulatory organizations.

In 2000, the Bank became a U.S. "financial holding company" (FHC), as authorized by the Board of Governors of the Federal Reserve System (Federal Reserve). Pursuant to the *Gramm-Leach-Bliley Act*, an FHC may engage in, or acquire companies engaged in, a broader range of financial and related activities than are permitted to banking organizations that do not maintain FHC status. To qualify as an FHC, an FBO must meet certain capital requirements and must be deemed to be "well managed" for U.S. bank regulatory purposes. In addition, any U.S. depository institution subsidiaries of the FBO must also meet certain capital requirements and be deemed to be "well managed" and must have at least a "satisfactory" rating under the *Community Reinvestment Act of 1977*.

In order to maintain "well managed" status for U.S. bank regulatory purposes, an FBO must have received at least a "satisfactory" composite regulatory rating of its U.S. branch, agency and commercial lending company operations in its last examination, the FBO's home country supervisor must consent to it expanding its activities in the U.S. to include activities permissible for an FHC and the FBO's management must meet standards comparable to those required of a U.S. bank subsidiary of an FHC. In addition, each U.S. depository institution subsidiary of the FBO must be deemed to be "well managed", which requires both a "satisfactory" composite regulatory rating and a satisfactory rating on the "management" component in its last examination.

Under the *International Banking Act of 1978* (IBA), all of the Bank's U.S. banking operations are subject to supervision and regulation by the Federal Reserve. Under the IBA and related regulations of the Federal Reserve, the Bank generally may not open a branch, agency or representative office in the U.S., nor acquire more than 5% of the voting stock of any U.S. bank or bank holding company, without notice to or prior approval of the Federal Reserve.

The Federal Reserve is the U.S. "umbrella regulator" responsible for regulatory oversight of the whole of the Bank's U.S. activities. The Federal Reserve consults with and obtains information from other U.S. regulators that exercise supervisory authority over the Bank's various U.S. operations. Reports of financial condition and other information relevant to the Bank's U.S. businesses are regularly filed with the Federal Reserve.

The Bank maintains branches in New York and Miami, which are licensed and supervised as federal branches by the Office of the Comptroller of the Currency (Comptroller), the U.S. supervisor of national banks. In general, the Bank's branches may exercise the same rights and privileges, and are subject to the same restrictions, as would apply to a U.S. national bank at the same location(s). However, the Bank's branches may not take U.S. domestic retail deposits, but may accept deposits in initial amounts of $100,000 or more. Deposits in the Bank's branches are not insured by the Federal Deposit Insurance Corporation (FDIC).

The Comptroller examines and supervises the Bank's U.S. branch office activities and annually examines and assesses their operations. In addition, the Bank's U.S. branches are required to maintain certain liquid assets on deposit in their state(s) of residence, which deposits are pledged to the Comptroller. Furthermore, the Bank is subject to supervisory guidance based on the examiners' assessment of risk management, operational controls, compliance, and asset quality.

The Bank also maintains two state-licensed agencies in Texas and state-licensed representative offices in California (two), Connecticut, Delaware, Illinois, Texas and Washington (where it is called an alien bureau) and a loan production office in Arizona (which is a satellite office of one of our federal branch offices). In general, the activities conducted at the Bank's agencies include a broad range of banking powers, including lending, maintaining credit balances and cashing checks, but agencies are limited in their ability to accept deposits from citizens or residents of the United States. Agencies may have further limitations on activities based on state laws. The activities conducted at the Bank's representative offices are limited to representational and administrative functions; such representative offices do not have authority to make credit decisions and may not solicit or contract for any deposit or deposit-like liability. The Bank's representative offices are examined and assessed by both the Federal Reserve and state regulators and are required to adhere to any applicable state regulations governing asset pledge or other requirements.

Banking activities are also conducted at RBC Centura Banks, Inc. (RBC Centura), the Bank's U.S. banking subsidiary. RBC Centura is a North Carolina state-chartered bank supervised by the Federal Reserve and the State of North Carolina. Because it is a U.S. bank, RBC Centura is allowed to take retail deposits, and it conducts retail, commercial and business banking. Deposits at RBC Centura are FDIC-insured. RBC Centura is subject to capital requirements, dividend restrictions, limitations on investments and subsidiaries, limitations on transactions with affiliates (including the Bank and its branches), deposit reserve requirements and other requirements administered by the Federal Reserve and the State of North Carolina.

Trust company activities are conducted at RBC Trust Company (Delaware) Limited (RBC Trust), the Bank's U.S. trust company subsidiary. RBC Trust is a Delaware trust company chartered and supervised by the Delaware State Banking Commission and, as a subsidiary of a bank holding company, is subject to oversight by the Federal Reserve. RBC Trust is subject to dividend restrictions, limitations on investments and other applicable state banking law requirements.

The *USA Patriot Act* requires U.S. banks and foreign banks with U.S. operations to maintain appropriate policies, procedures and controls relating to anti-money laundering compliance, suspicious activity and currency transaction reporting and due diligence on customers to prevent, detect and report individuals and entities involved in money laundering and the financing of terrorism.

Broker-Dealer Activities (Broker-Dealer Subsidiaries)

Securities brokerage, trading, advisory, and investment banking activities are conducted in the following eight U.S.-registered broker-dealer subsidiaries:

- RBC Capital Markets Corporation (RBCCM Corp.),
- RBC Capital Markets Arbitrage, S.A. (CMA),
- RBC Dain Rauscher Inc. (RBC Dain Rauscher),
- RBC Daniels, L.P.,
- RBC Professional Trader Group, LLC (PTG),
- J.B. Hanauer & Co. (J.B. Hanauer),
- Tamarack Distributors Inc., and
- Hill, Thompson, Magid & Co., Inc.

The U.S. Securities and Exchange Commission (SEC), state securities regulators, the Financial Industry Regulatory Authority (FINRA) and other self-regulatory organizations regulate these broker-dealer subsidiaries. As a member of the Philadelphia Stock Exchange, PTG is not regulated by FINRA. Certain activities of RBCCM Corp., CMA and RBC Dain Rauscher are also subject to regulation by the U.S. Commodity Futures Trading Commission and the National Futures Association. Certain activities of RBC Dain Rauscher are subject to regulation by the Municipal Securities Rulemaking Board.

Investment Management and Other Fiduciary Activities

The Bank's New York branches, under their fiduciary powers, conduct investment management and custody activities for certain customers. In addition, other affiliates are involved in the business of investment management. In many cases, these activities require that the affiliates be registered with the SEC as investment advisers under the *U.S. Investment Advisers Act of 1940* (Advisers Act). The Advisers Act and related rules regulate the registration and activities of investment advisers. Although the regulatory regime for investment managers is similar to that of broker-dealers, the standard of conduct is significantly higher due to the managers' status as fiduciaries. This status as a fiduciary limits the investment adviser's ability to make use of affiliates and requires that it avoid or manage and disclose conflicts of interests with respect to the conduct of its business.

The following entities are the Bank's subsidiaries that are registered as "investment advisers" with the SEC:

- RBC Dain Rauscher,
- Liberty Capital Advisors, Inc.,
- J.B. Hanauer,
- RBC Alternative Asset Management Inc.,
- Voyageur Asset Management Inc. (Voyageur),
- Royal Bank of Canada Investment Management (USA) Limited,
- RBC Private Counsel (USA), Inc., and
- Carlin Asset Management LLC.

Voyageur is also the adviser to several U.S. mutual funds sponsored by it. The U.S. Investment Company Act of 1940 and related rules regulate the registration of mutual funds and the activities of the funds' advisers and certain other service providers.

Insurance

Liberty Life Insurance Company (Liberty Life) is subject to regulation by the State of South Carolina (where it is organized) and the various other states in which it transacts business. Regulation and supervision of Liberty Life includes among other things, regulatory standards relating to: solvency; licensing of the entity and its agents; restrictions on the types of insurance activities in which it may engage; limitations on the kinds and amounts of investments it may make; oversight and approval of premium rates; adequacy of reserves for unearned premiums, losses and other obligations; requirements for deposits of securities for the benefit of policyholders; approval of policy forms; and market conduct, including the use of credit information in underwriting as well as other underwriting, claims and sales practices.

Although the Bank is not regulated as an insurance company, it is the owner of Liberty Life through its subsidiary RBC Insurance Holdings (USA) Inc. (RBC Insurance Holdings), which owns the capital stock of Liberty Life. Consequently, RBC Insurance Holdings and its subsidiaries and affiliates are subject to the insurance holding company laws and regulations of the State of South Carolina. These provisions establish standards of fairness and reasonableness for transactions between insurers and their affiliates, reporting requirements regarding the holding company structure and prior approval by South Carolina's insurance regulator of specific types of transactions between Liberty Life and an affiliate including payment of certain dividends by Liberty Life to its parent.

ERISA and the Internal Revenue Code

The U.S. Employee Retirement Income Security Act of 1974, as amended (ERISA), and the related rules regulate the activities of the financial services industry with respect to pension plan clients. Similarly, the U.S. Internal Revenue Code and the regulations thereunder impose requirements with respect to such clients and also individual retirement accounts (IRAs). Brokers, dealers and investment advisers to pension plans and IRAs must conduct their business in compliance with both ERISA and applicable tax regulations.

RISK FACTORS

A discussion of risks affecting us and our businesses appears under the headings "Risk management" and "Additional risks that may affect future results" beginning on page 80 and beginning on page 102, respectively, of our 2007 management's discussion and analysis for the year ended October 31, 2007, which discussions are incorporated by reference herein.

ENVIRONMENTAL POLICIES

Our corporate environmental policy was first developed in 1991 and since then has been periodically updated to reflect the changing environmental priorities of us and our stakeholders. In addition to our corporate environmental policy, we have business-specific environmental policies, including our Policy on Social and Environmental Review in Project Finance and our Policy on Environmental Risk Management in Agriculture Lending. In October 2007, we launched the RBC Environmental Blueprint (Blueprint) which substantially updates our corporate environmental policy. The Blueprint also describes our priorities and objectives regarding environmental sustainability, and outlines how we will approach new and emerging environmental issues in our operations, business activities and our products and services going forward. Additional information about our environmental policies and environmental risks can be found under "Risk Management – Environmental risk" on page 80 of our 2007 management's discussion and analysis, which page is incorporated by reference herein.

DESCRIPTION OF CAPITAL STRUCTURE

GENERAL DESCRIPTION

The Bank's authorized share capital consists of an unlimited number of common shares without nominal or par value and an unlimited number of first preferred shares and second preferred shares without nominal or par value, issuable in series, which classes may be issued for a maximum consideration of $20 billion and $5 billion, respectively. The following summary of share capital is qualified in its entirety by the Bank's by-laws and the actual terms and conditions of such shares.

Common Shares

The holders of the Bank's common shares are entitled to vote at all meetings of shareholders, except meetings at which only holders of a specified class, other than common shares, or series of shares are entitled to vote. The holders of common shares are entitled to receive dividends as and when declared by the board of directors, subject to the preference of the preferred shares. After payment to the holders of the preferred shares of the amount or amounts to which they may be entitled, and after payment of all outstanding debts, the holders of the common shares will be entitled to receive any remaining property upon liquidation, dissolution or winding-up.

Preferred Shares

First preferred shares may be issued, from time to time, in one or more series with such rights, privileges, restrictions and conditions as the board of directors may determine, subject to the Bank Act and to the Bank's by-laws. Currently, Non-Cumulative First Preferred Shares Series N, W, AA, AB, AC, AD, AE, AF and AG are outstanding.

The Non-Cumulative First Preferred Shares Series N and Series W are, subject to the consent of the OSFI and the requirements of the Bank Act, redeemable or exchangeable by the Bank into common shares. In addition, on and after August 24, 2008, Non-Cumulative First Preferred Shares Series N will be convertible by the holders into common shares. The first preferred shares are entitled to preference over the second preferred shares and common shares and over any other shares ranking junior to the first preferred shares with respect to the payment of dividends and in the distribution of property in the event of liquidation, dissolution or winding-up.

Second preferred shares may be issued, from time to time, in one or more series with such rights, privileges, restrictions and conditions as the board of directors may determine, subject to the Bank Act and to the Bank's by-laws. There are no second preferred shares currently outstanding. Second preferred shares would rank junior to the first preferred shares. Second preferred shares would be entitled to preference over the common shares and over any other shares ranking junior to the second preferred shares with respect to the payment of dividends and in the distribution of property in the event of our liquidation, dissolution or winding-up.

Holders of the first and second preferred shares are not entitled to any voting rights as a class except as provided under the Bank Act or the Bank's by-laws. Under the Bank Act, the Bank may not create any other class of shares ranking equal with or superior to a particular class of preferred shares, increase the authorized number of, or amend the rights, privileges, restrictions or conditions attaching to such class of preferred shares, without the approval of the holders of that class of preferred shares.

Any approval to be given by the holders of the first and second preferred shares may be given in writing by the holders of not less than all of the outstanding preferred shares of each class or by a resolution carried by the affirmative vote of not less than 66⅔% of the votes cast at a meeting of holders of each class of preferred shares at which a quorum is represented. A quorum at any meeting of holders of each class of preferred shares is 51% of the shares entitled to vote at such meeting, except that at an adjourned meeting there is no quorum requirement.

Additional information about the Bank's share capital can be found under the "Capital management" section beginning on page 71 of our 2007 management's discussion and analysis, which pages are incorporated by reference herein.

PRIOR SALES

For information about the Bank's issuances of common and preferred shares, as well as subordinated debentures, since October 31, 2006, see the "Capital management " section beginning on page 71 of our 2007 management's discussion and analysis, which pages are incorporated by reference herein.

CONSTRAINTS

The Bank Act contains restrictions on the issue, transfer, acquisition, beneficial ownership and voting of all shares of a chartered bank. The following is a summary of such restrictions.

Subject to certain exceptions contained in the Bank Act, no person may be a major shareholder of a bank having equity of $8 billion or more (which includes the Bank). A person is a major shareholder of a bank if:

(a) the aggregate of the shares of any class of voting shares of the bank beneficially owned by that person, by entities controlled by that person and by any person associated or acting jointly or in concert with that person is more than 20% of that class of voting shares, or
(b) the aggregate of shares of any class of non-voting shares of the bank beneficially owned by that person, by entities controlled by that person and by any person associated or acting jointly or in concert with that person is more than 30% of that class of non-voting shares.

Additionally, no person may have a significant interest in any class of shares of a bank (including the Bank) unless the person first receives the approval of the Minister of Finance (Canada). For purposes of the Bank Act, a person has a significant interest in a class of shares of a bank where the aggregate of any shares of the class beneficially owned by that person, by entities controlled by that person and by any person associated or acting jointly or in concert with that person exceeds 10% of all of the outstanding shares of that class of shares of such bank.

The Bank Act also prohibits the registration of a transfer or issue of any shares of a Canadian bank to any government or governmental agency of Canada or any province of Canada, or to any government of any foreign country, or any political subdivision, or agency of any foreign country.

Under the Bank Act, the Bank cannot redeem or purchase any shares for cancellation unless the prior consent of the OSFI has been obtained.

RATINGS

Each of our debt and preferred share ratings received from an approved rating agency is listed below:

RATING AGENCY	RATING & OUTLOOK		RANK[1]
Moody's Investors Service (New York)	Long-term Senior Debt Bank Subordinated Debt	Aaa/Stable Aa1/Stable	1 of 21 1 of 20
Standard & Poor's (New York)	Long-term Senior Debt Bank Subordinated Debt Preferred Stock	AA-/Positive A+/Positive A/Positive	4 of 21 4 of 21 4 of 20
Fitch Ratings (New York)	Long-term Senior Debt Bank Subordinated Debt	AA/Stable AA-/Stable	3 of 24 3 of 23
DBRS (Toronto)	Long-term Senior Debt Bank Subordinated Debt Preferred Stock	AA/Stable AA(low)/Stable Pfd-1/Stable	3 of 26 3 of 25 2 of 16

[1]Rank out of all assignable ratings for each debt/share class (in descending order beginning with 1 as the highest).

A definition of the categories of each rating as at October 31, 2007 has been obtained from the respective rating agency's website and is outlined in Appendix B, and a more detailed explanation may be obtained from the applicable rating agency.

Credit ratings, including stability or provisional ratings, (collectively, "Ratings") are not recommendations to purchase, sell or hold a security inasmuch as they do not comment on market price or suitability for a particular investor. Ratings may not reflect the potential impact of all risks on the value of securities. In addition, real or anticipated changes in the rating assigned to a security will generally affect the market value of that security. Ratings are subject to revision or withdrawal at any time by the rating agency. Each Rating listed in the chart above should be evaluated independently of any other Rating applicable to our debt and preferred shares.

Additional information about Ratings is provided under "Risk management – Liquidity and funding risk – Credit ratings" beginning on page 80 of our 2007 management's discussion and analysis, which pages are incorporated by reference herein.

MARKET FOR SECURITIES

TRADING PRICE AND VOLUME

The Bank's common shares are listed on the Toronto Stock Exchange (TSX) in Canada, the New York Stock Exchange (NYSE) in the U.S. and the Swiss Exchange (SWX) in Switzerland. Preferred shares are listed on the TSX. The following table sets out the price range and trading volumes of the common shares on the TSX and the NYSE for the periods indicated. Prices are based on the reported amounts from the TSX Historical Data Access (HDA) and NYSE Euronext.

	Common Shares (TSX)			Common Shares (NYSE)		
MONTH	High ($)	Low ($)	Volumes (in 000s)	High ($US)	Low ($US)	Volumes (in 000s)
Oct. 2007	57.00	52.55	67,834,949	59.29	54.08	4,391,600
Sept. 2007	55.37	51.92	54,457,320	55.54	50.16	3,286,300
Aug. 2007	55.75	50.50	83,160,388	53.12	46.89	5,111,400
July 2007	58.45	53.90	55,059,805	56.00	50.45	4,108,800
June 2007	58.69	55.00	66,699,992	55.35	51.30	3,231,600
May 2007	61.08	56.65	54,890,832	56.44	51.17	2,668,400
Apr. 2007	59.95	57.51	37,357,547	53.40	49.76	2,549,100
Mar. 2007	58.96	52.50	64,190,040	50.90	44.80	3,461,900
Feb. 2007	55.82	53.82	39,474,138	48.10	45.69	1,874,200
Jan. 2007	55.96	53.21	57,992,258	47.86	45.19	2,122,800
Dec. 2006	55.82	53.08	41,700,453	48.19	46.42	1,828,800
Nov. 2006	54.94	49.50	53,148,884	48.41	43.90	2,223,900

The following table provides the price range and trading volumes of the outstanding First Preferred Shares Series N, W, AA, AB, AC, AD, AE, AF and AG on the TSX for the periods indicated. Prices are based on the reported amounts from the TSX HDA.

	Series N			Series W			Series AA		
MONTH	High ($)	Low ($)	Volumes (in 000s)	High ($)	Low ($)	Volumes (in 000s)	High ($)	Low ($)	Volumes (in 000s)
Oct. 2007	25.25	24.90	191,161	24.34	22.00	177,959	22.30	20.10	374,310
Sept. 2007	25.15	25.00	55,255	25.25	24.00	105,264	23.15	21.94	125,538
Aug. 2007	25.19	24.91	157,311	24.73	24.06	147,319	23.15	21.75	157,122
July 2007	25.32	24.96	104,900	24.74	24.45	265,195	22.77	22.25	176,961
June 2007	25.29	25.03	138,689	25.39	23.50	197,407	23.08	21.82	394,282
May 2007	25.35	25.00	87,464	26.07	24.87	212,483	24.73	22.80	292,513
Apr. 2007	25.44	25.05	67,759	26.49	25.79	190,030	25.19	24.31	153,063
Mar. 2007	25.54	25.30	130,664	26.46	26.13	173,941	25.29	24.87	480,809
Feb. 2007	25.49	25.20	65,621	26.22	26.00	102,316	25.09	24.85	229,709
Jan. 2007	25.64	25.20	108,163	26.62	25.90	362,554	25.19	24.70	740,191
Dec. 2006	25.65	25.41	113,255	26.68	26.35	320,656	25.30	24.86	347,993
Nov. 2006	25.84	25.41	95,432	26.60	26.13	112,080	25.00	24.30	364,237

	Series AB			Series AC			Series AD[1]		
MONTH	High ($)	Low ($)	Volumes (in 000s)	High ($)	Low ($)	Volumes (in 000s)	High ($)	Low ($)	Volumes (in 000s)
Oct. 2007	23.25	20.60	294,969	23.00	20.65	147,924	22.49	20.01	320,986
Sept. 2007	24.49	23.00	179,257	24.43	22.50	64,760	23.30	22.10	133,583
Aug. 2007	23.88	23.20	205,172	23.67	22.90	140,902	22.80	22.16	175,125
July 2007	23.75	23.01	286,844	23.70	23.00	212,920	22.81	22.40	164,622
June 2007	24.21	22.61	336,339	24.00	22.11	297,730	23.30	21.92	423,347
May 2007	25.70	24.01	360,193	25.05	23.75	191,483	24.99	22.55	264,330
Apr. 2007	25.99	25.50	147,445	25.62	24.80	144,285	25.44	24.41	318,163
Mar. 2007	26.01	25.55	582,349	25.67	25.33	184,577	25.48	25.15	249,717
Feb. 2007	25.83	25.32	222,423	25.67	25.29	109,240	25.20	25.00	279,056
Jan. 2007	26.15	25.06	260,570	25.98	25.01	80,480	25.34	24.95	377,903
Dec. 2006	26.09	25.51	178,435	25.85	25.37	318,032	25.35	24.91	587,208
Nov. 2006	26.01	25.40	369,095	25.40	25.15	1,031,079	-	-	-

	Series AE[1]			Series AF[1]			Series AG[1]		
MONTH	High ($)	Low ($)	Volumes (in 000s)	High ($)	Low ($)	Volumes (in 000s)	High ($)	Low ($)	Volumes (in 000s)
Oct. 2007	22.39	20.00	276,818	22.28	20.01	213,483	22.45	20.16	408,364
Sept. 2007	23.40	21.62	97,391	23.67	21.66	120,872	23.35	22.00	110,331
Aug. 2007	23.50	22.40	146,294	22.90	22.00	236,686	22.87	22.04	238,501
July 2007	22.90	22.50	183,191	22.99	22.25	252,653	22.90	22.50	253,524
June 2007	23.30	21.85	555,630	23.34	21.60	311,857	23.20	22.05	1,234,195
May 2007	24.97	23.00	219,433	24.69	22.87	188,632	24.59	23.15	1,149,156
Apr. 2007	25.25	24.40	161,534	24.90	24.39	186,381	24.60	24.41	1,542,458
Mar. 2007	25.47	25.02	155,825	24.90	24.68	898,925	-	-	-
Feb. 2007	25.25	24.94	536,645	-	-	-	-	-	-
Jan. 2007	25.10	24.85	860,655	-	-	-	-	-	-
Dec. 2006	-	-	-	-	-	-	-	-	-
Nov. 2006	-	-	-	-	-	-	-	-	-

[1] Series AD was issued on December 13, 2006, Series AE was issued on January 19, 2007, Series AF was issued on March 14, 2007 and Series AG was issued on April 26, 2007.

DIVIDENDS

The Bank has had an uninterrupted history of paying dividends on its common shares and on each of its outstanding series of first preferred shares. The following table sets forth the dividends paid or payable per share on the common shares and each outstanding series of first preferred shares in each of the three most recently completed fiscal years.

	2007	2006	2005
Common Shares	$1.82	$1.44	$1.175
Non-Cumulative First Preferred Shares			
Series N	$1.175	$1.175	$1.175
Series O[1]	-	$1.375	$1.375
Series S[1]	-	$1.327586	$1.525
Series W	$1.225	$1.225	$0.99175
Series AA[2]	$1.1125	$0.708647	-
Series AB[2]	$1.175	$0.408836	-
Series AC[2]	$1.224829	-	-
Series AD[2]	$1.061815	-	-
Series AE[2]	$0.947774	-	-
Series AF[2]	$0.77494	-	-
Series AG[2]	$0.651113	-	-

[1]Series O was redeemed on November 24, 2006 and Series S was redeemed on October 6, 2006.
[2]Series AA was issued on April 4, 2006, Series AB was issued on July 20, 2006, Series AC was issued on November 1, 2006, Series AD was issued on December 13, 2006, Series AE was issued on January 19, 2007, Series AF was issued on March 14, 2007 and Series AG was issued on April 26, 2007.

The declaration amount and payment of future dividends will be subject to the discretion of the Bank's board of directors, and will be dependent upon the Bank's results of operations, financial condition, cash requirements and future prospectus regulatory restrictions on the payment of dividends and other factors deemed relevant by the board of directors. The Bank's 2007 dividend payout ratio objective (common share dividends as a percentage of net income less preferred share dividends) was in the range of 40-50%. In 2007, the Bank's payout ratio of 43% met our dividend payout ratio objective. For 2008, the Bank's dividend payout ratio objective remains unchanged.

DIRECTORS AND EXECUTIVE OFFICERS

DIRECTORS

The following are the Bank's directors as at November 29, 2007:

Name, and Year Elected	Province/State and Country of Residence	Occupation
W. Geoffrey Beattie (2001)	Ontario, CAN	President and Chief Executive Officer, The Woodbridge Company Limited Deputy Chairman, The Thomson Corporation
George A. Cohon (1988)	Ontario, CAN	Founder, McDonald's Restaurants of Canada Limited

Name, and Year Elected	Province/State and Country of Residence	Occupation
Douglas T. Elix (2000)	Connecticut, U.S.A.	Senior Vice-President and Group Executive, Sales & Distribution, IBM Corporation
John T. Ferguson (1990)	Alberta, CAN	Founder, Chief Executive Officer and Chairman of the Board, Princeton Developments Ltd. and Princeton Ventures Ltd.
The Hon. Paule Gauthier (1991)	Quebec, CAN	Senior Partner, Stein Monast L.L.P.
Timothy J. Hearn (2006)	Alberta, CAN	Chairman, President and Chief Executive Officer, Imperial Oil Limited
Alice D. Laberge (2005)	British Columbia, CAN	Company Director
Jacques Lamarre (2003)	Quebec, CAN	President and Chief Executive Officer, SNC-Lavalin Group Inc.
Brandt C. Louie (2001)	British Columbia, CAN	President and Chief Executive Officer, H.Y. Louie Co. Limited Chairman and Chief Executive Officer, London Drugs Limited
Michael H. McCain (2005)	Ontario, CAN	President and Chief Executive Officer, Maple Leaf Foods Inc.
Gordon M. Nixon (2001)	Ontario, CAN	President and Chief Executive Officer, Royal Bank of Canada
David P. O'Brien (1996)	Alberta, CAN	Chairman of the Board, Royal Bank of Canada Chairman of the Board, EnCana Corporation
Robert B. Peterson (1992)	Ontario, CAN	Company Director
J. Pedro Reinhard (2000)	Florida, U.S.A.	President, Reinhard & Associates
Kathleen P. Taylor (2001)	Ontario, CAN	President and Chief Operating Officer, Four Seasons Holdings Inc.
Victor L. Young (1991)	Newfoundland and Labrador, CAN	Company Director

Directors are elected annually and hold office until the next annual meeting of shareholders. Since November 1, 2002, the directors have held the principal occupations described above, except for the following:

Mr. George A. Cohon was Senior Chairman of McDonald's Restaurants of Canada Limited prior to January 2005.

Mr. Douglas T. Elix was Senior Vice-President and Group Executive, IBM Global Services, IBM Corporation prior to May 2004.

Mr. John T. Ferguson was Chair of the Board of TransAlta Corporation prior to April 2005.

Ms. Alice D. Laberge was President and Chief Executive Officer of Fincentric Corporation prior to July 2005, and Chief Financial Officer of Fincentric Corporation prior to December 2003.

Mr. Brandt C. Louie was Chairman of the Board of Slocan Forest Products Ltd. (which was acquired by Canfor Corporation in April 2004) prior to March 2004.

Mr. J. Pedro Reinhard was Executive Vice-President of The Dow Chemical Company prior to December 2005 and Executive Vice-President and Chief Financial Officer of The Dow Chemical Company prior to October 2005.

Ms. Kathleen P. Taylor was President, Worldwide Business Operations of Four Seasons Hotels Inc. prior to January 1, 2007.

COMMITTEES OF THE BOARD

Audit Committee: R.B. Peterson (Chairman), T.J. Hearn, A.D. Laberge, J. Lamarre, J.P. Reinhard, K.P. Taylor and V.L.Young

Conduct Review and Risk Policy Committee: J.P. Reinhard (Chairman), W.G. Beattie, P. Gauthier, A.D. Laberge, J. Lamarre, M.H. McCain and V.L. Young

Corporate Governance and Public Policy Committeee: D.P. O'Brien (Chairman), W.G. Beattie, G.A. Cohon, J.T. Ferguson, P. Gauthier, T.J. Hearn and B.C. Louie

Human Resources Committee: J.T. Ferguson (Chairman), G.A. Cohon, D.T. Elix, B.C. Louie, D.P. O'Brien, R.B. Peterson and K.P. Taylor

EXECUTIVE OFFICERS

The following are the Bank's executive officers as at November 29, 2007:

Name	**Province of Residence**	**Title**
Peter Armenio	Ontario, CAN	Group Head, U.S. & International Banking
Morten N. Friis	Ontario, CAN	Chief Risk Officer
Janice R. Fukakusa	Ontario, CAN	Chief Financial Officer
M. George Lewis	Ontario, CAN	Group Head, Wealth Management
Martin J. Lippert	Ontario, CAN	Group Head, Global Technology and Operations
Gordon M. Nixon	Ontario, CAN	President and Chief Executive Officer
Barbara G. Stymiest	Ontario, CAN	Chief Operating Officer
W. James Westlake	Ontario, CAN	Group Head, Canadian Banking
Charles M. Winograd	Ontario, CAN	Group Head, Global Capital Markets

Since November 1, 2002 the executive officers, other than Barbara G. Stymiest, have been engaged in various responsibilities in our affairs, and those of our subsidiaries. Prior to becoming the Bank's Chief Operating Officer on November 1, 2004, Barbara G. Stymiest was the Chief Executive Officer and President of TSX Inc.

OWNERSHIP OF SECURITIES

To our knowledge, the directors and executive officers, as a group, beneficially own or exercise control or direction over less than one percent (1%) of our common and preferred shares. None of our directors or executive officers holds shares of our subsidiaries except where required for qualification as a director of a subsidiary.

CEASE TRADE ORDERS, BANKRUPTCIES, PENALTIES OR SANCTIONS

To the best of our knowledge, no director or executive officer,

a) is, as at November 29, 2007 or has been, within the 10 years before, a director or executive officer of any company (including our company), that while that person was acting in that capacity,

   i) was the subject of a cease trade or similar order or an order that denied the relevant company access to any exemption under securities legislation, for a period of more than 30 consecutive days,

   ii) was subject to an event that resulted, after the director or executive officer ceased to be a director or executive officer, in the company being the subject of a cease trade or similar order or an order that denied the relevant company access to any exemption under securities legislation, for a period of more than 30 consecutive days, or

   iii) or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets, or

b) has, within the 10 years before November 29, 2007, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director or officer,

Except for the following;

Mr. Cohon was a director of Loews Cineplex Entertainment Corporation when it filed a voluntary petition to reorganize under Chapter 11 in the U.S. Bankruptcy Court on February 15, 2001. Mr. Cohon is no longer a director of Loews Cineplex Entertainment Corporation.

Mr. O'Brien was a director of Air Canada when it filed for protection under the *Companies' Creditors' Arrangement Act* (CCAA) on April 1, 2003. Mr. O'Brien is no longer a director of Air Canada.

Mr. Reinhard became a director of Dow Corning Corporation in June 2000. The company sought protection under the reorganization provisions under Chapter 11 of the U.S. Bankruptcy Code in 1995 and emerged from Chapter 11 bankruptcy proceedings in 2004. Mr. Reinhard is no longer a director of Dow Corning Corporation.

Ms. Stymiest became a director of Research in Motion Limited (RIM) in March 2007. At that time, directors, officers and other current and former employees of RIM were subject to a management cease trade order (MCTO) issued by certain Canadian securities regulators (Regulators) on November 7, 2006 in response to RIM's failure to file certain securities filings with the Regulators. Ms. Stymiest became subject to the MCTO on March 7, 2007, and the MCTO was lifted on May 23, 2007 after the securities filings were filed with the Regulators.

Ms. Taylor was a director of the T. Eaton Company when on August 20, 1999 it filed a Notice of Intention to make a proposal to its creditors under the *Bankruptcy and Insolvency Act* (Canada). Ms. Taylor is no longer a director of the T. Eaton Company.

To the best of our knowledge, none of our directors or executive officers have been subject to a) any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority, or b) any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

CONFLICTS OF INTEREST

To the best of our knowledge, no director or executive officer has an existing or potential material conflict of interest with us or any of our subsidiaries.

LEGAL PROCEEDINGS AND REGULATORY ACTIONS

In the ordinary course of our business, we are routinely involved in or parties to various ongoing, pending and threatened legal actions and proceedings.

A description of certain legal proceedings to which we are a party appears under the heading "Guarantees, commitments and contingencies – Litigation" in Note 27 beginning on page 156 to our consolidated financial statements for the year ended October 31, 2007, which pages are incorporated by reference.

Since October 31, 2006, a) there were no penalties or sanctions imposed against us by a court relating to securities legislation or by a securities regulatory authority, b) there were no other penalties or sanctions imposed by a court or regulatory body against us that would likely be considered important to a reasonable investor in making an investment decision, and c) we did not enter into any settlement agreements with a court relating to securities legislation or with a securities regulatory authority.[1]

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

To the best of our knowledge, there were no directors or executive officers or any associate or affiliate of a director or executive officer with a material interest in any transaction within the three most recently completed financial years or during the current financial year that has materially affected us or will materially affect us.

TRANSFER AGENT AND REGISTRAR

In Canada, Computershare Trust Company of Canada is the transfer agent and registrar for our common shares and our preferred shares. Their principal offices are in the cities of: Halifax, NS; Montreal, QC; Toronto, ON; Winnipeg, MB; Calgary, AB; and Vancouver, BC. In the United States, Computershare Trust Company, N.A. is the co-transfer agent located in Golden, Colorado. In the United Kingdom, Computershare Services PLC is the co-transfer agent located in Bristol, England.

EXPERTS

Deloitte & Touche LLP, independent registered chartered accountants, prepared the Report of Independent Registered Chartered Accountants in respect of our audited consolidated financial statements and the Report of Independent Registered Chartered Accountants in respect of our internal control over financial reporting.

[1] National Instrument 14-101 limits the meaning of "securities legislation" to Canadian provincial and territorial legislation and "securities regulatory authority" to Canadian provincial and territorial securities regulatory authorities.

AUDIT COMMITTEE

AUDIT COMMITTEE MANDATE

The mandate of the Audit Committee is attached as Appendix C to this annual information form.

COMPOSITION OF AUDIT COMMITTEE

The Audit Committee consists of Robert B. Peterson (Chairman), Timothy J. Hearn, Alice D. Laberge, Jacques Lamarre, J. Pedro Reinhard, Kathleen P. Taylor and Victor L. Young. The board has determined that each member of the Audit Committee is independent under our Director Independence Policy, which incorporates the independence standards under applicable Canadian and U.S. laws and regulations and none receives, directly or indirectly, any compensation from us other than ordinary course compensation for service as a member of the board of directors and its committees or of a board of directors of one or more of our subsidiaries. All members of the Audit Committee are financially literate within the meaning of *Multilateral Instrument 51-102 – Audit Committees* and of the Corporate Governance Standards of the New York Stock Exchange. In considering the criteria for determining financial literacy, the board of directors looks at the ability of a director to read and understand a balance sheet, an income statement and a cash flow statement of a financial institution. The Audit Committee has four members, Timothy J. Hearn, Alice D. Laberge, J. Pedro Reinhard and Victor L. Young, each of whom qualifies as an "audit committee financial expert" as defined by the U.S. Securities and Exchange Commission.

RELEVANT EDUCATION AND EXPERIENCE OF AUDIT COMMITTEE MEMBERS

In addition to each member's general business experience, the education and experience of each Audit Committee member that is relevant to the performance of his or her responsibilities as an Audit Committee member is as follows:

Robert B. Peterson, B.Sc., M.Sc., (Chairman) is a graduate of Queen's University. Mr. Peterson is retired Chairman and Chief Executive Officer of Imperial Oil Limited and has been a member of our Audit Committee since February 2000.

Timothy J. Hearn, B.Sc., is a graduate of the University of Manitoba. Mr. Hearn has been Chairman, President and Chief Executive Officer of Imperial Oil Limited for five years and is Chairman of the board of directors of the C.D. Howe Institute. Mr. Hearn has been a member of our Audit Committee since March 2006.

Alice D. Laberge, B.Sc., M.B.A., earned her Bachelor of Science from the University of Alberta and her M.B.A. from the University of British Columbia. Ms. Laberge was President and Chief Executive Officer of Fincentric Corporation until July 2005 and prior to December 2003, was its Chief Financial Officer. Ms. Laberge is a director of Potash Corporation of Saskatchewan and Russel Metals Inc. and has been a member of our Audit Committee since March 2006.

Jacques Lamarre, B.A., B.Sc., is a graduate of Laval University where he earned his Bachelor of Arts and Bachelor of Arts and Science in Civil Engineering. He has also completed Harvard University's Executive Development Program. Mr. Lamarre has been the President and Chief Executive Officer of SNC-Lavalin Group Inc. for eleven years and was a director of Canadian Pacific Railway Limited for three years. Mr. Lamarre has been a member of our Audit Committee since February 2004.

J. Pedro Reinhard, M.B.A., is a graduate of the Escola de Administracão de Empresas Fundação Getulio Vargas (Sao Paulo) and attended post-graduate studies at the University of Cologne in Germany and Stanford University. Mr. Reinhard is the President of Reinhard & Associates and is retired Executive Vice-President and Chief Financial Officer of The Dow Chemical Company. Mr. Reinhard is a director of Colgate-Palmolive Company and Sigma-Aldrich Corporation and is also a past chairman of the CFO Council Conference Board. Mr. Reinhard has been a member of our Audit Committee since May 2000.

Kathleen P. Taylor, B.A. (Hons.), L.L.B., M.B.A., obtained her law degree from Osgoode Hall Law School and her M.B.A. from York University. Ms. Taylor is the President and Chief Operating Officer of Four Seasons Holdings Inc. Ms. Taylor has been a member of our Audit Committee since November 2001.

Victor L. Young, B.Comm. (Hons.), M.B.A., earned his Bachelor of Commerce (Honours) from Memorial University and his M.B.A. from the University of Western Ontario. From 1984 until May 2001, Mr. Young served as Chairman and Chief Executive Officer of Fishery Products International Limited. Mr. Young is a trustee of Bell Aliant Income Trust and a director of BCE Inc., Imperial Oil Limited and McCain Foods Limited. Mr. Young has been a member of our Audit Committee since March 2007.

PRE-APPROVAL POLICIES AND PROCEDURES

The Audit Committee has adopted a policy that requires pre-approval by the Audit Committee of audit services and other services within permissible categories of non-audit services. The policy prohibits us from engaging the auditor for "prohibited" categories of non-audit services. A copy of our Pre-Approval Policies and Procedures can be found in Appendix D.

INDEPENDENT REGISTERED FEES

Deloitte & Touche LLP has served as one of our auditing firms since January 11, 1990 and became our sole auditor on September 23, 2003. PricewaterhouseCoopers LLP also acted as one of our two firms of auditors from March 5, 1998 to September 23, 2003. Fees relating to the years ended October 31, 2007 and October 31, 2006 to Deloitte & Touche LLP and its affiliates are $29.4 and $25.9 million, respectively, and are detailed below. The nature of each category of fees is also described below.

	Year ended October 31, 2007[1] (millions)	**Year ended October 31, 2006[1]** (millions)
Audit fees	$27.1	$23.9
Audit-related fees	1.7	1.7
Tax fees	0.3	-
All other fees	0.3	0.3
	$29.4	**$25.9**

[1]2007 fees include a net adjustment of $3.0 million for amounts relating to fiscal 2006 audits. The adjustment reflects additional costs associated with audit procedures relating to internal control over financial reporting and other matters which could not be estimated at the time of last year's reporting. Similarly, 2006 fees included $1.5 million for amounts relating to fiscal 2005 audits.

Audit Fees

Audit fees were paid for professional services rendered by the auditor for the integrated audit of our annual financial statements, including its audit of the effectiveness of our internal control over financial reporting, and the financial statement audits of our subsidiaries. In addition, audit fees were paid for services provided in connection with statutory and regulatory filings and engagements.

Audit-Related Fees

Audit-related fees were paid for assurance and related services that are reasonably related to the performance of the audit or review of our annual financial statements and are not reported under the audit fees item above. These services consisted of:

- special attest services not required by statute or regulation;
- reporting on the effectiveness of internal controls as required by contract or for business reasons;
- accounting consultations and special audits in connection with acquisitions;
- the audit of the financial statements of our various pension plans and charitable foundations;

- the audits of various trusts and limited partnerships; and
- the audit of certain special purpose vehicles relating to complex structured products.

Tax Fees

Tax fees were paid for tax compliance services including the review of original and amended tax returns, assistance with questions regarding tax audits and assistance in completing routine tax schedules and calculations.

All Other Fees

All other fees were paid for products and services other than the audit fees, audit-related fees and tax fees described above. These services consist of French translation of financial statements and related continuous disclosure and other public documents containing financial information for us and certain of our subsidiaries.

ADDITIONAL INFORMATION

Additional information, including directors' and officers' remuneration and indebtedness, principal holders of our securities, and securities authorized for issuance under equity compensation plans, where applicable, is contained in the Bank's Management Proxy Circular for the most recent annual meeting of shareholders. Additional financial information is provided in our financial statements and management's discussion and analysis which are included in our 2007 Annual Report to Shareholders for the year ended October 31, 2007.

Copies of this annual information form, our 2007 Annual Report to Shareholders and Management Proxy Circular in respect of the most recent annual meeting of shareholders may be obtained from Investor Relations at 200 Bay Street, South Tower, 14th Floor, Toronto, Ontario, M5J 2J5 (416-955-7802).

This annual information form, the financial statements and management's discussion and analysis for the year ended October 31, 2007, as well as additional information about us may be found on our website at rbc.com, on SEDAR, the Canadian Securities Administrators' website, at sedar.com, and on the EDGAR section of the United States Securities and Exchange Commission's website at sec.gov.

Information contained in or otherwise accessible through the websites mentioned in this annual information form does not form a part of this annual information form. All references in this annual information form to websites are inactive textual references and are for your information only.

TRADEMARKS

Trademarks used in this annual information form include the LION & GLOBE Symbol, ROYAL BANK OF CANADA, ROYAL BANK, RBC, RBC CAPITAL MARKETS, RBC CENTURA, RBC DAIN RAUSCHER and RBC DANIELS which are trademarks of Royal Bank of Canada used by Royal Bank of Canada and/or by its subsidiaries under license. All other trademarks mentioned in this annual information form, which are not the property of Royal Bank of Canada, are owned by their respective holders. RBC Dexia IS and affiliated Dexia companies are licensed users of the RBC trademark.

APPENDIX A – PRINCIPAL SUBSIDIARIES

Principal subsidiaries (1)	Principal office address (2)	Carrying value of voting shares owned by the bank (3)
Royal Bank Mortgage Corporation (4)	Montreal, Quebec, Canada	$ 1,002
RBC Capital Trust	Toronto, Ontario, Canada	1,051
RBC Dominion Securities Limited (4)	Toronto, Ontario, Canada	2,896
RBC Dominion Securities Inc.	Toronto, Ontario, Canada	
RBC Investment Services (Asia) Limited	Hong Kong, China	
RBC Sec Australia Pty Limited	Sydney, Australia	
Royal Bank Holding Inc.	Toronto, Ontario, Canada	20,659
Royal Mutual Funds Inc.	Toronto, Ontario, Canada	
Royal Trust Corporation of Canada	Toronto, Ontario, Canada	
The Royal Trust Company	Montreal, Quebec, Canada	
RBC Insurance Holding Inc.	Mississauga, Ontario, Canada	
RBC General Insurance Company	Mississauga, Ontario, Canada	
RBC Insurance Company of Canada	Mississauga, Ontario, Canada	
RBC Life Insurance Company	Mississauga, Ontario, Canada	
RBC Direct Investing Inc.	Toronto, Ontario, Canada	
RBC Asset Management Inc.	Toronto, Ontario, Canada	
RBC Private Counsel Inc.	Toronto, Ontario, Canada	
R.B.C. Holdings (Bahamas) Limited	Nassau, Bahamas	
RBC Caribbean Investment Limited	George Town, Grand Cayman	
Royal Bank of Canada Insurance Company Limited	St. Michael, Barbados	
Finance Corporation of Bahamas Limited	Nassau, Bahamas	
Royal Bank of Canada Trust Company (Bahamas) Limited	Nassau, Bahamas	
Investment Holdings (Cayman) Limited	George Town, Grand Cayman	
RBC (Barbados) Funding Ltd.	St. Michael, Barbados	
Royal Bank of Canada (Caribbean) Corporation	St. Michael, Barbados	
Royal Bank of Canada Trust Company (Cayman) Limited	George Town, Grand Cayman	
RBC Alternative Asset Management Inc.	Wilmington, Delaware, U.S.	
RBC Holdings (USA) Inc. (2)	New York, New York, U.S.	
RBC USA Holdco Corporation(2)	New York, New York, U.S.	
RBC Dain Rauscher Corp. (2)	Minneapolis, Minnesota, U.S.	
J.B. Hanauer & Co.	Parsippany, New Jersey, U.S.	
RBC Dain Rauscher Inc.	Minneapolis, Minnesota, U.S.	
RBC Capital Markets Corporation	New York, New York, U.S.	
RBC Daniels L.P.	Denver, Colorado	
Prism Financial Corporation	Dover, Delaware, U.S.	
RBC Trust Company (Delaware) Limited	Wilmington, Delaware, U.S.	
RBC Insurance Holdings (USA) Inc.	Wilmington, Delaware, U.S.	
Liberty Life Insurance Company	Greenville, South Carolina, U.S.	
RBC Capital Markets Arbitrage SA	Steinsel, Luxembourg	
Royal Bank of Canada (Asia) Limited	Singapore, Singapore	
RBC Centura Banks, Inc. (5)	Rocky Mount, North Carolina, U.S.	3,933
RBC Centura Bank	Rocky Mount, North Carolina, U.S.	
RBCF L.P.	Wilmington, Delaware, U.S.	205
Royal Bank of Canada Financial Corporation	St. Michael, Barbados	3
RBC Finance B.V.	Amsterdam, Netherlands	2,319
Royal Bank of Canada Holdings (U.K.) Limited	London, England	
Royal Bank of Canada Europe Limited	London, England	
Royal Bank of Canada Investment Management (U.K.) Limited	London, England	
Royal Bank of Canada Trust Corporation Limited	London, England	
RBC Asset Management UK Limited	London, England	
RBC Holdings (Channel Islands) Limited	Guernsey, Channel Islands	
Royal Bank of Canada (Channel Islands) Limited	Guernsey, Channel Islands	
RBC Treasury Services (C.I.) Limited	Jersey, Channel Islands	
RBC Offshore Fund Managers Limited	Guernsey, Channel Islands	
RBC Fund Services (Jersey) Limited	Jersey, Channel Islands	
Royal Bank of Canada Investment Management (Guernsey) Limited	Guernsey, Channel Islands	
Abacus Investment Services Limited	Jersey, Channel Islands	
RBC Regent Fund Managers Limited	Jersey, Channel Islands	
RBC Trust Company (International) Limited	Jersey, Channel Islands	
Regent Capital Trust Corporation Limited	Jersey, Channel Islands	
RBC Trust Company (Jersey) Limited	Jersey, Channel Islands	
RBC Trustees (Guernsey) Limited	Guernsey, Channel Islands	
RBC Regent Tax Consultants	Jersey, Channel Islands	
RBC Wealth Planning International Limited	Jersey, Channel Islands	
RBC cees Limited	Jersey, Channel Islands	
RBC cees International Limited	Jersey, Channel Islands	
RBC cees Fund Managers (Jersey) Limited	Jersey, Channel Islands	
Royal Bank of Canada Trust Company (Asia) Limited	Hong Kong, China	
RBC Reinsurance (Ireland) Limited	Dublin, Ireland	
Royal Bank of Canada (Suisse)	Geneva, Switzerland	
Roycan Trust Company S.A.	Geneva, Switzerland	
RBC Investment Management (Asia) Limited	Hong Kong, China	10
RBC Capital Markets (Japan) Limited	St. Michael, Barbados	18

(1) The bank directly or indirectly owns 100% of the voting shares of each subsidiary except Finance Corporation of Bahamas Limited (75%).

(2) Each subsidiary is incorporated or organized under the laws of the state or country in which the principal office is situated, except for RBC Holdings (USA) Inc., RBC USA Holdco Corporation and RBC Dain Rauscher Corp. which are incorporated under the laws of the State of Delaware, U.S. and RBCF L.P. which is organized under the laws of the State of Nevada.

(3) The carrying value (in millions of dollars) of voting shares is stated as the bank's equity in such investments.

(4) The subsidiaries have outstanding non-voting shares of which the bank, directly or indirectly, owns 100%.

(5) RBC USA Holdco Corporation owns 4.78% and Prism Financial Corporation owns 5.17% of RBC Centura Banks, Inc.

APPENDIX B – EXPLANATION OF RATING & OUTLOOK

INSTITUTION	RATING	OUTLOOK
Moody's Investors Service	• Obligations rated 'Aaa' are judged to be of the highest quality, with minimal credit risk. • Issuers (or supporting institutions) rated between Aaa and A3 have a superior ability to repay short-term debt obligations. • The modifier 1 indicates that the obligation ranks in the higher end of its rating category.	A stable rating outlook indicates the rating is not likely to change.
Standard & Poor's	• An obligation rated 'AA' has very strong capacity to meet its financial commitments. It differs from the highest-rated obligations only in a small degree. • An obligation rated 'A' is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher-rated categories. However, the obligor's capacity to meet its financial commitment on the obligation is still strong. • The addition of a plus or minus sign shows the relative standing within the major rating categories.	A positive rating outlook indicates the rating may be raised.
Fitch Ratings	• 'AA' ratings denote expectations of very low credit risk and are judged to be of high credit quality. They indicate very strong capacity for payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events. • The modifiers "+" or "-" may be appended to a rating to denote relative status within major rating categories.	A stable rating outlook indicates that a rating is not likely to change.
DBRS	• An obligation rated 'AA' is of superior credit quality, and protection of interest and principal is considered high. In many cases they differ from obligations rated 'AAA' only to a small degree. • Preferred shares rated Pfd-1 are of superior credit quality, and are supported by entities with strong earnings and balance sheet characteristics. Pfd-1 securities generally correspond with companies whose senior bonds are rated in the AAA or AA categories. • Each rating category is denoted by the categories "high" and "low". The absence of either a "high" or "low" designation indicated the rating is in the middle of the category.	A stable rating outlook indicates that a rating is not likely to change.

WHAT THE RATINGS ADDRESS:

Long-term Senior Debt

Credit ratings are the current opinion of the rating agency on creditworthiness of an obligor with respect to fixed-income obligations whose original maturity is of a medium to long term nature. They address the possibility that a financial obligation will not be honoured as promised and reflects both the likelihood of default and any financial loss suffered in the event of default.

Subordinated Debt

Credit ratings are the current opinion of the rating agency on creditworthiness of an obligor with respect to a specific financial obligation and a specific class of financial obligation for a specific financial program. Ratings take into consideration the creditworthiness of guarantors, insurers, or other forms of credit enhancement on the obligation and takes into account the currency in which the obligation is denominated.

Preferred Stock

Preferred stock ratings address the issuer's capacity and willingness to pay dividends and principal, in case of limited life preferreds, on a timely basis. They address the likelihood of timely payment of dividends, notwithstanding the legal ability to pass on or defer a dividend payment.

Rating Outlook

Rating Outlook assesses the potential direction of a credit rating over the intermediate to longer term. In determining a Rating Outlook consideration is given to any changes in the economic and fundamental business conditions. An Outlook is not necessarily a precursor of a rating change.

APPENDIX C – AUDIT COMMITTEE MANDATE

As at May 25, 2007

ROYAL BANK OF CANADA
EXTRACT FROM THE ADMINISTRATIVE RESOLUTIONS ADOPTED BY THE BOARD OF DIRECTORS OF ROYAL BANK OF CANADA
(hereinafter referred to as the "Bank")

2.1 Audit Committee

2.1.1 Establishment of Committee and Procedures

a) Establishment of Committee
A committee of the directors to be known as the "Audit Committee" (hereinafter the "Committee") is hereby established.

b) Composition of Committee
The Committee shall be composed of not less than five directors. Each member shall be financially literate, as the Board of Directors interprets such qualification in its business judgment, or must become financially literate within a reasonable period of time after appointment to the Committee. At least one member shall have accounting or related financial management expertise, as the Board of Directors interprets such qualification in its business judgment.

c) Independence of Committee Members
As required by the *Bank Act*, none of the members of the Committee shall be an officer or employee of the Bank or of an affiliate of the Bank. All of the members of the Committee shall be "unaffiliated", as determined by regulations made under the *Bank Act*. All of the members of the Committee shall be independent, as determined by director independence standards adopted by the Board.

d) Appointment of Committee Members
Members shall be appointed or reappointed at the annual organizational meeting of the directors and in the normal course will serve a minimum of three years. Each member shall continue to be a member until a successor is appointed, unless the member resigns, is removed or ceases to be a director. The Board of Directors may fill a vacancy that occurs in the Committee at any time.

e) Committee Chairman and Secretary
The Board of Directors or, in the event of its failure to do so, the members of the Committee, shall appoint or reappoint, at the annual organizational meeting of the directors, a Chairman from among their number. The Chairman shall not be a former employee of the Bank or of an affiliate. The Committee shall also appoint a Secretary who need not be a director.

f) Time and Place of Meetings
Meetings may be called by any member of the Committee, or by the external auditors. The time and place of and the procedure at meetings shall be determined from time to time by the members, provided that:

i) a quorum for meetings shall be three members, a majority of whom must be "resident Canadian" except as otherwise provided by the *Bank Act*;
ii) the Committee shall meet at least quarterly;
iii) the Committee may request any officer or employee of the Bank or the Bank's outside counsel or external auditors to attend a meeting of the Committee or to meet with any members of, or consultants to, the Committee;
iv) notice of the time and place of every meeting shall be given in writing or by telephone, facsimile, email or other electronic communication to each member of the Committee and to the external auditors at least 24 hours prior to the time fixed for such meeting, provided, however, that business referred to in paragraph 2.1.3.e)(iv) below may be transacted at a meeting of which at least one hour prior notice is given as aforesaid, and that a member may in any manner waive notice of a meeting; and attendance of a member at a meeting is a waiver of notice of the meeting, except where a member attends a meeting for the express purpose of objecting to the transaction of any business on the grounds that the meeting is not lawfully called; and
v) a resolution in writing signed by all the members entitled to vote on that resolution at a Committee meeting, other than a resolution of the Committee carrying out its duties under subsection 194(3) of the *Bank Act*, shall be as valid as if it had been passed at a meeting of the Committee.

g) Reporting to the Board of Directors
i) The Committee shall report to the Board of Directors following each meeting with respect to its activities and with such recommendations as are deemed desirable in the circumstances.
ii) Prior to approval by the directors, the Committee will also report to the Board on the annual statement and returns that must be approved by the directors under the *Bank Act*.

h) Evaluation of Effectiveness and Review of Mandate
The Committee shall annually review and assess the adequacy of its mandate and evaluate its effectiveness in fulfilling its mandate.

2.1.2 General Scope of Responsibilities and Purpose of the Committee

Management is responsible for the preparation, presentation and integrity of the Bank's financial statements and for maintaining appropriate accounting and financial reporting principles and policies and internal controls and procedures designed to ensure compliance with accounting standards and applicable laws and regulations.

The external auditors are responsible for planning and carrying out, in accordance with professional standards, an audit of the Bank's annual financial statements and reviews of the Bank's quarterly financial information.

The Committee's purpose is to review the adequacy and effectiveness of these activities and to assist the Board in its oversight of:

(i) the integrity of the Bank's financial statements;

(ii) the external auditors' qualifications and independence;

(iii) the performance of the Bank's internal audit function and external auditors;

(iv) the adequacy and effectiveness of internal controls; and

(v) the Bank's compliance with legal and regulatory requirements.

The Committee is also responsible for preparing any report from the Committee that may be required to be included in the Bank's annual proxy statement or that the Board elects to include on a voluntary basis.

The Committee shall meet every fiscal quarter, or more frequently at the discretion of the Committee if circumstances dictate, to discuss with management the annual audited financial statements and quarterly financial statements.

At least quarterly, the Committee shall have separate private meetings with the external auditors, the chief internal auditor, the general counsel, the chief compliance officer and management to discuss any matters that the Committee or these groups believe should be discussed.

In fulfilling its role, the Committee is empowered to investigate any matter with full access to all books, records, facilities, management and employees of the Bank and the authority to retain outside counsel or other experts for this purpose.

2.1.3 Specific Responsibilities

a) Documents and Reports

The Committee shall review:

i) prior to review and approval by the Board: the annual statement of the Bank, which includes the annual audited financial statements; the quarterly financial statements of the Bank; the annual information form; the quarterly and annual management's discussion and analysis; and earnings press releases;

ii) the types of financial information and earnings guidance provided and types of presentations made to analysts and rating agencies, and shall be satisfied that adequate procedures are in place for the review of the Bank's public disclosure of financial information extracted or derived from the Bank's financial statements and shall periodically assess the adequacy of these procedures;

iii) such returns as the Superintendent of Financial Institutions may specify and other periodic disclosure documentation and reports as may be required under applicable law ;

iv) such investments and transactions that could adversely affect the well-being of the Bank as the external auditors or any officer of the Bank may bring to the attention of the Committee;

v) prospectuses relating to the issuance of securities of the Bank;

vi) an annual report on any litigation matters which could significantly affect the financial statements; and

vii) an annual report from the chief compliance officer on regulatory compliance matters.

b) Internal Control

The Committee shall require management to implement and maintain appropriate systems of internal control, including internal controls over financial reporting and for the prevention and detection of fraud and error. The Committee shall review, evaluate and approve those systems and meet with the chief internal auditor and with management to assess the adequacy and effectiveness of these systems of internal control and to obtain on a regular basis reasonable assurance that the organization is in control. The Committee shall also receive reports from the Chief Executive Officer and the Chief Financial Officer as to the existence of any significant deficiency or material weakness in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Bank's ability to record, process, summarize and report financial information and as to the existence of any fraud, whether or not material, that involves management or other employees who have a significant role in the Bank's internal control over financial reporting.

c) Internal Auditor

The Committee shall:

i) review and concur in the appointment, replacement, reassignment or dismissal of the chief internal auditor and review the mandate, annual audit plan, and resources of the internal audit function;

ii) meet with the chief internal auditor to review the results of internal audit activities, including any significant issues reported to management by the internal audit function and management's responses and/or corrective actions;

iii) meet with the chief internal auditor to review the status of identified control weaknesses;

iv) review representations from the chief internal auditor, based on audit work done, on the adequacy and degree of compliance with the Bank's systems of internal control;

v) review the performance, degree of independence and objectivity of the internal audit function and adequacy of the internal audit process; and

vi) review with the chief internal auditor any issues that may be brought forward by the chief internal auditor, including any difficulties encountered by the internal audit function, such as audit scope, information access, or staffing restrictions.

d) External Auditors

The Committee shall have the authority and responsibility to recommend the appointment and the revocation of the appointment of any registered public accounting firm (including the external auditors) engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services, and to fix their remuneration, subject to the powers conferred on the shareholders by the *Bank Act*. The Committee shall be responsible for the oversight of the work of each such accounting firm, including resolution of disagreements between management and the accounting firm regarding financial reporting, and each such firm shall report directly to the Committee. The Committee shall:

i) meet with the external auditors to review and discuss the annual audit plan, the results of the audit, their report with respect to the annual statement and the returns and transactions referred to in subsection 194(3) of the *Bank Act*, and the report required to be provided to the Committee by the external auditors pursuant to Rule 2-07 of the U.S. Securities and Exchange Commission's Regulation S-X;

ii) have the sole authority to approve all audit engagement fees and terms, as well as the provision and the terms of any legally permissible non-audit services to be provided by the external auditors to the Bank, with such approval to be given either specifically or pursuant to preapproval policies and procedures adopted by the committee;

iii) review with the external auditors any issues that may be brought forward by the external auditors, including any audit problems or difficulties, such as restrictions on their audit activities or access to requested information, and management's response;

iv) annually review with the external auditors their qualifications, independence and objectivity, including formal written statements delineating all relationships between the external auditors and the Bank that may impact such independence and objectivity;

v) discuss with the external auditors and with management the annual audited financial statements and quarterly financial statements, including the disclosures contained in the annual and quarterly management's discussion and analysis;

vi) review hiring policies concerning partners, employees and former partners and employees of the external auditors;

vii) review and evaluate the qualifications, performance and independence of the lead partner of the external auditors and discuss the timing and process for implementing the rotation of the lead audit partner, the concurring audit partners and any other active audit engagement team partner;

viii) at least annually, obtain and review a report by the external auditors describing: the external auditors' internal quality-control procedures; any material issues raised by the most recent internal quality-control review, or peer review, of the external auditors, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the external auditors, and any steps taken to deal with any such issues; and

ix) take into account the opinions of management and the Bank's internal auditors in assessing the qualifications, performance and independence of the external auditors.

e) Liquidity, Funding and Capital Management

The Committee:

i) shall review and approve at least once a year the liquidity and funding management policies including contingency plans as well as capital management policies recommended by management;

ii) shall review on a regular basis the liquidity, funding and capital position and liquidity, funding and capital management processes;

iii) shall obtain on a regular basis reasonable assurance that the Bank's liquidity and funding management policies and capital management policies are being adhered to;

iv) as provided in the relevant standing resolutions of the Board of Directors, may designate and authorize the issue of First Preferred Shares and the issue of securities qualifying as Tier 2A capital under capital adequacy guidelines issued by the Superintendent of Financial Institutions; and

v) in connection with the exercise of the power delegated to senior management to authorize and approve issues of subordinated indebtedness of the Bank, shall review and approve the Draft Securities Disclosure Document as provided in the relevant standing resolution of the Board of Directors.

f) Other

i) The Committee shall discuss major issues regarding accounting principles and financial statement presentations, including significant changes in the Bank's selection or application of accounting principles, analyses prepared by management or the external auditors setting forth significant financial reporting issues and judgments made in connection with the preparation of the financial statements, including analyses of the effect on the financial statements of alternative methods of applying Canadian or U.S. generally accepted accounting principles, of regulatory and accounting initiatives and of off-balance sheet structures;

ii) The Committee shall establish procedures for the receipt, retention, treatment and resolution of complaints received by the Bank regarding accounting, internal accounting controls or auditing matters, as well as procedures for the confidential and anonymous submission of concerns regarding accounting or auditing matters;

iii) The Committee shall review and discuss any reports concerning material violations submitted to it by Bank attorneys or counsel pursuant to the attorney professional responsibility rules of the U.S. Securities and Exchange Commission, the Bank's attorney reporting policy, or otherwise;

iv) The Committee shall, as appropriate, obtain at the expense of the Bank advice and assistance from independent legal, accounting or other advisors;

v) The Committee shall discuss the major financial risk exposures of the Bank and the steps management has taken to monitor and control such exposures; and

vi) Subject to the laws applicable to the subsidiary, the Committee may perform for and on behalf of a subsidiary the functions of an audit committee of the subsidiary.

APPENDIX D – PRE-APPROVAL POLICIES AND PROCEDURES

AUDIT COMMITTEE

OCTOBER 18, 2006

POLICIES AND PROCEDURES

FOR THE PRE-APPROVAL OF SERVICES

TO BE PERFORMED BY PUBLIC ACCOUNTING FIRMS

Mandate

1. The mandate of the Audit Committee established by the board of directors confers on the Committee the authority and responsibility (among other things) to pre-approve all audit and any legally permissible non-audit services to be provided by the external auditors and all audit, review and attest services provided by any other public accounting firm, with such approval to be given either specifically or pursuant to pre-approval policies and procedures adopted by the Committee.

Purpose

2. These Policies and Procedures are intended:

    a) to specify the methods by which the Audit Committee may pre-approve the provision of audit, review and attest services by any public accounting firm to the Bank and its subsidiaries;

    b) to specify the methods by which the Audit Committee may pre-approve the provision of non-audit services to the Bank and its subsidiaries by the Bank's external auditors and their affiliates (the "auditors") that do not impair the independence of the auditors;

    c) to set forth procedures designed to ensure that any services to be provided by the auditors and that any audit, review or attestation services to be performed by any other public accounting firm have been properly authorized and pre-approved under the authority of the Audit Committee, and that the Committee is promptly informed of each service; and

    d) to ensure that the Audit Committee's responsibilities under applicable law are not delegated to management.

Required Approval of Audit and Non-Audit Services

3. The Audit Committee shall pre-approve all engagements of the auditors by:
    a) the Bank; or
    b) any subsidiary.

4. The Audit Committee shall pre-approve engagements of any public accounting firm to provide audit, review or attest services to:
   a) the Bank; or
   b) any subsidiary.

5. The Audit Committee shall evidence its pre-approval by resolution of the Committee or through the exercise of delegated authority in accordance with these Policies and Procedures.

6. "Subsidiary" has the meaning set forth in Rule 1-02(x) of the U.S. Securities and Exchange Commission's Regulation S-X. The Bank considers any entity that the Bank is required to consolidate under U.S. GAAP to be a "subsidiary".

7. For the purpose of these Policies and Procedures and any pre-approval:

   a) "Audit services" include services that are a necessary part of the audit process and any activity that is a necessary procedure used by the accountant in reaching an opinion on the financial statements as is required under applicable auditing standards ("AAS"), including technical reviews to reach an audit judgment on complex accounting issues;

   b) The term "audit services" is broader than those services strictly required to perform an audit pursuant to AAS and include such services as:
      i) the issuance of comfort letters and consents in connection with offerings of securities;
      ii) the performance of domestic and foreign statutory audits;
      iii) attest services required by statute or regulation; and
      iv) assistance with and review of documents filed with the Office of the Superintendent of Financial Institutions, Canadian securities administrators, the Securities and Exchange Commission, the Board of Governors of the Federal Reserve Board and other regulators having jurisdiction over the activities of the Bank and its subsidiaries, and responding to comments from such regulators;

   c) "Audit-related" services are assurance (e.g., due diligence services) and related services traditionally performed by the principal accountant and that are reasonably related to the performance of the audit or review of financial statements and not categorized under "audit fees" for disclosure purposes.

      "Audit-related services" include:
      i) employee benefit plan audits, including audits of employee pension plans,
      ii) due diligence related to mergers and acquisitions,
      iii) consultations and audits in connection with acquisitions, including evaluating the accounting treatment for proposed transactions;
      iv) internal control reviews;
      v) attest services not required by statute or regulation; and
      vi) consultations regarding financial accounting and reporting standards.

      Non-financial operational audits are not "audit-related" services;

   d) "Review services" are services applied to unaudited financial statements and consist of the inquiry and analytical procedures that provide the accountant with a reasonable basis for expressing limited assurance that there are no material modifications that should be

made to financial statements for them to be in conformity with GAAP or, if applicable, any other comprehensive basis of accounting;

e) "Attest" services are those engagements where the accountant issues an examination, a review, or an agreed-upon procedures report on a subject matter, or an assertion about the subject matter that is the responsibility of another party. Examples of the subject matter of an "attest" engagement include: examinations (i.e., audits) of financial forecasts and projections; reviews of pro-forma financial information; reporting on a company's internal control over financial reporting; and examinations of compliance with contractual arrangements or laws and regulations.

Delegation

8. The Audit Committee may from time to time delegate to one or more of its members who are "independent" (within the meanings of applicable law and the rules or policies of a securities commission having jurisdiction, and the NYSE) the power to pre-approve from time to time:

   a) audit, review or attest services to be provided by any public accounting firm (including the auditors) that have not been otherwise approved by the Committee;

   b) permissible non-audit services to be provided by the auditors that have not otherwise been approved by the Committee, and

   c) changes in the scope of pre-approved engagements and the maximum estimated fees for engagements that have been pre-approved by the Committee.

9. The member(s) exercising such delegated authority must report at the next regularly scheduled meeting of the Audit Committee any services that were pre-approved under this delegated authority since the date of the last regularly scheduled meeting.

10. The member(s) exercising delegated authority may evidence his or her approval by signing an instrument in writing that describes the engagement with reasonable specificity, or by signing an engagement letter containing such a description.

11. In addition, member(s) exercising delegated authority may pre-approve an engagement orally, if any such oral approval is promptly confirmed in writing. Such written confirmation may be given by fax or e-mail and must describe the engagement with reasonable specificity.

Responsibilities of External Auditors

12. To support the independence process, the external auditors shall:

   a) confirm in engagement letters that performance of the work will not impair independence;

b) satisfy the Audit Committee that they have in place comprehensive internal policies and processes to ensure adherence, world-wide, to independence requirements, including robust monitoring and communications;

c) provide regular communication and confirmation to the Committee on independence;

d) provide for Committee approval, in connection with each annual audit engagement, a detailed scope of services outlining each individual audit to be performed and a detailed description of audit-related services;

e) utilize the assigned tracking numbers in all fee billings and correspondence and provide detailed, quarterly fee reporting.

f) maintain certification by the Canadian Public Accountability Board and registration with the U.S. Public Company Accounting Oversight Board; and

g) review their partner rotation plan and advise the Committee on an annual basis.

Engagements

13. The Audit Committee will not, as a general rule, pre-approve a service more than one year prior to the time at which it is anticipated that the firm of accountants will be engaged to provide the service.

14. Engagements will not be considered to be revolving in nature and may not operate from year-to-year.

15. All audit and non-audit services to be provided by the auditors and all audit, review or attest services to be provided by any public accounting firm shall be provided pursuant to an engagement letter that shall:

    a) be in writing and signed by the auditors or public accounting firm;

    b) specify the particular services to be provided;

    c) specify the period in which the services will be performed;

    d) specify the maximum total fees to be paid; and

    e) in the case of engagements of the auditors, include a confirmation by the auditors that the services are not within a category of services the provision of which would impair their independence under applicable law and Canadian and U.S. generally accepted auditing standards.

16. Management shall, before signing and delivering an engagement letter on behalf of the Bank or a subsidiary and before authorizing the commencement of an engagement:

    a) obtain an engagement letter in accordance with the foregoing;

b) confirm that the services are described in the engagement letter accurately and with reasonable specificity;

c) obtain confirmation from the auditors that they have conducted an analysis that supports their conclusion that performance of the services will not impair their independence;

d) with respect to engagements for the provision of services other than audit and audit-related services, obtain confirmation from legal counsel for the Bank that performance of the services will not impair independence; and

e) verify that the performance of the services has been specifically approved by the Audit Committee or a member in accordance with authority delegated by the Committee.

All engagement letters entered into pursuant to these Policies and Procedures shall be made available to the Audit Committee.

Tax Services

17. The Audit Committee, and any member in the exercise of delegated power, shall consider the provision of tax services by the auditors on an engagement-by-engagement basis.

18. The Audit Committee shall not pre-approve, and any member of the Audit Committee may not exercise delegated power to engage the auditors to provide, tax services to the Bank or a subsidiary:

    a) to represent the Bank or a subsidiary before a tax or other court; or

    b) if the provision of the services would be prohibited, as prescribed by paragraph 20 of these Policies and Procedures.

Other Non-Audit Services (Including Business Recovery Services)

19. The Audit Committee, and any member in the exercise of delegated power, shall consider the provision of other non-audit services (non-audit services other than audit-related services and tax services, and including business recovery services) by the auditors on an engagement-by-engagement basis.

Prohibited Services

20. The Audit Committee shall not pre-approve, and any member may not exercise delegated power to engage the auditors to provide any services, including tax services or business recovery services, that involve the auditors performing any of the non-audit services set forth in paragraph (c)(4) of Rule 2-01 of the U.S. Securities and Exchange Commission's Regulation S-X, which include:
    a. providing bookkeeping or other services related to the accounting records or financial statements of the Bank or any of its subsidiaries,
    b. providing financial information systems design and implementation to the Bank or any of its subsidiaries,
    c. providing actuarial services to the Bank or any of its subsidiaries,

d. providing internal audit outsourcing services to the Bank or any of its subsidiaries,
e. providing human resources services to the Bank or any of its subsidiaries,
f. providing broker-dealer, investment adviser, or investment banking services to the Bank or any of its subsidiaries,
g. functioning in the role of management for the Bank or any of its subsidiaries,
h. auditing their own work in relation to the Bank or any of its subsidiaries,
i. providing appraisal or valuation services, contribution in kind reports or fairness opinions to the Bank or any of its subsidiaries,
j. serving in an advocacy role for the Bank or any of its subsidiaries,
k. providing legal services to the Bank or any of its subsidiaries,
l. providing services that fall within the category of "expert" services that are prohibited by applicable law to the Bank or any of its subsidiaries, or
m. providing services to the Bank or any of its subsidiaries that would otherwise compromise their independence under applicable regulatory guidance.

For the purposes of the Prohibited Services listed in this Section 20 above, a "subsidiary" includes any entity for which the Bank equity accounts for purposes of U.S. GAAP that is material to the Bank. Therefore, the Audit Committee is not permitted to pre-approve the provision of the prohibited services listed above by the auditors to these entities.

Timely Reporting to the Audit Committee

21. Management shall provide a quarterly written report to the Audit Committee of each service performed and fees, at the scheduled meeting of the Committee held following the end of each fiscal quarter end.

No Delegation to Management

22. Nothing in these Policies and Procedures shall be interpreted as a delegation to management of the Audit Committee's responsibilities under applicable law.

Effective Date

23. These updated Policies and Procedures are effective as and from October 18, 2006.

Disclosure

24. The Bank shall disclose these Policies and Procedures in its periodic filings, as required by applicable law.

Review

25. The Audit Committee shall review and reassess the adequacy of these Policies and Procedures on a bi-annual basis.

Management's Discussion and Analysis

EXHIBIT 2

Management's discussion and analysis (MD&A) is provided to enable a reader to assess our results of operations and financial condition for the fiscal year ended October 31, 2007, compared to the preceding two years. This MD&A should be read in conjunction with our Consolidated Financial Statements and related notes and is dated November 29, 2007. All amounts are in Canadian dollars, unless otherwise specified, and are based on financial statements prepared in accordance with Canadian generally accepted accounting principles (GAAP). Effective October 31, 2006, RBC Mortgage Company disposed of substantially all of its remaining assets and obligations and we no longer separately classify its results in our Consolidated Financial Statements. Results reported on a total consolidated basis are comparable to results reported from continuing operations for the corresponding prior periods.

Additional information about us, including our 2007 Annual Information Form, is available free of charge on our website at rbc.com/investorrelations, on the Canadian Securities Administrators' website at sedar.com and on the EDGAR section of the United States Securities and Exchange Commission's (SEC) website at sec.gov.

34 Overview
- 34 About Royal Bank of Canada
- 34 Vision and strategic goals
- 35 Selected financial and other highlights
- 36 Overview of 2007
- 38 Outlook and objectives for 2008

38 Accounting and control matters
- 38 Critical accounting policies and estimates
- 42 Future changes in accounting policies
- 42 Controls and procedures

43 Financial performance
- 43 Overview
- 45 Total revenue
- 46 Net interest income and margin
- 47 Change in net interest income
- 47 Non-interest expense
- 48 Provision for credit losses
- 48 Insurance policyholder benefits, claims and acquisition expense
- 49 Taxes
- 50 Results by geographic segment
- 50 Related party transactions

51 Quarterly financial information
- 51 Results and trend analysis
- 52 Fourth quarter 2007 performance

53 Business segment results
- 54 How we measure and report our business segments
- 55 Impact of foreign exchange rates on our business segments
- 55 Key performance and non-GAAP measures
- 57 Canadian Banking
- 61 Wealth Management
- 64 U.S. & International Banking
- 67 Capital Markets
- 70 Corporate Support

71 Financial condition
- 71 Balance sheet
- 71 Capital management
- 77 Off-balance sheet arrangements

80 Risk management
- 80 Overview
- 83 Credit risk
- 92 Market risk
- 95 Operational risk
- 96 Liquidity and funding risk
- 99 Reputation risk
- 99 Regulatory and legal risk
- 100 Environmental risk
- 101 Insurance risk
- 101 Strategic risk
- 102 Competitive risk
- 102 Systemic risk

102 Additional risks that may affect future results

104 Additional financial information

See our Glossary for definitions of terms used throughout this document

Caution regarding forward-looking statements

From time to time, we make written or oral forward-looking statements within the meaning of certain securities laws, including the "safe harbour" provisions of the *United States Private Securities Litigation Reform Act of 1995* and any applicable Canadian securities legislation. We may make forward-looking statements in this document, in other filings with Canadian regulators or the United States Securities and Exchange Commission, in reports to shareholders and in other communications. Forward-looking statements include, but are not limited to, statements relating to our medium-term and 2008 objectives, our strategic goals and priorities and the economic and business outlook for us, for each of our business segments and for the Canadian, United States and international economies. Forward-looking statements are typically identified by words such as "believe," "expect," "forecast," "anticipate," "intend," "estimate," "plan" and "project" and similar expressions of future or conditional verbs such as "will," "may," "should," "could," or "would."

By their very nature, forward-looking statements require us to make assumptions and are subject to inherent risks and uncertainties, which give rise to the possibility that our predictions, forecasts, projections, expectations or conclusions will not prove to be accurate, that our assumptions may not be correct and that our objectives, strategic goals and priorities will not be achieved. We caution readers not to place undue reliance on these statements as a number of important factors could cause our actual results to differ materially from the expectations expressed in such forward-looking statements. These factors include credit, market, operational, liquidity and funding risks, and other risks discussed in our 2007 management's discussion and analysis; general business and economic conditions in Canada, the United States and other countries in which we conduct business, including the impact from the continuing volatility in the U.S. subprime and related markets and lack of liquidity in various of the financial markets; the impact of the movement of the Canadian dollar relative to other currencies, particularly the U.S. dollar, British pound and Euro; the effects of changes in government monetary and other policies; the effects of competition in the markets in which we operate; the impact of changes in laws and regulations; judicial or regulatory judgments and legal proceedings; the accuracy and completeness of information concerning our clients and counterparties; our ability to successfully execute our strategies and to complete and integrate strategic acquisitions and joint ventures successfully; changes in accounting standards, policies and estimates, including changes in our estimates of provisions and allowances; and our ability to attract and retain key employees and executives.

We caution that the foregoing list of important factors is not exhaustive and other factors could also adversely affect our results. When relying on our forward-looking statements to make decisions with respect to us, investors and others should carefully consider the foregoing factors and other uncertainties and potential events. Unless required by law, we do not undertake to update any forward-looking statement, whether written or oral, that may be made from time to time by us or on our behalf.

Additional information about these and other factors can be found under the Risk management section that may affect future results section and the Additional risks that may affect future results section.

Information contained in or otherwise accessible through the websites mentioned does not form part of this document. All references in this document to websites are inactive textual references and are for your information only.

Overview

About Royal Bank of Canada

Royal Bank of Canada (RY on TSX and NYSE) and its subsidiaries operate under the master brand name of RBC. We are Canada's largest bank as measured by assets and market capitalization and one of North America's leading diversified financial services companies. We provide personal and commercial banking, wealth management services, insurance, corporate and investment banking and transaction processing services on a global basis. We employ more than 70,000 full- and part-time employees who serve more than 15 million personal, business, public sector and institutional clients through offices in Canada, the U.S. and 36 other countries.

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

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

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

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

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

Our business segments are supported by our Corporate Support team, which consists of Global Technology and Operations (GTO) and Global Functions. GTO provides the operational and technological foundation required to effectively deliver products and services to our clients. It also leads innovative process and technology improvements intended to maintain the safety and soundness of our operations, while keeping our capabilities ahead of the competition. Our Global Functions team of professionals provides sound governance and advice in the areas of risk, compliance, law, finance, tax and communications. This team also manages the capital, and liquidity and funding positions of the enterprise to ensure that we meet regulatory requirements, while ensuring effective funding management and allocation of capital. In addition, the Global Functions team provides support to our people and manages relationships with external stakeholders, including investors, credit rating agencies and regulators, as well as supports strategic business decisions.

Royal Bank of Canada

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

Corporate Support

- Global Technology and Operations
- Global Functions

Vision and strategic goals

Our business strategies and actions are guided by our vision of "Always earning the right to be our clients' first choice." We believe that this client-focused approach to our business is critical to achieving our strategic as well as our financial performance goals. Our Client First philosophy is exhibited in all of our activities, including how we deal with our clients, develop our products and services, and collaborate across businesses and functions. We maintain our focus on enhancing client satisfaction and loyalty by continually striving to understand and meet the evolving needs and expectations of our clients. We believe that pursuing our vision will generate strong, stable revenue and earnings growth that will result in top quartile total shareholder return compared to our North American peer group.

The Canadian market continues to provide us with significant avenues for growth in both the retail and wholesale sectors. Our trusted brand, together with our broad expertise and leading positions in diverse financial products and services, provides us with the foundation and resources to expand internationally. The U.S., with its geographic proximity, cultural similarities and close trade relationships with Canada, will continue to be a focus of future growth as we build on our strong market positions in selected businesses. In addition, we will continue to expand outside North America in markets where our experience and expertise provide us with the ability to compete effectively.

For 2008, our strategic goals are to remain focused on growing our domestic franchise, while continuing to expand internationally by leveraging our core capabilities and by building on our portfolio of international businesses. We expect to achieve these goals by maintaining our focus on meeting the needs of clients through ongoing innovation and by collaborating effectively across our many businesses and functions.

- In Canada, our goal is to be the undisputed leader in financial services. We are strengthening the RBC brand by delivering a superior client experience with a comprehensive suite of quality financial products and services for all our clients. In banking, we continue to leverage our extensive distribution capabilities to grow market share across products and markets, while expanding and enhancing our distribution network to meet the needs of our clients. We are also developing innovative solutions and simplifying processes for our clients to make it easier for them to do business with us. In wealth management, we continue to extend our lead in wealth and asset management markets and to attract and retain experienced advisors. In capital markets, we continue to focus on maintaining our leadership position across all businesses and remain our wholesale clients' first choice for all financial products and services.
- In the United States, our goal is to build on our strengths in banking, wealth management and capital markets. In banking, we are focused on meeting the needs of businesses, business owners and professionals. We continue to expand our U.S. Southeast footprint in key high-growth markets through targeted *de novo* branch openings and strategic acquisitions. In wealth management, we continue to expand our business through organic growth and strategic acquisitions, and provide our advisors with

customized support for investment, advisory and wealth management practices by utilizing our global resources. In capital markets, we continue to deepen the penetration of our existing client base through diverse product offerings and leveraging the strengths of recent acquisitions, and enhancing our origination capabilities to expand our client base.

- Outside North America, our goal is to be a premier provider of selected financial services where our core capabilities and key expertise provide us with competitive advantages. In banking, we intend to continue to build on our strong position in the Caribbean through strategic acquisitions and organic growth, supported by ongoing operational improvements, strengthening of client relationships and broadening of product offerings. In wealth management, our strategy remains focused on increasing scale through expansion in our chosen markets and recruiting relationship managers. We will continue to make targeted acquisitions and enhance the breadth of our products and services, as well as improve our relationship management model to capitalize on the growing demand for wealth management products and services. In custody services, our joint venture, RBC Dexia IS, utilizes its global scale and expanded product capability to grow the number of and deepen our client relationships. In capital markets, we continue to expand our global distribution and extend our capabilities in structuring and trading businesses, infrastructure finance and fixed income origination.

Guided by our Client First philosophy and strategic goals, our business segments continue to tailor their strategies to meet client needs and strengthen client relationships within their unique operating and competitive environments. We believe that the successful execution of our business strategies will enhance the quality and diversity of our earnings. These efforts should result in the continued strong market leadership of our Canadian businesses as well as improved results and solid growth in our U.S. and international businesses.

Selected financial and other highlights

Table 1

(C$ millions, except per share, number of and percentage amounts)	2007	2006	2005	2007 vs. 2006 Increase (decrease)	
Total revenue	$ 22,462	$ 20,637	$ 19,184	$ 1,825	8.8%
Non-interest expense	12,473	11,495	11,357	978	8.5%
Provision for credit losses	791	429	455	362	84.4%
Insurance policyholder benefits, claims and acquisition expense	2,173	2,509	2,625	(336)	(13.4)%
Net income before income taxes and non-controlling interest in subsidiaries	7,025	6,204	4,702	821	13.2%
Net income from continuing operations	5,492	4,757	3,437	735	15.5%
Net loss from discontinued operations	–	(29)	(50)	29	n.m.
Net income	$ 5,492	$ 4,728	$ 3,387	$ 764	16.2%
Segments – net income					
Canadian Banking	$ 2,987	$ 2,426	$ 2,007	$ 561	23.1%
Wealth Management	762	604	502	158	26.2%
U.S. & International Banking	242	261	256	(19)	(7.3)%
Capital Markets	1,292	1,355	686	(63)	(4.6)%
Corporate Support	209	111	(14)	98	n.m.
Net income	$ 5,492	$ 4,757	$ 3,437	$ 735	15.5%
Selected information					
Earnings per share (EPS) – basic	$ 4.24	$ 3.65	$ 2.61	$ .59	16.2%
Earnings per share (EPS) – diluted	$ 4.19	$ 3.59	$ 2.57	$ .60	16.7%
Return on common equity (ROE) (1)	24.6%	23.5%	18.0%	n.m.	110 bps
Return on risk capital (RORC) (2)	37.4%	36.7%	29.3%	n.m.	70 bps
Net interest margin (3)	1.30%	1.35%	1.53%	n.m.	n.m.
Capital ratios (4)					
Tier 1 capital ratio	9.4%	9.6%	9.6%	n.m.	(20) bps
Total capital ratio	11.5%	11.9%	13.1%	n.m.	(40) bps
Selected balance sheet and other information					
Total assets	$ 600,346	$ 536,780	$ 469,521	$ 63,566	11.8%
Securities	178,255	184,869	160,495	(6,614)	(3.6)%
Retail loans	169,462	151,050	140,239	18,412	12.2%
Wholesale loans	69,967	58,889	51,675	11,078	18.8%
Deposits	365,205	343,523	306,860	21,682	6.3%
Average common equity (1)	22,000	19,900	18,600	2,100	10.6%
Average risk capital (2)	14,450	12,750	11,450	1,700	13.3%
Risk-adjusted assets (4)	247,635	223,709	197,004	23,926	10.7%
Assets under management	161,500	143,100	118,800	18,400	12.9%
Assets under administration – RBC	548,200	525,800	1,778,200	22,400	4.3%
– RBC Dexia IS (5)	2,713,100	2,421,100	–	292,000	12.1%
Common share information					
Shares outstanding (000s) – average basic	1,273,185	1,279,956	1,283,433	(6,771)	(.5)%
– average diluted	1,289,314	1,299,785	1,304,680	(10,471)	(.8)%
– end of period	1,276,260	1,280,890	1,293,502	(4,630)	(.4)%
Dividends declared per share	$ 1.82	$ 1.44	$ 1.18	$ .38	26.4%
Dividend yield	3.3%	3.1%	3.2%	n.m.	20 bps
Common share price (RY on TSX) – close, end of period	$ 56.04	$ 49.80	$ 41.67	$ 6.24	12.5%
Market capitalization (TSX)	71,522	63,788	53,894	7,734	12.1%
Business information (number of)					
Employees (full-time equivalent)	65,045	60,858	60,012	4,187	6.9%
Bank branches	1,541	1,443	1,419	98	6.8%
Automated teller machines	4,419	4,232	4,277	187	4.4%
Period average US$ equivalent of C$1.00 (6)	$ .915	$ .883	$ .824	$ .03	4%
Period-end US$ equivalent of C$1.00	1.059	.890	.847	.17	19%

(1) Average common equity and Return on common equity are calculated using month-end balances for the period.
(2) Average amounts are calculated using methods intended to approximate the average of the daily balances for the period. For further discussion on Average risk capital and Return on risk capital, refer to the Key performance and non-GAAP measures section.
(3) Net interest margin (NIM) is calculated as Net interest income divided by Average assets. Average assets are calculated using methods intended to approximate the average of the daily balances for the period.
(4) Calculated using guidelines issued by the Office of the Superintendent of Financial Institutions Canada (OSFI).
(5) Assets under administration – RBC Dexia IS represents the total Assets under administration (AUA) of the joint venture as at September 30, 2007. We have revised the 2006 amount to reflect the amount reported by *RBC Dexia IS*, as we had previously disclosed only the assets under custody amount related to our joint venture.
(6) Average amounts are calculated using month-end spot rates for the period.
n.m. not meaningful

We reported record net income of $5,492 million for the year ended October 31, 2007, up $764 million, or 16%, from a year ago. Diluted earnings per share (EPS) were $4.19, up 17% compared to a year ago. ROE was 24.6%, compared to 23.5% a year ago. The Tier 1 capital ratio of 9.4% was down 20 basis points (bps) from 9.6% a year ago, while our Total capital ratio of 11.5% was down 40 bps from 11.9% a year ago.

Executing our initiatives

During the year, we continued to diversify our products and services, markets, and geographical presence to generate strong and stable earnings growth. We remained focused on strengthening our distribution capabilities and enhancing client satisfaction and loyalty, while seeking to deliver top quartile total shareholder return versus our North American peer group.

In Canada, we continued to strengthen our leadership position in most major product categories by enhancing the quality and breadth of our products and services, as well as expanding and upgrading our distribution network to better serve our clients. We continued to be the leader in the Canadian mutual fund industry in terms of net long-term sales and in most of our capital market businesses. We also strengthened our leadership positions in most product categories, including mortgages, credit cards and business loans and deposits. As part of our initiatives to meet client needs and build enduring client relationships, we have expanded our distribution capabilities by adding new bank branches, insurance offices and automated teller machines, particularly in high-growth markets, and have upgraded our branches. We launched new and innovative products, including a high-interest online savings account and socially responsible mutual funds. We have also continued to streamline sales, credit and back-office processes to make it easier for our clients to do business with us. Our trusted brand, together with our leadership position in most major product categories in Canada, continued to provide us with the foundation and resources to expand internationally.

In the U.S., we continued to build scale and capability in all our major businesses through a combination of organic growth and strategic acquisitions. To expand our banking capabilities strategically in high-growth markets in the U.S. Southeast, we completed the acquisition of Atlanta-based Flag Financial Corporation and 39 AmSouth Bank branches in Alabama. These acquisitions, which complemented our *de novo* branch openings, have significantly expanded our banking presence in the U.S. Southeast. We also announced an agreement (1) to acquire Alabama National BanCorporation, the parent of 10 subsidiary banks and other affiliated businesses in Alabama, Florida and Georgia, which will add another 103 branches and strengthen our retail distribution by growing our footprint to over 450 locations throughout high-growth southeastern U.S. markets. We also expanded our investment banking and wealth management capabilities in the U.S. We completed the acquisition of Carlin Financial Group, which provides our clients with a best-in-class North American electronic trade execution platform. We completed the acquisition of Daniels & Associates, L.P., a leading mergers and acquisitions advisory firm specializing in the communications, media and entertainment, and technology sectors. In addition, we completed the acquisition of Seasongood & Mayer, LLC, strengthening our franchise as one of the leading municipal finance platforms in the U.S. We also completed the acquisition of J.B. Hanauer & Co., expanding our retail fixed income and wealth management capabilities in New Jersey, Florida and Pennsylvania.

Internationally, we strategically expanded our distribution network, products and services in fast-growing markets and regions. During the year, we announced our intention to acquire RBTT Financial Group (RBTT) to expand our banking footprint in the Caribbean. The acquisition is expected to close by the middle of 2008 (1), and will create one of the most extensive retail banking networks in the Caribbean, with a presence in 18 countries and territories across the region. We also announced our intention to acquire a 50% interest in Fidelity Merchant Bank & Trust Limited, the Bahamas-based wholly owned subsidiary of Fidelity Bank & Trust International Limited to form a joint venture to be called Royal Fidelity Merchant Bank & Trust Limited, which is expected to close in the first quarter of 2008 (1). This pending acquisition is expected to extend our growing financial services platform in the Caribbean and will enable us to have greater access to the fast-growing merchant banking and corporate advisory sector in the region.

Basel II

As of November 1, 2007, we implemented the International Convergence of Capital Measurement and Capital Standards: A Revised Framework – Comprehensive Version (June 2006), known as Basel II. Basel II more closely aligns regulatory capital requirements with a financial institution's underlying risk profile and internal risk management practices as compared to Basel I, and is intended to ensure that our capital holdings adequately underpin those risks. For details related to the implications of Basel II on our capital management framework and risk measurement approaches, refer to the Capital management and Risk management sections.

2007 Economic and market review

In 2007, the Canadian economy grew at an estimated rate of 2.6%, which was down slightly from the 2.7% projected a year ago, with domestic demand remaining the key driver of economic growth. Robust economic growth in the early part of the year, largely reflecting strong consumer spending underpinned by strong labour market conditions, solid business investment, favourable terms of trade and solid housing market activities, weakened slightly in the latter part of the year. This was mainly attributable to slowing U.S. demand and a tightening of credit conditions as a result of the U.S. subprime mortgage market concerns. While growth of both consumer and business lending largely remained solid, credit quality weakened moderately during the year as conditions appeared to be reverting to historical averages. The Bank of Canada raised the overnight rate by 25 bps in July to 4.5%, and kept the rate unchanged in September and October taking into account the tightening of credit conditions arising from the U.S. subprime mortgage market concerns and the marked appreciation of the Canadian dollar, which had a negative impact on net exports. To address the liquidity concerns and to support the efficient functioning of the Canadian financial system, the Bank of Canada injected liquidity into the financial markets on a number of occasions over the latter part of the year.

The U.S. economy grew at an estimated rate of 2% for the year, down from the 2.6% projected in 2006. This downward revision to growth was primarily attributable to the U.S. subprime mortgage market concerns. Solid economic growth in the middle of the year, primarily supported by continued non-residential investment, strong export growth and still-solid consumer spending, slowed in the latter part of the year. The weakened economic growth was largely a result of slowing residential investment amid the ongoing housing market correction, a tightening of credit conditions and increased funding costs arising from the U.S. subprime mortgage market concerns, as well as a general repricing of risk in numerous markets. Consumer and business lending, excluding mortgages, accelerated over recent months, although there remain concerns that the intensification of the housing market correction would eventually dampen lending. Credit quality weakened, particularly in high-risk credit products and residential real estate-related loans. To alleviate the mounting liquidity

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

concerns and to ease the U.S. financial market volatility arising from the U.S. subprime mortgage market difficulties, the U.S. Federal Reserve injected a significant amount of liquidity into financial markets beginning in August. It then lowered its federal funds rate by 50 bps and 25 bps in September and October, respectively, to 4.5%, in an effort to promote economic growth, forestall a severe economic downturn and alleviate liquidity concerns.

Growth in other global economies remained solid for the year. Although central banks in the United Kingdom, the Eurozone and Japan had indicated their intention to further increase interest rates to contain inflationary pressures in the early part of the year, they had put their tightening monetary policies on hold to avoid an economic slowdown, taking into account the financial market volatility triggered by U.S. subprime mortgage market concerns.

Compared to our favourable outlook in 2006, global capital market conditions were mixed during the year, largely attributable to the U.S. subprime mortgage market concerns. Most major equity markets reached record highs in June and July, and then declined as did the debt markets, except for government bonds, largely due to the spillover effects of the U.S. subprime mortgage market difficulties. Debt and equity origination activities, which were strong at the beginning of the year, slowed due to less favourable pricing and a tightening of liquidity. Merger and acquisitions (M&A) activity remained strong for most of the year.

2007 Performance vs. objectives — Table 2

	2007 Objectives	2007 Performance
Diluted earnings per share (EPS) growth	10%+	17%
Defined operating leverage (1)	>3%	2.6%
Return on common equity (ROE)	20%+	24.6%
Tier 1 capital ratio (2)	8%+	9.4%
Dividend payout ratio	40%–50%	43%

(1) Our defined operating leverage refers to the difference between our revenue growth rate (as adjusted) and non-interest expense growth rate (as adjusted). Revenue is based on a taxable equivalent basis and excludes consolidated Variable interest entities (VIEs), accounting adjustments related to the new financial instruments accounting standards and Global Insurance revenue. Non-interest expense excludes Global Insurance expense. This is a non-GAAP measure. For further information including a reconciliation, refer to the Key performance and non-GAAP measures section.

(2) Calculated using guidelines issued by the OSFI.

2007 Annual objectives

Our diluted EPS growth, ROE and dividend payout ratio compared favourably to our annual objectives, largely reflecting strong performance across most of our businesses. We also increased our dividend by $.38, or 26%, in 2007. Our defined operating leverage ratio was below our annual objective, reflecting higher costs in support of our growing business as well as investment in future growth initiatives including acquisitions. Our capital position remained strong, with a Tier 1 capital ratio comfortably above our target.

Medium-term objective

Our medium-term objective is to achieve top quartile (1) total shareholder return (TSR) compared to our Canadian and U.S. peers. This medium-term objective increases our focus on our priority to maximize shareholder value and requires us to consider both our current performance and our investment in higher return businesses that will provide sustainable competitive advantage and stable earnings growth.

Our three-year average annual TSR (2) of 25% ranks us in the top quartile compared to our peer group and compares favourably with the three-year average annual TSR for our peer group of 8%. Our performance reflects our strong financial results, including returns on our investment in our businesses, and effective risk and capital management, which has allowed us to successfully meet most of our annual earnings and capital objectives over the last three years.

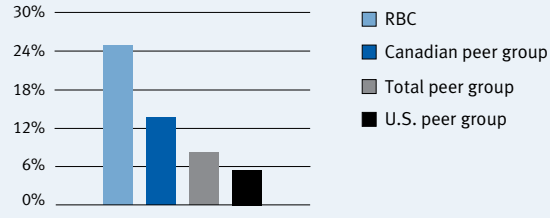
Our five-year average annual TSR (2) of 19% ranks us in the second quartile against our peer group. This compares favourably with the five-year average annual TSR for our peer group of 14%.

Dividends paid over the three-year period have increased at an average annual compounded rate of 22%.

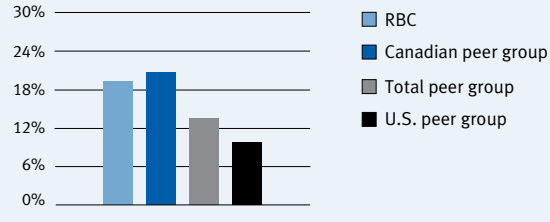
(1) Versus the TSR of seven large Canadian financial institutions (Manulife Financial Corporation, The Bank of Nova Scotia, Toronto-Dominion Bank, Bank of Montreal, Sun Life Financial Inc., Canadian Imperial Bank of Commerce and National Bank of Canada) and 13 U.S. financial institutions (Bank of America Corporation, JPMorgan Chase & Co., Wells Fargo & Company, Wachovia Corporation, U.S. Bancorp, SunTrust Banks, Inc., The Bank of New York Mellon Corporation, BB&T Corporation, Fifth Third Bancorp, National City Corporation, The PNC Financial Services Group, Inc., KeyCorp and Northern Trust Corporation).

(2) The three-year average annual TSR is calculated based on share price appreciation plus reinvested dividend income for the period October 31, 2004 to October 31, 2007. The five-year average annual TSR is calculated based on the period October 31, 2002 to October 31, 2007.

Three-year average annual total shareholder return (home currency) (1)



Five-year average annual total shareholder return (home currency) (1)



(1) For Canadian financial institutions, the Canadian dollar is used. For U.S. financial institutions, the U.S. dollar is used.

Outlook and objectives for 2008

Economic outlook

Economic growth in Canada is expected to weaken as a strong Canadian dollar and sluggish U.S. growth weigh on export growth. Nonetheless, continued favourable terms of trade should support income growth, which in turn should help sustain business and consumer spending. We expect the Bank of Canada to decrease interest rates by 50 bps by early 2008, taking into account the intensifying restraint from the trade sector before shifting to a rising interest rate environment in late 2008 when financial market volatility is expected to dissipate. We forecast that the Canadian dollar will remain elevated against the U.S. dollar into early 2008, reflecting firm commodity prices, solid global economic growth and broad-based U.S. dollar weakness. Taking into account modest U.S. growth, a strong Canadian dollar and a tightening of credit conditions, we expect the Canadian economy to grow at 2.2% in 2008.

We anticipate that the U.S. financial market volatility will persist into early 2008 as investors and lenders will remain cautious and risk averse amid a slowdown in the housing market. U.S. economic growth is expected to accelerate in the latter part of 2008, primarily underpinned by rising business investment, strong export growth boosted by the relatively weak U.S. dollar, as well as continued consumer spending reflecting solid personal disposable income and healthy household balance sheets against a backdrop of lower interest rates, and the abatement of current financial market volatility and the housing market correction. We project that the U.S. Federal Reserve will decrease the federal funds rate a further 75 bps by early 2008 to insure that the downside risks from the financial market turmoil are contained, and will start to increase the rate in the latter part of 2008 when economic growth is expected to accelerate. We project that the U.S. economy will grow at 2.2% in 2008, taking into account anticipated improving economic conditions in the latter part of the year.

Growth in other global economies is expected to ease moderately in 2008, with the highest growth projected for China and other emerging Asian economies. Economic growth in Japan and the Eurozone is anticipated to weaken slightly on moderately slowing investment related to tighter credit conditions and modest U.S. growth, although it should remain solidly supported by continued business and household spending.

Business outlook

Although consumer lending growth is expected to moderate in 2008 on tighter credit conditions, growth should continue to be supported by rising domestic demand amid expanding labour markets. The introduction of new mortgage products in Canada due to the liberalization of the mortgage insurance market should also continue to underpin credit growth. We anticipate business lending to remain solid with ongoing investment spending. While credit quality is projected to weaken moderately, we expect consumer and business credit quality to remain solid in a historical context, with an anticipated increase in provision for credit losses primarily resulting from modestly higher average delinquency rates, portfolio growth and lower recoveries.

Capital market conditions are anticipated to improve from the challenging environment over the latter part of 2007 stemming from the U.S. subprime mortgage market concerns. Liquidity concerns should also abate as global financial markets stabilize and gradually return to more normalized levels of activity. We expect a rebound in underperforming businesses as strains in financial markets ease.

2008 Objectives

Our primary financial objective continues to focus on providing top quartile TSR relative to our North American peers. This medium-term objective requires our focus on both current performance as well as prudent investment in higher return businesses that will provide us with competitive advantages and stable earnings growth for the future.

2008 Objectives — **Table 3**

Diluted earnings per share (EPS) growth	7%–10%
Defined operating leverage (1)	>3%
Return on common equity (ROE)	20%+
Tier 1 capital ratio (2)	8%+
Dividend payout ratio	40%–50%

(1) Our defined operating leverage is a non-GAAP measure and refers to the difference between our revenue growth rate (as adjusted) and non-interest expense growth rate (as adjusted).

(2) Calculated using guidelines issued by the OSFI under Basel II, which changes the methodology for the determination of risk-adjusted assets (RAA) and regulatory capital.

For 2008, our financial objectives have been established taking into consideration our three strategic goals and our economic and business outlooks as outlined in this section. Objectives for our defined operating leverage, ROE, Tier 1 capital ratio and dividend payout ratio remain unchanged, reflecting our continued commitment to strong revenue growth and cost containment, as well as sound and effective management of capital resources. Our 2008 diluted EPS growth objective is 7% to 10 %. Our objectives factor in the effect of our pending acquisitions of ANB and RBTT, which will be funded partly through issuance of our common shares, as well as the related integration costs.

Accounting and control matters

Critical accounting policies and estimates

Application of critical accounting policies and estimates

Our significant accounting policies and estimates are described in Note 1 to our Consolidated Financial Statements. Certain of these policies, as well as estimates made by management in applying such policies, are recognized as critical because they require us to make particularly subjective or complex judgments about matters that are inherently uncertain and because of the likelihood that significantly different amounts could be reported under different conditions or using different assumptions. Our critical accounting policies and estimates relate to the allowance for credit losses, fair value of financial instruments, other-than-temporary impairment of available-for-sale and held-to-maturity securities, securitization, variable interest entities, pensions and other post-employment benefits and income taxes.

Our critical accounting policies and estimates have been reviewed and approved by our Audit Committee, in consultation with management, as part of their review and approval of our significant accounting policies and estimates.

Allowance for credit losses

The allowance for credit losses represents management's estimate of identified credit related losses in the portfolio, as well as losses that have been incurred but are not yet identifiable at the balance sheet date. The allowance is established to cover the lending portfolio including loans, acceptances, letters of credit and guarantees, and unfunded commitments. The allowance for credit losses comprises the specific allowance and the general allowance. The specific allowance is

determined through management's identification and determination of losses related to impaired loans. The general allowance is determined on a quarterly basis through management's assessment of probable losses in the remaining portfolio.

The process for determining the allowances involves quantitative and qualitative assessments using current and historical credit information. Our lending portfolio is reviewed on an ongoing basis to assess whether any borrowers should be classified as impaired and whether an allowance or write-off is required. The process inherently requires the use of certain assumptions and judgments including: (i) assessing the impaired status and risk ratings of loans; (ii) estimating cash flows and collateral values; (iii) developing default and loss rates based on historical and industry data; (iv) adjusting loss rates and risk parameters based on the relevance of historical loss rate given changes in credit strategies, processes and policies; (v) assessing the current credit quality of the portfolio based on credit quality trends in relation to impairments, write-offs and recoveries, portfolio characteristics and composition; and (vi) determining the current position in the economic and credit cycles. Changes in these assumptions or using other reasonable judgments can materially affect the allowance level and thereby our net income.

Specific allowances

Specific allowances are established to cover estimated losses on both retail and wholesale impaired loans. Loan impairment is recognized when, based on management's judgment, there is no longer reasonable assurance that all interest and principal payments will be made in accordance with the loan agreement.

For wholesale portfolios including small business loans managed individually, which are continuously monitored, an account is classified as impaired based on our evaluation of the borrower's overall financial condition, its available resources and its propensity to pay amounts as they come due. A specific allowance is then established on individual accounts that are classified as impaired, using management's judgment relating to the timing of future cash flow amounts that can be reasonably expected from the borrower, 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.

For retail portfolios managed on a pooled basis, including residential mortgages and personal and small business loans, accounts are classified as impaired based on contractual delinquency status, generally 90 days past due. The estimation of specific allowance on these accounts is based on formulas that apply product-specific net write-off ratios to the related impaired amounts. The net write-off ratios are based on historical loss rates, adjusted to reflect management's judgment relating to recent credit quality trends, portfolio characteristics and composition, and economic and business conditions. Credit card balances are directly written off after payments are 180 days past due. Personal loans are generally written off at 150 days past due.

General allowance

The general allowance is established to cover estimated credit losses that are incurred in the lending portfolio that have not yet been specifically identified as impaired. This estimation is based on a number of assumptions including: (i) the level of unidentified problem loans given current economic and business conditions; (ii) the timing of the realization of impairment; (iii) the gross exposure of a credit facility at the time of default; and (iv) the ultimate severity of loss. In determining the appropriate level of general allowance, management first employs statistical models using historical loss rates and risk parameters to estimate a range of probable losses over an economic cycle. Management then considers changes in the credit granting process including underwriting, limit setting and the workout process in order to adjust historical experience to better reflect the current environment. In addition, current credit information including portfolio composition, credit quality trends and economic and business information is assessed to determine the appropriate allowance level.

For heterogeneous loans (wholesale loans including small business loans managed individually), 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. These parameters are based on historical loss rates (default migration, loss severity and exposure at default), supplemented by industry studies and are updated on a regular basis. This approach allows us to generate a range of potential losses over an economic cycle. One of the key judgmental factors that influence the loss estimate for this portfolio is the application of the internal risk rating framework, which relies on our quantitative and qualitative assessments of a borrower's financial condition in order to assign an internal credit risk rating similar to those used by external rating agencies. Any material change in the above parameters or assumptions would affect the range of probable credit losses and consequently may affect the general allowance level.

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. Historical loss rates are applied to current outstanding loans to determine a range of probable losses over an economic cycle.

In determining the general allowance level, management also considers the current portfolio credit quality trends, business and economic conditions, the impact of policy and process changes, and other supporting factors. In addition, the general allowance includes a component for the model limitations and imprecision inherent in the allowance methodologies.

Any fundamental change in methodology is subject to independent vetting and review.

Total allowance for credit losses

Based on the procedures discussed above, management believes that the total allowance for credit losses of $1,572 million is adequate to absorb estimated credit losses incurred in the lending portfolio as at October 31, 2007. This amount includes $79 million classified in other liabilities, which relates to letters of credit and guarantees and unfunded commitments. The year-over-year increase of $86 million largely reflects the increase in impaired loans.

Fair value of financial instruments

With the adoption of the three new accounting standards related to financial instruments on November 1, 2006, a greater portion of our Consolidated Balance Sheet is now measured at fair value. Refer to Note 1 to our Consolidated Financial Statements for a detailed discussion. Under the new standards, all financial instruments are required to be measured at fair value on initial recognition except for certain related party transactions. Measurement in subsequent periods depends on whether the financial instruments have been classified or designated as held-for-trading, available-for-sale, held-to-maturity, loans and receivables or other financial liabilities.

Financial assets and financial liabilities held-for-trading, including derivative instruments, are measured at fair value with changes in the fair values recognized in net income, except for derivatives designated in effective cash flow hedges or hedges of foreign currency exposure of a net investment in a self-sustaining foreign operation; the changes in the fair values of those derivatives are recognized in Other comprehensive income (OCI). Available-for-sale financial assets are also measured at fair value with unrealized gains and losses, including changes in foreign exchange rates, being recognized in OCI except for investments in equity instruments classified as available-for-sale that do not have a quoted market price in an active market, which are measured at cost. Financial assets held-to-maturity, loans and receivables, and other financial liabilities are measured at amortized cost using the effective interest method.

At October 31, 2007, approximately $276 billion, or 46%, of our financial assets and $205 billion, or 36%, of our financial liabilities were carried at fair value ($184 billion, or 34%, of financial assets and

$80 billion, or 16%, of financial liabilities at October 31, 2006). Note 2 to our Consolidated Financial Statements provides disclosure of the fair value of our financial instruments as at October 31, 2007.

Fair value is defined as the amount at which a financial instrument could be bought or sold in a current transaction, other than in a forced or liquidation sale, between knowledgeable and willing parties in an arm's-length transaction under no compulsion to act. The best evidence of fair value is quoted bid or ask price, as appropriate, in an active market. Where bid and ask prices are unavailable, we use the closing price of the most recent transaction of that instrument subject to the liquidity adjustments referred to below. Where quoted prices are not available for a particular financial instrument, we use the quoted price of a financial instrument with similar characteristics and risk profiles or internal or external valuation models using observable market-based inputs to estimate the fair value.

The determination of fair value for actively traded financial instruments that have quoted market prices or readily observable model input parameters requires minimal subjectivity. Management's judgment is required, however, when the observable market prices and parameters do not exist. In addition, management exercises judgment when establishing market valuation adjustments for liquidity when we believe that the amount realized on sale may be less than the estimated fair value due to insufficient liquidity over a short period of time. This includes adjustments calculated when market prices are not observable due to insufficient trading volume or a lack of recent trades in a less active or inactive market. In addition, liquidity adjustments are calculated to reflect the cost of unwinding a larger than normal market risk position.

The majority of our financial instruments classified as held-for-trading other than derivatives and financial assets classified as available-for-sale comprise or relate to actively traded debt and equity securities, which are carried at fair value based on available quoted prices. As few derivatives and financial instruments designated as held-for-trading are actively quoted, we rely primarily on internally developed pricing models and established industry standard pricing models, such as Black-Scholes, to determine fair value. In determining the assumptions to be used in our pricing models, we look primarily to external readily observable market inputs including factors such as interest rate yield curves, currency rates and price and rate volatilities as applicable. However, certain derivative financial instruments are valued using significant unobservable market inputs such as default correlations, among others. These inputs are subject to significantly more quantitative analysis and management judgment. Where input parameters are not based on market observable data, we defer the initial trading profit until the amounts deferred become realized through the receipt and/or payment of cash or once the input parameters are observable in the market. We also record fair value adjustments to account for measurement uncertainty due to model risk and parameter uncertainty when valuing complex or less actively traded financial instruments. For further information on our derivative instruments, refer to Note 7 to our Consolidated Financial Statements.

The following table summarizes our significant financial assets and liabilities carried at fair value, by valuation methodology at October 31, 2007 and October 31, 2006. We have applied the general concepts contained in the accounting standards related to financial instruments under Canadian GAAP to determine the classification of assets and liabilities carried at fair value among the valuation methodology groupings below.

Instruments grouped within "quoted prices" include those where prices are obtained from an exchange, dealer, broker, industry group, pricing service or regulatory agency, or net asset values provided by fund managers of mutual funds and hedge funds. Instruments priced based on models are grouped based on whether the models include significant observable or unobservable parameters. Where fair value is not evidenced by observable market parameters, and day one unrealized gains and losses are not permitted under Canadian GAAP, the instrument is grouped as being based on "pricing models with significant unobservable market parameters."

In September 2006, the U.S. Financial Accounting Standards Board (FASB) issued FAS 157, *Fair Value Measurements*, which includes measurement guidance and requires that all financial instruments measured at fair value be categorized in fair value hierarchy levels. We have not adopted these measurement and disclosure requirements for U.S. GAAP reconciliation disclosure purposes, and the information contained in the table below is not intended to correspond to those levels.

Assets and liabilities carried at fair value by valuation methodology — Table 4

	2007					2006 (1)				
		Based on					Based on			
(C$ millions, except percentage amounts)	Fair value	Quoted prices	Pricing models with significant observable market parameters	Pricing models with significant unobservable market parameters	Total	Fair value	Quoted prices	Pricing models with significant observable market parameters	Pricing models with significant unobservable market parameters	Total
Financial assets										
Required to be classified as held-for-trading other than derivatives (2)	$ 129,408	82%	18%	–	100%	$ 147,237	87%	13%	$ –	100%
Derivatives (3)	65,568	–	100%	–	100%	37,008	–	100%	–	100%
Designated as held-for-trading (2)	52,580	36%	64%	–	100%	n.a.	n.a.	n.a.	n.a.	n.a.
Classified as available-for-sale	28,811	70%	28%	2%	100%	n.a.	n.a.	n.a.	n.a.	n.a.
	$ 276,367					$ 184,245				
Financial liabilities										
Required to be classified as held-for-trading other than derivatives (2)	$ 46,328	89%	11%	–	100%	$ 38,252	97%	3%	$ –	100%
Derivatives (4)	71,422	–	99%	1%	100%	41,728	–	100%	–	100%
Designated as held-for-trading (2)	87,433	–	100%	–	100%	n.a.	n.a.	n.a.	n.a.	n.a.
	$ 205,183					$ 79,980				

(1) Prior to the adoption of the new accounting standards related to financial instruments on November 1, 2006, there were no financial assets or financial liabilities designated as held-for-trading and there were no financial assets classified as available-for-sale. Consequently, prior period comparatives are not applicable (n.a.).
(2) The categories of financial instruments are explained in Note 1 to our Consolidated Financial Statements.
(3) The fair value excludes margin requirements of $1,017 million (2006 – $721 million).
(4) The fair value excludes market and credit valuation adjustments of $588 million (2006 – $366 million).

2007 vs. 2006

With the adoption of the new financial instruments accounting standards, there are new categories of financial instruments carried at fair value such as financial assets and financial liabilities designated as held-for-trading and financial assets classified as available-for-sale which were carried at amortized cost prior to November 1, 2006. Further, all derivatives are now carried at fair value whereas prior to that date, only derivatives other than designated hedging instruments were carried at fair value. Accordingly, the comparative amounts for 2006 in the above table do not include these financial instruments.

The decrease of $18 billion in financial assets classified as held-for-trading and the increase of $8 billion in financial liabilities classified as held-for-trading in 2007 are primarily due to our equity and bond securities held related to our proprietary equity arbitrage and fixed income trading businesses, where we offset the risks from our securities holdings by short selling other securities that are of similar risks to those in our portfolios. The increase of $29 billion in derivative assets and of $30 billion in derivative liabilities in 2007, primarily in foreign exchange and interest rate contracts, are largely due to increased volatility, strong shifts in exchange rates and interest rates, and higher client and trading activity, partially offset by the weakening of the U.S. dollar relative to the Canadian dollar. These activities are consistent with our strategy for these businesses and the increases in 2007 are within the approved risk limits.

The determination of fair value where quoted prices are not available, and the identification of appropriate valuation adjustments require management judgment and are based on quantitative research and analysis. Our risk management group is responsible for establishing our valuation methodologies and policies, which address the use and calculation of valuation adjustments. These methodologies are reviewed on an ongoing basis to ensure that they remain appropriate. Risk management's oversight in the valuation process also includes ensuring all significant financial valuation models are strictly controlled and regularly recalibrated and vetted to provide an independent perspective. During the year, there was no significant change to our methodologies for determining fair value, including those for establishing any valuation adjustments. Refer to the Risk management section for further detail on the sensitivity of financial instruments used in trading and non-trading activities.

Other-than-temporary impairment of available-for-sale and held-to-maturity securities

Available-for-sale and held-to-maturity securities are assessed for impairment at each reporting date. When the fair value of any security has declined below its amortized cost, management is required to assess whether the decline is other-than-temporary. In making this assessment, we consider such factors as the type of investment, the length of time and extent to which the fair value has been below the amortized cost, the financial and credit aspects of the issuer, and our intent and ability to hold the investment long enough to allow for any anticipated recovery. The decision to record a writedown, its amount and the period in which it is recorded could change if management's assessment of one or more of those factors is different. If the decline in value is considered to be other-than-temporary, the cumulative changes in the fair values of available-for-sale securities previously recognized in Accumulated other comprehensive income (AOCI) are reclassified to net income during that period. For further details, refer to Notes 1 and 3 to our Consolidated Financial Statements.

Securitization

We periodically securitize Canadian residential mortgages, credit card receivables and commercial mortgage loans by selling them to special purpose entities (SPEs) or trusts that issue securities to investors. Some of the key accounting determinations in a securitization of our loans are whether the transfer of the loans meets the criteria required to be treated as a sale and, if so, the valuation of our retained interests in the securitized loans. Refer to Note 1 to our Consolidated Financial Statements for a detailed description of the accounting policy for loan securitization.

When we securitize loans and retain an interest in the securitized loans, it is a matter of judgment whether the loans have been legally isolated. We obtain legal opinions where required to give us comfort that legal isolation of the transferred loans has been achieved. We often retain interests in securitized loans such as interest-only strips, servicing rights or cash reserve accounts. Where quoted market prices are not available, the valuation of retained interests in sold assets is based on our best estimate of several key assumptions such as the payment rate of the transferred loans, weighted average life of the prepayable receivables, excess spread, expected credit losses and discount rate. The fair value of such retained interests calculated using these assumptions affects the gain or loss that is recognized from the sale of the loans. Refer to Note 5 to our Consolidated Financial Statements for the volume of securitization activities of our loans, the gain or loss recognized on sale and a sensitivity analysis of the key assumptions used in valuing our retained interests.

Another key accounting determination is whether the SPE that is used to securitize and sell our loans is required to be consolidated. As described in Note 6 to our Consolidated Financial Statements, we concluded that none of the SPEs used to securitize our financial assets should be consolidated.

Variable interest entities

Canadian Institute of Chartered Accountants (CICA) Accounting Guideline 15, *Consolidation of Variable Interest Entities* (AcG-15), provides guidance on applying the principles of consolidation to certain entities defined as variable interest entities (VIEs). Where an entity is considered a VIE, the Primary Beneficiary is required to consolidate the assets, liabilities and results of operations of the VIE. The Primary Beneficiary is the entity that is exposed, through variable interests, to a majority of the VIE's expected losses (as defined in AcG-15) or is entitled to a majority of the VIE's expected residual returns (as defined in AcG-15), or both.

We use a variety of complex estimation processes involving both qualitative and quantitative factors to determine whether an entity is a VIE, and, if required, to analyze and calculate the expected losses and the expected residual returns. These processes involve estimating the future cash flows and performance of the VIE, analyzing the variability in those cash flows, and allocating the losses and returns among the identified parties holding variable interests to determine who is the Primary Beneficiary. In addition, there is a significant amount of judgment exercised in interpreting the provisions of AcG-15 and applying them to our specific transactions.

AcG-15 applies to a variety of our businesses, including our involvement with multi-seller conduits we administer, credit investment products and structured finance transactions. For further details on our involvement with VIEs, refer to the Off-balance sheet arrangements section and Note 6 to our Consolidated Financial Statements.

Pensions and other post-employment benefits

We sponsor a number of defined benefit and defined contribution plans providing pension and other benefits to eligible employees after retirement. These plans include registered pension plans, supplemental pension plans and health, dental, disability and life insurance plans. The pension plans provide benefits based on years of service, contributions and average earnings at retirement.

Due to the long-term nature of these plans, the calculation of benefit expenses and obligations depends on various assumptions such as discount rates, expected rates of return on assets, health care cost trend rates, projected salary increases, retirement age, mortality and termination rates. The discount rate assumption is determined using a yield curve of AA corporate debt securities. All other assumptions are determined by management and are reviewed annually by the actuaries. Actual experience that differs from the actuarial assumptions will affect the amounts of benefit obligation and expense. The weighted average assumptions used and the sensitivity of key assumptions are presented in Note 20 to our Consolidated Financial Statements.

Income taxes

Management exercises judgment in estimating the provision for income taxes. We are subject to income tax laws in various jurisdictions where we operate. These complex tax laws are potentially subject to different interpretations by the taxpayer and the relevant tax authority. The provision for income taxes represents management's interpretation of the relevant tax laws and its estimate of current and future income tax implications of the transactions and events during the period. A future income tax asset or liability is determined for each temporary difference based on the future tax rates that are expected to be in effect and management's assumptions regarding the expected timing of the reversal of such temporary differences.

Future changes in accounting policies

Future changes in accounting policies and disclosure

Canadian GAAP

Capital Disclosures and Financial Instruments – Disclosures and Presentation

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

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

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

U.S. GAAP

Guidance on accounting for income taxes

FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes – an Interpretation of FASB Statement No. 109* (FIN 48), on July 13, 2006, and its related Staff Position FIN 48-1, *Definition of Settlement in FASB Interpretation No. 48* (FSP FIN 48-1), on May 2, 2007. FIN 48 and FSP FIN 48-1 provide additional guidance on how to recognize, measure and disclose income tax benefits. FIN 48 became effective for us on November 1, 2007, and we do not expect it will have a material impact on our consolidated financial position and results of operations.

Framework on fair value measurement

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

Fair value option for financial assets and liabilities

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

Controls and procedures

Disclosure controls and procedures

Our disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by us is recorded, processed, summarized and reported within the time periods specified under Canadian and U.S. securities laws and include controls and procedures that are designed to ensure that information is accumulated and communicated to management, including the President and Chief Executive Officer, and Chief Financial Officer, to allow timely decisions regarding required disclosure.

Management evaluated, under the supervision of and with the participation of the President and CEO, and Chief Financial Officer, the effectiveness of our disclosure controls and procedures as defined under *Multilateral Instrument 52-109* and the *U.S. Securities Exchange Act of 1934* as of October 31, 2007. Based on that evaluation, the President and Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of October 31, 2007.

Internal control over financial reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. Management assessed the effectiveness of our internal control over financial reporting as of October 31, 2007, and based on that assessment, concluded that our internal control over financial reporting was effective. See page 112 for Management's report on internal control over financial reporting and the Report of Independent Registered Chartered Accountants. No changes were made in our internal control over financial reporting during the year ended October 31, 2007, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

2007 vs. 2006

We reported record net income of $5,492 million for the year ended October 31, 2007, up $764 million, or 16%, from a year ago. Diluted EPS were $4.19, up 17% compared to a year ago. ROE was 24.6%, compared to 23.5% a year ago. Our strong results were largely attributable to profitable volume and balance growth in our banking and wealth management businesses, strong Global Insurance results, and increased equity and foreign exchange trading results and strong equity origination activity in our capital markets businesses. These results reflected the ongoing successful execution of our growth initiatives as well as generally favourable economic and market conditions for most of the year. For additional discussion on the performance of our business segments, refer to the Business segment results section starting on page 57. A gain related to the Visa Inc. restructuring and the exchange of our membership interest in Visa Canada Association for shares of Visa Inc. also contributed to the increase. These factors were partially offset by the writedowns on the valuation of U.S. subprime residential mortgage-backed securities (RMBS) and collateralized debt obligations of asset-backed securities (CDOs of ABS) reflecting the deterioration in credit markets since July 2007, higher provisions for credit losses reflecting portfolio growth and higher impaired loans in our U.S. residential builder finance business, and higher credit card customer loyalty reward program costs. Also partly offsetting the favourable factors were higher costs in support of our business growth and the negative impact of a stronger Canadian dollar on the translated value of our U.S. dollar-denominated earnings. The Tier 1 capital ratio of 9.4% was down 20 bps from 9.6% a year ago, while the Total capital ratio of 11.5% was down 40 bps from 11.9% a year ago.

U.S. subprime

In October 2007, the credit markets deteriorated dramatically after rating agencies downgraded a broad group of U.S. subprime RMBS and CDOs of ABS. Following these events, we recognized a charge of $357 million before-tax in Capital Markets, consisting of writedowns on the fair value of our direct holdings of U.S. subprime RMBS and CDOs of ABS and related credit default swaps.

Our Capital Markets holdings of RMBS and CDOs of ABS arose primarily in relation to our role in structuring CDOs of ABS and are classified as held-for-trading, with unrealized changes in fair value reflected in Non-interest income. Our other holdings are RMBS and are classified as available-for-sale and unrealized changes in fair value are generally reflected in Other comprehensive income. These changes are reflected in Non-interest income only if management determines that it is appropriate that the value be written down (referred to as "other-than-temporary impairment").

As at October 31, 2007, Capital Markets had $216 million of net exposure to U.S. subprime CDOs of ABS, after taking into consideration protection provided by credit default swaps. We have credit default swaps providing protection of $240 million, recorded at fair market value of $104 million, with counterparties rated less than AAA by Standard & Poor's (S&P) and less than Aaa by Moody's Investors Service (Moody's). Other credit default swaps provide an additional $1,053 million of protection against our gross exposure and are either collateralized or with counterparties rated AAA by S&P and Aaa by Moody's.

As at October 31, 2007, we had $388 million of exposure to U.S. subprime RMBS recorded as available-for-sale, which we intend to hold until maturity. As at October 31, 2007, Capital Markets had no net exposure to U.S. subprime RMBS after taking into account credit default swaps that provide $1,113 million of protection and are either collateralized or with counterparties rated AAA by S&P and Aaa by Moody's.

Canadian non-bank-sponsored asset-backed commercial paper

As at October 31, 2007, we had $4 million of direct holdings of Canadian non-bank-sponsored asset-backed commercial paper conduits where liquidity is contingent on a general market disruption. We are not a significant participant in this market as a distributor or a liquidity provider.

Structured investment vehicles

We had $1 million of direct holdings, $140 million of committed liquidity facilities and $88 million of normal course interest rate derivatives with structured investment vehicles (SIVs) as at October 31, 2007. Our liquidity facilities remained undrawn at October 31, 2007 and we do not consider any of our positions to be impaired. We do not manage any SIVs.

Impact of U.S. vs. Canadian dollar

The translated value of our consolidated results is impacted by fluctuations in the respective exchange rates relative to the Canadian dollar. The following table depicts the effect of translating current year Canadian dollar/U.S. dollar consolidated results at the current exchange rate in comparison to the historical period's exchange rate. We believe this provides the reader with the ability to assess the underlying results on a more comparable basis, particularly given the magnitude of the recent changes in the exchange rate and the resulting impact on our results.

Certain of our business segment results are also impacted by fluctuations in the U.S. dollar, Euro and British pound exchange rates. For further details, refer to the Impact of foreign exchange rates on our business segments section.

Impact of U.S. dollar vs. Canadian dollar — Table 5

(C$ millions, except per share amounts)	2007 vs. 2006	2006 vs. 2005
Canadian/U.S. dollar exchange rate (average)		
2007	$ 1.093	$
2006	1.132	1.132
2005		1.214
Percentage change in average US$ equivalent of C$1.00 (1)	4%	7%
Reduced total revenue	$ 230	$ 425
Reduced non-interest expense	139	215
Reduced net income	47	123
Reduced basic EPS	$ .04	$ .10
Reduced diluted EPS	$ .04	$ .09

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

In 2007, the Canadian dollar appreciated 4% on average compared to a year ago resulting in a $47 million decrease in the translated value of our U.S. dollar-denominated net income and a decrease of $.04 in our current year's diluted EPS.

Impact of the new financial instruments accounting standards

On November 1, 2006, we adopted three new accounting standards related to financial instruments that were issued by the CICA. The standards require a greater portion of our Consolidated Balance Sheet to be measured at fair value with changes in the fair values reported in income in the period they occur, except for available-for-sale securities, derivatives designated as cash flow hedges, and hedges of net investments in foreign operations, the changes in fair value of which are recognized in OCI. The standards also provide new guidance on the accounting for derivatives in hedging relationships.

The following table provides the main impacts on our Consolidated Statements of Income arising from the application of the new financial instruments accounting standards. For further details about the financial instruments accounting standards, refer to Notes 1 and 2 to our Consolidated Financial Statements.

Impact of the new financial instruments accounting standards — Table 6

(C$ millions)	2007	Significantly impacted segments
Net interest income	$ 22	Canadian Banking
Non-interest income		
Insurance premiums, investment and fee income	(160)	Canadian Banking
Trading revenue	18	Capital Markets
Other	35	Wealth Management
Other	8	Corporate Support
Total revenue	$ (77)	
Insurance policyholder benefits, claims and acquisition expense	(154)	Canadian Banking
Net income	55	

Canadian Banking

For the year ended October 31, 2007, we recognized a $22 million increase in net interest income related to the application of the effective interest method on our residential mortgage portfolio. In addition, we recorded a loss of $160 million in Insurance premiums, investment and fee income related to the changes in the fair values of the securities backing our life and health insurance businesses. These losses were largely offset by a corresponding $154 million decrease in the measurement of certain liabilities related to life and health insurance policies, recorded in Insurance policyholder benefits, claims and acquisition expense.

Capital Markets

For the year ended October 31, 2007, we recognized a gain of $18 million in Trading revenue as a result of the net increase in fair values in various trading portfolios previously measured at amortized cost. This gain includes a $59 million gain on our deposit liabilities designated as held-for-trading resulting from the widening of our own credit spread during the year.

Wealth Management

For the year ended October 31, 2007, we recorded a $35 million foreign currency translation gain in Non-interest income – Other related to deposits used to fund certain Available-for-sale securities denominated in foreign currencies in order to minimize exposure to changes in foreign exchange rates. The corresponding foreign currency translation loss on the related Available-for-sale securities was recorded in AOCI.

Corporate Support

For the year ended October 31, 2007, we recognized a gain of $8 million. This consisted of a $32 million gain in Non-interest income – Other related to certain long-term funding notes and subordinated debentures that were issued and designated as held-for-trading liabilities, including a $29 million gain related to the widening of our own credit spread during the year. These amounts were largely offset by $24 million of mark-to-market losses mainly related to the recognition of the ineffectiveness of hedged items and the related derivatives in hedge accounting relationships.

Summary of 2006 and 2005

In 2006, we achieved net income of $4,728 million, up $1,341 million, or 40%, from 2005. Our strong earnings reflected solid business growth across all business segments and our successful execution of growth initiatives, despite the negative impact of the strong Canadian dollar on the translated value of our foreign currency-denominated results. Our 2005 results reflected the Enron litigation-related provision. Our strong results in 2006 were also underpinned by generally favourable economic and credit conditions in both domestic and international markets.

In 2006, the Canadian economy grew by 2.8%, primarily bolstered by robust domestic demand. These factors were partially offset by a weakening in exports and manufacturing activities against a backdrop of a strong Canadian dollar, high but falling energy prices, slowing U.S. demand and competition from emerging markets. The U.S. economy recorded a growth rate of 2.9%, reflecting solid consumer and business spending supported by strong balance sheets as well as strength in the labour market, though partly restrained by the lagged effects of increases in interest rates and high but falling energy prices.

During 2006, strong consumer lending was supported by favourable labour market conditions and a relatively low interest rate environment. Business lending remained solid, albeit in part offset by surpluses of internally generated funds available for capital and inventory investment. The favourable credit environment, together with healthy household and corporate balance sheets, continued to support strong consumer and business credit quality. Capital market conditions were generally favourable, characterized by buoyant M&A activity in Canada and strong performance of natural resource-based equities. Debt origination activity in the U.S. and Europe weakened in 2006 in part due to rising interest rates and the negative impact of the strengthening of the Canadian dollar.

During 2006, a number of specified items were identified, which had minimal impacts on our overall results as their effects largely offset each other. We realized a favourable resolution of an income tax audit related to prior years, resulting in a $70 million reduction in income tax expense. We received $51 million related to the termination of an agreement. We reversed $50 million of general allowance related to our corporate loan portfolio. We also recorded a net gain of $40 million on the exchange of New York Stock Exchange (NYSE) seats for shares in the NYSE Group (NYX). We incurred a net charge of $16 million ($19 million after-tax, which included a write-off of deferred taxes) related to the transfer of our Institutional & Investor Services business to the joint venture RBC Dexia IS. We recorded a $61 million (before-tax and after-tax) charge in our insurance business for additional estimated net claims for damages predominantly related to hurricane Wilma, which occurred in late 2005. In addition, we made a $72 million adjustment to increase our credit card customer loyalty reward program costs.

In 2005, net income was $3,387 million, up $584 million, or 21%, from 2004. Our strong earnings were supported by our successful execution of client-focused initiatives and favourable economic conditions, despite the negative impact of an Enron Corp. litigation-related provision and charges for net claims related to hurricanes Katrina, Rita and Wilma.

In 2005, the Canadian economy grew by 3.1% (1), reflecting strong consumer and business spending underpinned by low interest rates, robust employment growth and rising house prices, albeit partially offset by the adverse effects of a strong Canadian dollar and higher energy prices. The U.S. economy recorded a growth rate of 3.1% (1), fuelled by strong consumer spending amid solid job growth and surging house prices, despite increases in interest rates and energy prices and the dampening impacts of hurricanes Katrina, Rita and Wilma. Business investment in the U.S. was buoyed by both capital and inventory investment. Strong consumer credit quality was supported by resilient debt-servicing capacity and high household liquidity, while business credit quality continued to reflect a favourable credit and business environment with a general reduction in defaults and bankruptcies.

During 2005, we took action to mitigate the uncertainties regarding Enron-related matters, including the settlement of our part of the MegaClaims bankruptcy lawsuit brought by Enron against RBC and a number of financial institutions for $31 million (US$25 million). In addition, we settled an additional $29 million (US$24 million) for recognition of claims against the Enron bankruptcy. We also established a provision of $591 million (US$500 million) or $326 million after-tax (US$276 million after-tax) for Enron litigation-related matters. We recorded a charge of $203 million (US$173 million) before- and after-tax for estimated net claims for damages related to hurricanes Katrina, Rita and Wilma. We completed the sale of Liberty Insurance Services Corporation (LIS) to IBM Corporation (IBM), and entered into a long-term agreement with IBM to perform key business processes for RBC Insurance U.S. operations. We also completed the sale of certain assets of RBC Mortgage Company (RBC Mortgage) to Home123 Corporation.

(1) Reflects revised data from Statistics Canada and the Bureau of Economic Analysis.

Total revenue — Table 7

(C$ millions)	2007	2006	2005
Interest income	$ 26,377	$ 22,204	$ 16,981
Interest expense	18,845	15,408	10,188
Net interest income	$ 7,532	$ 6,796	$ 6,793
Investments (1)	$ 4,405	$ 3,786	$ 3,357
Insurance (2)	3,152	3,348	3,270
Trading	2,261	2,574	1,594
Banking (3)	2,620	2,391	2,326
Underwriting and other advisory	1,217	1,024	1,026
Other (4)	1,275	718	818
Non-interest income	$ 14,930	$ 13,841	$ 12,391
Total revenue	$ 22,462	$ 20,637	$ 19,184
Additional information			
Total trading revenue (5)			
Net interest income – related to trading activities	$ (390)	$ (539)	$ 21
Non-interest income – trading revenue	2,261	2,574	1,594
Total	$ 1,871	$ 2,035	$ 1,615
Total trading revenue by product (5)			
Interest rate and credit	$ 693	$ 1,174	$ 1,025
Equities	823	561	355
Foreign exchange and commodities	355	300	235
Total	$ 1,871	$ 2,035	$ 1,615

(1) Includes brokerage, investment management and mutual funds.
(2) Includes premiums, investment and fee income.
(3) Includes service charges, foreign exchange other than trading, card services and credit fees.
(4) Includes other non-interest income, gain/loss on securities sales and securitization.
(5) Total trading revenue comprises trading-related revenue recorded in Net interest income and Non-interest income. Total trading revenue includes cash and related derivatives.

2007 vs. 2006

Total revenue increased $1,825 million, or 9%, from a year ago. Excluding the impact of the new financial instruments accounting standards, revenue was up $1,902 million, or 9%. The increase was largely due to continued strong balance and volume growth in our banking and wealth management businesses and a gain related to the Visa Inc. restructuring. Higher revenue from several capital markets businesses also contributed to this increase. The strong growth largely reflected the successful execution of our strategy including acquisitions, as well as generally favourable market conditions for most of the year. These factors were partially offset by writedowns on the valuation of U.S. subprime RMBS and CDOs of ABS, the negative impact of a stronger Canadian dollar on the translated value of our U.S. dollar-denominated revenue and higher credit card customer loyalty reward program costs. For a reconciliation of revenue excluding the impact of the new financial instruments accounting standards, refer to the Key performance and non-GAAP measures section.

Net interest income increased $736 million, or 11%, largely driven by strong loan and deposit growth. Net interest margin of 1.30% was down 5 bps compared to the prior year.

Investments-related revenue increased $619 million, or 16%, primarily due to continued growth in fee-based client assets reflecting strong net sales, capital appreciation and the recruitment and retention of experienced advisors. Growth in custodian and securities lending businesses reflecting strong market activities, and higher transactional volumes in our brokerage businesses also contributed to the increase.

Insurance-related revenue decreased $196 million, or 6%. Excluding the impact of the new financial instruments accounting standards, revenue decreased $36 million, or 1%, from the prior year, largely reflecting lower U.S. annuity sales mainly due to relatively lower long-term interest rates and lower revenue from our property catastrophe reinsurance business, which we exited completely this year. These factors were partially offset by growth in our European life reinsurance and Canadian businesses. For a reconciliation of *Insurance*-related revenue excluding the impact of the new financial instruments accounting standards, refer to the Key performance and non-GAAP measures section.

Banking revenue was up $229 million, or 10%, mainly due to higher transaction volumes and client balances and increased loan syndication activity. These factors were partially offset by higher credit card customer loyalty reward program costs that were recorded against revenue.

Trading revenue decreased by $313 million, or 12%. Total trading revenue was $1,871 million, down $164 million, or 8%, from a year ago largely due to writedowns totalling $357 million on the valuation of U.S. subprime RMBS and CDOs of ABS in our Structured Credit business.

Underwriting and other advisory revenue increased $193 million, or 19%, on strong equity origination activity across all geographies and improved M&A results, mainly in the U.S. These factors were partially offset by lower U.S. debt origination activity in part due to the tightening of credit markets in the latter part of 2007 as a result of the U.S. subprime mortgage market concerns.

Other revenue increased $557 million, or 78%, largely due to a $326 million gain related to the Visa Inc. restructuring and gains on the fair valuing of credit derivatives used to economically hedge our corporate loan portfolio. A favourable adjustment of $40 million related to the reallocation of certain foreign investment capital from our international insurance operations, which had supported our property catastrophe reinsurance business, as we exited this business completely this year, a $35 million foreign exchange translation gain on certain deposits resulting from the implementation of the new financial instruments accounting standards, and higher private equity gains and distributions also contributed to the increase.

2006 vs. 2005

Total revenue increased $1,453 million, or 8%, from 2005, largely due to record trading results on improved market conditions and solid business growth in our wealth management and banking businesses reflecting successful execution of our growth initiatives and favourable market conditions. Strong M&A activity and the net gain on the exchange of our NYSE seats for NYX shares also contributed to the increase. These factors were partially offset by a reduction of $425 million due to the negative impact of the stronger Canadian dollar on the translated value of our U.S. dollar-denominated revenue, lower debt and equity origination activity and certain favourable items recorded in 2005.

Net interest income increased $3 million. Strong loan and deposit growth and increased spreads on deposits and personal investment products were mostly offset by funding costs related to certain equity trading strategies and the impact of higher securitization balances.

Investments-related revenue increased $429 million, or 13%, primarily due to growth in fee-based client assets reflecting strong net sales and capital appreciation and the inclusion of Abacus Financial Services Group Limited. Higher transactional volumes in our full service and self-directed brokerage businesses also contributed to the increases.

Insurance-related revenue increased $78 million, or 2%, primarily reflecting growth in our Canadian life business and European life reinsurance business. This was partially offset by lower revenue in our U.S. life business largely due to lower annuity sales, the negative impact of a stronger Canadian dollar on the translated value of our U.S. dollar-denominated revenue and lower revenue from property catastrophe reinsurance reflecting our strategic reduction in exposure, as we ceased underwriting new business.

Banking revenue was up $65 million, or 3%, mainly due to higher service fees, higher credit fees related to our investment banking activity and increased foreign exchange revenue due to higher transaction volume. These factors were partially offset by higher customer loyalty reward program costs that were recorded against revenue.

Trading revenue increased by $980 million, or 61%. Total trading revenue was $2,035 million, up $420 million, or 26%, from a year ago largely due to record trading results on improved market conditions and growth in certain equity trading strategies. This was partly offset by higher funding costs in support of growth in certain equity trading strategies.

Underwriting and other advisory revenue decreased $2 million on lower equity origination in Canada mainly reflecting slower activity outside the resource sector and lower debt origination largely in the U.S. due to the rising interest rate environment. These factors were largely offset by stronger M&A activity.

Other revenue decreased $100 million, or 12%, largely due to a number of favourable items recorded in 2005 including the gain on the sale of an Enron-related claim, a cumulative accounting adjustment related to our ownership interest in an investment and the gain on the sale of LIS. These factors were partially offset by the receipt of a fee related to the termination of an agreement and the net gain on the exchange of our NYSE seats for NYX shares, which were both recorded in 2006.

Net interest income and margin — Table 8

(C$ millions, except percentage amounts)	2007	2006	2005
Net interest income	$ 7,532	$ 6,796	$ 6,793
Average assets (1)	581,000	502,100	445,300
Net interest margin (2)	1.30%	1.35%	1.53%

(1) Average amounts are calculated using methods intended to approximate the average of the daily balances for the period.
(2) Net interest income as a percentage of average assets.

Change in net interest income (1)

Table 9

(C$ millions)	2007 vs. 2006 Increase (decrease) due to changes in Average volume (2)	Average rate (2)	Net change	2006 vs. 2005 Increase (decrease) due to changes in Average volume (2)	Average rate (2)	Net change
Assets						
Deposits with other banks						
Canada	$ 11	$ (9)	$ 2	$ 10	$ –	$ 10
United States	71	(50)	21	11	89	100
Other International	31	4	35	35	104	139
Securities						
Trading	1,142	423	1,565	863	482	1,345
Available-for-sale (3)	(230)	141	(89)	–	–	–
Investments (3)	–	–	–	22	216	238
Asset purchased under reverse repurchase agreements and securities borrowed	783	(160)	623	404	1,069	1,473
Loans						
Canada						
Retail	1,025	194	1,219	697	423	1,120
Wholesale	–	(217)	(217)	146	(144)	2
United States	348	(218)	130	108	376	484
Other International	778	106	884	172	140	312
Total interest income	$ 3,959	$ 214	$ 4,173	$ 2,468	$ 2,755	$ 5,223
Liabilities						
Deposits						
Canada	$ (1)	$ 646	$ 645	$ 122	$ 1,178	$ 1,300
United States	264	281	545	238	733	971
Other International	1,344	528	1,872	754	737	1,491
Obligations related to securities sold short	386	(460)	(74)	197	493	690
Obligations related to assets sold under repurchase agreements and securities loaned	542	(60)	482	341	421	762
Subordinated debentures	(66)	(15)	(81)	(18)	(5)	(23)
Other interest-bearing liabilities	89	(41)	48	(115)	144	29
Total interest expense	$ 2,558	$ 879	$ 3,437	$ 1,519	$ 3,701	$ 5,220
Net interest income	$ 1,401	$ (665)	$ 736	$ 949	$ (946)	$ 3

(1) Geographic classification for selected assets and liabilities is based on the domicile of the booking point of the subject assets and liabilities.
(2) Volume/rate variance is allocated on the percentage relationship of changes in balances and changes in rates to the total net change in net interest income.
(3) Available-for-sale securities are carried at fair value. Prior to November 1, 2006, Available-for-sale securities were classified as investment securities and were carried at amortized cost.

2007 vs. 2006

Net interest margin decreased 5 bps reflecting the impact of changes in product mix, an increase in lower-yielding and non-interest-earning assets, competitive pressures on our U.S. deposit business, and the reversal of accrued interest on higher impaired loans in the U.S.

Net interest income increased $736 million, or 11%, largely driven by strong loan and deposit growth in our banking businesses.

As noted in Table 9, we experienced higher growth in lower-yielding and non-interest-earning assets, including trading securities and assets purchased under reverse repurchase agreements and securities borrowed largely in support of our trading and other business activities, which generate non-interest income. For further details, refer to Table 58 in the Additional financial information section.

2006 vs. 2005

Net interest margin decreased 18 bps compared to 2005, reflecting lower net interest income due to higher funding costs in support of growth in certain equity trading strategies. An increase in lower-yielding and non-interest-earning assets, which generate non-interest income, largely in support of our trading and other business activities also contributed to the decrease. This decrease was partially offset by stronger loan and deposit growth and increased spreads on deposits and personal investment products.

Non-interest expense

Table 10

(C$ millions)	2007	2006	2005
Salaries	$ 3,541	$ 3,192	$ 3,101
Variable compensation	2,975	2,827	2,309
Stock-based compensation	194	169	169
Benefits and retention compensation	1,150	1,080	1,103
Human resources	$ 7,860	$ 7,268	$ 6,682
Equipment	1,009	957	960
Occupancy	839	792	749
Communications	723	687	632
Professional and other external services	838	844	796
Other expenses	1,204	947	1,538
Non-interest expense	$ 12,473	$ 11,495	$ 11,357

2007 vs. 2006

Non-interest expense increased $978 million, or 9%, compared to the prior year, primarily reflecting higher costs due to increased business levels, which included additional sales and service personnel and higher variable compensation on higher commission-based revenue in Wealth Management. Increased sundry losses and higher processing and system development costs also contributed to the increase. Additional costs in support of our growth initiatives, including our recent acquisitions, and *de novo* branch expansion and branch upgrade programs also contributed to the increase. These factors were partially offset by the favourable impact of a stronger Canadian dollar on the translated value of the U.S. dollar-denominated expenses and lower variable compensation in Capital Markets commensurate with weaker results.

2006 vs. 2005

Non-interest expense increased $138 million, or 1%, compared to 2005, largely reflecting higher variable compensation primarily in our Capital Markets and Wealth Management segments due to strong business performance. Higher costs in support of our growth initiatives, including a higher level of sales personnel and infrastructure in our distribution network, increased costs related to systems application development, higher marketing and advertising costs and a larger number of branches also contributed to the increase. These factors were partially offset by the reduction in the translated value of U.S. dollar-denominated expenses due to the stronger Canadian dollar. The Enron litigation-related provision and the settlement of the Enron MegaClaims bankruptcy lawsuit were recorded in 2005.

Provision for credit losses — Table 11

(C$ millions)	2007	2006	2005
Residential mortgages	$ 13	$ 6	$ 2
Personal	364	306	259
Credit cards	223	163	194
Small business (1)	34	29	27
Retail	$ 634	$ 504	$ 482
Business (2)	148	(22)	(93)
Sovereign (3)	–	–	–
Bank	–	–	–
Wholesale	$ 148	$ (22)	$ (93)
Specific provision	$ 782	$ 482	$ 389
General provision	9	(53)	66
Provision for credit losses	$ 791	$ 429	$ 455
Specific PCL as a % of average net loans and acceptances	.33%	.23%	.21%

(1) Includes small business exposure managed on a pooled basis.
(2) Includes small business exposure managed on an individual client basis.
(3) Sovereign refers to all central governments and agencies, central banks, as well as other qualifying public sector entities and multilateral development banks.

2007 vs. 2006

Total provision for credit losses (PCL) increased $362 million, or 84%, compared to the prior year, which had been at a cyclically low level, and has trended up towards the historical average. The increase reflected higher provisions for both of our wholesale and retail loan portfolios, primarily reflecting portfolio growth and higher impaired loans in our U.S. residential builder finance business triggered by the downturn in the U.S. housing market. Specific PCL as a percentage of average net loans and acceptances increased from a year ago, largely reflecting higher impaired loans in our U.S. residential builder finance business.

Specific PCL for retail loans was up $130 million, or 26%, from a year ago. The increase was primarily attributable to higher provisions in our credit cards and personal unsecured credit line portfolios, largely reflecting higher loss rates and portfolio growth.

Specific PCL for wholesale loans increased $170 million over the prior year. The increase was largely attributable to our business portfolio mainly due to higher impaired loans in our U.S. residential builder finance business and higher write-offs in Canada. Lower recoveries in our corporate loan portfolio this year also contributed to the increase in provisions.

The general provision increased $62 million from a year ago, primarily reflecting a $50 million reversal of the general allowance related to our corporate loan portfolio in the prior year. Higher provisions in our U.S. residential builder finance business loan portfolio, largely reflecting a weakening in credit quality as a result of the downturn in the U.S. housing market, also contributed to the increase.

2006 vs. 2005

Provision for credit losses decreased $26 million, or 6%, from 2005. The decrease largely reflected a $50 million reversal of the general allowance in 2006 related to our corporate loan portfolio in Capital Markets in light of the continued favourable credit conditions and the strengthening of the credit quality of our corporate portfolio, the favourable impact of the higher level of securitized credit cards, and the continued strong credit quality of our U.S. loan portfolio. In 2005, we also recorded a provision related to our 50% proportionate share of a provision booked at Moneris Solutions, Inc. (Moneris). These factors were partially offset by higher provisions for our Canadian personal loan and small business portfolios, as well as lower recoveries in our corporate and agriculture loan portfolios.

Insurance policyholder benefits, claims and acquisition expense — Table 12

(C$ millions)	2007	2006	2005
Insurance policyholder benefits and claims	$ 1,588	$ 1,939	$ 2,103
Insurance policyholder acquisition expense	585	570	522
Insurance policyholder benefits, claims and acquisition expense	$ 2,173	$ 2,509	$ 2,625

2007 vs. 2006

Insurance policyholder benefits, claims and acquisition expense (PBCAE) decreased $336 million, or 13%, from the prior year. Excluding the impact of the new financial instruments accounting standards and the prior year hurricane-related charges, PBCAE decreased $121 million, or 5%, over last year. The decrease was largely attributable to the impact of lower U.S. annuity sales and a higher level of favourable net actuarial liability adjustments this year, which included cumulative adjustments of $92 million related to prior periods. These factors were partially offset by increased costs commensurate with growth in our European life reinsurance and Canadian businesses. For a reconciliation of PBCAE excluding the impact of the new financial instruments accounting standards, refer to the Key performance and non-GAAP measures section.

2006 vs. 2005

PBCAE decreased $116 million, or 4%, compared to 2005. The decrease primarily reflected a $142 million (before- and after-tax) reduction in hurricane-related charges for net claims, as we recorded $203 million in 2005 related to hurricanes Katrina, Rita and Wilma and $61 million for additional claims in 2006 predominantly related to hurricane Wilma. The favourable impact on the translated value of U.S. dollar-denominated actuarial liabilities as a result of the stronger Canadian dollar and lower U.S. annuity sales also contributed to the decrease. These factors were partially offset by higher benefits and claims costs associated with business growth and a reduced level of net favourable actuarial liability adjustments in 2006.

Taxes — **Table 13**

(C$ millions, except percentage amounts)	2007	2006	2005
Income taxes	$ 1,392	$ 1,403	$ 1,278
Other taxes			
Goods and services and sales taxes	$ 208	$ 218	$ 218
Payroll taxes	227	217	220
Capital taxes	117	107	164
Property taxes (1)	97	92	93
Insurance premium taxes	41	39	39
Business taxes	8	7	9
	698	680	743
Total income and other taxes	$ 2,090	$ 2,083	$ 2,021
Net income before income taxes	$ 7,025	$ 6,204	$ 4,702
Effective income tax rate (2)	19.8%	22.6%	27.2%
Effective total tax rate (3)	27.1%	30.3%	37.1%

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

Our operations are subject to a variety of taxes, including taxes on income and capital assessed by Canadian federal and provincial governments and taxes on income assessed by the governments of international jurisdictions where we operate. Taxes are also assessed on expenditures and supplies consumed in support of our operations.

2007 vs. 2006

Income tax expense decreased $11 million, or 1%, from a year ago, despite higher earnings before income taxes. The effective tax rate of 19.8% compared favourably to 22.6% a year ago. The lower effective tax rate was largely due to writedowns on the valuation of U.S. subprime RMBS and CDOs of ABS reported by our subsidiaries operating in jurisdictions with higher income tax rates, the gain related to the Visa Inc. restructuring, which is taxed at the capital gains tax rate, and a higher level of income from tax-advantaged sources (Canadian taxable corporate dividends).

Other taxes increased by $18 million from a year ago, largely due to increased payroll taxes reflecting higher staffing levels and higher capital taxes due to an increased Canadian capital tax base on which capital taxes are levied. Increased property taxes reflecting a higher number of branches also contributed to the increase. These factors were partially offset by lower goods and services and sales taxes due to a decrease in the goods and services tax (GST) rate.

In addition to the income and other taxes reported in our Consolidated Statements of Income, we recorded income taxes of $946 million in 2007 (2006 – $136 million) in Shareholders' equity, an increase of $810 million, primarily reflecting an increase in unrealized foreign currency translation gains as shown in Note 24 to our Consolidated Financial Statements.

2006 vs. 2005

Income taxes were up in 2006 compared to 2005, largely reflecting higher earnings and the impact of the Enron litigation-related provision recorded in 2005. The effective income tax rate for 2006 decreased 4.6% primarily due to higher earnings reported by our subsidiaries operating in jurisdictions with lower income tax rates, a higher level of income from tax-advantaged sources (Canadian taxable corporate dividends), and the favourable resolution of income tax audits in 2006 related to prior years.

Other taxes decreased $63 million, largely due to lower capital taxes primarily related to recoveries of capital taxes paid in prior periods and a lower Canadian capital base on which capital taxes are levied.

Results by geographic segment (1)

Table 14

(C$ millions)	2007 Canada	2007 United States	2007 Other International	2007 Total	2006 Canada	2006 United States	2006 Other International	2006 Total	2005 Canada	2005 United States	2005 Other International	2005 Total
Net interest income	$ 6,435	$ 412	$ 685	$ 7,532	$ 6,045	$ 108	$ 643	$ 6,796	$ 5,628	$ 608	$ 557	$ 6,793
Non-interest income	8,605	4,322	2,003	14,930	7,518	4,397	1,926	13,841	6,878	3,955	1,558	12,391
Total revenue	15,040	4,734	2,688	22,462	13,563	4,505	2,569	20,637	12,506	4,563	2,115	19,184
Provision for (recovery of) credit losses	696	90	5	791	456	(28)	1	429	433	23	(1)	455
Insurance policyholder benefits, claims and acquisition expense	1,230	474	469	2,173	1,379	683	447	2,509	1,270	809	546	2,625
Non-interest expense	7,409	3,405	1,659	12,473	7,056	3,038	1,401	11,495	6,685	3,595	1,077	11,357
Business realignment charges	–	–	–	–	–	–	–	–	45	–	–	45
Income taxes and non-controlling interest	1,788	(13)	(242)	1,533	1,495	13	(61)	1,447	1,299	(64)	30	1,265
Net income from continuing operations	$ 3,917	$ 778	$ 797	$ 5,492	$ 3,177	$ 799	$ 781	$ 4,757	$ 2,774	$ 200	$ 463	$ 3,437
Net income (loss) from discontinued operations	$ –	$ –	$ –	$ –	$ –	$ (29)	$ –	$ (29)	$ –	$ (50)	$ –	$ (50)
Net income	$ 3,917	$ 778	$ 797	$ 5,492	$ 3,177	$ 770	$ 781	$ 4,728	$ 2,774	$ 150	$ 463	$ 3,387

(1) For geographic reporting, our segments are grouped into Canada, United States and Other International. Transactions are primarily recorded in the location that best reflects the risk due to negative changes in economic conditions and prospects for growth due to positive economic changes. This location frequently corresponds 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 of the Canadian dollar.

2007 vs. 2006

Net income in Canada was $3,917 million, up $740 million, or 23%, compared to the prior year. This increase largely reflected strong volume and balance growth in our domestic banking and wealth management businesses and a gain related to the Visa Inc. restructuring. Higher trading results, improved equity origination activity and higher loan syndication activity also contributed to the increase. These factors were partially offset by higher costs reflecting increased business levels and in support of growth initiatives, higher provisions for credit losses and higher credit card customer loyalty reward program costs this year.

U.S. net income of $778 million was up $8 million, or 1%, from the prior year. Solid revenue growth reflecting the inclusion of our recent acquisitions and improved equity origination and M&A activity was mostly offset by the negative impact of the stronger Canadian dollar on the translated value of our U.S. dollar-denominated earnings, higher costs in support of business growth and higher provision for credit losses, which primarily reflected higher impaired loans in our U.S. residential builder finance business.

Other international net income of $797 million was up $16 million, or 2%, from 2006, partly due to stronger insurance results reflecting the absence of hurricane-related charges this year and a favourable adjustment related to the reallocation of certain foreign investment capital this year. Growth at *RBC Dexia IS* also contributed to the increase. These factors were largely offset by lower trading results in certain fixed income businesses as a result of writedowns on the valuation of U.S. subprime RMBS and CDOs of ABS.

2006 vs. 2005

Net income in Canada was $3,177 million, up $403 million, or 15%, compared to 2005. This increase largely reflected strong revenue growth in our wealth management and banking businesses due to our successful execution of growth initiatives, the continuing favourable economic conditions and stronger M&A activity. These factors were partly offset by higher variable compensation on stronger business performance and increased costs in support of business growth.

U.S. net income of $770 million was up $620 million, or 413%, from 2005 and comprises net income from continuing operations of $799 million and a net loss from discontinued operations of $29 million. U.S. net income from continuing operations was up $599 million, or 300%, compared to 2005 largely reflecting the Enron litigation-related provision and strong trading results in 2006. These factors were partially offset by lower debt originations, lower U.S. annuity sales, the negative impact of the stronger Canadian dollar on the translated value of U.S. dollar-denominated income and the gain recorded in the prior year on the sale of LIS in 2005.

Net loss from discontinued operations of $29 million in 2006 compared to a net loss of $50 million in 2005. The 2006 net loss reflected charges related to the wind down of operations of RBC Mortgage Company. The 2005 net loss largely reflected charges related to the sale and wind down of operations, including the costs of closing RBC Mortgage Company's Chicago office and certain branches, employee incentive payments and the writedown of certain assets.

Other international net income was up $318 million, or 69%, from 2005, mainly reflecting the lower net estimated hurricane-related charges and income tax amounts, which were largely related to enterprise-funding activities and solid business growth in our European life reinsurance business. These factors were partially offset by lower revenue from property catastrophe reinsurance reflecting our strategic reduction in exposure.

Related party transactions

In the ordinary course of business, we provide normal banking services, operational services and enter into other transactions with associated and other related corporations, including our joint venture entities, on terms similar to those offered to non-related parties.

We grant loans to directors, officers and other employees at rates normally accorded to preferred clients. In addition, we offer deferred share and other plans to non-employee directors, executives and certain other key employees. For further information, refer to Notes 9 and 29 to our Consolidated Financial Statements.

Our quarterly earnings, revenue and expenses are impacted by a number of trends and recurring factors which include seasonality, general economic conditions and competition. The following table summarizes our results for the last eight quarters.

Quarterly results

Table 15

	2007				2006			
(C$ millions, except per share amounts)	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Net interest income	$ 1,828	$ 1,965	$ 1,889	$ 1,850	$ 1,731	$ 1,766	$ 1,617	$ 1,682
Non-interest income	3,787	3,515	3,780	3,848	3,618	3,440	3,505	3,278
Total revenue	$ 5,615	$ 5,480	$ 5,669	$ 5,698	$ 5,349	$ 5,206	$ 5,122	$ 4,960
Non-interest expense	3,093	3,165	3,148	3,067	2,955	2,861	2,928	2,751
Provision for credit losses	263	178	188	162	159	99	124	47
Insurance policyholder benefits, claims and acquisition expense	637	343	677	516	611	627	619	652
Net income before income taxes and non-controlling interest in subsidiaries	$ 1,622	$ 1,794	$ 1,656	$ 1,953	$ 1,624	$ 1,619	$ 1,451	$ 1,510
Income taxes	255	349	353	435	342	381	348	332
Non-controlling interest in net income of subsidiaries	43	50	24	24	19	44	(25)	6
Net income from continuing operations	$ 1,324	$ 1,395	$ 1,279	$ 1,494	$ 1,263	$ 1,194	$ 1,128	$ 1,172
Net income (loss) from discontinued operations	–	–	–	–	(1)	(17)	(10)	(1)
Net income	$ 1,324	$ 1,395	$ 1,279	$ 1,494	$ 1,262	$ 1,177	$ 1,118	$ 1,171
Earnings per share – basic	$ 1.02	$ 1.07	$ .99	$ 1.16	$ .97	$ .91	$ .86	$ .90
– diluted	$ 1.01	$ 1.06	$ .98	$ 1.14	$ .96	$ .90	$ .85	$ .89
Segment net income (loss)								
Canadian Banking	$ 899	$ 699	$ 618	$ 771	$ 675	$ 660	$ 511	$ 580
Wealth Management	180	177	194	211	164	136	159	145
U.S. & International Banking	21	87	67	67	79	82	62	38
Capital Markets	186	360	350	396	300	303	414	338
Corporate Support	38	72	50	49	45	13	(18)	71
Net income	$ 1,324	$ 1,395	$ 1,279	$ 1,494	$ 1,263	$ 1,194	$ 1,128	$ 1,172
Period average USD equivalent of C$1.00 (1)	$ 1.001	$ .937	$ .874	$ .861	$ .897	$ .896	$ .877	$ .865
Period-end USD equivalent of C$1.00	1.059	.937	.901	.850	.890	.884	.894	.878

(1) Average amounts are calculated using methods intended to approximate the average of the daily balances for the period.

Seasonality

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

Impact of economic and market conditions

In general, economic conditions remained favourable over most of the last eight quarters and positively impacted our businesses. Economic conditions were negatively impacted in the latter part of 2007, mainly attributable to the U.S. subprime mortgage market concerns. For a further discussion, refer to the Overview of 2007 section.

The strengthening of the Canadian dollar over the period resulted in lower translated value of our U.S. dollar-denominated earnings, primarily in our wholesale banking business and U.S. retail operations.

Overview and consolidated results

Over the last eight quarters, our results were affected by a number of favourable and unfavourable items or events. Our fourth quarter 2007 results were impacted by the writedowns on the valuation of U.S. subprime RMBS and CDOs of ABS, the gain related to the Visa Inc. restructuring, and higher credit card customer loyalty reward program costs. In the first quarter of 2007 we recorded a favourable adjustment related to the reallocation of foreign investment capital and our insurance business results were negatively impacted by hurricane-related charges of $61 million (before- and after-tax). During the same quarter, we also recorded a $50 million reversal of the general allowance in light of the strong credit quality of our corporate loan portfolio, which partially reflected the favourable credit conditions. Our results over the last eight quarters were also impacted by the acquisition of certain businesses. For further discussion, refer to the Overview of 2007 section.

Our consolidated net income consistently exceeded $1 billion over the last eight quarters. These strong results largely reflected a general increase in revenue across all our business segments. This positive trend was partially offset by the lower translated value of foreign currency-denominated earnings as a result of the strengthening of the Canadian dollar against the U.S. dollar during most of the period, with the effects being more pronounced in the most recent quarter.

Non-interest expense generally increased over the last eight quarters, largely reflecting increased variable compensation on strong business performance and higher costs due to increased business activity volume, acquisitions and higher spending in support of our growth initiatives.

Provision for credit losses was at a cyclically low level during most of the period, primarily reflecting a generally benign credit environment and favourable corporate recoveries. However, it increased over the past year due to portfolio growth, as well as increasing loss rates and higher impairments, both of which have trended up towards historical averages. In the fourth quarter of 2007, the provision for

credit losses increased in our U.S. & International Banking segment due to higher impaired loans, primarily driven by the downturn in the U.S. housing market. The decrease in provisions in the first quarter of 2006 was primarily due to a $50 million reversal of the general allowance in light of the strong credit quality of our corporate loan portfolio at that time.

PBCAE fluctuated considerably over the period. Although underlying business growth has generally increased PBCAE, there can be significant quarterly volatility resulting from claims experience, actuarial liability adjustments and capital market impacts on equities backing universal life policyholder funds. The impact of the new financial instruments accounting standards implemented in the first quarter of 2007 introduced additional volatility to this line. Other than claims experience and actuarial liability adjustments, these items are predominantly offset in Insurance-related revenue. As well, the first quarter of 2006 was impacted by hurricane-related charges.

Our effective income tax rate has generally trended downward from 22.0% to 15.7% over the period, despite higher earnings before income taxes. This largely reflected higher income from tax-advantaged sources (Canadian taxable corporate dividends), favourable income tax settlements in the first quarter of 2006 and the second and third quarters of 2007. The fourth quarter of 2007 reflected writedowns on the valuation of U.S. subprime RMBS and CDOs of ABS reported by our subsidiaries operations in jurisdictions with higher income tax rates and a lower tax rate on the gain related to the Visa Inc. restructuring.

Non-controlling interest in net income of subsidiaries fluctuated over the period, which depends on the net income attributed to third-party investors in entities in which we do not have 100% ownership, but are required to consolidate.

Business segment results

Canadian Banking net income generally increased over the last eight quarters reflecting strong volume growth across most business lines. Margins have decreased slightly over the latter part of 2007, primarily due to strong market competition. Our results in the fourth quarter of 2007 were favourably impacted by the gain related to the Visa Inc. restructuring, which was partly offset by higher credit card customer loyalty reward program costs. Also, the first quarter of 2007 was positively impacted by a favourable adjustment related to the reallocation of foreign investment capital while the first quarter of 2006 was adversely impacted by hurricane-related charges.

Wealth Management net income has generally trended higher over the last eight quarters, driven largely by strong growth in fee-based client assets across all business lines reflecting new sales, capital appreciation and the recruitment and retention of experienced advisors. This has been partially offset by higher variable compensation commensurate with commission-based revenue and higher costs in support of business growth, including recent acquisitions.

U.S. & International Banking results were generally stable during the period except for the fourth quarter of 2007. The decrease in earnings in the fourth quarter of 2007 was primarily attributable to the higher provisions in our U.S. residential builder finance loan portfolio reflecting higher impaired loans. In addition, net income was impacted by higher costs in support of business growth, including recent acquisitions and *de novo* branch openings.

Capital Markets recorded a general improvement in earnings over the period, with the exception of the fourth quarter of 2007, which was impacted by the writedowns on the valuation of U.S. subprime RMBS and CDOs of ABS over concerns related to the U.S. subprime mortgage market. Throughout 2006 and most of 2007, our diverse business and product offerings, together with business expansions and growing global distribution capabilities, contributed to this positive trend. However, these factors were partially offset by the lower translated value of U.S. dollar- and British pound-denominated earnings resulting from the stronger Canadian dollar.

Fourth quarter 2007 performance

Fourth quarter net income of $1,324 million was up $62 million, or 5%, from a year ago despite the $48 million unfavourable impact of the stronger Canadian dollar on the translated value of U.S. dollar-denominated earnings. Diluted EPS were $1.01, up 5%. ROE was 23.0% compared to 23.9% a year ago. The increase was primarily due to a gain on the Visa Inc. restructuring, higher equity derivatives and foreign exchange trading results and solid volume and balance growth in our banking and wealth management businesses. These factors were partly offset by writedowns on the valuation of U.S. subprime RMBS and CDOs of ABS, and an adjustment to increase our credit card customer loyalty reward program costs.

Total revenue increased $266 million, or 5%, from a year ago, largely reflecting a gain on the Visa Inc. restructuring, higher equity derivatives and foreign exchange trading revenue and continued solid volume and balance growth in our banking and wealth management businesses. The favourable impact of the new financial instruments accounting standards, the inclusion of recent acquisitions and improved M&A activity also contributed to the increase. These factors were partly offset by lower trading revenue in our fixed income businesses reflecting the writedowns on the valuation of U.S. subprime RMBS and CDOs of ABS and an adjustment to increase our credit card customer loyalty reward program costs.

Non-interest expense increased $138 million, or 5%, from a year ago, largely reflecting higher costs in support of our business initiatives, including higher staffing levels, our recent acquisitions and *de novo* branch openings. These factors were partially offset by lower variable compensation in Capital Markets due to weaker results.

Provision for credit losses increased $104 million from a year ago, largely reflecting higher impaired loans in our U.S. residential builder finance business portfolio, primarily driven by the downturn in the U.S. housing market. Higher provisions commensurate with growth in our credit card portfolio and higher impairment in our business portfolio also contributed to the increase.

PBCAE increased $26 million, or 4%, over the prior year, primarily due to the impact of the new financial instruments accounting standards, increased costs associated with growth in our European life reinsurance business as well as less favourable claims experience in the current period. These factors were partly offset by reduced expenses associated with lower U.S. annuity sales, a higher level of favourable net actuarial liability adjustments, and the favourable impact of a stronger Canadian dollar on the translated value of U.S. dollar-denominated expenses.

Business segment results

Results by business segment

Table 16

(C$ millions)	Canadian Banking	Wealth Management	U.S. & International Banking	Capital Markets (1)	Corporate Support (1)	2007 Total	2006 Total	2005 Total
Net interest income	$ 6,353	$ 427	$ 1,031	$ 453	$ (732)	$ 7,532	$ 6,796	$ 6,793
Non-interest income	6,168	3,565	884	3,936	377	14,930	13,841	12,391
Total revenue	$ 12,521	$ 3,992	$ 1,915	$ 4,389	$ (355)	$ 22,462	$ 20,637	$ 19,184
Non-interest expense	5,285	2,902	1,481	2,769	36	12,473	11,495	11,357
Provision for (recovery of) credit losses	788	1	109	(22)	(85)	791	429	455
Insurance policyholder benefits, claims and acquisition expense	2,173	–	–	–	–	2,173	2,509	2,625
Business realignment charges	–	–	–	–	–	–	–	45
Net income before income taxes and non-controlling interest in net income of subsidiaries	$ 4,275	$ 1,089	$ 325	$ 1,642	$ (306)	$ 7,025	$ 6,204	$ 4,702
Net income	$ 2,987	$ 762	$ 242	$ 1,292	$ 209	$ 5,492	$ 4,757	$ 3,437
Return on equity (ROE) (2)	34.3%	32.4%	6.9%	26.6%	6.7%	24.6%	23.5%	18.0%
Return on risk capital (RORC) (2)	45.5%	65.1%	11.7%	32.5%	n.m.	37.4%	36.7%	29.3%
Average assets (3)	$ 220,000	$ 16,600	$ 39,700	$ 311,200	$ (6,500)	$ 581,000	$ 502,300	$ 447,100

(1) Net interest income, total revenue and net income before income taxes are presented in Capital Markets on a taxable equivalent basis. The taxable equivalent basis adjustment is eliminated in the Corporate Support segment. For a further discussion, refer to the How we measure and report our business segments section.
(2) Average risk capital and the Return on risk capital are key performance measures. For further details, refer to Key performance and non-GAAP measures section.
(3) Average amounts are calculated using methods intended to approximate the average of the daily balances for the period.
n.m. not meaningful

Canadian Banking

Net income increased $561 million, or 23%, from a year ago. The increase primarily reflected strong growth across all our business lines as well as a gain related to the Visa Inc. restructuring, partially offset by higher costs in support of business growth, increased provision for credit losses and higher credit card customer loyalty reward program costs this year. Our prior year results also included the hurricane-related charges and the receipt of a fee related to the termination of an agreement, whereas this year we included a favourable adjustment related to the reallocation of certain foreign investment capital.

Wealth Management

Net income for the year of $762 million increased $158 million, or 26%, from a year ago. The increase was largely due to strong earnings growth across all our business lines reflecting the ongoing successful execution of our growth initiatives and generally favourable market conditions. We recorded a foreign exchange translation gain on certain deposits in the current year related to the implementation of the new financial instruments accounting standards.

U.S. & International Banking

Net income decreased $19 million, or 7%, from the prior year. The decrease was largely attributable to increased provision for credit losses, primarily reflecting higher impaired loans in our U.S. residential builder finance business. This was partially offset by strong business growth in *RBC Dexia IS*, as well as higher loan and deposit growth in the U.S. reflecting the inclusion of our acquisitions of Flag and the AmSouth branches, *de novo* branch openings and business expansion. Our results also reflected higher costs in support of business growth and a loss on the restructuring of our U.S. banking investment portfolio this year.

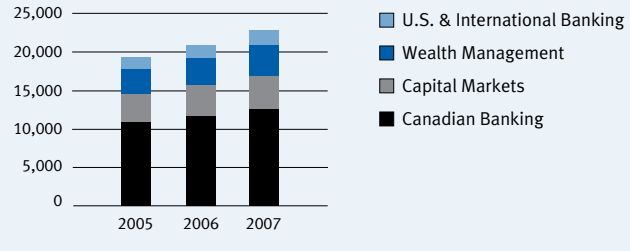
Capital Markets

Net income decreased $63 million, or 5%, compared to a year ago largely due to the writedowns on the valuation of U.S. subprime RMBS and CDOs of ABS in our Structured Credit business. The negative impact of the stronger Canadian dollar on the translated value of U.S. dollar-denominated earnings also contributed to the decrease. These factors were partially offset by broad-based revenue growth in many other businesses.

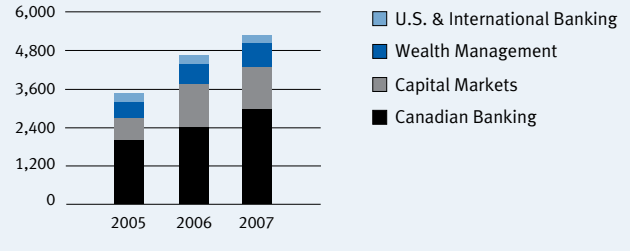
Corporate Support

Net income of $209 million for the year included income tax amounts largely related to enterprise funding activities that were not allocated to the business segments and favourable income tax settlements related to prior years. These factors were partially offset by the mark-to-market losses on derivatives relating to certain economic hedges, a cumulative adjustment for losses resulting from the fair valuing of certain derivatives that did not qualify for hedge accounting and higher capital taxes that were not allocated to the business segments.

Revenue contribution from our business segments (C$ millions)



Net income contribution from our business segments (C$ millions)



How we measure and report our business segments

Our management reporting framework is intended to measure the performance of each business segment as if it were a stand-alone business and reflect the way that business segment is managed. This approach is intended to ensure that our business segments' results reflect all relevant revenue and expenses associated with the conduct of their business and it depicts how management views those results.

The following highlights the key aspects of how our business segments are managed and reported:

- Canadian Banking reported results include securitized Canadian residential mortgage and credit card loans and related amounts for income and provision for credit losses. The securitized residential mortgage and credit card loans included as at October 31, 2007 were $19 billion and $4 billion, respectively
- Wealth Management reported results include additional disclosures in U.S. dollars for its *U.S. & International Wealth Management* business line, as we review and manage the results of this business line largely in U.S. dollars
- U.S. & International Banking reported results include additional disclosure in U.S. dollars for its *Banking* business line, as we review and manage the results of this business line largely on a U.S. dollar basis
- Capital Markets results are reported on a taxable equivalent basis (teb), which grosses up Net interest income from certain tax-advantaged sources (Canadian taxable corporate dividends) to their effective taxable equivalent value with a corresponding offset recorded in the provision for income taxes. This increases comparability between taxable and tax-advantaged sources of revenue
- Corporate Support results include all enterprise level activities that are undertaken for the benefit of the organization that are not allocated to our four business segments, such as enterprise funding, securitizations and net charges associated with unattributed capital. The reported results of the Corporate Support segment also reflect consolidation adjustments, including the elimination of the teb adjustments recorded in Capital Markets.

Key methodologies

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

Expense allocation

In order to ensure that our business segments' results include expenses associated with the conduct of their business, we allocate costs incurred or services provided by GTO and Global Functions, which are directly undertaken or provided on the business segments' behalf. For other costs not directly attributable to our business segments, including overhead costs and other indirect expenses, we use our management reporting framework for allocating these costs to each business segment in a manner that reflects the underlying benefits.

Capital attribution

Our framework also assists in the attribution of capital to our business segments in a manner that is intended to consistently measure and align economic costs with the underlying benefits and risks associated with the activities of each business segment. The amount of capital assigned to each business segment is referred to as attributed capital. Unattributed capital and associated net charges, are reported in Corporate Support.

The capital attribution methodologies, detailed in the Capital management section, involve a number of assumptions and estimates that involve judgment and are revised periodically. Any changes to these factors directly impact other measures such as business segment return on average common equity and return on average risk capital.

Funds transfer pricing

Our funds transfer pricing methodology is used to allocate interest income and expense to each business segment. This allocation considers the interest rate risk, liquidity risk and regulatory requirements of our business segments. Our business segments may retain certain interest rate exposures, subject to management approval, that would be expected in the normal course of operations. Other activities conducted between our business segments are generally conducted at market rates.

Taxable equivalent basis (teb)

Similar to many other institutions, we analyze income from certain tax-advantaged sources (Canadian taxable corporate dividends) on a taxable equivalent basis. Under this approach, we gross up revenue from certain tax-advantaged sources, which currently only includes our Canadian taxable corporate dividends recorded in Net interest income, to their effective taxable equivalent value with a corresponding offset recorded in the provision for income taxes. We record teb adjustments in Capital Markets and record elimination adjustments in Corporate Support. We believe these adjustments are useful and reflect how Capital Markets manages its business since it increases the comparability of revenue and related ratios across taxable and our principal tax-advantaged sources of revenue. The use of teb adjustments and measures may not be comparable to similar GAAP measures or similarly adjusted amounts at other financial institutions. The teb adjustment for 2007 was $332 million (2006 – $213 million, 2005 – $109 million).

Changes made in 2007

The following highlights the key changes we made to our management reporting framework and business segments during the year. All segment results have been revised accordingly for 2006 and 2005. These changes did not have an impact on our consolidated results or disclosure, unless otherwise noted.

- We revised the assets under administration – *RBC Dexia IS* amount for 2006 to reflect the total assets under administration amount reported by our joint venture. We had previously disclosed only the total assets under custody amount related to *RBC Dexia IS*.
- We revised our definitions of assets under administration and assets under management to better align them with our business-specific practices. This change did not impact the amounts reported for 2006 and 2005.
- We reclassified certain amounts reported in Capital Markets from Interest income to Interest expense. There was no impact to Net interest income as a result of this reclassification.
- We reclassified certain amounts reported in Corporate Support related to interest settlements on swaps in fair value hedge relationships from Non-interest income to Net interest income. This reclassification did not impact results for 2006 and 2005.
- We reclassified certain deposits reported in Capital Markets and U.S. & International Banking related to *RBC Dexia IS*, in accordance with the Q2 2007 business segment realignment.
- We reclassified expenses related to internally developed software from Non-interest expense – Other to more specific Non-interest expense lines. All related comparative amounts were updated to reflect this reclassification, which impacted the Corporate Support segment only and had no impact on total Non-interest expense.
- Certain amounts related to trustee services within Canadian Banking were reclassified from Non-interest income – Investment management and custodial fees to Net interest income to better reflect their nature.

Impact of foreign exchange rates on our business segments

The translated value of our business segment results is impacted by fluctuations in the respective exchange rates relative to the Canadian dollar. Wealth Management, U.S. & International Banking and Capital Markets each have significant U.S. dollar-denominated operations, while U.S. & International Banking has material Euro-denominated results related to *RBC Dexia IS*, and Capital Markets has significant British pound-denominated operations.

In 2007, the Canadian dollar appreciated 4% on average relative to the U.S. dollar and depreciated 5% on average relative to both the British pound and Euro compared to a year ago. As a result of the impact of the changes in the respective exchange rates from last year, Wealth Management net income was down $9 million, U.S. & International Banking net income was up $4 million, while Capital Markets net income was down $30 million. For further discussion, refer to the applicable business segment results section.

Key performance and non-GAAP measures

Key performance measures

Return on equity and Return on risk capital

We measure and evaluate the performance of our consolidated operations and each business segment using a number of financial metrics such as net income, return on average common equity (ROE) and return on average risk capital (RORC). We use ROE and RORC as a measure of return on total capital invested in our businesses. RORC does not have a standardized meaning under GAAP and may not be comparable to similar measures used by other financial institutions.

Our consolidated ROE calculation is based on net income available to common shareholders divided by total average common equity for the period. Business segment ROE calculations are based on annualized segment net income available to common shareholders divided by average attributed capital for the period. For each segment, average attributed capital is based on attributed risk capital and amounts invested in goodwill and intangibles (1).

The attribution of capital involves the use of assumptions, judgments and methodologies that are regularly reviewed and revised by management as necessary. The attribution of risk capital is based on certain assumptions, judgments and models that quantify economic risks as described in the Economic Capital section. Changes to such assumptions, judgments and methodologies can have a material effect on the segment ROE and RORC information that we report. Other companies that disclose information on similar attributions and related return measures may use different assumptions, judgments and methodologies.

RORC is used to measure returns on capital required to support the risks related to ongoing operations. Our RORC calculations are based on net income available to common shareholders divided by attributed risk capital (which excludes goodwill and intangibles and unattributed capital). The business segment ROE and RORC measures are viewed as useful measures by management for supporting investment and resource allocation decisions because they adjust for certain items that may affect comparability between business segments and certain competitors. The following table provides a summary of the ROE and RORC calculations.

(1) For internal allocation and measurement purposes, total attributed capital is deemed by management to comprise amounts necessary to support the risks inherent in the businesses (risk capital) and amounts related to historical investments (goodwill and intangibles). Total risk capital and goodwill and intangibles are referred to as Attributed capital as well as Economic Capital. The difference between total average common equity and average attributed capital is classified as Unattributed capital and reported in Corporate Support for segment reporting purposes.

Calculation of Return on equity and Return on risk capital — Table 17

	2007						2006	2005
(C$ millions, except for percentage amounts) (1), (2)	Canadian Banking	Wealth Management	U.S. & International Banking	Capital Markets	Corporate Support	Total	Total	Total
Net income available to common shareholders	$ 2,953	$ 753	$ 228	$ 1,272	$ 198	$ 5,404	$ 4,668	$ 3,349
Average risk capital (2)	$ 6,500	$ 1,150	$ 1,950	$ 3,900	$ 950	$ 14,450	$ 12,750	$ 11,450
Add: Unattributed capital	–	–	–	–	2,000	2,000	2,500	2,300
Goodwill and intangible capital	2,100	1,150	1,400	900	–	5,550	4,650	4,850
Average equity (3)	$ 8,600	$ 2,300	$ 3,350	$ 4,800	$ 2,950	$ 22,000	$ 19,900	$ 18,600
Return on equity (ROE)	34.3%	32.4%	6.9%	26.6%	6.7%	24.6%	23.5%	18.0%
Return on risk capital (RORC)	45.5%	65.1%	11.7%	32.5%	n.m.	37.4%	36.7%	29.3%

(1) Average risk capital, Goodwill and intangible capital, and Average equity represent rounded figures. These amounts are calculated using methods intended to approximate the average of the daily balances for the period. ROE and RORC measures are based on actual balances before rounding.
(2) Average risk capital includes Credit, Market (trading and non-trading), Insurance, Operational and Business and fixed assets risk capital. For further details refer to the Capital management section.
(3) The amounts for the segments are also referred to as attributed capital.
n.m. not meaningful

Non-GAAP measures

Given the nature and purpose of our management reporting framework, we use certain non-GAAP financial measures, which are not defined nor do they have standardized meaning under GAAP. Hence these reported amounts and related ratios are not necessarily comparable with similar information reported by other financial institutions.

2007 Defined operating leverage

Our defined operating leverage refers to the difference between our revenue growth rate (as adjusted) and non-interest expense growth rate (as adjusted). Revenue is presented on a taxable equivalent basis, while the impact of consolidated VIEs is excluded, as they have no material impact on our earnings. Accounting adjustments related to the new financial instruments accounting standards are also excluded from revenue as they give rise to volatility, primarily relating to unrealized gains and losses arising from fair valuing of the instruments and are not viewed as a measure of economic performance. Global Insurance results are excluded, as certain changes in revenue can be largely offset in Insurance policyholder benefits, claims and acquisition expense, which is not captured in our defined operating leverage calculation.

The following table shows the defined operating leverage ratio calculation.

2007 Defined operating leverage — Table 18

(C$ millions, except percentage amounts)	2007	2006	Change
Total revenue	$ 22,462	$ 20,637	
Add: teb adjustment	332	213	
Less: Revenue related to VIEs	31	(7)	
Less: Global Insurance revenue	3,192	3,348	
Less: Impact of the new financial instruments accounting standards (1)	83	–	
Total revenue (adjusted)	$ 19,488	$ 17,509	11.3%
Non-interest expense	$ 12,473	$ 11,495	
Less: Global Insurance-related non-interest expense	537	517	
Non-interest expense (adjusted)	$ 11,936	$ 10,978	8.7%
Defined operating leverage			2.6%

(1) Excludes the impact of the new financial instruments accounting standards related to Global Insurance.

Consolidated revenue and Insurance-related results excluding the impact of the new financial instruments accounting standards and hurricane-related charges

In 2007 and 2006, there were certain items that impacted Total consolidated revenue, Global Insurance and Insurance-related results. Management believes that identifying and adjusting for these items enhances the comparability of our results, and enables a more meaningful comparison of our financial performance with certain other financial institutions that make similar adjustments.

The following table provides a reconciliation of consolidated revenue, Global Insurance and Insurance-related results excluding the impacts of the new financial instruments accounting standards and the hurricane-related charges.

Consolidated revenue, Global Insurance and Insurance-related results excluding the noted items — Table 19

	October 31, 2007				October 31, 2006			
(C$ millions)	Consolidated revenue (1)	Global Insurance revenue (2)	Insurance premiums, investment and fee income (1)	Insurance policyholder benefits, claims and acquisition expense (1)	Consolidated revenue (1)	Global Insurance revenue (2)	Insurance premiums, investment and fee income (1)	Insurance policyholder benefits, claims and acquisition expense (1)
GAAP reported amounts	$ 22,462	$ 3,192	$ 3,152	$ 2,173	$ 20,637	$ 3,348	$ 3,348	$ 2,509
Exclude: Impact of the new financial instruments accounting standards	77	160	160	154	–	–	–	–
Hurricane-related charges	–	–	–	–	–	–	–	(61)
Amounts excluding the noted items	$ 22,539	$ 3,352	$ 3,312	$ 2,327	$ 20,637	$ 3,348	$ 3,348	$ 2,448

(1) For further details, refer to the Financial performance section.
(2) For further details, refer to the Canadian Banking section.

Canadian Banking

Canadian Banking comprises our domestic personal and business banking operations, certain retail investment businesses and our global insurance operations. This segment includes *Personal Financial Services*, *Business Financial Services*, *Cards and Payment Solutions*, and *Global Insurance*.

Canadian Banking provides a broad suite of financial products and services to over 14 million individual and business clients through our extensive branch, automated teller machine (ATM), online and telephone banking networks, as well as through a large number of proprietary sales professionals in addition to a wide-ranging third-party network of independent insurance distributors.

We have top rankings in market share for most retail product categories and are the largest Canadian bank-owned insurer.

Highlights

- We launched new and innovative products to better serve our clients through the introduction of a new personal banking suite that includes several client-centric features, such as multi-product rebates, and a new high-interest online savings account.
- We strengthened our leading market position in personal lending, driven by 12% growth in residential mortgages.
- We continued to expand and upgrade our distribution network. We opened 30 bank branches and 12 insurance offices in Canada during the year.

Economic and market review

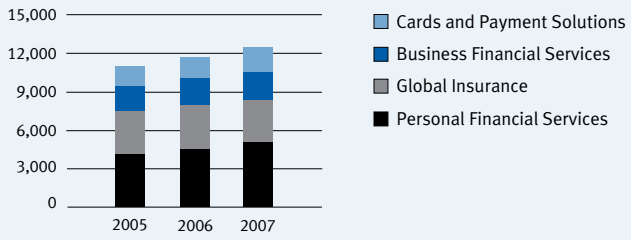
In Canada, strong economic growth, in part reflecting solid consumer and business spending in the early part of the year, weakened moderately in the latter part of the year, primarily due to slowing U.S. demand and a tightening of credit conditions as a result of the U.S. subprime mortgage market concerns. Nonetheless, robust domestic demand, largely underpinned by favourable labour market conditions, solid business investment and continued strong Canadian housing market activities, contributed to volume growth in all our businesses, particularly in the home equity lending and retail investment businesses. Competition in the personal deposits market remained strong from both traditional and niche financial institutions.

Canadian Banking financial highlights — Table 20

(C$ millions, except number of and percentage amounts)	2007	2006	2005
Net interest income	$ 6,353	$ 5,816	$ 5,233
Non-interest income	6,168	5,880	5,765
Total revenue	$ 12,521	$ 11,696	$ 10,998
Non-interest expense	5,285	5,027	4,830
Provision for credit losses (PCL)	788	604	542
Insurance policyholder benefits, claims and acquisition expense	2,173	2,509	2,625
Net income before income taxes and non-controlling interest in subsidiaries	$ 4,275	$ 3,556	$ 2,994
Net income	$ 2,987	$ 2,426	$ 2,007
Key ratios			
Return on equity (1)	34.3%	30.1%	26.3%
Return on risk capital (1)	45.5%	39.9%	36.3%
Net interest margin (2)	3.17%	3.22%	3.21%
Operating leverage (Banking-related operations) (3)	6.5%	4.4%	5.8%
Selected average balance sheet information (4)			
Total assets (5)	$ 220,000	$ 199,200	$ 181,100
Total earning assets (5)	200,400	180,500	163,200
Loans and acceptances (5)	200,000	179,700	160,700
Deposits	147,100	139,200	132,500
Attributed capital (1)	8,600	8,000	7,550
Risk capital (1)	6,500	6,050	5,450
Other information			
Assets under administration	$ 53,300	$ 44,600	$ 33,900
Number of employees (full-time equivalent)	25,813	24,828	23,794
Credit information			
Gross impaired loans as a percentage of average net loans and acceptances	.35%	.33%	.31%
Specific PCL as a percentage of average net loans and acceptances	.39%	.34%	.34%
Banking-related operations (6)			
Total revenue	$ 9,329	$ 8,348	$ 7,687
Provision for credit losses	788	604	542
Non-interest expense	4,748	4,510	4,329
Net income	2,545	2,124	1,852
Global insurance			
Total revenue	$ 3,192	$ 3,348	$ 3,311
Insurance policyholder benefits, claims and acquisition expense	2,173	2,509	2,625
Non-interest expense	537	517	501
Net income	442	302	155

(1) Segment Return on equity, Average risk capital and Return on risk capital are key performance measures. Average attributed capital and Return on equity are calculated using methods intended to approximate the average of the daily balances for the period. For further discussion, refer to the Key performance and non-GAAP measures section.
(2) Net interest margin (NIM) is calculated as Net interest income divided by Average total earning assets. Average total earning assets are calculated using methods intended to approximate the average earning asset balances for the period.
(3) Defined as the difference between revenue growth rate and non-interest expense growth rate for Banking-related operations.
(4) Average amounts are calculated using methods intended to approximate the average of the daily balances for the period.
(5) Total assets, Total earning assets, and Loans and acceptances include average securitized residential mortgage and credit card loans for the year of $19 billion and $4 billion, respectively (2006 – $15 billion and $4 billion; 2005 – $11 billion and $4 billion).
(6) The banking-related operations of Canadian Banking comprise *Personal Financial Services*, *Business Financial Services*, and *Cards and Payment Solutions*.

Revenue by business line (C$ millions)



Financial performance

2007 vs. 2006

Net income increased $561 million, or 23%, from a year ago. The increase primarily reflected strong growth across all our business lines as well as a $326 million ($269 million after-tax) gain related to the Visa Inc. restructuring, partially offset by higher costs in support of business growth, increased provision for credit losses and higher credit card customer loyalty reward program costs, reflecting a $121 million ($79 million after-tax) liability adjustment this year as compared to $72 million ($47 million after-tax) in the prior year. Our prior year results also included the hurricane-related charges, and the receipt of a fee related to the termination of an agreement, whereas this year we included a favourable adjustment related to the reallocation of certain foreign investment capital.

Average assets increased $21 billion, or 10%, over the prior year. The increase was largely attributable to strong loan growth, underpinned by our successful execution of growth initiatives, robust domestic demand and continued solid Canadian housing market activities. Average deposits were up $8 billion, or 6%, from a year ago, mainly due to growth in business deposits reflecting high liquidity within Canadian businesses.

Banking-related operations

Banking-related operations net income was up $421 million, or 20%, compared to the prior year. The increase was primarily due to solid growth across all business lines and a gain related to the Visa Inc. restructuring. These factors were partially offset by higher costs in support of business growth, increased provision for credit losses, the receipt of a fee related to the termination of an agreement in the prior year, and higher credit card customer loyalty reward program costs this year.

Total revenue was up $981 million, or 12%, over the prior year. The increase was largely attributable to strong volume growth across all business lines and the gain related to the Visa Inc. restructuring. These factors were partly offset by the receipt of a fee related to the termination of an agreement in the prior year and higher credit card customer loyalty reward program costs this year.

Net interest margin decreased 5 bps from a year ago, primarily reflecting the impact of changes in our product mix.

Non-interest expense increased $238 million, or 5%, compared to a year ago. The increase was largely attributable to higher costs in support of business growth, including a 4% increase in sales and service personnel, or approximately 900 staff, and *de novo* branch expansion, as well as higher costs associated with system development, professional fees and sundry losses.

Provision for credit losses increased $184 million, or 30%, from last year, which had been at a cyclically low level, and has trended up towards the historical average this year. The increase was mainly attributable to higher provisions in our business, credit card and personal loan portfolios, reflecting higher loss rates and portfolio growth.

Global Insurance

Global Insurance net income increased $140 million, or 46%, compared to the prior year. The increase was primarily related to the property catastrophe reinsurance business, reflecting the hurricane-related charges in the prior year, and a favourable adjustment related to the reallocation of certain foreign investment capital this year, which was partially offset by lower income from this business as we exited this business completely this year. A higher level of favourable net actuarial liability adjustments and solid growth in our European life reinsurance business also contributed to the increase. For a detailed discussion regarding Insurance policyholder benefits, claims and acquisition expense, refer to the Global Insurance business line discussion.

2006 vs. 2005

Net income increased $419 million, or 21%, from 2005. The increase primarily reflected solid revenue growth in our banking businesses and lower hurricane-related charges in 2006. These factors were partially offset by increased costs in support of business growth and higher provision for credit losses partly due to loan growth and lower recoveries.

Banking-related operations

Banking-related operations net income increased $272 million, or 15%, from 2005, largely reflecting solid revenue growth across all business lines. The increase in net income was partly offset by increased costs in support of business growth and higher provision for credit losses.

Total revenue increased $661 million, or 9%, from 2005. The increase was mainly due to strong volume growth across all business lines, and improved deposit and investment spreads, underpinned by our successful execution of growth initiatives and favourable economic conditions.

Net interest margin increased 1 bp compared to 2005, primarily reflecting improved spreads on deposits and investment products.

Non-interest expense increased $181 million, or 4%, primarily due to higher levels of sales and service personnel and infrastructure costs in our distribution network and increased marketing costs in support of business growth.

Provision for credit losses increased $62 million, or 11%, largely reflecting higher provisions in our personal loan portfolio and lower recoveries in our agriculture loan portfolio in 2006. In 2005, we included our 50% proportionate share of a provision recorded at Moneris.

Global Insurance

Global Insurance net income increased $147 million compared to 2005, largely reflecting a $142 million reduction in hurricane-related charges in 2006. In addition, business growth associated with Canadian life business and European life reinsurance business, as well as improved claims experience in our Canadian property and casualty business contributed to the increase. These factors were partially offset by lower revenue from property catastrophe reinsurance business reflecting our strategic reduction in exposure. For a detailed discussion regarding Insurance-related revenue and Insurance policyholder benefits, claims and acquisition expense, refer to the Financial performance section.

2008 Outlook and priorities

Canadian economic growth is expected to weaken in 2008 due to tighter credit conditions, though credit growth should continue to be supported by rising domestic demand amid expanding labour markets and solid business investment. We will remain focused on new client acquisition and growth in high-value markets, simplifying processes as well as augmenting our strengths in distribution capabilities, product breadth and integration, and client analytics to provide superior client service.

Key strategic priorities for 2008

- Deliver a superior client experience to help clients achieve financial success, allowing us to retain and grow their business.
- Continue to improve our processes and revise our business models to make it easier for our clients to do business with us.
- Focus on delivering relevant advice and solutions to attract new clients in specific markets, geographies and life stages.

Personal Financial Services

Personal Financial Services focuses on meeting the needs of our individual clients at every stage of their lives through a wide range of lending and investment products and services, including home equity financing, lines of credit, personal loans, savings and chequing accounts, guaranteed investment certificates (GICs), mutual funds and self-directed brokerage accounts. We have the largest retail banking network in Canada with 1,146 branches and 3,946 ATMs. In addition, we have more than 75 private bankers and 1,700 sales specialists. We also rank first or second in market share for most personal banking products.

Financial performance

Total revenue increased $461 million, or 10%, over the prior year. The increase largely reflected strong volume growth in home equity lending and retail investments, and improved spreads across most products. Higher mutual fund distribution fees, reflecting a 18% growth in mutual fund balances as a result of strong net sales and capital appreciation also contributed to the increase.

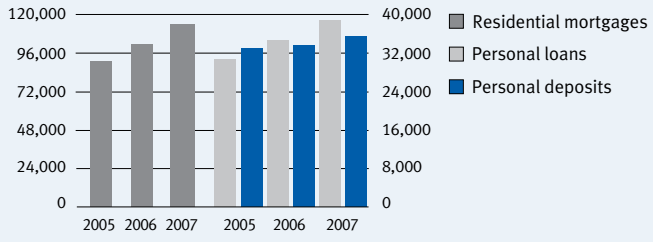
Average residential mortgage balances and personal loans were each up by 12% over the prior year, supported by relatively low interest rates in a historical context, strong labour market conditions and continued solid Canadian housing market activities. Average personal deposit balances increased 6% from a year ago, notwithstanding an increasingly competitive market, in part driven by the success of our recently launched high-interest online savings account.

Selected highlights — Table 21

(C$ millions)	2007	2006	2005
Total revenue	$ 5,082	$ 4,621	$ 4,181
Other information			
Residential mortgages (1)	113,200	100,800	89,700
Personal loans (1)	38,700	34,600	30,500
Personal deposits (1)	35,500	33,600	32,900
Personal GICs (1)	57,900	57,000	57,200
Branch mutual fund balances	66,900	56,500	46,600
AUA – Self-directed brokerage	28,300	23,200	19,800
New accounts opened (thousands) (2)	1,066	769	740
Number of:			
Branches	1,146	1,117	1,104
Automated teller machines	3,946	3,847	3,906

(1) Average amounts are calculated using methods intended to approximate the average of the daily balances for the period.
(2) Deposit accounts only.

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



Business Financial Services

Business Financial Services offers a wide range of lending, leasing, deposit, investment and transaction products and services to small and medium-sized businesses, commercial, farming and agriculture clients across Canada. We also provide trade-related products and services to Canadian and international clients to assist them in the conduct of their import and export operations domestically and around the globe. Our extensive business banking network includes approximately 100 business banking centres and 2,000 business account managers, and our strong commitment to our clients has resulted in leading market share in business loans and deposits.

Financial performance

Total revenue increased $160 million, or 7%, over the prior year. The increase was largely attributable to solid growth in business loans and deposits, partially offset by lower spreads on deposits.

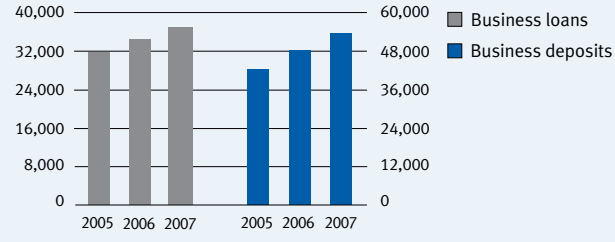
Average business loans grew by 7% and average business deposits increased 10%, primarily driven by continued solid business spending and high liquidity within Canadian businesses.

Selected highlights — Table 22

(C$ millions)	2007	2006	2005
Total revenue	$ 2,301	$ 2,141	$ 2,011
Other information (average) (1)			
Business loans (2)	36,900	34,400	31,700
Business deposits (3)	53,700	48,600	42,400

(1) Average amounts are calculated using methods intended to approximate the average of the daily balances for the period.
(2) Includes small business loans treated as retail and wholesale loans.
(3) Includes GIC balances.

Average business loans and deposits (C$ millions)



Cards and Payment Solutions

Cards and Payment Solutions provides a wide array of convenient and customized credit cards and related payment products and solutions. In addition, this business line includes our 50% interest in Moneris, the merchant card processing joint venture with the Bank of Montreal.

We have over 5 million credit card accounts and have an approximately 20% market share of Canada's credit card purchase volume.

Financial performance

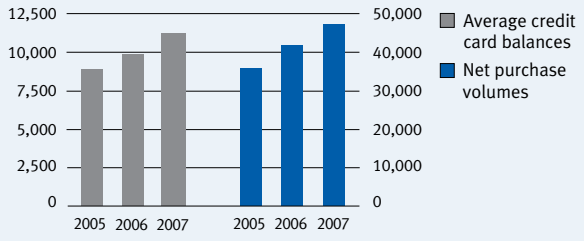
Total revenue increased $360 million, or 23%, compared to the prior year. The increase largely reflected a $326 million ($269 million after-tax) gain related to the Visa Inc. restructuring. Continued solid growth in credit card balances and transaction volumes also contributed to the increase. These factors were partially offset by the receipt of a fee related to the termination of an agreement in the prior year, as well as higher credit card customer loyalty reward program costs this year.

Selected highlights — Table 23

(C$ millions)	2007	2006	2005
Total revenue	$ 1,946	$ 1,586	$ 1,495
Other information			
Average credit card balances (1)	11,200	9,900	8,800
Net purchase volumes	47,200	41,500	36,100

(1) Average amounts are calculated using methods intended to approximate the average of the daily balances for the period.

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



Global Insurance

Global Insurance offers a wide range of life, creditor, health, travel, home and auto insurance products and services to individual and business clients in Canada and the U.S., as well as reinsurance for clients around the world. These products and services are offered through a wide variety of distribution channels, including telephone, independent brokers, travel agents, career sales force, Internet and retail insurance offices.

We are the largest Canadian bank-owned insurer, with products distributed through more than 17,000 independent brokers and more than 650 career sales representatives in North America. Our Canadian insurance business holds lead positions in creditor, travel and individual living benefits insurance products, and has a significant presence in life, home and auto insurance. We are a preferred provider of protection, asset accumulation and retirement solutions in the U.S.

Financial performance

Global Insurance net income increased $140 million, or 46%, compared to the prior year. The increase was primarily related to the property catastrophe reinsurance business, reflecting the hurricane-related charges in the prior year, and a favourable adjustment related to the reallocation of certain foreign investment capital this year, which was partially offset by lower income from this business as we exited this business completely this year. A higher level of favourable net actuarial liability adjustments and solid growth in our European life reinsurance business also contributed to the increase.

Total revenue decreased $156 million, or 5%, from a year ago. Excluding the impact of the new financial instruments accounting standards, total revenue increased $4 million from the prior year. The increase was largely attributable to growth in our European life reinsurance and Canadian businesses, and a favourable adjustment related to the reallocation of certain foreign investment capital this year. These factors were largely offset by lower U.S. annuity sales mainly due to lower long-term interest rates and lower revenue from our property catastrophe reinsurance operations, which we exited completely this year. For a reconciliation of Global Insurance revenue excluding the impact of the new financial instruments accounting standards, refer to the Key performance and non-GAAP measures section.

Gross insurance premiums and deposits were up $54 million, or 2%, primarily reflecting new sales growth and stronger client retention, partially offset by a decline in U.S. annuity sales.

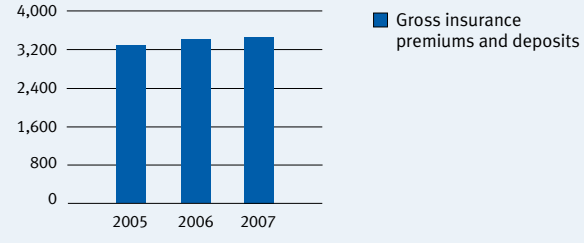
Non-interest expense was up $20 million, or 4%, from a year ago, primarily reflecting higher project-related spending and other costs in support of business growth.

Insurance policyholder benefits, claims and acquisition expense (PBCAE) decreased $336 million, or 13%, from the prior year. Excluding the impact of the new financial instruments accounting standards and the prior year hurricane-related charges, PBCAE decreased $121 million, or 5%, over last year. The decrease was largely attributable to the impact of lower U.S. annuity sales and a higher level of favourable net actuarial liability adjustments this year, which included cumulative valuation adjustments of $92 million relating to prior periods. These factors were partially offset by increased costs commensurate with growth in our European life reinsurance and Canadian businesses. For a reconciliation of PBCAE excluding the

Selected highlights — Table 24

(C$ millions)	2007	2006	2005
Total revenue	$ 3,192	$ 3,348	$ 3,311
Non-interest expense	537	517	501
Insurance policyholder benefits, claims and acquisition expense	2,173	2,509	2,625
Net income	442	302	155
Other information			
Gross insurance premiums and deposits	3,460	3,406	3,288
Insurance claims and policy benefit liabilities	7,283	7,337	7,117

Gross insurance premiums and deposits (C$ millions)



impact of the new financial instruments accounting standards, refer to the Key performance and non-GAAP measures section.

Insurance claims and policy benefit liabilities decreased $54 million, or 1%, over the prior year. The decrease primarily reflected the impact of a stronger Canadian dollar on the translated value of our U.S. dollar-denominated liabilities, lower property catastrophe reinsurance liabilities, net payments of claims related to hurricanes, and a net decrease in life and health insurance liabilities reflecting changes to actuarial assumptions and model enhancements. These factors were largely offset by increased costs commensurate with business growth and the impact of the new financial instruments accounting standards.

Wealth Management

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

Highlights

- Wealth Management was created in February 2007 to focus on extending our leadership position in Canada and aggressively growing in the U.S. and international markets.
- The fastest growing segment in Canadian wealth management continues to be high net worth clients (households with more than $1 million in investable assets).
- Our Canadian full-service brokerage business was the first in the Canadian industry to surpass $150 billion in client assets under administration.
- We led the Canadian mutual fund industry in net sales of long-term funds for the 16th consecutive calendar quarter.
- We continued to grow our U.S. full-service brokerage business through the acquisition of J.B. Hanauer & Co. (J.B. Hanauer).
- We established international wealth management offices in several cities, including Mexico City, Beijing and Santiago.

Economic and market review

In 2007, economic growth was solid, underpinned by a relatively favourable interest rate environment, strong employment levels and higher wages, and a solid yet moderating housing market, which contributed to increased demand for wealth management products. The generally favourable capital market conditions during the year continued to support the growth of our wealth management business. Economic growth weakened moderately in the latter part of the year mainly attributable to slowing U.S. demand, and a tightening of credit conditions as a result of the U.S. subprime mortgage market concerns.

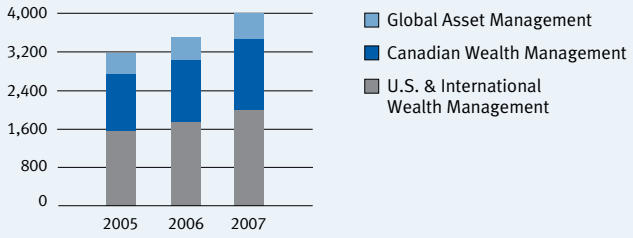
Wealth Management financial highlights — Table 25

(C$ millions, except number of and percentage amounts)	2007	2006	2005
Net interest income	$ 427	$ 397	$ 374
Non-interest income			
Fee-based revenue	2,109	1,745	1,458
Transactional and other revenue	1,456	1,345	1,319
Total revenue	$ 3,992	$ 3,487	$ 3,151
Non-interest expense	2,902	2,613	2,440
Provision for credit losses (PCL)	1	1	2
Net income before income taxes and non-controlling interest in subsidiaries	$ 1,089	$ 872	$ 708
Net income	$ 762	$ 604	$ 502
Key ratios			
Return on equity (1)	32.4%	27.8%	24.5%
Return on risk capital	65.1%	59.3%	54.8%
Pre-tax margin	27.3%	25.0%	22.5%
Selected average balance sheet information (2)			
Total assets	$ 16,600	$ 15,100	$ 13,200
Loans and acceptances	4,600	4,400	4,100
Deposits	24,900	22,100	20,700
Attributed capital (1)	2,300	2,150	2,050
Risk capital (1)	1,150	1,050	900
Other information			
Revenue per advisor (000s) (3)	$ 784	$ 694	$ 687
Assets under administration	488,500	476,500	380,700
Assets under management	161,200	142,800	118,500
Number of employees (full-time equivalent)	10,382	9,667	8,791
Number of advisors (3)	3,118	3,001	2,934

	For the year ended
Impact of US$ translation on selected items	2007 vs. 2006
Reduced total revenue	$ 61
Reduced non-interest expense	49
Reduced net income	9
Percentage change in average US$ equivalent of C$1.00 (4)	4%

(1) Segment Return on equity, Average risk capital and Return on risk capital are key performance measures. Average attributed capital and Return on equity are calculated using methods intended to approximate the average of the daily balances for the period. For further discussion, refer to the Key performance and non-GAAP measures section.
(2) Average amounts are calculated using methods intended to approximate the average of the daily balances for the period.
(3) Includes investment advisors and financial consultants of our Canadian and U.S. full-service brokerage businesses.
(4) Average amounts are calculated using month-end spot rates for the year.

Revenue by business line (C$ millions)



Financial performance

2007 vs. 2006

Net income for the year of $762 million increased $158 million, or 26%, from a year ago. The increase was largely due to strong earnings growth across all our business lines reflecting the ongoing successful execution of our growth initiatives and generally favourable market conditions. We recorded a $35 million ($28 million after-tax) foreign exchange translation gain on certain deposits in the current year related to the implementation of the new financial instruments accounting standards.

Total revenue increased $505 million, or 14%, over the prior year, largely due to strong growth in fee-based client assets across all business lines, reflecting new sales, capital appreciation and the recruitment and retention of experienced advisors. A foreign exchange translation gain on certain deposits, the inclusion of our J.B. Hanauer acquisition, solid loan and deposit growth in our international wealth management business, and higher transactional volumes in our brokerage businesses reflecting generally favourable market conditions throughout the early part of the year also contributed to the increase. These factors were partially offset by the negative impact of the stronger Canadian dollar on the translated value of U.S. dollar-denominated revenue.

Non-interest expense was up $289 million, or 11%, mainly as a result of higher variable compensation commensurate with higher commission-based revenue, higher staffing levels and other costs in support of business growth, including our acquisition of J.B. Hanauer. These factors were partially offset by the favourable impact of the stronger Canadian dollar on the translated value of U.S. dollar-denominated expenses.

2006 vs. 2005

Net income increased $102 million, or 20%, compared to 2005. The increase primarily reflected strong earnings growth across all our business lines and generally favourable market conditions. This increase was partially offset by higher variable compensation due to higher commission-based revenue, higher staffing costs and increased costs in support of business growth, including our acquisition of Abacus Financial Services Group Limited.

Total revenue increased $336 million, or 11%, compared to 2005, largely due to strong growth in fee-based client assets reflecting new sales and capital appreciation, and the inclusion of our Abacus acquisition. These factors were partially offset by lower client transaction volumes in our brokerage businesses.

Non-interest expense increased $173 million, or 7%, compared to 2005. The increase was primarily due to higher variable compensation commensurate with higher commission-based revenue, the inclusion of our Abacus acquisition and higher staffing levels.

2008 Outlook and priorities

The Canadian economic and business environment is expected to weaken slightly although business growth should continue to be supported by generally favourable capital market conditions. In the U.S., we anticipate that financial market volatility will persist into early 2008, but economic growth will reaccelerate in the latter part of 2008. Growth in other global economies is expected to ease moderately in 2008. This economic environment and the successful execution of our strategic priorities are anticipated to fuel our growth.

Key strategic priorities for 2008

- Continue extending our lead in the Canadian wealth and asset management markets.
- Pursue strong organic and acquisition growth in our U.S. wealth management businesses that serve individual clients and advisors.
- Continue expanding our high net worth international wealth management business in select markets as well as through bolt-on acquisitions to complement our existing operations.
- Focus on expanding our asset management business globally, initially through acquisitions with a focus on U.S. opportunities.
- Work to continue attracting and retaining experienced advisors, private bankers and other client-facing professionals across all our businesses.

Business line review

Canadian Wealth Management

Canadian Wealth Management includes the market leader in full-service brokerage in Canada, with over 1,300 investment advisors, providing advisor-based comprehensive financial solutions. Additionally, we provide discretionary investment management and trust services to high net worth clients, offering a relationship approach for clients in need of sophisticated financial solutions. In these businesses, there are more than 28 investment counsellors and 125 trust professionals in locations across the country.

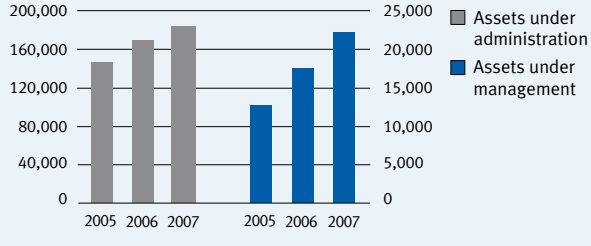
Financial performance

Revenue increased $170 million, or 13%, over the prior year, mostly due to strong growth in fee-based client assets reflecting higher net sales, capital appreciation and the recruitment and retention of experienced advisors. Higher transactional volumes in our brokerage business reflecting generally favourable market conditions also contributed to the increase.

Selected highlights — Table 26

(C$ millions)	2007	2006	2005
Total revenue	$ 1,460	$ 1,290	$ 1,164
Other information			
Assets under administration	183,000	168,600	146,400
Assets under management	22,200	17,500	12,700
Total assets under fee-based programs	83,300	70,200	56,500

Average assets under administration and management (C$ millions)



U.S. & International Wealth Management

U.S. & International Wealth Management consists of our retail brokerage business, which is one of the largest full-service firms in the U.S. with over 1,770 financial consultants. We also have a clearing and execution services business that serves small to mid-sized independent broker-dealers and institutions. Internationally, we provide customized banking, credit, investment and trust solutions to high net worth private clients through 2,300 employees across a network of 34 offices located in 20 countries around the world.

Financial performance

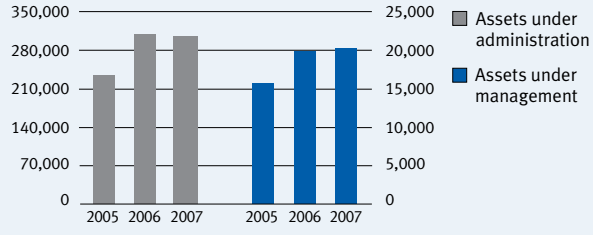
Revenue increased $256 million, or 15%, over the prior year. In U.S. dollars, revenue increased $293 million, or 19%, largely as a result of solid growth in fee-based client assets, higher transaction volumes in our U.S. brokerage business reflecting generally favourable market conditions throughout the early part of the year, and a foreign exchange translation gain on certain deposits. The inclusion of our J.B. Hanauer acquisition and solid loan and deposit growth in our international wealth management business also contributed to the increase.

Selected highlights — Table 27

(C$ millions)	2007	2006	2005
Total revenue	$ 1,988	$ 1,732	$ 1,580
Other information			
Total loans, guarantees and letters of credit (1), (2)	5,500	4,500	3,900
Total deposits (1), (2)	17,900	15,100	13,900
Assets under administration	305,500	307,900	234,300
Assets under management	20,200	19,700	15,600
Total assets under fee-based programs (3)	26,600	26,400	20,700
Other information (US$ millions)			
Total revenue	1,826	1,533	1,305

(1) Represents amounts related to our international wealth management businesses.
(2) Represents an average amount, which is calculated using methods intended to approximate the average of the daily balances for the period.
(3) Represents amounts related to our U.S. wealth management businesses.

Average assets under administration and management (C$ millions)



Global Asset Management

Global Asset Management is responsible for our proprietary asset management business in Canada and the U.S. In Canada, we provide a broad range of investment management services through mutual funds, pooled funds and separately managed portfolios. We distribute our investment solutions through a broad network of our bank branches, our discount and full-service brokers, independent advisors and direct-to-consumer. We are the largest single fund company and one of the largest money managers in Canada. In the U.S., we provide investment services to both retail and institutional clients through mutual funds, fee-based accounts and separately managed portfolios.

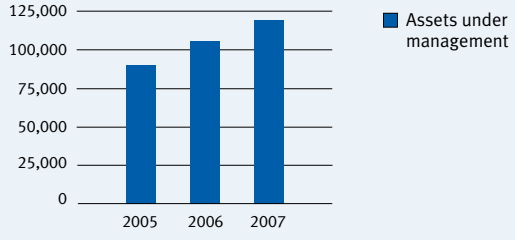
Financial performance

Revenue increased $79 million, or 17%, over the prior year, mainly reflecting strong growth in Canadian assets under management due to solid net long-term and money market mutual fund sales and capital appreciation.

Selected highlights — Table 28

(C$ millions)	2007	2006	2005
Total revenue	$ 544	$ 465	$ 407
Other information			
Canadian net long-term mutual fund sales	6,200	5,400	5,600
Assets under management	118,800	105,600	90,200

Average assets under management (C$ millions)



U.S. & International Banking

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

All of our businesses leverage the global resources of RBC, while drawing upon the knowledge and expertise of our local professionals to deliver customized solutions to our clients. We differentiate ourselves in each of our highly competitive marketplaces by tailoring solutions to meet our clients' specific needs and building strong, long-lasting relationships by consistently delivering high-quality service.

Highlights

- We continued to expand our banking footprint in key growth areas in the U.S. Southeast through targeted acquisitions and *de novo* branch openings. We acquired 39 AmSouth Bank branches (AmSouth branches) in Alabama and added 17 branches in Georgia when we acquired Flag Financial Corporation (Flag).
- We realized a 12% (17% in Euros) growth in assets under administration with RBC Dexia IS, underpinned by both new and existing client growth.
- We added a real estate lending team to our Caribbean operations, giving us the expertise to better serve clients across the region. In addition, we formed a small business unit to serve this growing client segment.

Economic and market review

The solid U.S. economic growth in the middle of the year, primarily supported by continued non-residential investment, strong export growth and consumer spending, slowed in the latter part of the year. The weakening economic conditions largely reflected the ongoing housing market correction, a tightening of credit conditions and increased funding costs arising from the U.S. subprime mortgage market concerns. This resulted in a general weakening in credit quality of residential real estate-related loans. Internationally, economic conditions in the Caribbean remained strong, although strong competition in the deposits market also tempered business growth. Solid economic conditions in Canada and the fast-growing asset management industry in Europe continued to support our global custody business growth.

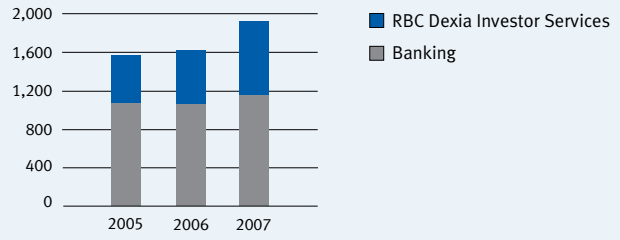
U.S. & International Banking financial highlights — Table 29

(C$ millions, except percentage amounts)	2007	2006	2005
Net interest income	$ 1,031	$ 940	$ 923
Non-interest income	884	688	654
Total revenue	$ 1,915	$ 1,628	$ 1,577
Non-interest expense	1,481	1,216	1,136
Provision for credit losses (PCL)	109	25	49
Net income before income taxes and non-controlling interest in subsidiaries	$ 325	$ 387	$ 395
Net income	$ 242	$ 261	$ 256
Key ratios			
Return on equity (1)	6.9%	10.6%	10.8%
Return on risk capital (1)	11.7%	16.1%	16.4%
Selected average balance sheet and other information (2)			
Total assets	$ 39,700	$ 32,600	$ 25,900
Loans and acceptances	22,300	18,500	17,200
Deposits	34,200	28,700	21,200
Attributed capital (1)	3,350	2,400	2,350
Risk capital (1)	1,950	1,600	1,550
Other information			
Assets under administration – RBC	–	–	1,361,100
Assets under administration – RBC Dexia IS (3)	2,713,100	2,421,100	–
Number of employees (full-time equivalent)	6,001	5,034	6,880
Credit information			
Gross impaired loans as a percentage of average net loans and acceptances	1.91%	1.01%	.94%
PCL as a percentage of average net loans and acceptances	.49%	.14%	.28%

Impact of US$ and Euro translation on selected items	For the year ended 2007 vs. 2006
Reduced total revenue	$ 8
Reduced non-interest expense	6
Increased net income	4
Percentage change in average US$ equivalent of C$1.00 (4)	4%
Percentage change in average Euro equivalent of C$1.00 (4)	(5)%

(1) Segment Return on equity, Average risk capital and Return on risk capital are key performance measures. Average attributed capital and Return on equity are calculated using methods intended to approximate the average of the daily balances for the period. For further discussion, refer to the Key performance and non-GAAP measures section.
(2) Average amounts are calculated using methods intended to approximate the average of the daily balances for the period.
(3) AUA – RBC Dexia IS represents the total AUA of the joint venture as at September 30, 2007. We have revised the 2006 amount to reflect the amount reported by *RBC Dexia IS*, as we had previously disclosed only the assets under custody amount related to our joint venture.
(4) Average amounts are calculated using month-end spot rates for the year.

Revenue by business line (C$ millions)



Financial performance

2007 vs. 2006

Net income decreased $19 million, or 7%, from the prior year. The decrease was largely attributable to increased provision for credit losses, primarily reflecting higher impaired loans in our U.S. residential builder finance business. This was partially offset by strong business growth in *RBC Dexia IS*, as well as higher loan and deposit growth in the U.S. reflecting the inclusion of our acquisitions of Flag and the AmSouth branches, *de novo* branch openings and business expansion. Our results also reflected higher costs in support of business growth and a loss on the restructuring of our U.S. banking investment portfolio this year.

Total revenue increased $287 million, or 18%, from the prior year. The increase was primarily attributable to *RBC Dexia IS*, reflecting strong market activity, an additional month of results and business growth. *Banking* revenue was also up largely due to loan and deposit growth, mainly reflecting the inclusion of Flag and the AmSouth branches, despite the negative impact of a stronger Canadian dollar on the translated value of U.S. dollar-denominated revenue. These factors were partially offset by a loss on the restructuring of our U.S. banking investment portfolio this year.

Non-interest expense was up $265 million, or 22%, over the prior year, largely reflecting higher costs in support of business growth. The increase primarily reflected higher processing and staff costs at *RBC Dexia IS* commensurate with business growth, the inclusion of our acquisitions of Flag and the AmSouth branches and the related integration costs, and U.S. *de novo* branch openings. Higher costs associated with an additional month of results relating to *RBC Dexia IS*, as well as an increase in sales and service personnel in our banking branch network also contributed to the increase.

Provision for credit losses was up $84 million, largely due to higher impaired loans in our U.S. residential builder finance business, reflecting the downturn in the U.S. housing market in the latter part of the year. As at October 31, 2007, we had $2.8 billion in our U.S. residential builder finance loans outstanding.

2006 vs. 2005

Net income increased $5 million, or 2%, from 2005, largely reflecting solid growth and improved credit quality in *Banking*, partially offset by transaction expenses related to the transfer of Institutional & Investor Services to *RBC Dexia IS*.

Total revenue increased $51 million, or 3%, from 2005, primarily reflecting strong revenue growth in *RBC Dexia IS* due to increased business volume. The increase was partially offset by lower *Banking* revenue due to the negative impact of a stronger Canadian dollar on the translated value of U.S. dollar-denominated revenue. In U.S. dollars, *Banking* revenue increased $58 million, or 7%, reflecting solid loan and deposit growth and higher fee-based activities.

Non-interest expense was up $80 million, or 7%, from 2005, primarily reflecting transaction expenses related to the transfer of IIS to *RBC Dexia IS*, as well as higher project-related spending and other costs in support of business growth.

Provision for credit losses decreased $24 million, or 49%, compared to 2005, primarily reflecting strong credit quality in our U.S. banking loan portfolio in 2006.

2008 Outlook and priorities

We continue to see significant opportunities in the U.S. and Caribbean to expand our *Banking* business, through a combination of organic growth and strategic acquisitions. We anticipate that the current financial market volatility in the U.S. will persist into early 2008, as investors and lenders will remain cautious and risk averse amid the continued correction in the U.S. housing market. The anticipated improved U.S. economic conditions in the latter part of 2008, primarily underpinned by rising business investment, strong export growth and continued consumer spending against a backdrop of the abatement of current financial market volatility and the housing market correction, should support business and revenue growth. The projected solid economic growth in Canada and the Eurozone, as well as the increasing trend of outsourcing by fund managers in Canada, the Eurozone and Asia should continue to support *RBC Dexia IS* business growth.

Key strategic priorities for 2008

- Continue implementing our long-term strategy to become the pre-eminent bank for businesses, business owners and professionals in the U.S. Southeast.
- Efficiently integrate the pending acquisition of Alabama National BanCorporation for our U.S. banking operations, while retaining and growing our client base through continuous enhancement of our products and services and distribution network.
- Build on our strong position in the Caribbean to create the leading bank in the region through the efficient integration of RBTT Financial Group, which we recently announced our intention to acquire, subject to closing conditions.
- Pursue growth strategies with *RBC Dexia IS* that focus on strengthening the global client franchise, broadening its suite of products through innovation and expanding its presence in high-growth markets.

Banking consists of our banking operations in the U.S. and Caribbean. These businesses offer a broad range of banking products and services to personal and business clients in their respective markets, including residential construction finance services. Our U.S. banking business ranks 5th in deposit market share in North Carolina and among the top 15 in its U.S. Southeast banking footprint. It has a network of 350 branches and 395 ATMs. Caribbean banking ranks in the top three in deposit market share in most of its markets and has 44 branches and 78 ATMs.

Financial performance

Total revenue increased $86 million, or 8%, compared to the prior year, despite the negative impact of a stronger Canadian dollar on the translated value of U.S. dollar-denominated revenue. In U.S. dollars, *Banking* revenue increased $114 million, or 12%, primarily driven by solid loan and deposit growth, reflecting the inclusion of Flag and the AmSouth branches, the 10 U.S. *de novo* branch openings since last year and business growth. These factors were partially offset by a loss on the restructuring of our U.S. banking investment portfolio. Net interest margin was down 16 bps, largely due to continued competitive pressure on deposit business, the reversal of accrued interest related to higher impaired loans this year, and a loss on the early redemption of trust preferred notes due to the impact of changes in our portfolio mix.

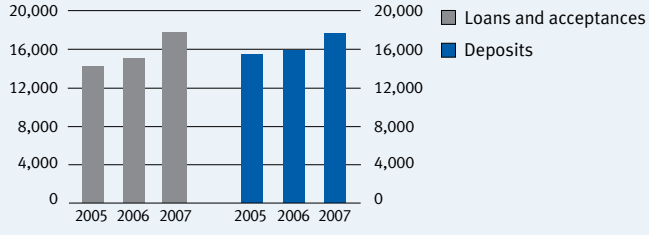
In U.S. dollars, average loans and acceptances and deposits were up $3 billion (18%) and $2 billion (11%), respectively, from the prior year. The increase was primarily attributable to growth in loans and acceptances, and deposits in our U.S. banking operations of 18% and 12%, respectively, reflecting our acquisitions of Flag and the AmSouth branches, *de novo* branch openings and business growth. Growth in loans and acceptances, and deposits in our Caribbean banking operations of 14% and 8%, respectively, reflecting our continued focus on enhancing sales management and client satisfaction, also contributed to the increase.

Selected highlights — Table 30

	2007	2006	2005
Total revenue (C$ millions)	$ 1,156	$ 1,070	$ 1,077
Other information (US$ millions)			
Total revenue	$ 1,059	$ 945	$ 887
Net interest margin (1)	3.56%	3.73%	3.70%
Average loans and acceptances (2), (3)	$ 17,800	$ 15,100	$ 14,200
Average deposits (2), (3)	17,700	15,900	15,500
Number of:			
Branches	394	325	315
Automated teller machines	473	385	371

(1) Net interest margin (NIM) is calculated as Net interest income divided by Average total earning assets. Average total earning assets are calculated using methods intended to approximate the average of the daily balances for the period.
(2) Average amounts are calculated using methods intended to approximate the average of the daily balances for the period.
(3) Average loans and acceptances and Average deposits have been adjusted for 2005 for netting of a large Caribbean government account effective the fourth quarter of 2005, which reduced loan and deposit balances by a similar amount.

Average loans and deposits (US$ millions)



RBC Dexia Investor Services

Our joint venture, *RBC Dexia IS*, offers an integrated suite of institutional investor products and services, including global custody, fund and pension administration, securities lending, shareholder services, analytics and other related services, to institutional investors worldwide. RBC Dexia IS was created on January 2, 2006, when we combined our Institutional & Investor Services (IIS) business with Luxembourg-based Dexia Funds Services in return for a 50% joint venture interest in RBC Dexia IS.

Financial performance

Total revenue was up $201 million, or 36%, compared to the prior year. The increase primarily reflected growth in our custodian and securities lending business on strong market activity, as well as organic growth from existing clients and the acquisition of new clients. An additional month of results reported in the year also contributed to the increase.

Assets under administration were up 12% from a year ago. The increase was largely attributable to the acquisition of new clients, largely driven by an increase in sales as a result of our broadened product and service offerings, organic growth from existing customers and market appreciation.

Selected highlights — Table 31

(C$ millions)	2007	2006	2005
Total revenue (1)	$ 759	$ 558	$ 500
Other information			
Assets under administration			
RBC (2)	–	–	1,361,100
RBC Dexia IS (3)	2,713,100	2,421,100	–

(1) Given the similarities between the IIS and *RBC Dexia IS* businesses, we have disclosed the revenue from our prior IIS business and our 50% proportionate ownership of RBC Dexia IS on the same line for comparative purposes. Revenue presented for 2006 represents two months of revenue from our IIS business earned between November 1, 2005, and the creation of RBC Dexia IS on January 2, 2006. The current period revenue also includes our proportionate share of RBC Dexia IS for the twelve months ended September 30, 2007, as RBC Dexia IS reports on a one month lag.
(2) AUA – RBC represents total Assets under administration (AUA) of our IIS business. IIS AUA of $1,400 billion was contributed to RBC Dexia IS in exchange for our 50% ownership interest.
(3) AUA – RBC Dexia IS represents the total AUA of the joint venture as at September 30, 2007. We have revised the 2006 amount to reflect the amount reported by RBC Dexia IS, as we had previously disclosed only the assets under custody amount related to our joint venture.

Capital Markets

Capital Markets comprises our global wholesale banking business, which provides a wide range of corporate and investment banking, sales and trading, research and related products and services to corporations, public sector and institutional clients in North America and specialized products and services in select global markets. This segment consists of two main businesses, *Global Markets* and *Global Investment Banking and Equity Markets*. All other businesses are grouped under *Other*.

We have an established reputation as a premier Canadian investment bank with top-tier market share in virtually all lines of wholesale business in Canada. We offer a full suite of products and service capabilities and have long-standing and deep relationships with our clients. We have a select but diversified set of global capabilities which includes fixed income, equity, foreign exchange, structured products, global infrastructure finance, and energy and mining.

We remain committed to our businesses and will maintain our focus on being the undisputed leader in Canada, a top-tier leader in the U.S. mid-market, a global structurer and trader, and a leading global fixed income bank.

Highlights

- We completed three acquisitions to access new clients and build on our capabilities: Carlin Financial Group, a U.S. broker-dealer known for its proprietary trade execution platform; Daniels & Associates, L.P., a U.S. merger and acquisition advisory firm; and Seasongood & Mayer, LLC, a U.S. public finance firm and municipal debt underwriter.
- In 2007, we led or jointly led many significant debt and equity new issuance transactions totalling $184 billion.
- We were involved in the top five merger and acquisitions transactions with Canadian involvement through the first three calendar quarters of 2007.
- We were named Dealmaker of the Year in Canada for four of the last five years (*Financial Post*) and the Best Investment Bank in Canada (*Financial Post* and *Global Finance* magazine).

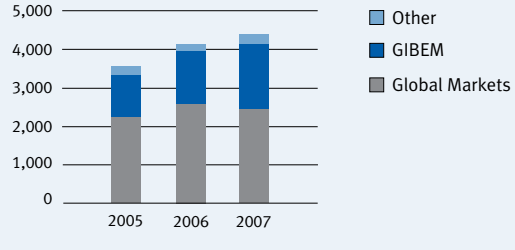
Capital Markets financial highlights — Table 32

(C$ millions, except number of and percentage amounts)	2007	2006	2005
Net interest income (1)	$ 453	$ 131	$ 557
Non-interest income	3,936	4,005	3,005
Total revenue (1)	$ 4,389	$ 4,136	$ 3,562
Non-interest expense	2,769	2,603	2,890
Provision for (recovery of) credit losses (PCL)	(22)	(115)	(91)
Net income before income taxes and non-controlling interest in subsidiaries (1)	$ 1,642	$ 1,649	$ 762
Net income	$ 1,292	$ 1,355	$ 686
Key ratios			
Return on equity (2)	26.6%	31.5%	17.5%
Return on risk capital (2)	32.5%	38.7%	22.4%
Selected average balance sheet information (3)			
Total assets	$ 311,200	$ 260,600	$ 229,100
Trading securities	152,900	132,300	109,600
Loans and acceptances	29,000	22,100	17,600
Deposits	125,700	108,100	96,500
Attributed capital (2)	4,800	4,250	3,850
Risk capital (2)	3,900	3,450	3,050
Other information			
Number of employees (full-time equivalent)	3,364	2,936	2,762
Credit information			
Gross impaired loans as a percentage of average net loans and acceptances	.06%	.28%	.67%
Specific PCL as a percentage of average net loans and acceptances	(.08)%	(.52)%	(.52)%

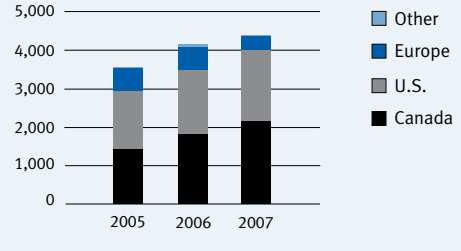
Impact of US$ and British pound translation on selected items (1)	For the year ended 2007 vs. 2006
Reduced total revenue (1)	$ 70
Reduced non-interest expense	15
Reduced net income	30
Percentage change in average US$ equivalent of C$1.00 (4)	4%
Percentage change in average British pound equivalent of C$1.00 (4)	(5)%

(1) Taxable equivalent basis. For further discussion, refer to the How we measure and report our business segments section.
(2) Segment Return on equity, Average risk capital and Return on risk capital are key performance measures. Average attributed capital and Return on equity are calculated using methods intended to approximate the average of the daily balances for the period. For further discussion, refer to the Key performance and non-GAAP measures section.
(3) Average amounts are calculated using methods intended to approximate the average of the daily balances for the period.
(4) Average amounts are calculated using month-end spot rates for the year.

Revenue (1) by business line (C$ millions)



Revenue (1) by geography (C$ millions)



(1) Taxable equivalent basis. For further discussion, refer to the How we measure and report our business segments section.

Economic and market review

Capital markets were generally favourable for the first part of 2007; however, a sudden and deep deterioration in the U.S. subprime residential mortgage-backed securities (RMBS) market in the latter part of 2007 had negative effects on the broader credit markets. This was characterized by significant credit spread widening, increased volatility in global equities, the credit rating agency downgrades of a broad group of collateralized debt obligations of asset-backed securities (CDOs of ABS) and U.S. RMBS instruments and a general lack of liquidity across a broad range of products including securities with strong credit ratings. The severe disruption in financial markets contributed to substantial writedowns and negatively impacted the effectiveness of hedging strategies for certain credit related products. Global central banks continued to provide liquidity to financial markets in an effort to minimize the impact of the market dislocation on the broader economy, including a 75 bps aggressive reduction in its overnight borrowing rate by the U.S. Federal Reserve during the fourth quarter of 2007. Lower levels of liquidity coupled with increased financial market volatility contributed to lower levels of origination activity compared to 2006. M&A activity remained strong for most of the year. The stronger Canadian dollar negatively impacted the translated value of our U.S. dollar-denominated earnings.

Financial performance

2007 vs. 2006

Net income decreased $63 million, or 5%, compared to a year ago largely due to writedowns recorded in the current year totalling $357 million on the valuation of U.S. subprime RMBS and CDOs of ABS in our Structured Credit business. The writedowns reflected the deterioration in the credit markets in the latter part of 2007 as a result of concerns over the U.S. subprime market, a general lack of liquidity and the recent credit rating agency downgrades of a broad group of CDOs of ABS and U.S. RMBS instruments. The negative impact of the stronger Canadian dollar on the translated value of U.S. dollar-denominated earnings also contributed to the decrease. These factors were partially offset by broad-based revenue growth in many other businesses. The writedowns of $357 million were offset by a $119 million compensation adjustment and $78 million income tax adjustment for a net impact of $160 million.

Total revenue increased $253 million, or 6%. The increase was primarily due to increased equity derivatives and foreign exchange trading revenue, strong equity origination activity across all geographies and the inclusion of our recent acquisitions. Higher M&A activity, mainly in the U.S. gains associated with credit derivative contracts used to economically hedge our core lending portfolio reflecting the widening of credit spreads, and higher distributions on private equity investments also contributed to the increase. These factors were partially offset by lower trading revenue in our fixed income businesses reflecting the writedowns on the valuation of U.S. subprime RMBS and CDOs of ABS, the negative impact of the stronger Canadian dollar on the translated value of U.S. dollar-denominated revenue and lower U.S. debt origination results due in part to the tightening of credit markets in the latter part of 2007.

Non-interest expense increased $166 million, or 6%, primarily reflecting increased costs in support of business growth, including higher staffing levels and the inclusion of our recent acquisitions. These factors were partially offset by lower variable compensation commensurate with weaker results and lower professional fees.

Recovery of credit losses of $22 million in the current year compares to a recovery of credit losses of $115 million in the prior year, which included a $50 million reversal of the general allowance.

Average assets were up $51 billion, or 19%, mainly due to increased trading securities primarily resulting from growth in certain equity trading strategies and in our fixed income trading businesses. Loans and acceptances increased $7 billion, or 31%, mainly related to strong investment banking activity and growth in our Infrastructure Finance business. Deposits increased $18 billion, or 16%, primarily due to increased funding requirements of our trading businesses. Credit quality remained strong as gross impaired loans decreased $43 million, or 72%, from a year ago.

2006 vs. 2005

Net income increased $669 million, or 98%, compared to 2005 primarily due to the prior year Enron litigation-related provision of $591 million ($326 million after-tax). Also contributing to the increase were record trading results, a lower effective income tax rate and near record M&A fees. These factors were partly offset by higher variable compensation on improved business performance and the negative impact of a stronger Canadian dollar on the translated value of our U.S. dollar- and British pound-denominated earnings.

Total revenue increased $574 million, or 16%. The increase was primarily due to record trading results on improved market conditions and growth in certain equity trading strategies and stronger M&A activity. Higher distributions and gains from private equity investments, increased brokerage commissions and increased credit fees related to investment banking activity also contributed to the increase. These factors were partially offset by a decline in equity origination in Canada mainly reflecting uncertainty in equity markets outside the resource sector. Debt origination fees were also down, mainly in the U.S., due to the rising interest rate environment and further weakening of the U.S. dollar.

Non-interest expense decreased $287 million, or 10%, largely reflecting the Enron litigation-related provision recorded in 2005 and the favourable reduction in the translated value of U.S. dollar- and British pound-denominated expenses due to the stronger Canadian dollar. Higher variable compensation on stronger business performance and higher spending in support of business growth initiatives partly offset the decrease.

Recovery of credit losses of $115 million in 2006, including a $50 million reversal of the general allowance, compared to a recovery of credit losses of $91 million in 2005.

2008 Outlook and priorities

Credit market and liquidity concerns should abate as capital markets stabilize globally and gradually return to more normal levels of activity. The expected gradual improvement in market conditions should result in the recovery of underperforming businesses. In Canada, we will continue to build on our leadership position, while in the U.S. we remain focused on leveraging the strengths of recent acquisitions continuing to build our mid-market franchise and expanding into new sectors. Internationally, we will strategically expand our global capabilities, including strengthening our Infrastructure Finance business and expanding the distribution of structured and fixed income products into Asian markets. Our deal pipeline should remain fairly healthy and is expected to continue to grow; however, conversion remains a concern.

Key strategic priorities for 2008

- Maintain our leadership position in Canada and deepen our penetration in the Canadian mid-market segment.
- Continue to grow our Municipal Products business with the recently acquired platform of Seasongood & Mayer, expand our banking activities geographically and develop new product segments in the U.S.
- Continue to expand the distribution of structured and fixed income products into Asian markets.
- Continue to expand our infrastructure and project finance product offering from U.K. to other international and U.S. markets.
- Continue to build our global energy capabilities, an area of strength for us.

Global Markets

Global Markets is our centre for origination, trading and distribution of predominantly investment-grade fixed income, foreign exchange and derivative products. It also conducts our proprietary trading operations, alternative asset and private equity businesses.

Financial performance

Global Markets revenue decreased $124 million, or 5%, from a year ago. Trading-related revenue was down $94 million, or 4%, primarily due to lower trading revenue in certain fixed income business as a result of writedowns totalling $357 million on the valuation of U.S. subprime RMBS and CDOs of ABS in our Structured Credit business. This was partially offset by higher equity derivatives and foreign exchange trading revenue due to business expansion and increased market volatility. Other revenue was down $30 million from a year ago largely due to lower private equity investment gains.

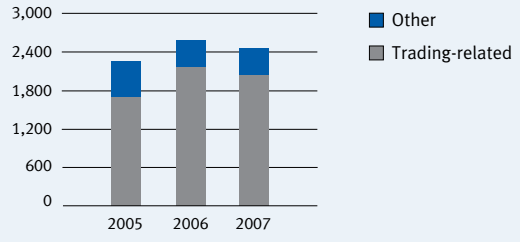
We led or jointly led 1,005 debt issues, up from 615 deals a year ago, with a total value of approximately $164 billion, and in Municipal Finance, we were involved in 779 issues with a total value of US$81 billion through October 2007.

Selected highlights — Table 33

(C$ millions)	2007	2006	2005
Total revenue (1)	$ 2,455	$ 2,579	$ 2,256
Other information			
Trading-related	2,060	2,154	1,706
Other (2)	395	425	550

(1) Taxable equivalent basis. For further discussion, refer to the How we measure and report our business segments section.
(2) Other includes debt origination, municipal products, gains/losses on private equity instruments, derivatives non-trading and securitization revenue.

Trading-related and Other revenue (C$ millions)



Global Investment Banking and Equity Markets

Global Investment Banking and Equity Markets brings together our investment banking and equity sales and trading capabilities to provide a complete suite of advisory and equity-related services to clients from origination, structuring and advising to distribution, sales and trading.

Given the significant growth in our National Clients business, we transferred this business from *Other* to *Global Investment Banking and Equity Markets* in the second quarter of 2007.

Financial performance

Global Investment Banking and Equity Markets revenue increased $293 million, or 21%, compared to the prior year. Gross underwriting and advisory revenue was up $166 million, or 25%, largely reflecting strong equity origination activity across all geographies and improved M&A activity mainly in the U.S. Equity sales and trading revenue increased $92 million, or 33%, mainly due to the inclusion of our recent acquisitions, while Other revenue was up $35 million, or 8%, primarily reflecting higher private equity distributions and increased lending activity.

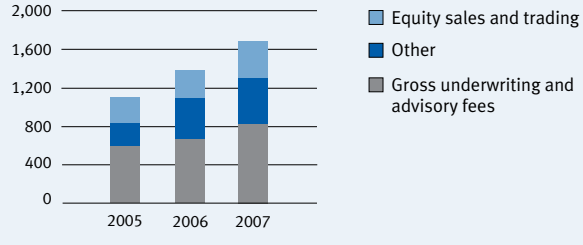
In 2007, we advised on 98 announced M&A deals with a total value of $190 billion. In 2007, we led or co-led 142 equity and equity-related new issues with a total market value of $20 billion, up from 82 in the prior year.

Selected highlights — Table 34

(C$ millions)	2007	2006	2005
Total revenue (1)	$ 1,675	$ 1,382	$ 1,098
Other information			
Gross underwriting and advisory fees	831	665	598
Equity sales and trading	375	283	252
Other (2)	469	434	248

(1) Taxable equivalent basis. For further discussion, refer to the How we measure and report our business segments section.
(2) Other includes increases in private equity distributions, growth in revenue associated with our core lending portfolio and syndicated finance and the gain on the exchange of our NYSE seats for NYX shares.

Gross underwriting and advisory fees, equity sales and trading, and Other revenue (C$ millions)



Other

Other consists of our remaining businesses including our Global Credit business, which oversees the management of our core lending portfolios and manages our non-strategic lending portfolio. Global Credit also includes our Global Financial Institutions business which delivers innovative and creative solutions to global financial institutions including correspondent banking, treasury and cash management services. Research offers economic and securities research products to institutional clients in Canada and globally.

Financial performance

Revenue from *Other* was $259 million, an increase of $84 million, or 48%, over the prior year. The increase mainly reflected gains associated with credit derivative contracts used to economically hedge our core lending portfolio reflecting the widening of credit spreads and increased revenue in our Global Financial Institutions business due to higher deposit balances.

Corporate Support

Corporate Support segment activities include our global technology and operations group, corporate treasury, finance, human resources, risk management, internal audit and other global functions, the costs of which are largely allocated to the business segments.

The reported results for the Corporate Support segment mainly reflect activities that are undertaken for the benefit of the organization, and which are not allocated to the business segments such as enterprise funding, securitization and the net charges associated with unattributed capital. The results also include consolidation adjustments including the elimination of the teb adjustments recorded in Capital Markets related to the gross-up of income from Canadian taxable corporate dividends to their taxable equivalent value. These adjustments are recorded in net interest income and offset in the provision for income taxes.

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

Corporate Support financial highlights — Table 35

(C$ millions)	2007	2006	2005
Net interest income (1)	$ (732)	$ (488)	$ (294)
Non-interest income	377	178	190
Total revenue (1)	$ (355)	$ (310)	$ (104)
Non-interest expense	36	36	61
Recovery of credit losses	(85)	(86)	(47)
Business realignment charges	–	–	39
Net loss before income taxes and non-controlling interest in subsidiaries (1)	$ (306)	$ (260)	$ (157)
Net income (loss)	$ 209	$ 111	$ (14)
Selected average balance sheet and other information (2)			
Total assets	$ (6,500)	$ (5,400)	$ (4,000)
Attributed capital (3)	2,950	3,100	2,800
Securitization			
Total securitizations sold and outstanding (4)	$ 17,889	$ 15,836	$ 11,587
New securitization activity in the year (5)	4,264	6,142	3,821
Other information			
Number of employees (full-time equivalent)	19,485	18,393	17,785

(1) Taxable equivalent basis. For further discussion, refer to the How we manage and report our business segments section. These amounts included the elimination of the adjustment related to the gross-up of income from Canadian corporate dividends of $332 million in 2007 recorded in Capital Markets (2006 – $213 million, 2005 – $109 million).
(2) Average amounts are calculated using methods intended to approximate the average of the daily balances for the period.
(3) For further discussion, refer to the Key performance and non-GAAP measures section.
(4) Total securitizations sold and outstanding comprises credit card loans and residential mortgages.
(5) New securitization activity comprises residential mortgages and credit card loans securitized and sold in the year. For further details, refer to Note 5 to our Consolidated Financial Statements.

2007

Net income of $209 million for the year included income tax amounts largely related to enterprise funding activities that were not allocated to the business segments and favourable income tax settlements related to prior years. These factors were partially offset by the mark-to-market losses mainly related to the recognition of the ineffectiveness of hedged items and the related derivatives in hedge accounting relationships, a cumulative adjustment for losses resulting from the fair valuing of certain derivatives that did not qualify for hedge accounting and higher capital taxes that were not allocated to the business segments.

2006

Net income of $111 million for the year mainly reflected income tax amounts which were largely related to enterprise funding activities and the favourable resolution of income tax audits related to prior years not allocated to the business segments. Mark-to-market gains on derivatives related to certain economic hedges also contributed to net income in the year. These factors were partially offset by the timing of securitization activity and an amount accrued related to a leased space which we will not occupy and expect to sublease at a rate lower than our contracted rate.

2005

Net loss of $14 million largely reflected business realignment charges of $39 million, and mark-to-market losses on derivatives relating to certain economic hedges, which were partially offset by securitization activity and interest refunds relating to the resolution of disputed tax items for the 1993 to 1998 tax periods.

Financial condition

Balance sheet

Table 36

(C$ millions)	As at October 31 2007	2006
Interest-bearing deposits with banks	$ 11,881	$ 10,502
Securities	178,255	184,869
Assets purchased under reverse repurchase agreements and securities borrowed	64,313	59,378
Loans	239,429	209,939
Other assets	103,735	69,100
Total assets	600,346	536,780
Deposits	365,205	343,523
Other liabilities	201,284	160,575
Non-controlling interest in subsidiaries	1,483	1,775
Shareholders' equity	24,439	22,123

With the adoption of the new financial instruments accounting standards, certain financial instruments are now measured at fair value that were previously reported at cost or amortized cost. As a result, a greater portion of our Consolidated Balance Sheet is now measured at fair value, including certain derivative instruments. For further details, refer to the Critical accounting policies and estimates section as well as Notes 1 and 2 to our Consolidated Financial Statements.

2007 vs. 2006

Total assets were up $64 billion, or 12%, from a year ago, driven by growth across most asset categories. The increase was largely attributable to solid loan growth, including Canadian residential mortgages and personal and business loans, amid generally favourable domestic market conditions. Higher balances related to derivative-related amounts, primarily reflecting changes in market conditions, also contributed to the increase.

Interest-bearing deposits with banks increased $1 billion, or 13%, from the prior year, largely reflecting a shift in our portfolio mix to higher-yielding assets.

Securities were down $7 billion, or 4%, from a year ago, primarily due to a strategic reduction in our positions taking into account recent financial market volatility, and the impact of a stronger Canadian dollar on the translated value of U.S. dollar-denominated securities.

Assets purchased under reverse repurchase agreements and securities borrowed increased $5 billion, or 8%, from a year ago. This growth primarily reflected higher balances in support of our equity and fixed income trading strategies.

Loans increased $29 billion, or 14%, from a year ago, reflecting increases across all categories. The largest growth was attributable to Canadian residential mortgages, which increased $13 billion, or 14% (despite the offsetting effect of $13 billion of securitizations over the past 12 months) and personal loans, largely driven by demand for home equity lending amid continued strong Canadian housing market activities, relatively low interest rates in a historical context and strong labour market conditions. Solid growth in our wholesale loans of $11 billion, or 19%, mainly reflecting continued growth in corporate lending also contributed to the increase.

Other assets were up $35 billion, or 50%. The growth was mainly attributable to an increase in derivative-related amounts primarily in foreign exchange and interest rate contracts, reflecting increased volatility, strong shifts in exchange rates and interest rates, as well as higher client and trading activity. These factors were partially offset by the impact of a stronger Canadian dollar on the translated value of U.S. dollar-denominated derivative-related assets.

Deposits increased $22 billion, or 6%, from a year ago. The growth was largely due to increased business and government deposits mainly reflecting higher balances in support of business activities, increased balances at *RBC Dexia IS*, and domestic business growth. Higher personal deposits in part driven by the success of our recently launched high-interest online savings account also contributed to the increase. These factors were partially offset by a reduction in interest-bearing deposits with banks in part reflecting our lower funding requirements compared to a year ago.

Other liabilities rose $41 billion, or 25%, from last year. The increase was mainly due to derivative-related amounts, primarily reflecting the same factors noted above in derivative-related assets. Increased securities sold short, mainly reflecting business growth and higher balance in support of our fixed income trading strategies, also contributed to the increase.

Shareholders' equity increased $2 billion, or 10%, over the prior year. The growth largely reflected strong earnings growth, net of dividends, and a $1 billion net issuance of preferred shares since last year.

Capital management

Capital management framework

We actively manage our capital to balance the desire to maintain strong capital ratios and high ratings with the objective of providing strong returns to our shareholders. In striving to achieve this balance, we consider the requirements of regulators, rating agencies, depositors and shareholders, as well as our future business plans, peer comparisons and our position relative to internal targets for capital ratios. Additional considerations include the costs and terms of current and potential capital issuances, and projected capital requirements.

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

(i) Regulatory capital: capital required for regulatory compliance defined in accordance with the Office of the Superintendent of Financial Institutions Canada (OSFI) criteria;

(ii) Economic Capital: an internal assessment of the amount of equity capital required to underpin our risks; and

(iii) Subsidiary capital: the amount of regulatory capital invested in subsidiaries.

This co-ordinated approach to capital management serves an important business function. Our goal is to optimize our capital usage and structure and provide efficient support for our business segments and clients and better returns for our shareholders, while protecting our depositors and senior creditors.

Governance

The Board of Directors is responsible for the annual review and approval of our capital plan, in conjunction with our operating plan. The Audit Committee is responsible for the governance of capital management, which includes the approval of capital management policies,

the regular review of our capital position and liquidity, funding and capital management processes, and the ongoing review of internal control over financial reporting. In addition, the OSFI meets with our Audit Committee and the Conduct Review and Risk Policy Committee (CR&RPC) to discuss policies and procedures regarding capital management.

The Asset & Liability Committee and the Group Executive share management oversight responsibility for capital management and receive regular reports detailing compliance with the established limits and guidelines. Corporate Treasury and Group Risk Management (GRM) are responsible for the design and implementation of policies for regulatory, economic and subsidiary capital.

Risk-adjusted assets (RAA)

Under the current Basel I framework, the calculation of RAA is determined by the OSFI-prescribed rules relating to on-balance sheet and off-balance sheet exposures and includes an amount for the market risk exposure associated with our trading portfolios.

During the year, RAA increased by $23.9 billion, with strong growth across most categories including loans, mortgages, and off-balance sheet derivative instruments. However, growth in nominal assets was partially offset by the impact of a stronger Canadian dollar on the translated value of our foreign currency-denominated assets.

Risk-adjusted assets (1) — Table 37

(C$ millions, except percentage amounts)	Balance sheet amount	Weighted average of risk weights (2)	Risk-adjusted balance 2007	Risk-adjusted balance 2006
Balance sheet assets				
Cash and deposits with banks	$ 16,107	18%	$ 2,852	$ 2,322
Securities				
Issued or guaranteed by Canadian or other OECD (3) governments	16,858	–	52	42
Other	161,591	6%	9,495	7,811
Residential mortgages (4)				
Insured	27,994	1%	355	363
Conventional	81,713	40%	32,885	27,921
Other loans and acceptances (4)				
Issued or guaranteed by Canadian or other OECD (3) governments	32,577	17%	5,651	3,848
Other	171,422	69%	118,723	107,336
Other assets	92,100	11%	10,487	10,609
	$ 600,362		$ 180,500	$ 160,252
	Credit equivalent amount (5)			
Off-balance sheet financial instruments				
Credit instruments				
Guarantees and standby letters of credit	$ 19,758	60%	$ 11,807	$ 14,092
Documentary and commercial letters of credit	100	78%	78	65
Securities lending (6)	36,187	3%	962	3,022
Commitments to extend credit	21,954	85%	18,752	16,666
Liquidity facilities	4,826	98%	4,746	4,413
Note issuances and revolving underwriting facilities	–	–	–	4
	$ 82,825		$ 36,345	$ 38,262
Derivatives (7)	57,973	25%	14,457	10,432
Total off-balance sheet financial instruments	$ 140,798		$ 50,802	$ 48,694
Total specific and general market risk			16,333	14,763
Total risk-adjusted assets			$ 247,635	$ 223,709

(1) Calculated using guidelines issued by the OSFI.
(2) Represents the weighted average of counterparty risk weights within a particular category.
(3) OECD stands for Organisation for Economic Co-operation and Development.
(4) Amounts are shown net of allowance for loan losses.
(5) The amount of credit exposure attributable to an off-balance sheet financial instrument, derived from the notional value of the exposure.
(6) In 2007, we implemented a new trading credit risk system in our London office that enables clearer identification of these balances, resulting in a lower risk-adjusted balance.
(7) Excludes non-trading credit derivatives given guarantee treatment for credit risk capital purposes.

Regulatory capital and capital ratios

Capital levels for Canadian banks are regulated pursuant to guidelines issued by the OSFI, based on standards issued by the Bank for International Settlements. Regulatory capital is allocated to two tiers: Tier 1 and Tier 2. Tier 1 capital comprises the more permanent components of capital and consists primarily of common shareholders' equity, non-cumulative preferred shares, the majority of which do not have conversion features into common shares, and the eligible amount of innovative capital instruments. In addition, goodwill is deducted from Tier 1 capital.

Tier 2 capital consists mainly of subordinated debentures, trust subordinated notes, the eligible amount of innovative capital instruments that could not be included in Tier 1 capital, and an eligible portion of the total general allowance for credit losses. Total capital is defined as the total of Tier 1 and Tier 2 capital less deductions as prescribed by the OSFI. For further details on the terms and conditions of our non-cumulative preferred shares and innovative capital instruments, refer to Notes 17 and 18 of our Consolidated Financial Statements.

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

The components of regulatory capital and our regulatory capital ratios are shown in the following table.

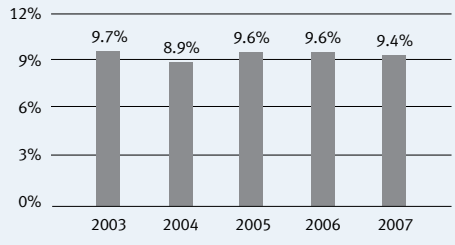
Regulatory capital and capital ratios (1)

Table 38

(C$ millions, except percentage amounts)	2007	2006
Tier 1 capital		
Common equity (2)	$ 22,272	$ 21,065
Non-cumulative preferred shares	2,344	1,345
Trust capital securities	3,494	3,222
Other non-controlling interest in subsidiaries	25	28
Goodwill	(4,752)	(4,182)
	23,383	21,478
Tier 2 capital		
Permanent subordinated debentures (3)	779	839
Non-permanent subordinated debentures (3)	5,473	6,313
General allowances	1,221	1,223
Trust capital securities (excess over 15% Tier 1)	–	249
Trust subordinated notes	1,027	–
Accumulated net unrealized gain on available-for-sale equity securities (4)	105	–
	8,605	8,624
Other deductions from capital		
Investment in insurance subsidiaries	(2,912)	(2,795)
Other	(505)	(643)
Total capital	$ 28,571	$ 26,664
Capital ratios		
Tier 1 capital to risk-adjusted assets	9.4%	9.6%
Total capital to risk-adjusted assets	11.5%	11.9%
Assets-to-capital multiple	19.9X	19.7X

(1) As defined in the guidelines issued by the OSFI.
(2) This amount is Shareholders' equity less preferred shares of $2,050 million and other items not included in regulatory capital of $117 million.
(3) Subordinated debentures that are within five years of maturity are subject to straight-line amortization to zero during their remaining term and, accordingly, are included above at their amortized value.
(4) As prescribed by the OSFI, certain components of Accumulated other comprehensive income (AOCI) are included in the determination of regulatory capital. Accumulated net foreign currency translation adjustments are included in Tier 1 capital in common equity. Net unrealized fair value losses on available-for-sale (AFS) equities are deducted in the determination of Tier 1 capital while net unrealized fair value gains on AFS equities are included in Tier 2 capital.

Tier 1 capital ratio



As at October 31, 2007, the Tier 1 capital ratio was 9.4% and the Total capital ratio was 11.5%.

The Tier 1 capital ratio was down 20 bps from a year ago. The decrease was largely due to business growth, including acquisitions, which resulted in an increase in RAA and a higher goodwill deduction from capital. The impact of our common share repurchases under our normal course issuer bid also contributed to the decrease. These factors were partially offset by strong generation of capital from earnings and the issuance of preferred shares.

The Total capital ratio was down 40 bps from a year ago due to growth in RAA and the redemption of subordinated debentures. These factors were partially offset by the issuance of trust subordinated notes.

As at October 31, 2007, our assets-to-capital multiple was 19.9 compared to 19.7 a year ago. Our assets-to-capital multiple remains below the maximum of 23 that is allowed by the OSFI.

Selected capital management activity

Table 39

(C$ millions)	2007	2006
Dividends		
Common	$ 2,321	$ 1,847
Preferred	88	60
Common shares issued (1)	152	115
Repurchase of common shares – normal course issuer bid (2)	(646)	(844)
Preferred shares issued	1,150	600
Preferred shares redeemed	(150)	(250)
Subordinated debentures issued	87	–
Repurchase and redemption of debentures (3)	(985)	(955)
Issuance of Trust subordinated notes (4)	1,000	–

(1) Represents cash received for stock options exercised during the year.
(2) For further details, refer to Note 18 to our Consolidated Financial Statements.
(3) For further details, refer to Note 16 to our Consolidated Financial Statements.
(4) For further details, refer to Note 17 to our Consolidated Financial Statements.

In 2007, we undertook several initiatives to support the effective management of our capital.

Tier 1

In 2007, we repurchased 11.8 million common shares for $646 million under our NCIB that expired on October 31, 2007. Effective November 1, 2007, we renewed our NCIB to repurchase up to 20 million common shares, or 1.6%, of our outstanding common shares as at October 31, 2007. This NCIB will expire on October 31, 2008.

On April 26, 2007, we issued $250 million of Non-cumulative First Preferred Shares Series AG at $25 per share.

On March 14, 2007, we issued $200 million of Non-cumulative First Preferred Shares Series AF at $25 per share.

On January 19, 2007, we issued $250 million of Non-cumulative First Preferred Shares Series AE at $25 per share.

On December 13, 2006, we issued $250 million of Non-cumulative First Preferred Shares Series AD at $25 per share.

On November 24, 2006, we redeemed all of the issued and outstanding $150 million Non-cumulative First Preferred Shares Series O.

On November 1, 2006, we issued $200 million of Non-cumulative First Preferred Shares Series AC at $25 per share.

Tier 2

During the year, we purchased US$24 million of our outstanding US$300 million floating rate debentures maturing in 2085.

On June 26, 2007, we issued JP¥10 billion (C$87 million) Japanese Yen-denominated subordinated debentures.

On June 4, 2007, we redeemed all of our outstanding $500 million subordinated debentures due June 4, 2012, at par value plus accrued interest.

On April 30, 2007, we issued $1 billion of subordinated debentures through RBC Subordinated Notes Trust, a closed-end trust wholly owned by us.

On November 8, 2006, we redeemed all of our outstanding US$400 million floating-rate subordinated debentures due November 8, 2011, for 100% of their principal amount plus accrued interest to the redemption date.

Dividends

Our common share dividend policy reflects our earnings outlook, desired payout ratio and the need to maintain adequate levels of capital to fund business opportunities. The targeted common share dividend payout ratio for 2007 was 40% to 50%. In 2007, the dividend payout ratio was 43%, up from 40% in 2006. Common share dividends paid during the year were $2.3 billion, up 26% from a year ago.

Share data and dividends — **Table 40**

	2007			2006			2005		
(C$ millions, except number of shares and per share amounts)	Number of shares (000s)	Amount	Dividends per share	Number of shares (000s)	Amount	Dividends per share	Number of shares (000s)	Amount	Dividends per share
First Preferred (1)									
Non-cumulative Series N	12,000	$ 300	$ 1.18	12,000	$ 300	$ 1.18	12,000	$ 300	$ 1.18
Non-cumulative Series O	–	–	–	6,000	150	1.38	6,000	150	1.38
Non-cumulative Series S	–	–	–	–	–	1.33	10,000	250	1.53
Non-cumulative Series W	12,000	300	1.23	12,000	300	1.23	12,000	300	.99
Non-cumulative Series AA	12,000	300	1.11	12,000	300	.71	–	–	–
Non-cumulative Series AB	12,000	300	1.18	12,000	300	.41	–	–	–
Non-cumulative Series AC	8,000	200	1.22	–	–	–	–	–	–
Non-cumulative Series AD	10,000	250	1.06	–	–	–	–	–	–
Non-cumulative Series AE	10,000	250	.95	–	–	–	–	–	–
Non-cumulative Series AF	8,000	200	.77	–	–	–	–	–	–
Non-cumulative Series AG	10,000	250	.65	–	–	–	–	–	–
Total First Preferred		$ 2,350			$ 1,350			$ 1,000	
Common shares outstanding	1,276,260	$ 7,300	$ 1.82	1,280,890	$ 7,196	$ 1.44	1,293,502	$ 7,170	$ 1.18
Treasury shares – preferred	(249)	(6)		(94)	(2)		(91)	(2)	
Treasury shares – common	(2,444)	(101)		(5,486)	(180)		(7,053)	(216)	
Stock options									
Outstanding	26,623			32,243			36,481		
Exercisable	21,924			26,918			28,863		

(1) As at October 31, 2007, the aggregate number of common shares issuable on the conversion of the First Preferred Shares Series N was approximately 5,743,000. As at October 31, 2007, the First Preferred Shares Series W was not yet convertible. The other preferred shares do not have conversion options.

As at November 23, 2007, the number of outstanding common shares and stock options were 1,276,292,000 and 26,591,000, respectively. As at November 23, 2007, the number of Treasury shares – preferred and Treasury shares – common were 263,000 and 2,775,000, respectively. For further information about our share capital, refer to Notes 18 and 21 to our Consolidated Financial Statements.

Hedging foreign currency-denominated operations

Increasing amounts of U.S. dollar-denominated assets and deductions from regulatory capital prompted our development of a policy for hedging our foreign exchange exposure with respect to our foreign operations. The objectives of our hedging policy are: (i) stabilization of our consolidated regulatory capital ratios from currency fluctuations, and (ii) mitigation of potential earnings volatility that might result if we dispose of these investments in foreign operations. When the Canadian dollar strengthens/weakens against other currencies, the losses/gains on net foreign investments reduce/increase our capital, as well as our RAA and goodwill of the foreign currency-denominated operations. Selecting an appropriate level of hedging for our investment in foreign operations ensures that our regulatory capital ratios are not materially impacted by currency fluctuations due to the offsetting impact of the proportionate movements in the assets and capital.

Hedging our operations denominated in foreign currencies promotes orderly and efficient capital management. It facilitates compliance with regulatory requirements on an ongoing basis and enables us to maintain greater control over key capital ratios, thereby reducing the need for capital transactions in response to currency fluctuations.

Economic Capital

Economic Capital is our own quantification of risks associated with business activities. Economic Capital is defined as the capital required to remain solvent and in business even under extreme market conditions, given our desire to maintain a debt rating of at least AA. Economic Capital is attributed to each business segment in proportion to management's assessment of the risks. It allows for comparable performance measurements among our business segments through Return on Equity (ROE) and Return on Risk Capital (RORC), which are described in detail in the Key performance and non-GAAP measures section. Accordingly, Economic Capital aids senior management in resource allocation and serves as a reference point for the assessment of our aggregate risk appetite in relation to our financial position, recognizing that factors outside the scope of Economic Capital must also be taken into consideration.

Economic Capital is also used to assess the adequacy of our capital base. Our policy is to maintain a level of common equity and other instruments with equity-like permanence and loss absorption features that exceed Economic Capital with a comfortable cushion.

Economic Capital is calculated and attributed on a wider array of risks than is regulatory capital, which is primarily limited to credit, market (trading) and, under Basel II, operational risk. Economic Capital also includes goodwill and intangibles. The identified risks (described below) for which we calculate Economic Capital are credit, market (trading and non-trading), operational, business, fixed asset, and insurance. Additionally, Economic Capital allows for diversification benefits across risks and business segments.

- *Credit risk* is the risk of loss associated with a counterparty's inability or unwillingness to fulfill its payment obligations.
- *Market risk* is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, equity or commodity prices, or the volatility of these factors, in both banking and trading books. Market risk can be exacerbated by thinly traded or illiquid markets.
- *Operational risk* is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.
- *Business risk* is the risk of loss due to variances in volumes, prices and costs caused by competitive forces, regulatory changes, reputation and strategic risks.
- *Fixed asset risk* is defined as the risk that the value of fixed assets will be less than their book value at a future date.
- *Insurance risk* is the risk of loss that may occur when assumptions made in insurance product design and pricing activities differ from actual experience.

For further discussion of credit, market, operational and insurance risk, refer to the Risk management section.

The calculation and attribution of Economic Capital involves a number of assumptions and judgments. The methodologies are continually monitored to ensure that the Economic Capital framework is comprehensive and consistent. Economic Capital measurement models and techniques are developed by GRM and are subject to independent assessment for appropriateness and reliability. The models are continually benchmarked to leading industry practices via participation in surveys, reviews of methodologies and ongoing interaction with external risk-management industry professionals. The models and input parameters are subject to independent vetting and validation, as per internal model risk policies.

Economic Capital — Table 41

(C$ millions average balances)	2007	2006
Credit risk	$ 6,850	$ 5,800
Market risk (trading and non-trading)	2,700	2,500
Operational risk	2,750	2,450
Business and fixed asset risk	2,000	1,800
Insurance risk	150	200
Risk capital	$ 14,450	$ 12,750
Goodwill and intangibles	5,550	4,650
Economic Capital	$ 20,000	$ 17,400
Unattributed capital	2,000	2,500
Common equity	$ 22,000	$ 19,900

Economic Capital increased $2.6 billion from a year ago largely due to increases in Credit risk capital, Goodwill and intangibles and Operational risk capital. The increases in Credit risk and Operational risk capital were primarily due to business growth including the impact of our acquisitions of Flag, the AmSouth branches and Carlin. Goodwill and intangibles increased primarily as a result of these acquisitions, which were partially offset by the favourable impact of a stronger Canadian dollar on the translated value of foreign currency-denominated assets.

We remain well capitalized with current levels of qualified equity exceeding the Economic Capital required to underpin all of our risks.

Subsidiary capital

Management of consolidated capital has become a strategic objective for us as the amount of capital deployed in subsidiaries to build their businesses has grown in order to maximize profits and returns to our shareholders. Accordingly, regulatory bodies have focused on ensuring that for all internationally active banks, capital recognized in regulatory capital measurements is accessible by the parent entity. At the same time, subsidiaries should be sufficiently capitalized on a stand-alone basis and in compliance with local regulatory requirements at all times. In addition to minimum capital requirements, these local regulations may include restrictions on the transfer of assets in the form of cash, dividends, loans or advances. For further details, refer to Note 18 to our Consolidated Financial Statements. To balance these regulatory requirements and facilitate the co-ordinated generation and allocation of capital across the enterprise, we have put in place a comprehensive subsidiary capital management framework. This framework sets guidelines for defining capital investments in our subsidiaries and establishes an overall limit for total investment in those subsidiaries.

While each of our subsidiaries has individual responsibility for calculating, monitoring and maintaining capital adequacy in compliance with the laws and regulations of its local jurisdiction, Corporate Treasury is mandated to provide centralized oversight and consolidated capital base management across various entities.

Other considerations affecting capital

Transition to Basel II

Beginning in the first quarter of 2008, as a result of the OSFI's adoption of new guidelines based on "International Convergence of Capital Measurement and Capital Standards: A Revised Framework – Comprehensive Version (June 2006)," known as Basel II, Canadian banks will be required to calculate and report their regulatory capital ratios under new measurement standards. We intend to adopt the Advanced Internal Ratings Based (AIRB) Approach for credit risk and, initially, the Standardized Approach for operational risk. There will be no changes in the treatment of market risk. For details on our Basel II risk approaches, refer to the Risk management section.

As part of the Basel II process, Canadian banks must demonstrate to the OSFI that they have met the AIRB requirements and that their capital reporting is accurate and of high quality. The OSFI has been engaged in extensive AIRB approval reviews throughout 2007. Our final application package, for adoption of the AIRB Approach for most material portfolios, was submitted to the OSFI on October 31, 2007 and the formal approval decision is expected by December 31, 2007. Once we achieve full compliance with the AIRB requirements and the OSFI has agreed, we may proceed to reflect capital below Basel I levels, subject to a two-year transitional floor requirement where our capital must reflect 90% and 80% of our Basel I capital charges. As required by the OSFI since November 1, 2006, we have been calculating capital requirements in parallel under both the Basel I and Basel II rules.

Also, the OSFI has made some allowances for staged implementation. In particular, the OSFI has approved a waiver for RBC Centura Bank to use the Standardized Approach for credit risk until 2010. We have also been granted an extension (applicable to non-North American portfolios) for RBC Dexia IS, which plans to implement the AIRB approach by June 2008. Additionally, the OSFI has approved an exemption for our Caribbean banking operations to report under the Standardized Approach as long as that portfolio remains non-material (defined as 1% or less of total balance sheet and credit equivalent amounts).

Notwithstanding that our risk and capital management processes were already substantially consistent with the principles embodied in Basel II, we have introduced new policies and enhanced practices, as appropriate, to facilitate transition to Basel II. These include meeting requisite standards for:

- risk rating system design and operation
- risk quantification, validation, and use of rating systems and internal ratings
- corporate governance and oversight
- implementation of a robust internal capital adequacy assessment process (ICAAP).

Our approach to capital adequacy is a co-ordinated effort involving functional units such as GRM, Corporate Treasury, and Finance. Currently, GRM works in partnership with our businesses to identify, measure, mitigate and monitor all forms of risk, as described in the Risk management section. Capital adequacy is assessed and determined with consideration of the full range of risk controls and capital management tools available to us. We view capital adequacy as a dynamic process that considers multiple variables, including earnings, asset growth and capital transactions, within regulatory and financial market constraints in order to meet strategic goals.

Our initial ICAAP was presented to the Audit Committee in October 2007. This ICAAP incorporates senior management oversight, comprehensive risk-based stress testing of regulatory capital requirements and our own assessment of risk based on Economic Capital, which is expected to play a greater role in capital adequacy assessments under Basel II.

Our ICAAP demonstrates that we are well capitalized, having enough capital to meet management's assessment of required capital under both normal market conditions and a range of severe but plausible stress testing scenarios. It serves as an important tool in the establishment of our internal capital ratios target within the broader context of our capital management framework, and will be subject to annual review and ongoing development.

In addition to our ICAAP, several of our subsidiaries are required to submit entity level ICAAPs to local regulators. While these assessments are the responsibility of the respective subsidiaries, Corporate Treasury liaises with subsidiaries to ensure enterprise-wide consistency.

Our implementation of Basel II will produce capital requirements that may differ from those calculated under the current Basel I framework. For the most part, this reflects a shift in calculation methodology from application of prescribed risk weights to processes that are more closely aligned with our internal risk management practices. Also, Basel II incorporates a specific charge for operational risk that is not currently required under Basel I. As Basel II will be applied on a prospective basis, comparability to historical data and capital ratios reported under Basel I may be difficult.

Disclosure requirements under Basel II will begin with our first quarter 2008 financial disclosure, and will continue to evolve over 2008, with all quantitative and qualitative requirements being met with the release of our 2008 annual report.

Accounting considerations

In addition to the regulatory environment, we closely monitor changes in accounting rules and their potential impact on our capitalization levels. With the recent adoption of the new financial instruments accounting standards under Canadian GAAP, differences exist between the measurement of capital as disclosed in the financial statements and that used for regulatory capital purposes. For example, under Canadian GAAP, available-for-sale (AFS) debt securities are recognized at fair value, with unrealized gains and losses reported in Accumulated other comprehensive income (AOCI). In contrast, for regulatory capital purposes, these securities are measured at amortized cost, and consequently, no unrealized gains or losses are reflected in regulatory capital. Additionally, the unrealized gains and losses on derivatives designated as cash flow hedges and reported in AOCI are excluded from regulatory capital.

Capital treatment for equity investments in other entities is determined by a combination of accounting and legal guidelines based on the size or nature of the investment. Three broad approaches apply as follows:

- Consolidation: entities in which we have a controlling interest must be fully consolidated on our consolidated balance sheet. Joint ventures are consolidated on a pro rata basis. Consolidated holdings are capitalized directly by asset class and are not treated as equity investments for regulatory capital calculation purposes.

- Deduction: certain holdings are deducted in full from our regulatory capital. These include all "substantial" investments (as defined by the *Bank Act*), as well as all investments in insurance subsidiaries.
- Risk weighting: unconsolidated equity investments that are not deducted from capital are risk weighted at a prescribed rate for determination of capital charges.

While Basel II retains the same criteria for determination of capital treatment of equities, the prescribed risk weightings are generally higher than under Basel I.

Off-balance sheet arrangements

In the normal course of business, we engage in a variety of financial transactions that, under GAAP, are not recorded on our balance sheet. Off-balance sheet transactions are generally undertaken for risk management, capital management and/or funding management purposes for our benefit and the benefit of our clients. These transactions include transactions with special purpose entities and issuance of guarantees. These transactions give rise to, among other risks, varying degrees of market, credit, liquidity and funding risk, which are discussed in the Risk management section.

Derivatives

On November 1, 2006, we adopted three new accounting standards that were issued by the CICA related to financial instruments. These standards and the impact on our financial position and results of operations are discussed in the Impact of the new financial instruments accounting standards section and in Note 1 to our Consolidated Financial Statements. With the adoption of these standards, all derivatives including derivatives that qualified for hedge accounting are now recognized on the Consolidated Balance Sheets at fair value. Prior to November 1, 2006, derivatives that qualified for hedge accounting were not carried at fair value on our Consolidated Balance Sheets. Refer to Note 7 to our Consolidated Financial Statements for detailed information on our derivatives products.

Special purpose entities

Special purpose entities (SPEs) are typically set up for a single, discrete purpose, have a limited life and serve to legally isolate the financial assets held by the SPE from the selling organization. They are not operating entities and usually have no employees. SPEs may be variable interest entities (VIEs) as defined by CICA Accounting Guideline 15, *Consolidation of Variable Interest Entities* (AcG-15). Refer to the Critical accounting policies and estimates section and Notes 1 and 6 to our Consolidated Financial Statements, for our consolidation policy and information about the VIEs that we have consolidated, or in which we have significant variable interests. Pursuant to CICA Accounting Guideline 12, *Transfers of Receivables* (AcG-12), Qualifying SPEs (QSPE) are legal entities that are demonstrably distinct from the transferor, have limited and specified permitted activities, have defined asset holdings and may only sell or dispose of selected assets in automatic response to specified conditions.

We manage and monitor our involvement with SPEs through our Structured Transactions Oversight Committee. Refer to the Risk management section for further details.

Securitization of our financial assets

We periodically securitize our credit card receivables and residential mortgage loans primarily to diversify our funding sources and enhance our liquidity position. We also securitize residential and commercial mortgage loans for sales and trading activities. Gains and losses on securitizations are included in Non-interest income. Refer to Note 1 to our Consolidated Financial Statements for our accounting policy for loan securitizations.

In addition to traditional securitizations where we sell our loans and receivables, we also enter into synthetic securitizations to transfer risks relating to selected elements of our financial assets without actually transferring the assets through the use of certain financial instruments.

Credit card receivables

We securitize a portion of our credit card receivables through a SPE on a revolving basis. The SPE is funded through the issuance of senior and subordinated notes collateralized by the underlying credit card receivables. The issuances are rated by at least two of DBRS, Moody's Investors Service (Moody's) or Standard & Poor's Corporation (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 this SPE.

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

Residential mortgage loans

We securitize Canadian insured residential mortgage loans through the creation of mortgage-backed securities (MBS) and sell a portion of these MBS to an independent SPE on a revolving basis. We retain interests in the excess spread on the sold MBS and continue to service the underlying mortgages that we have securitized for funding and liquidity purposes.

We did not securitize any residential mortgages synthetically in 2007. As at October 31, 2006, we had synthetically securitized $20 billion in residential mortgage loans through financial guarantees.

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 that carry 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 the SPE that is sponsored by us.

Our financial asset securitizations		Table 42
($C millions)	2007	2006
Outstanding securitized assets		
Residential mortgages	$ 18,384	$ 14,131
Credit cards	3,650	3,650
Commercial mortgages	3,727	1,914
Total	$ 25,761	$ 19,695
Retained interests		
Residential mortgages		
Mortgage-backed securities retained (1)	$ 5,954	$ 5,591
Retained rights to future excess interest	414	206
Credit cards		
Asset-backed securities purchased (2)	870	1,390
Retained rights to future excess interest	27	26
Subordinated loan receivables	3	6
Commercial mortgages		
Asset-backed securities purchased (2)	47	–
Total	$ 7,315	$ 7,219

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

Securitization activities during 2007

During the year, we securitized $13.3 billion of residential mortgages, of which $6.2 billion were sold, $3.7 billion were reinvested in revolving securitizations and the remaining $3.4 billion were retained. We also securitized $1.9 billion of commercial mortgages and purchased $48 million (principal value) related securities during the securitization process. Refer to Note 5 to our Consolidated Financial Statements for further details and the amounts of impaired and past due loans that we manage and any losses recognized on securitization activities during the year.

Capital trusts

We issue innovative capital instruments, RBC Trust Capital Securities (TruCS) and RBC Trust Subordinated Notes (TSNs), through three SPEs: (i) RBC Capital Trust (Trust), (ii) RBC Capital Trust II (Trust II) and (iii) RBC Trust Subordinated Trust (Trust III). We consolidated Trust but do not consolidate Trust II or Trust III because we are not the Primary Beneficiary since we are not exposed to the majority of the expected losses, and we do not have a significant interest in these trusts. As at October 31, 2007, we held the residual interest of $1 million and $1 million (2006 – $1 million and nil) in Trust II and Trust III, respectively. We had a loan receivable of $40 million (2006 – $42 million) from Trust II and of $30 million from Trust III (2006 – nil), and reported the senior deposit notes of $900 million and $999.8 million (2006 – $900 million and nil) that we issued to Trust II and Trust III in our deposit liabilities. Under certain circumstances, TruCS of Trust II will be automatically exchanged for our preferred shares and TSNs exchanged for our subordinated notes without prior consent of the holders. In addition, TruCS holders of Trust II have the right to exchange for our preferred shares as outlined in Note 17 to our Consolidated Financial Statements.

Interest expenses on the senior deposit notes issued to Trust II and Trust III amounted to $52 million and $23.6 million, respectively (2006 – $52 million and nil, 2005 – $52 million and nil) during the year. For further details on the capital trusts and the terms of the TruCS and TSNs issued and outstanding, refer to the Capital management section and Note 17 to our Consolidated Financial Statements.

Securitization of client financial assets

Within our Global Securitization Group, our principal relationship with SPEs comes in the form of administering seven multi-seller asset-backed commercial paper conduit programs (multi-seller conduits) – four in Canada and three in the United States. We are involved in the multi-seller conduit markets because our clients value these transactions, they offer us a growing source of revenue and they generate a favourable risk-adjusted return for us. Our clients primarily utilize multi-seller conduits to diversify their financing sources and to reduce funding costs by leveraging the value of high-quality collateral. The multi-seller conduits purchase various financial assets from clients and finance the purchases by issuing highly rated asset-backed commercial paper. The multi-seller conduits typically purchase the financial assets as part of a securitization transaction by our clients. In these situations, the sellers of the financial assets continue to service the respective assets and generally provide some amount of first-loss protection on the assets.

The multi-seller conduits also financed assets that were either in the form of securities, including collateralized debt obligations (CDOs) or instruments that closely resemble securities such as credit-linked notes. The credit quality of these transactions is very high, often in the highest available rating categories established by the rating agencies that assign ratings to these types of securities or security-like instruments. In these situations, the multi-seller conduit is often one of many investors in the securities or security-like instruments.

The commercial paper issued by each multi-seller conduit is in the multi-seller conduit's own name with recourse to the financial assets owned by the multi-seller conduit. The multi-seller conduit commercial paper is non-recourse to us except through our participation in liquidity and/or credit enhancement facilities, and non-recourse to the other multi-seller conduits that we administer.

We do not maintain any ownership or retained interests in these multi-seller conduits. We provide services such as transaction structuring and administration as specified by the multi-seller conduit program documents, for which we receive fees. In addition, we provide backstop liquidity facilities and partial credit enhancements to the multi-seller conduits. Our maximum exposure to loss under these facilities is $42.9 billion for 2007 and $35.1 billion for 2006. The increase in liquidity and credit facilities is due to the increase in the multi-seller conduits' activities during the year. We have no rights to, or control of, the assets owned by the multi-seller conduits. Fee revenue for all such services, which is reported as Non-interest income, amounted to $72 million during the year (2006 – $60 million, 2005 – $58 million).

Total commitments and amounts outstanding under liquidity and credit enhancement facilities for the multi-seller conduits as at October 31, 2007 and 2006, which are also included in our discussion in the Guarantees section, are shown below:

Liquidity and credit enhancement facilities						Table 43
	2007			2006		
($C millions)	Committed	Maximum exposure to loss	Outstanding	Committed	Maximum exposure to loss	Outstanding
Backstop liquidity facilities	$ 42,567	$ 38,726	$ –	$ 34,880	$ 31,686	$ –
Credit enhancement facilities	4,185	4,185	–	3,404	3,404	–

The following is a summary of our maximum exposure to loss categorized by securitized client asset type in the multi-seller conduits for the years ended October 31, 2007 and 2006.

Maximum exposure to loss by client asset type — Table 44

(C$ millions)	2007	2006
Outstanding securitized assets		
Auto loans and leases	$ 12,157	$ 7,073
Asset-backed securities	164	195
Consumer loans	1,769	2,659
Credit cards	11,125	8,856
Dealer floor plan receivables	496	–
Electricity market receivables	306	306
Equipment receivables	2,279	2,132
Insurance premiums	610	664
Other loans	288	–
Residential mortgages	3,793	4,358
Securities	1,669	1,497
Student loans	2,654	2,928
Trade receivables	5,133	3,537
Truck loans and leases	468	885
Other	–	–
Total	$ 42,911	$ 35,090

All the multi-seller conduits were restructured in 2004. As part of the restructurings, an unrelated third party (expected loss investor) agreed to absorb credit losses, up to a maximum contractual amount, that may occur in the future on the assets in the multi-seller conduits (multi-seller conduit first-loss position) before us and the multi-seller conduit's debt holders. In return for assuming this multi-seller conduit first-loss position, the expected loss investor is paid by the multi-seller conduit a return commensurate with its risk position. Moreover, each multi-seller conduit has granted to the expected loss investor material voting rights, including the right to approve any transaction prior to the multi-seller conduit purchasing and financing a transaction. As a result of the restructurings, we do not consolidate any of the multi-seller conduits. As a result of increased activities during 2007, these seven multi-seller conduits have financial assets totalling $29.3 billion as at October 31, 2007 (2006 – $24.8 billion). The maximum assets that may have to be purchased by the conduits under purchase commitments outstanding as at October 31, 2007 were $41.8 billion (2006 – $34.3 billion).

Creation of credit investment products

We use SPEs to generally transform credit derivatives into cash instruments, to distribute credit risk and to create customized credit products to meet the needs of investors with specific requirements. As part of this process, we may transfer our assets to the SPEs with an obligation to buy these assets back in the future and may enter into derivative contracts with these SPEs in order to convert various risk factors such as yield, currency or credit risk of underlying assets to meet the needs of the investors. In this role as derivative counterparty to the SPE, we also assume the associated counterparty credit risk of the SPE.

These SPEs often issue notes. The notes may be rated by external rating agencies, as well as listed on a stock exchange, and are generally traded via recognized bond clearing systems. While the majority of the notes are expected to be sold on a "buy and hold" basis, we may occasionally act as market maker. We do not, however, provide any SPE with guarantees or other similar support commitments; instead we buy credit protection from these SPEs through credit derivatives. The investors in the notes ultimately bear the cost of any payments made by the SPE under these credit derivatives. We consolidate the SPEs in which our investments in the notes expose us to a majority of the expected losses.

There are many functions required to create such a product. We fulfill some of these functions and independent third parties or specialist service providers fulfill the remainder. Currently we act as sole arranger and swap provider for SPEs where we are involved and, in most cases, act as paying and issuing agent as well. As with all our trading derivatives, the derivatives with these SPEs are carried at fair value in derivative-assets and liabilities.

The assets in these SPEs amounted to $5.2 billion as at October 31, 2007 (2006 – $3.8 billion), of which $.3 billion were consolidated as at October 31, 2007 (2006 – $.7 billion). The majority of the increase in these assets is due to the creation of new SPEs in 2007.

Structured finance

We occasionally invest in off-balance sheet entities in the form of loan substitute and equity investments that are part of transactions structured to achieve a desired outcome, such as limiting exposure to specific assets or risks, obtaining indirect (and usually risk mitigated) exposure to financial assets, funding specific assets, supporting an enhanced yield and meeting client requirements. These transactions usually yield a higher return or provide lower-cost funding on an after-tax basis than financing non-SPE counterparties, holding an interest in financial assets directly, or receiving on-balance sheet funding. These transactions are structured to mitigate risks associated with directly investing in the underlying financial assets, or directly receiving funding, and may be structured so that our ultimate credit risk is that of a non-SPE, which in most cases is another financial institution. Exit mechanisms are built into these transactions to curtail exposure from changes in law or regulations. We consolidate structured finance VIEs in which our interests expose us to a majority of the expected losses. In 2007, we reduced our total investments in certain transactions. The unconsolidated entities in which we have significant investments or loans had total assets of $4.8 billion as at October 31, 2007 (2006 – $6.9 billion). As at October 31, 2007, our total investments in and loans to these entities were $2.5 billion (2006 – $2.9 billion), which are reflected on our Consolidated Balance Sheets.

Investment funds

We enter into derivative transactions with third parties including mutual funds, unit investment trusts and other investment funds for fees to provide their investors with the desired exposure and hedge our exposure from these derivatives by investing in other funds. We consolidate the investment funds when our participation in the derivative or our investment in other funds exposes us to a majority of the respective expected losses. The total assets held in the funds where we have significant exposure and which we did not consolidate were $1.6 billion as at October 31, 2007 (2006 – $3.6 billion). The decrease is primarily due to a reduction of assets in one of the investment funds. As at October 31, 2007, our total exposure was $423 million (2006 – $319 million).

Trusts, mutual and pooled funds

Our joint venture *RBC Dexia IS* provides global custody, fund and pension administration of client assets as well as the provision of shareholders services, foreign exchange, securities lending and other related services. With respect to trusteeship and/or custodian services for personal and institutional trusts, *RBC Dexia IS* has a fiduciary responsibility to act in the best interests of the beneficiaries of the trusts. *RBC Dexia IS* earns fees for providing these services and we include 50% of these fees in our revenue, representing our share of interest in the joint venture. Refer to Note 9 to our Consolidated Financial Statements for more details.

We manage assets in mutual and pooled funds and earn fees at market rates from these funds, but do not guarantee either principal or returns to investors in any of these funds.

Guarantees

We issue guarantee products, as defined by the CICA Accounting Guideline 14, *Disclosure of Guarantees* (AcG-14), in return for fees recorded in Non-interest income. Significant types of guarantee products we have provided to third parties include credit derivatives, written put options, securities lending indemnifications, backstop liquidity facilities, financial standby letters of credit, performance guarantees, stable value products, credit enhancements, mortgage loans sold with recourse and certain indemnification agreements.

Due to the adoption of the three new financial instrument accounting standards on November 1, 2006, financial guarantees are now recognized at inception at the fair value of the obligation undertaken in issuing the guarantee. Subsequent measurement of financial guarantees at fair value is not required unless the financial guarantee qualifies as a derivative. As the carrying value of these financial guarantees does not reflect our maximum potential amount of future payments, we continue to consider guarantees as off-balance sheet arrangements. Prior to November 1, 2006, financial guarantees were required to be disclosed only in the notes to our Consolidated Financial Statements.

Our maximum potential amount of future payments in relation to our guarantee products as at October 31, 2007, amounted to $152 billion ($2006 – $125 billion). In addition, as at October 31, 2007, *RBC Dexia IS* securities lending indemnifications totalled $63.5 billion ($2006 – $45.6 billion); we are exposed to 50% of this amount. The maximum potential amount of future payments represents the maximum risk of loss if there was a total default by the guaranteed parties, without consideration of possible recoveries under recourse provisions, insurance policies or collateral held or pledged.

As at October 31, 2007, we had $40.4 billion in backstop liquidity facilities related to asset-backed commercial paper programs, of which 96% were committed to RBC-administered multi-seller conduits.

Note 27 to our Consolidated Financial Statements provides detailed information regarding the nature and maximum potential exposure for the above-mentioned types of guarantee products.

Commercial commitments

We also provide commercial commitments to our clients to help them meet their financing needs. On behalf of our clients we undertake written documentary and commercial letters of credit, authorizing a third party to draw drafts on us up to a stipulated amount and typically having underlying shipments of goods as collateral. We make commitments to extend credit, which represent unused portions of authorizations to extend credit in the form of loans, bankers' acceptances or letters of credit. We also have uncommitted amounts for which we retain the option to extend credit to a borrower. These guarantees and commitments exposed us to liquidity and funding risks. The following is a summary of our off-balance sheet commercial commitments.

Commercial commitments (1) — Table 45

(C$ millions)	Within 1 year	1 to 3 years	Over 3 to 5 years	Over 5 years	Total
Documentary and commercial letters of credit	$ 477	$ 24	$ –	$ –	$ 501
Commitments to extend credit and liquidity facilities	40,015	30,053	22,596	8,924	101,588
Uncommitted amounts (2)	47,110	–	–	–	47,110
	$ 87,602	$ 30,077	$ 22,596	$ 8,924	$ 149,199

(1) Based on remaining term to maturity.
(2) Uncommitted amounts represent an amount for which we retain the option to extend credit to a borrower.

Risk management

Overview

Our business activities expose us to a wide variety of risks in virtually all aspects of our operations. We manage these risks by seeking to ensure that business activities and transactions provide an appropriate balance of return for the risk assumed and remain within our risk appetite.

Our management of risk is supported by sound risk management practices and effective enterprise risk management frameworks. The cornerstone of these frameworks is a strong risk management culture, supported by a robust enterprise-wide set of policies, procedures and limits, which involve our risk management professionals, business segments and other functional teams. This partnership is designed to ensure the ongoing alignment of business strategies and activities within our risk appetite.

Risk appetite

Our risk appetite framework provides a structured approach to defining the amount and type of risk we are able and willing to accept in the pursuit of our business objectives. The risk appetite framework includes:

- Identification of regulatory constraints that restricts our ability to accept risk and helps us to define our Risk Capacity, which represents the maximum amount and type of risk we can accept
- Establishment and regular confirmation of Self-Imposed Constraints & Drivers where we have chosen to limit or otherwise influence the amount of risk we undertake
- Translation of Risk Appetite into Risk Limits and Tolerances that guide our businesses in their risk taking activity
- Periodic measurement and monitoring of our Risk Profile, which compares actual exposure to our established Risk Limits and Tolerances.

Risk management principles

We apply the following six overarching principles in the identification, monitoring and management of risk throughout the organization:

(i) Balancing risk and reward is achieved through (a) aligning risk appetite with business strategy, (b) diversifying risk, (c) pricing appropriately for risk, (d) mitigating risk through preventive controls, and (e) transferring risk to third parties

(ii) Management of risk is shared at all levels of the organization. Business management is accountable for all risks assumed in their operations, with direction and oversight provided by Group Risk Management (GRM), Global Technology and Operations (GTO), and Global Functions

(iii) Effective decision-making is based on a strong understanding of risk

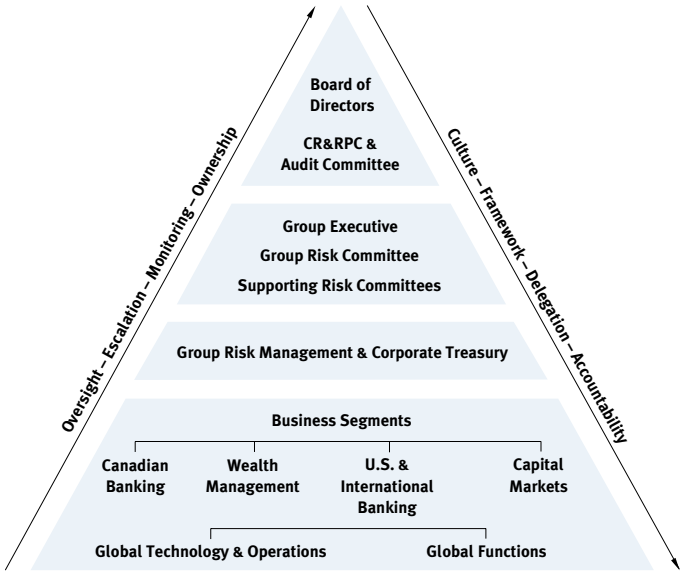
(iv) All business activities are conducted with the view of not risking our reputation

(v) Assuring that services we provide are suitable for and understood by our clients

(vi) Applying appropriate judgment is required throughout the organization in order to manage risk.

Risk governance

Our overall risk governance structure is presented below. It illustrates the roles and responsibilities of the various stakeholders.



Board and its committees

The Board of Directors provides oversight and carries out its risk management mandate through the Conduct Review and Risk Policy Committee (CR&RPC) and the Audit Committee.

CR&RPC is designed to ensure that we have risk policies, processes and controls in place to manage significant risks and ensure compliance with the *Bank Act* (Canada) and other relevant laws and regulations.

Audit Committee provides oversight over the integrity of the financial statements and reviews the adequacy and effectiveness of internal controls and the control environment, and ensures that policies related to liquidity, funding and capital management are in place.

Group Executive (GE) and Group Risk Committee (GRC)

GE is our senior management team and is led by our President and Chief Executive Officer (CEO). GE has overall responsibility for our strategy and its execution by establishing the "tone at the top." Their risk oversight role is executed primarily through the mandate of GRC and the five supporting risk committees as follows:

- The Asset and Liability Committee (ALCO) reviews, recommends, and approves policy frameworks pertaining to capital management, structural interest rate risk management, funds transfer pricing, liquidity and funding and subsidiary governance
- The Ethics and Compliance Committee directly supports our management of regulatory, compliance and reputation risk
- The Policy Review Committee acts as the senior risk approval authority relating to policies, products and services
- The Structured Transactions Oversight Committee reviews structured transactions and complex credits
- The USA Corporate Governance Committee is responsible for all corporate governance matters of our U.S. operations.

GRM and Corporate Treasury

GRM works in full partnership with our businesses to identify, assess, mitigate and monitor all forms of risk. Together with the CEO and other members of GE, the Chief Risk Officer (CRO) and GRM are primarily responsible for the promotion of our risk management culture. The CRO and GRM responsibilities include:

- Establishing comprehensive risk identification and approval processes
- Establishing appropriate methodologies for risk measurement
- Establishing risk controls and limits to ensure appropriate risk diversification and optimization of risk and return on both a portfolio and transactional basis
- Monitoring risk levels and reporting to senior management and the Board of Directors on major risks we assume or face
- Acting as the catalyst in defining and communicating our risk appetite.

Corporate Treasury is responsible for the management, oversight and reporting of our capital position, structural interest rate risk, and liquidity and funding risks. Corporate Treasury recommends policies and authorities relating to the identification, measurement and management of liquidity and funding risk through ALCO and GRC for approval by the Audit Committee.

Business segments and corporate support groups

The business segments, GTO and Global Functions also have responsibility for the management of risk. These responsibilities include (i) accountability for their risks, (ii) alignment of business strategy with risk appetite, and (iii) identification, control and management of their risks.

Risk measurement

Our ability to measure risks is a key component of our enterprise-wide risk management process. Certain measurement methodologies are common to a number of risk types, while others only apply to a single risk type. While quantitative risk measurement is important, we also place reliance on qualitative factors. Our measurement models and techniques are continually subject to independent assessment by GRM for appropriateness and reliability. For those risk types that are hard to quantify, we place greater emphasis on qualitative risk factors and assessment of activities to gauge the overall level of risk in order to ensure that they are within our risk appetite.

Expected loss

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

With respect to credit risk, the key parameters used to measure our expected loss are the probability of default (PD), loss given default (LGD) and exposure at default (EAD). These parameters are determined based on historical experience, supplemented by benchmarking and updated on a regular basis, and are defined as follows:

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

With respect to trading market risk, we use a statistical technique known as Value-at-Risk to measure expected loss. It is a generally accepted risk management concept that uses statistical models to estimate within a given level of confidence the maximum loss in market value we would experience in our trading portfolio from an adverse one-day movement in market rates and prices. For further details, refer to the Market risk section.

Unexpected loss and Economic Capital

Unexpected loss is a statistical estimate of the amount by which actual losses can exceed expected loss over a specified time horizon, measured at a specified level of confidence. On an enterprise-wide basis, we use Economic Capital to estimate the unexpected loss associated with our business activities. We calculate Economic Capital by estimating the level of capital that is necessary to cover risks consistent with our desired solvency standard and desired debt rating.

The use of Economic Capital as a risk measure enables us to assess performance on a comparable risk-adjusted basis at the transaction and portfolio levels. For further information, refer to the Capital management section.

Sensitivity analysis and stress testing

Sensitivity analysis and stress testing help us ensure that the risks we take remain within our risk appetite and that our level of capital remains adequate. Under sensitivity analysis, model inputs and assumptions are varied to assess how significantly the risk measure changes. Stress testing helps us determine the effects of potentially extreme market volatility on our portfolios. Stress scenarios are conservatively based on unlikely but possible adverse market events and economy-wide developments.

Model validation

To ensure robustness of our measurement techniques, model validation is carried out by our risk professionals independent of those responsible for the development and use of the models and assumptions.

Risk control

Our enterprise-wide risk management approach is supported by a comprehensive set of risk controls. This includes the development and communication of policies, establishment of formal risk review and approval processes, and the establishment of delegated authorities and limits. The implementation of robust risk controls enables the optimization of risk and return on both a portfolio and a transactional basis.

Risk policy architecture

Our risk management frameworks and policies are structured into the following four levels:

Level 1: Enterprise Risk Management Framework: This framework serves as the foundation of our risk management frameworks and policies, and sets the "tone at the top."

Level 2: Risk-Specific Frameworks: These individual frameworks elaborate on each risk type and explain the following areas:

- Mechanisms for identifying, measuring, monitoring and reporting of risk
- Key policies
- Respective roles and responsibilities related to a specific risk.

Level 3: Enterprise Risk Policies: These policies are considered our minimum requirements for our business segments, GTO and Global Functions with respect to various risk types.

Level 4: Business Segments and GTO Specific Policies and Procedures: These policies and procedures are established by the business segments and GTO to manage the risks that are unique to their operations.

Risk review and approval processes

Our risk review and approval processes are established by GRM based on the nature, size and complexity of the risk involved. In general, the risk review and approval process involves a formal review and approval by an individual, group or committee that is independent from the originator. The approval responsibilities are governed by delegated authorities based on the following four categories:

- Projects and Initiatives: Documentation of risk assessment is formalized through the requirement that each Project Appropriation Request (PAR) be reviewed and approved by GRM and Global Functions
- New Products and Services: The policies and procedures for the approval of new or amended products and services have been developed to ensure that our products and services are subject to a broad and robust review and approval process that fully considers associated risks, while striving to facilitate business opportunities
- Transactions: We ensure that risk assessment processes are in place for the review and approval of all types of transactions, including credit transactions
- Structured Transactions and Complex Credits: The Structured Transactions Oversight Committee reviews new structured products and transactions with significant reputation, legal, accounting, regulatory or tax risks.

Authorities and limits

The Board of Directors, through the CR&RPC, delegates the setting of credit, market and insurance risk limits to the CEO, Chief Operating Officer (COO) and CRO. These delegated authorities allow these officers to set risk tolerances, approve geographic (country and region) and industry sector exposure limits within defined parameters, and establish underwriting and inventory limits for trading and investment banking activities. These delegated authorities are reviewed and approved annually by the Board of Directors and the CR&RPC. GRM is responsible for establishing:

- The criteria whereby these authorities may be further delegated
- The minimum requirements for documenting, communicating and monitoring the use of these delegated authorities.

CR&RPC must approve any transactions which exceed management's delegated authorities.

The Board of Directors through the Audit Committee approves risk limits for controlling liquidity and funding risk. These limits form part of our liquidity management framework and are a key risk control designed to ensure that reliable and cost-effective sources of cash are available to satisfy our current and prospective commitments, both on- and off-balance sheet.

Reporting

Enterprise level risk monitoring and reporting is a critical component of our enterprise risk management program and supports the ability of senior management and the Board of Directors to effectively perform their risk management and oversight responsibilities.

Internal reporting is provided in the Enterprise Risk Report on a regular basis with the purpose of ensuring senior management and the Board of Directors receive timely and actionable forward-looking risk reporting on significant risk issues impacting our organization. We also have individual risk-specific reporting, which aligns with governance and relevant laws and regulations. Annually, the CRO provides the Board of Directors with a comprehensive review of emerging risks facing the organization as a whole as well as those facing the business segments. External reporting is provided as required by law and other relevant regulations. Regular reporting on risks is provided to stakeholders including regulators, external ratings agencies and analysts.

Basel II

As at November 1, 2007, we have implemented Basel II, which more closely aligns regulatory capital requirements with our underlying risk profile and internal risk management practices compared to Basel I. Basel II represents a major change in bank regulations, in that it allows banks to select from a menu of approaches to calculate the minimum capital required to support the credit risk and operational risks they undertake.

Credit risk

The Office of the Superintendent of Financial Institutions Canada (OSFI) expects each major bank in Canada to adopt the Advanced Internal Ratings Based (AIRB) Approach for all of its material portfolios, although some flexibility is permitted regarding the timing of adoption. For further details, refer to the Capital management section. Once our AIRB internal ratings systems have been approved by the OSFI, we are permitted to assess the credit risk of our exposures using our internal rating systems, and to employ the risk measurements produced by those ratings systems in the calculation of required regulatory capital.

Operational risk

The OSFI has been less prescriptive with respect to the calculation of capital for operational risk. The two options available to us under Basel II are the Standardized Approach and the Advanced Measurement Approach (AMA). We have elected to implement the more sophisticated risk management and governance practices that are required under AMA, but will initially use the Standardized Approach for the calculation of operational risk capital.

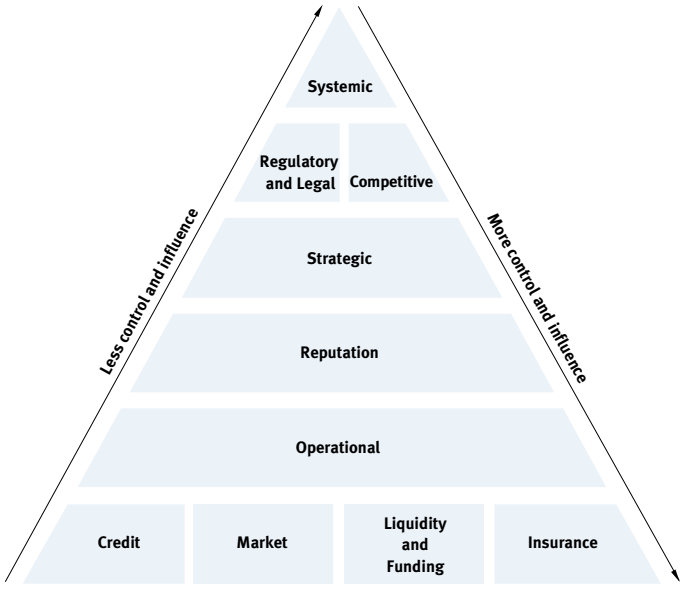
The Standardized Approach provides the benefits of sounder operational risk management and governance, positioning us to migrate to AMA once advances in measurement capabilities warrant the adoption of a model-based calculation approach. The OSFI fully endorses this strategy of focusing on sound management of operational risk while working towards more advanced measurement capabilities.

Market risk

Basel II treatment of market risk is unchanged from the treatment under Basel I.

Risk Pyramid

We use a pyramid to identify and categorize our risks. These risks are organized vertically within the Risk Pyramid to reflect the degree of controllability. The Risk Pyramid provides us with a common language and discipline for the identification and assessment of risk in our businesses, products, initiatives, acquisitions and alliances. The Risk Pyramid is reviewed regularly to ensure that all key risks are reflected and ranked appropriately.



The base of the pyramid – The risk categories along the base of the Risk Pyramid are those over which we have the greatest level of control and influence. These are credit, market, liquidity and funding, and insurance risks. Operational risk, while still viewed as one of the risks over which we have the most control and influence, is ranked on a higher level than the other highly controllable risks. This ranking acknowledges the level of controllability associated with people, systems and external events.

The middle of the pyramid – Strategic and reputation risks, while more controllable than the risks at the top of the pyramid, are considered less controllable compared to the risks at the base of the pyramid. Strategic risk arises in one of two situations: (i) we choose the wrong strategy, or (ii) we choose the right strategy, but execute it poorly. Reputation risk is placed in the middle of the pyramid to denote the fair degree of control and influence we can use to manage this risk type, which generally occurs in connection with other risks, primarily regulatory and legal, and operational risks.

The top of the pyramid – Systemic risk is placed at the top of the Risk Pyramid, which is the least controllable and typically cannot be managed through any type of direct mitigation efforts, such as risk limits and/or portfolio diversification. Regulatory and legal and competitive risks, which can be viewed as somewhat controllable, can be influenced through our role as a corporate entity, and as an active participant in the Canadian and global financial services industry.

Credit risk

Credit risk is the risk of loss associated with a counterparty's inability or unwillingness to fulfill its payment obligations. Credit risk may be direct (issuer, debtor, obligor or policyholder) or indirect to a secondary obligor (guarantor or reinsurer).

We offer a wide range of credit products and services to individual and business clients within Canada, the United States and in numerous countries. Core products offered include loans, residential and commercial mortgages, credit cards, lines of credit and letters of credit. Specialized credit services include asset-backed financing, margin lending, securities lending and project finance. The majority of our businesses offer credit products and services. Credit risk is also incurred through other activities not directly linked to the provision of credit products and services to clients, such as short-term investments relating to liquidity management and insurance business investment activities.

Our credit offerings are a significant driver of overall business performance. The failure to effectively manage credit risk across the organization and all products, services and activities can have a direct, immediate and material impact on our earnings and reputation.

Our credit risk management principles are guided by the six overall risk management principles discussed in the Risk management overview section. In particular, the following two principles are complemented by the items below with respect to credit risk management.

The effective balancing of risk and return is achieved through:

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

Our business activities are conducted with the view of not risking our reputation. Therefore, there are certain types of clients and transactions that we avoid in order to maintain our reputation, such as:

- Financing the manufacture of equipment or material for nuclear, chemical or biological warfare and landmines
- Financing of Internet gambling businesses
- Granting credit to entities subject to economic sanctions
- Credit transactions that facilitate illegal activity, or contribute to misleading financial statements or regulatory reporting
- Credit transactions involving undocumented agreements, disbursements or funds transfers
- Granting credit to a business or individual engaged in activities inconsistent with generally accepted standards of ethical behaviour in the community.

Responsibilities

We deem credit risk management to be an enterprise-wide activity. The following provides a high-level overview of the key committees involved in the management of credit risk.

Board of Directors and Conduct Review & Risk Policy Committee

- Shapes and influences credit risk culture; approves credit risk appetite.
- Ensures that management has in place frameworks, policies, processes and procedures to manage credit risk (including approval authority for Credit Risk Management Framework and key enterprise-wide credit risk policies), and evaluates our effectiveness in managing credit risk.
- Approves credit risk limits, delegates approval authorities to the CEO, COO, CRO, and approves credit transactions in excess of management's authorities.
- Reviews enterprise-wide credit reporting, significant exposures and exceptions to limits.

Group Risk Committee

- Ensures credit risk profile is consistent with strategic objectives.
- Ensures that there are ongoing, appropriate and effective risk management policies, processes and procedures to manage credit risk (including recommending the Credit Risk Management Framework and key enterprise-wide credit risk policies to the Board of Directors for approval).
- Approves credit policies and products with significant risk implications, as referred by the CRO.
- Recommends credit transactions in excess of management's authority to the Board of Directors for approval.
- Reviews enterprise-wide credit reporting, significant exposures and processes, and ensures that appropriate and timely information is provided to the Board of Directors on matters relating to credit risk and its management.

Policy Review Committee

- Reviews and recommends approval of the Credit Risk Management Framework.
- Approves enterprise-wide credit risk policies.
- Approves new and amended business specific credit risk policies and products with significant risk implications.

Structured Transactions Oversight Committee

- Provides risk oversight of structured transactions and complex credits, including identification and mitigation of risks.
- Reviews and approves products and transactions referred to it in accordance with our policies.

Risk measurement

Given the potential for credit risk to significantly impact our earnings, it is critical that we accurately quantify credit risk at both the individual obligor and portfolio levels. This allows us to effectively estimate expected credit losses and minimize unexpected losses in order to manage and limit earnings volatility.

Our credit risk exposures are classified as wholesale and retail portfolios, and we employ different risk measurement processes for each portfolio. The wholesale portfolio comprises business, sovereign and bank exposures, which include mid-size to large corporations and certain small businesses that are managed on an individual client basis. The retail portfolio is comprised of residential mortgages and personal, credit card and small business loans, which are managed on a pooled basis. This categorization of exposures is consistent with Basel II guidelines, which require banks to disclose their exposures based on how they manage their business and risks.

Credit risk rating systems are designed to assess and quantify the risk inherent in credit activities in an accurate and consistent manner. We use a two-dimensional rating system for both wholesale and retail credit exposures.

Wholesale credit portfolio

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

In the first dimension, each obligor is assigned a borrower risk rating (BRR), which reflects an assessment of the credit quality of the obligor. Each BRR has a probability of default (PD) assigned to it. This PD is an estimate of the probability that an obligor with a certain BRR will default within a one-year time horizon. The BRR differentiates the riskiness of obligors and represents our evaluation of the obligor's ability and willingness to meet its contractual obligations despite

adverse or stressed business conditions, troughs in the business cycle, economic downturns or unexpected events that may occur. The assignment of BRRs is based on the evaluation of obligors' business and financial performance against several risk factors. We use Risk Criteria Papers, which present a structured process for the consistent identification and analysis of material information needed to assess obligors in various industry sectors. Generally, the key risk factors assessed include industry, markets, firm competitiveness, company strategy and management quality, financial performance and access to funds. Risk Criteria Papers provide guidance on what to emphasize in the analysis of companies within an industry sector, and provide weightings, which may vary from industry to industry. Our internal risk ratings are reviewed at least on an annual basis.

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

Internal ratings map **Table 46**

Rating	Standard &Poor's	Moody's Investors Service	Description
1 to 4	AAA to AA-	Aaa to Aa3	Investment Grade
5 to 7	A+ to A-	A1 to A3	
8 to 10	BBB+ to BBB-	Baa1 to Baa3	
11 to 13	BB+ to BB-	Ba1 to Ba3	Non-investment Grade
14 to 16	B+ to B-	B1 to B3	
17 to 20	CCC+ to CC	Caa1 to Ca	
21 to 22	C to D	C to Bankruptcy	Impaired/Default

In the second dimension, loss given default (LGD) represents the portion of exposure at default (EAD) expected to be lost when an obligor defaults. LGD rates are largely driven by factors such as seniority of debt, collateral security, client type, and the industry in which the obligor operates. EAD represents an estimate of the expected gross exposure of a credit facility at the time of default of the obligor. At default the obligor may have drawn the facility fully or have repaid some of the principal. We estimate EAD based on the outstanding portion and an estimated amount of the undrawn portion that is expected to be drawn at the time of default. The estimation of these parameters represents a critical part of our credit rating system. It is a process of quantifying the risk associated with obligors and the related facilities by estimating and assigning values to the parameters. Parameter estimations are based on historical internal experience, and are benchmarked to external data where applicable. While PD is used at the obligor level, LGD and EAD are estimated for the various credit facilities under that obligor.

These ratings and risk measurements are used in the determination of our expected losses, unexpected losses as well as economic and regulatory capital. They are also used in the setting of risk limits, portfolio management and product pricing.

Retail credit portfolio

Credit scoring is the primary risk rating system for assessing obligor and transaction risk for retail exposures. Credit scoring is employed in the acquisition of new clients (acquisition scoring) and portfolio management of existing clients (behavioural scoring).

Acquisition scoring models, which are used for underwriting purposes, utilize established statistical methods of analyzing new applicant characteristics and past performance to estimate future credit performance. In model development, all accessible sources of data are used and include information obtained from the client (employment status), data from our own systems (loan information) and information from external sources (credit bureaus).

Behavioural scoring is used in the ongoing management of retail clients with whom we have an established relationship. It utilizes statistical techniques that capture past performance to predict future behaviour and incorporate information such as cash flow and borrowing trends, as well as the extent of our relationship with the client. The behavioural risk score is dynamic and is generally updated on a monthly basis to continually re-evaluate the risk. Characteristics used in behavioural scoring models are based on information from existing accounts and lending products for each client, and from information obtained from external sources, such as credit bureaus.

For overall portfolio management, retail exposures are assessed on a pooled basis, with each pool consisting of exposures that possess similar homogeneous characteristics. Pooling of exposures allows for more precise and consistent estimates of default and loss characteristics. Criteria used to pool exposures for risk quantification include behavioural score product type (mortgage, credit cards, lines of credit and installment loans), collateral type (chattel, liquid assets and real estate) and the delinquency status (performing, delinquent and default) of the exposure. Regular monitoring and periodic adjustments and alignments are conducted to ensure that this process provides for a meaningful differentiation of risk. It also allows the grouping of homogeneous exposures from a risk perspective and permits accurate and consistent estimation of loss characteristics at the pool level. Migration between the pools is considered when assessing credit quality.

The pools are assessed in two dimensions: PD and LGD. The estimation of PD and EAD considers both borrower and transaction characteristics, including behavioural credit score, product type and delinquency status. The LGD is estimated based on transaction specified factors, including product and collateral types. Our risk ratings are reviewed and updated on a regular basis.

The following table maps PD ranges to various risk levels:

Internal ratings map **Table 47**

PD bands	Description
0.0%–1.0%	Low Risk
1.1%–6.4%	Medium Risk
6.5%–99.99%	High Risk
100.00%	Impaired/Default

Validation

We ensure that our credit risk rating systems and methodologies are subject to independent validation on a regular basis. The validation processes provide confirmation that our systems properly identify factors that help discriminate risk, appropriately quantify risk, produce measures of risk that respond to changes in the macroeconomic and credit environments, and are consistent with regulatory requirements and our ratings philosophy. Those responsible for performing validation activities are functionally separate from the group whose methodologies and processes are subject to validation.

We ensure that there is proper separation of responsibility between (i) transaction origination and approval which takes place within the business segments, and (ii) design, development and maintenance of the risk rating methodologies, which takes place within GRM. GRM is also responsible for estimating the three risk parameters as described above. To ensure there is a proper segregation of responsibilities, models developed within the business segments are approved by GRM.

The validation of risk parameter estimation for both wholesale and retail portfolios addresses the estimation process and the reasonableness of the estimates used for the calculation of regulatory capital. The following items are examined and assessed:

- Quantification methodologies and processes, as well as the reasonableness of outputs
- Relationship between historical experience and internally derived parameter values that incorporate estimators' expert judgment and external benchmarking
- Sufficiency of data observations, the appropriateness of data sources and data segmentation
- Statistical significance and predictive power of the estimated values. Levels of tolerance are defined and mapped against actual results, with deviations explicitly noted.

A combination of quantitative (statistical) and qualitative (non-statistical) validation methods is employed to ensure that our credit risk rating system is valid. At a minimum, we adopt the following techniques intended to ensure that the validation process:

- Examines relevant and material data available from internal and external sources, to establish a context for assumptions, calculations and outputs
- Demonstrates that estimates are grounded in historical experience
- Provides reasonable predictors of future default and loss.

Detailed validation reports are produced for the assessment of risk rating methodology and risk parameter estimation.

Economic Capital

Economic Capital is management's estimate of the amount of equity required to underpin our risks. It is used in risk-based pricing decisions and profitability measurement to ensure an appropriate risk and return balance. Within our wholesale credit portfolio, it is also used in setting single-name and industry limits in order to manage concentration risk. For further details, refer to the Capital management section.

Sensitivity and stress testing

Sensitivity and stress tests are used to determine the size of potential losses related to various scenarios for the wholesale and retail credit portfolios. While unexpected losses are, by nature difficult to quantify, we use stress testing, scenario and sensitivity analysis to better understand and mitigate unexpected credit losses. These activities serve to alert management to unlikely but possible adverse market events and economy-wide developments and implications on overall capital adequacy. Scenarios for credit risk such as economic or industry downturns, are chosen on the basis of being meaningful, representative of realistic potential events or circumstances, and reasonably conservative.

Risk control

Our enterprise-wide credit risk policies are developed, communicated and maintained by GRM. These policies set out the minimum requirements for the prudent management of credit risk in a variety of transactional and portfolio management contexts.

Credit risk policies

Our credit risk policies have evolved over many years as the organization has grown in geographic scope and product complexity, and have been refined based on experience, regulatory influences and innovations in risk management and are managed under six major categories as follows:

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

Approval of credit products and services

Our products and services are subject to robust risk review and approval processes. New or amended products and services must be reviewed relative to all risk types, including credit risk, in our Risk Pyramid, and as the level of risk increases, a more senior level of approval is required.

Credit risk limits

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

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

The Economic Capital limit is intended to work as a complement to the notional limits and, as such, single names must satisfy both limits. To ensure single-name credit risk exposure remains well under regulatory thresholds, and concentration risk is prudently managed, we have established (i) internal single-name credit risk exposure limits as a percentage of total capital, which are lower than that required by the OSFI, and (ii) a broader and more conservative definition of single-name credit risk exposure than that used by the OSFI. These controls provide a significant buffer between our exposure tolerances and those of our regulators. Exceptions are monitored by GRM and reported to the CRO, with requisite reporting to the CR&RPC in accordance with its mandate.

Credit risk mitigation

We seek to mitigate our exposure to credit risk through a variety of means, including structuring of transactions, collateral and credit derivatives. The policies and processes that are in place regarding the monitoring of the effectiveness of our credit risk mitigation are discussed below.

Structuring of transactions

Proper structuring of a credit facility is a key factor in mitigating risk at the transaction level and often includes the use of guarantees, security, seniority and covenants. We use credit policies and procedures to set out requirements for structuring transactions. Product-specific guidelines set out appropriate product structuring and client criteria.

Collateral

We generally require obligors to pledge collateral as security when we advance credit. This provides some protection in case of default. Real estate, liquid assets, cash, bonds and government securities are examples of the collateral securities we accept. The extent of risk mitigation provided by collateral depends on the amount type and quality of the collateral taken. Specific requirements relating to collateral valuation and management are documented in our credit risk management policies. GRM manages collateral positions through a system, which maintains information according to counterparty. Valuations of collateral are based on various sources and are compared to our collateral positions.

Credit derivatives

We also mitigate risk through credit derivatives that serve to transfer the risk to a third party. These derivatives are also used as a tool to mitigate industry sector concentration and single name exposure. Procedures are in place to ensure these hedges are efficient and effective.

All derivative transactions supported by collateral are documented using industry-standard master agreements. Internal policies have been developed for each jurisdiction in order to ensure the legal enforceability of the collateral arrangements. Cash and securities held as collateral are held by us or by our authorized custodian. Concentration within the collateral taken is minimal.

Credit valuation adjustments are made for derivative transactions which are exposed to changes in counterparty credit quality. Credit valuation adjustments are calculated at least once a month using internal models and GRM-approved methodology, which consist of sophisticated mathematical algorithms. The reasonableness of the level of valuation adjustments is independently verified on a monthly basis.

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 for all financial instruments covered by the agreement in the event of default on, or termination of, any one contract with the counterparty. Our trading units provide GRM with all relevant details of outstanding transactions, including itemized mark-to-market data. This data is used to monitor the amount of netting benefit recognized. For further details, refer to Note 7 to our Consolidated Financial Statements.

Reporting

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

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

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

Loans and acceptances by portfolio and industry — Table 48

(C$ millions)	2007	2006	2005	2004	2003
Residential mortgages	$ 109,745	$ 96,675	$ 91,043	$ 81,998	$ 75,790
Personal	48,743	44,902	41,045	36,848	32,186
Credit cards	8,322	7,155	6,200	6,456	4,816
Small business (1)	2,652	2,318	1,951	1,928	1,335
Retail	$ 169,462	$ 151,050	$ 140,239	$ 127,230	$ 114,127
Business (2)					
Agriculture	5,367	5,435	5,238	4,992	4,789
Automotive	3,285	2,958	2,545	2,370	2,346
Consumer goods	5,206	4,553	4,437	4,566	4,920
Energy	7,632	6,010	5,628	3,462	3,621
Non-bank financial services	4,245	2,588	1,892	935	1,120
Forest products	1,349	1,126	1,210	1,150	1,523
Industrial products	4,119	3,659	3,157	2,827	2,952
Mining and metals	2,301	1,072	543	511	987
Real estate and related	19,187	16,145	13,730	12,224	12,286
Technology and media	2,423	2,326	2,244	2,135	2,723
Transportation and environment	2,656	2,400	1,900	2,555	3,196
Other	17,583	15,586	14,772	12,319	11,894
Sovereign (3)	932	887	550	800	732
Bank	5,468	3,252	903	668	1,176
Wholesale	$ 81,753	$ 67,997	$ 58,749	$ 51,514	$ 54,265
Total loans and acceptances	$ 251,215	$ 219,047	$ 198,988	$ 178,744	$ 168,392
Total allowance for loan losses	$ (1,493)	$ (1,409)	$ (1,498)	$ (1,644)	$ (2,055)
Total loans and acceptances, net of allowance for loan losses	$ 249,722	$ 217,638	$ 197,490	$ 177,100	$ 166,337

(1) Includes small business exposure managed on a pooled basis.
(2) Includes small business exposure managed on an individual client basis.
(3) Sovereign refers to all central governments and agencies, central banks, as well as other qualifying public sector entities and multilateral development banks.

Credit portfolio analysis

2007 vs. 2006

During 2007, our credit portfolio remained well diversified and continued to show strong growth. Total loans and acceptances increased $32 billion, or 15%, compared to the prior year, reflecting continued growth in both our retail and wholesale loan portfolios.

Retail credit portfolio

Retail loans increased $18 billion, or 12%, from a year ago, largely due to solid growth across all categories in our Canadian loan portfolio.

Residential mortgages were up $13 billion, or 14%, despite the offsetting effect of $13 billion of securitization during the year. The increase was supported by continued solid housing market activities in Canada, relatively low interest rates in a historical context, and strong labour market conditions.

Personal loans grew $4 billion, or 9%, primarily reflecting strong growth in home equity lending in Canada, driven by continued solid housing market activities and favourable labour market conditions.

Credit cards increased $1 billion, or 16%, reflecting successful sales efforts and continued consumer spending.

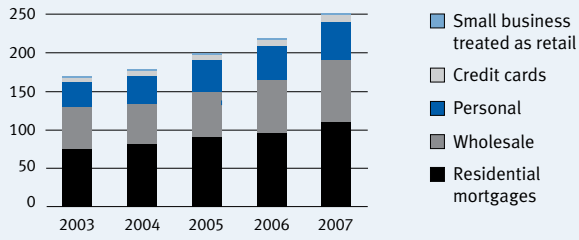
Wholesale credit portfolio

Wholesale loans and acceptances were up $14 billion, or 20%, primarily reflecting strong growth across various sectors, with the largest increase in the Real estate and related, Bank and Energy sectors. Our Real estate and related exposure increased $3 billion, largely attributable to continued strong property development activities in Canada. Our exposure to the Bank sector was up $2 billion, with widespread increases across Canada, the U.S. and Other International. Our exposure to the Energy sector increased $2 billion, primarily reflecting continued investments by companies related to electricity generation, as well as oil and gas exploration and production in Canada.

Our portfolio remained well diversified and the overall mix did not change significantly from the prior year. The portfolio remained well balanced with residential mortgages comprising 44%, wholesale loans 33%, personal loans 19%, credit cards 3% and small business managed on a pooled basis 1%.

The portfolio grew across all geographic regions. The largest increase was in Canada, with broad-based growth across both our retail and wholesale loan portfolios on generally favourable economic conditions. Growth in business lending accounted for most of the increase in the U.S. and Other International. For further details, refer to Table 59 in the Additional financial information section.

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



Five-year trend

Over the last five years, total loans and acceptances continued to grow. Compared to 2003, our portfolio increased $83 billion, or 49%, driven by growth in both our retail and wholesale loan portfolios.

Retail loans grew $55 billion, or 48%, since 2003, largely reflecting strong growth in Canada across all categories, particularly residential mortgages and personal loans, notwithstanding mortgage and credit card securitizations over the period. This growth reflected our continued focus on expanding our retail portfolios, underpinned by continued solid Canadian housing market activities, relatively low interest rates and strong labour market conditions.

Our wholesale portfolio grew $27 billion, or 51%, since 2003. The largest growth sectors were Real estate and related, Bank, Energy and Non-bank financial services, primarily driven by strong loan demand in Canada amid generally favourable economic conditions over the period. The increase in Real estate and related exposure over the period was largely due to relatively strong North American housing markets combined with our U.S. acquisitions. While the U.S. housing market had been relatively solid over the past few years, it slowed down significantly in the latter part of 2007, which tempered loan growth. Our exposure to the Energy sector increased $4 billion, largely attributable to increased investments by companies related to oil and gas exploration and production in Canada and the U.S.

Our portfolio in Canada continued to grow over the period, underpinned by our extensive distribution capabilities and continued product enhancement on the back of solid loan demand and generally favourable economic conditions. Our exposure in the U.S. and Other International generally trended downward except for the last three years, partly reflecting our strategic reduction in exposure to risk sensitive sectors, a reduction in single-name concentrations and our exit from non-core client relationships. With our successful strategic realignment in these areas, our exposure in the U.S. and Other International increased since 2005, primarily reflecting our successful market expansion initiatives, including acquisitions.

Credit derivatives position (notional amounts) (1) **Table 49**

	2007		2006	
(C$ millions)	Protection purchased (2)	Protection sold (2)	Protection purchased (2)	Protection sold (2)
Portfolio management				
Business				
Automotive	$ 379	$ –	$ 272	$ 5
Consumer goods	–	67	–	92
Energy	957	–	273	7
Non-bank financial services	1,161	–	441	–
Industrial products	–	–	–	35
Mining and metals	591	–	95	–
Real estate and related	413	–	–	–
Technology and media	10	–	6	11
Transportation and environment	335	–	177	–
Other	472	119	520	142
Sovereign (3)	220	–	–	–
Bank	731	–	22	–
Total portfolio management	$ 5,269	$ 186	$ 1,806	$ 292

(1) Comprises credit default swaps, total return swaps and credit default baskets.
(2) Net of offsetting protection purchased and sold in the amount of $261 million (2006 – $312 million).
(3) Sovereign refers to all central governments and agencies, central banks, as well as other qualifying public sector entities and multilateral development banks.

2007 vs. 2006

Total credit derivatives protection purchased increased $3 billion from the prior year. The credit protection bought was mainly related to the Non-bank financial services, Bank, Energy, and Mining and metals sectors, largely reflecting the acquisition of credit protection to mitigate single-name concentration risks in our portfolio. Our credit protection sold was down $106 million, or 36%, from a year ago. The decrease was mainly related to Industrial products, Consumer goods, and Technology and media sectors largely reflecting unfavourable U.S. financial market conditions.

Gross impaired loans and Allowance for credit losses

Loans are generally classified as impaired when there is no longer reasonable assurance of timely collection of the full amount of principal or interest.

The allowance for credit losses is maintained at a level that management believes is sufficient to absorb probable losses in both the on- and off-balance sheet portfolios. The allowance is evaluated on a quarterly basis based on our assessment of problem accounts, recent loss experience and changes in other factors, including the composition and quality of the portfolio and economic conditions. The allowance is increased by the provision for credit losses (which is charged to income) and decreased by the amount of write-offs net of recoveries. For further information, refer to the Critical accounting policies and estimates section and Note 1 to our Consolidated Financial Statements.

Gross impaired loans continuity — Table 50

(C$ millions, except percentage amounts)	2007	2006	2007 vs. 2006 Increase (decrease)	
Gross impaired loans, beginning of year				
Retail	$ 383	$ 340	$ 43	13%
Wholesale	451	434	17	4
	$ 834	$ 774	$ 60	8%
New impaired loans				
Retail	$ 926	$ 810	$ 116	14%
Wholesale	720	271	491	181
	$ 1,646	$ 1,081	$ 607	56%
Repayment, return to performing status, sold and other				
Retail	$ (132)	$ (144)	$ 12	8%
Wholesale	(340)	(164)	(218)	(133)
	$ (472)	$ (308)	$ (206)	(67)%
Net impaired loan formations				
Retail	$ 794	$ 666	$ 128	19%
Wholesale	380	107	273	255
	$ 1,174	$ 773	$ 401	52%
Write-offs				
Retail	$ (759)	$ (623)	$ (136)	(22)%
Wholesale	(109)	(90)	(19)	(21)
	$ (868)	$ (713)	$ (155)	(22)%
Gross impaired loans, end of year				
Retail	$ 418	$ 383	$ 35	9%
Wholesale	722	451	271	60
Total gross impaired loans	$ 1,140	$ 834	$ 306	37%
Key ratios				
Gross impaired loans as a % of loans and acceptances	.45%	.38%	n.m.	7 bps
Total net write-offs as a % of average net loans and acceptances	.30%	.25%	n.m.	5 bps

n.m. not meaningful

Allowance for credit losses continuity — Table 51

(C$ millions, except percentage amounts)	2007	2006	2007 vs. 2006 Increase (decrease)	
Specific allowance				
Balance, beginning of year	$ 263	$ 282	$ (19)	(7)%
Provision for credit losses	782	482	300	62
Write-offs	(868)	(713)	(155)	(22)
Recoveries	170	205	(35)	(17)
Adjustments	4	7	(3)	(43)
Specific allowance for credit losses, end of year	$ 351	$ 263	$ 88	33%
General allowance				
Balance, beginning of year	$ 1,223	$ 1,286	$ (63)	(5)%
Provision for credit losses	9	(53)	62	117
Adjustments	(11)	(10)	(1)	(10)
General allowance for credit losses, end of year	$ 1,221	$ 1,223	$ (2)	–
Allowance for credit losses	$ 1,572	$ 1,486	$ 86	6%

2007 vs. 2006

Total gross impaired loans (GIL) increased $306 million, or 37%, compared to the prior year, primarily reflecting higher impaired loans in our U.S. residential builder finance business triggered by the downturn in the U.S. housing market.

Retail gross impaired loans increased $35 million, or 9%, from a year ago. The increase mainly reflected higher impairment in both U.S. and Canadian residential mortgages and small business loans commensurate with portfolio growth in Canada, partially offset by lower impaired Canadian personal loans.

Wholesale gross impaired loans increased $271 million, or 60%, compared to the prior year. The increase was largely attributable to the Real estate and related sector, primarily reflecting higher impaired loans in our U.S. residential builder finance business as a result of the downturn in the U.S. housing market. This was partially offset by lower impaired loans in the Technology and media sector mainly due to the favourable resolution of a particular impaired loan.

Gross impaired loans as a percentage of loans and acceptances were .45% compared to .38% in the prior year, primarily reflecting higher impaired loans in our U.S. residential builder finance business. For further details, refer to Table 60 in the Additional financial information section.

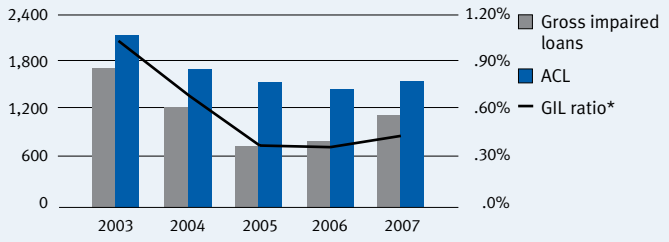
Allowance for credit losses

Total allowance for credit losses increased $86 million, or 6%, from a year ago, primarily reflecting increased specific allowance related to a weakening in credit quality of our U.S. residential builder finance loan portfolio.

The specific allowance increased $88 million, or 33%, from the prior year. The increase was mainly driven by higher impaired loans in our U.S. residential builder finance business, primarily reflecting the downturn in the U.S. housing market.

The general allowance remained relatively stable compared to the prior year, as an increase in allowance mainly related to our U.S. residential builder finance loan portfolio was offset by the impact of a stronger Canadian dollar on the translated value of our U.S. dollar-denominated allowance.

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



* GIL ratio: GIL as a percentage of loans and acceptances.

Five-year trend

Gross impaired loans

Gross impaired loans trended downward from 2003 to 2006, and decreased $911 million, or 52%, primarily reflecting lower impairment in our wholesale loan portfolio. In 2007, gross impaired loans increased $306 million, or 37%, from the prior year, largely due to higher impaired loans in our U.S. residential builder finance business as a result of the downturn in the U.S. housing market.

Retail gross impaired loans remained relatively stable over the period. The increase in gross impaired loans in both U.S. and Canadian residential mortgages, primarily due to portfolio growth, was largely offset by a decrease in impairment in our Canadian personal loan portfolio over the period.

Wholesale gross impaired loans generally trended downward from 2003 to 2006, and decreased $613 million, or 46%. The decline was across all geographic areas and most industry sectors, with the largest decrease in the Energy, Forest products, Transportation and environment, and Agriculture sectors due to generally favourable economic conditions over the period. In 2007, wholesale gross impaired loans increased significantly, largely reflecting higher impairment in our U.S. residential builder finance business triggered by the downturn in the U.S. housing market.

The ratio of gross impaired loans as a percentage of loans and acceptances declined significantly from 1.04% in 2003 to .38% in 2006, and increased to .45% in 2007, reflecting the factors discussed above. For further details, refer to Table 60 in the Additional financial information section.

Allowance for credit losses

Over the last five years, total allowance for credit losses of $1,572 million in 2007, decreased $592 million, or 27%, from 2003, primarily reflecting a reduction in specific allowance.

The specific allowance of $351 million in 2007 was down $406 million, or 54%, compared to 2003. For the period 2003 to 2006, the wholesale loan portfolio recorded the largest reduction in specific allowance, and was broad-based across portfolios, industry sectors and geographic regions. In 2007, specific allowance increased largely resulting from a weakening in credit quality of our U.S. residential builder finance loan portfolio driven by the downturn in the U.S. housing market.

The general allowance of $1,221 million in 2007 decreased $186 million, or 13%, compared to 2003. The decrease was largely due to the reversal of general allowance of $175 million and $50 million in 2004 and 2006, respectively, largely reflecting improved credit quality and economic conditions in those years.

Provision for credit losses

The provision for credit losses is charged to income by an amount necessary to bring the allowance for credit losses to a level determined appropriate by management, as discussed in the Critical accounting policies and estimates section and Note 1 to our Consolidated Financial Statements.

Provision for (recovery of) credit losses — Table 52

(C$ millions, except percentage amounts)	2007	2006	2007 vs. 2006 Increase (decrease)	
Residential mortgages	$ 13	$ 6	$ 7	117%
Personal	364	306	58	19
Credit cards	223	163	60	37
Small business (1)	34	29	5	17
Retail	$ 634	$ 504	$ 130	26%
Business (2)	$ 148	$ (22)	$ 170	n.m.
Sovereign (3)	–	–	–	–
Bank	–	–	–	–
Wholesale	$ 148	$ (22)	$ 170	n.m.
Total specific provision for loan losses	$ 782	$ 482	$ 300	62%
Total general provision	$ 9	$ (53)	$ 62	117%
Total provision for credit losses	$ 791	$ 429	$ 362	84%
Specific PCL as a % of average net loans and acceptances	.33%	.23%	n.m.	10 bps

(1) Includes small business exposure managed on a pooled basis.
(2) Includes small business exposure managed on an individual client basis.
(3) Sovereign refers to all central governments and agencies, central banks, as well as other qualifying public sector entities and multilateral development banks.
n.m. not meaningful

2007 vs. 2006

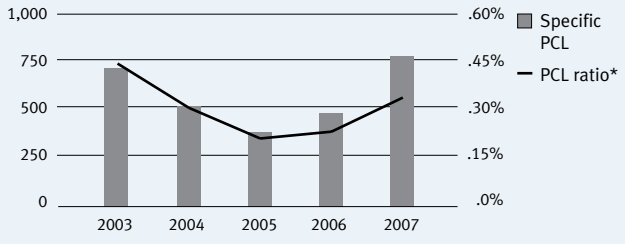
Total provision for credit losses (PCL) increased $362 million, or 84%, compared to the prior year, which had been at a cyclically low level, and has trended up towards the historical average. The increase reflected higher provisions for both our wholesale and retail loan portfolios, primarily reflecting portfolio growth and higher impaired loans in our U.S. residential builder finance business triggered by the downturn in the U.S. housing market. Specific PCL as a percentage of average net loans and acceptances increased from a year ago, largely reflecting higher impaired loans in our U.S. residential builder finance business.

Specific PCL for retail loans was up $130 million, or 26%, from a year ago. The increase was primarily attributable to higher provisions in our credit cards and personal unsecured credit line portfolios, largely reflecting higher loss rates and portfolio growth.

Specific PCL for wholesale loans increased $170 million over the prior year. The increase was largely attributable to our business portfolio mainly due to higher impaired loans in our U.S. residential builder finance business and higher write-offs in Canada. Lower recoveries in our corporate loan portfolio this year also contributed to the increase in provisions.

The general provision increased $62 million from a year ago, primarily reflecting a $50 million reversal of the general allowance related to our corporate loan portfolio in the prior year. Higher provisions in our U.S. residential builder finance loan portfolio, largely reflecting a weakening in credit quality as a result of the downturn in the U.S. housing market, also contributed to the increase.

Specific provision for credit losses (C$ millions)



* PCL ratio: Specific PCL as a percentage of average net loans and acceptances.

Five-year trend

During the period 2003 to 2005, specific provision for credit losses generally trended downward, primarily reflecting a reduction in provisions for our business loan portfolio. We recorded significant recoveries particularly in corporate loans in 2005 and 2006. In 2007, specific provisions has trended up towards the historical average, mainly reflecting higher provisions for our business loan portfolio, largely due to increased impaired loans in our U.S. residential builder finance business, portfolio growth and higher write-offs in Canada. Higher provisions in our personal loan and credit cards portfolios due to higher loss rates and portfolio growth also contributed to the increase. The specific provision as a percentage of average net loans and acceptances broadly declined from 2003 to 2006, largely due to a reduction in provisions for our business loan portfolio. The ratio increased to .33% in 2007, primarily reflecting higher impaired loans in our U.S. residential builder finance business. For further details, refer to Table 61 in the Additional financial information section.

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

Trading market risk

Trading market risk encompasses various risks associated with cash and related derivative products that are traded in interest rate, foreign exchange, equity, credit and commodity markets. Trading market risk is comprised of the following components:

- *Interest rate risk* is the potential adverse impact on our earnings and economic value due to changes in interest rates. It is composed of: (i) directional risk – arising from parallel shifts in the yield curve, (ii) yield curve risk – arising from non-uniform rate changes across a spectrum of maturities, (iii) basis risk – resulting from an imperfect hedge of one instrument type by another instrument type whose changes in price are not perfectly correlated, and (iv) option risk – from changes in the value of embedded options due to changes in prices or rates and their volatility. Most financial instruments have exposure to interest rate risk.
- *Foreign exchange rate risk* is the potential adverse impact on our earnings and economic value due to currency rate and precious metals price movements and volatilities. In our proprietary positions, we are exposed to the spot, forward and derivative markets.
- *Equity risk* is the potential adverse impact on our earnings due to movements in individual equity prices or general movements in the level of the stock market. We are exposed to equity risk from the buying and selling of equities and indices as principal in conjunction with our investment banking activities and from our trading activities, which include tailored equity derivative products, arbitrage trading and relative value trading.
- *Commodities risk* is the potential adverse impact on our earnings and economic value due to commodities price movements and volatilities. Principal commodities traded include crude oil, heating oil and natural gas. In our proprietary positions, we are exposed to the spot, forwards and derivative markets.
- *Credit spread risk* is the general adverse impact on our earnings and economic value due to changes in the credit spreads associated with our holdings of instruments subject to credit risk.
- *Credit specific risk* is the potential adverse impact on our earnings and economic value due to changes in the creditworthiness and default of issuers on our holdings in bonds and money market instruments, and those underlying credit derivatives.

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

Responsibilities

Oversight of market risk is provided by the Board of Directors through the Conduct Review & Risk Policy Committee (CR&RPC). Market risk limit approval authorities are established by the Board of Directors, upon recommendation of the CR&RPC, and delegated to senior management.

The independent oversight of trading market risk management activities is the responsibility of Group Risk Management (GRM) – Market and Trading Credit Risk, which includes major units in Toronto, London, New York and Sydney. The Market and Trading Credit Risk group establishes market risk policies and limits, develops quantitative techniques and analytical tools, vets trading models and systems, maintains the Value-at-Risk (VaR) and stress risk measurement systems, and provides enterprise risk reporting on trading activities. This group also provides independent oversight on trading activities, including the establishment and administration of trading operational limits, market risk and counterparty credit limit compliance, risk analytics, and the review and oversight of non-traditional or complex transactions.

Business segments are accountable for their market risks, working in partnership with GRM to ensure the alignment between risk appetite and business strategies.

GRM – Market and Trading Credit Risk is responsible for the determination and reporting of regulatory and Economic Capital requirements for market risk, and provides assurance to regulators in regular filings on reporting accuracy, timeliness and the proper functioning of statistical models within the approved confidence level.

Risk measurement

We employ risk measurement tools such as VaR, sensitivity analysis and stress testing. GRM uses these measures in assessing global risk-return trends and to alert senior management to adverse trends or positions.

The majority of trading positions in foreign exchange, interest rate, equity, commodity and credit trading have capital calculated under an internal models approach while structured credit derivatives are calculated under the Standardized Approach. Also calculated under the Standardized Approach for migration and default (specific) risk are a limited set of interest rate products. These products and risks are not included in our global VaR.

Value-at-Risk (VaR)

VaR is a statistical technique that measures the worst-case loss expected over the period within a 99% confidence level. Larger losses are possible, but with low probability. For example, based on a 99% confidence interval, a portfolio with a VaR of $20 million held over one day would have a one in one hundred chance of suffering a loss greater than $20 million in that day. VaR is measured over a 10-day horizon for the purpose of determining regulatory capital requirements.

We measure VaR by major risk category on a discrete basis. We also measure and monitor the effects of correlation in the movements of interest rates, credit spreads, exchange rates, equity and commodity prices and highlight the benefit of diversification within our trading portfolio. This is then quantified in the diversification effect shown in our Global VaR table on the following page.

As with any modeled risk measure, there are certain limitations that arise from the assumptions used in VaR. Historical VaR assumes that the future will behave like the past. As a result, historical scenarios may not reflect the next market cycle. Furthermore, the use of a 10-day horizon VaR for risk measurement implies that positions could be unwound or hedged within 10 days but this may not be a realistic assumption if the market becomes largely or completely illiquid. For example, this was observed for certain U.S. subprime-related securities since August 2007. VaR is calculated based on end-of-day positions.

Validation

To ensure VaR effectively captures our market risk, we continuously monitor and enhance our methodology. Daily back-testing serves to compare hypothetical profit or loss against the VaR to monitor the statistical validity of 99% confidence level of the daily VaR measure.

Back-testing is calculated by holding position levels constant and isolating the effect of the movement of actual market rates over the next day and over the next 10 days on the market value of the portfolios. Intra-day position changes account for most of the difference between theoretical back-testing and actual profit and loss. VaR models and market risk factors are independently reviewed periodically to further ensure accuracy and reliability. In 2007, there were five occurrences of a back-test exceeding VaR. This occurred during the volatile markets of July and August. VaR calculated using a historical window can lead to back-testing breaches when the historical window used in the calculation is less volatile than current markets. During this period, we frequently updated our scenarios to keep pace with current market events.

Sensitivity analysis and stress testing

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

VaR is a risk measure that is only meaningful in normal market conditions. To address more extreme market events, stress testing is used to measure and alert senior management to our exposure to potential political, economic or other disruptive events. We run several types of stress testing, including historical stress events such as the 1987 stock market crash, as well as hypothetical "what-if" stress events that represent potential future events that are plausible but have a very low probability of occurring. Our stress scenarios are reviewed and updated as required to reflect relevant events and hypothetical situations. While we endeavour to be conservative in our stress testing, there can be no assurance that our stress testing assumptions will cover every market scenario that may unfold.

Risk control

Policies

A comprehensive risk policy framework governs trading-related risks and activities and provides guidance to trading management, middle office compliance functions and operations. We employ an extensive set of principles, rules, controls and limits, which conform to industry best practice. Our market risk management framework is designed to ensure that our risks are appropriately diversified on a global basis. Limits on measures such as notional size, term and overall risk are monitored at the desk, and at the portfolio and business levels.

Reporting

Reports on trading risks are provided by GRM – Market and Trading Credit Risk to the Chief Risk Officer (CRO) and the operating committee of Capital Markets on a weekly basis and to senior management on a daily basis. Enterprise-wide reporting is used to monitor compliance against VaR and stress limits approved by the Board of Directors, and the operating limits derived from these board limits. In addition to this monitoring, GRM – Market and Trading Credit Risk pre-approves excesses and reports any breach to the CRO and the operating committee of Capital Markets.

Internal reporting to senior management includes stand-alone risk calculations for portfolios that have standardized regulatory capital which are then combined with models-based results to present an aggregated enterprise risk profile.

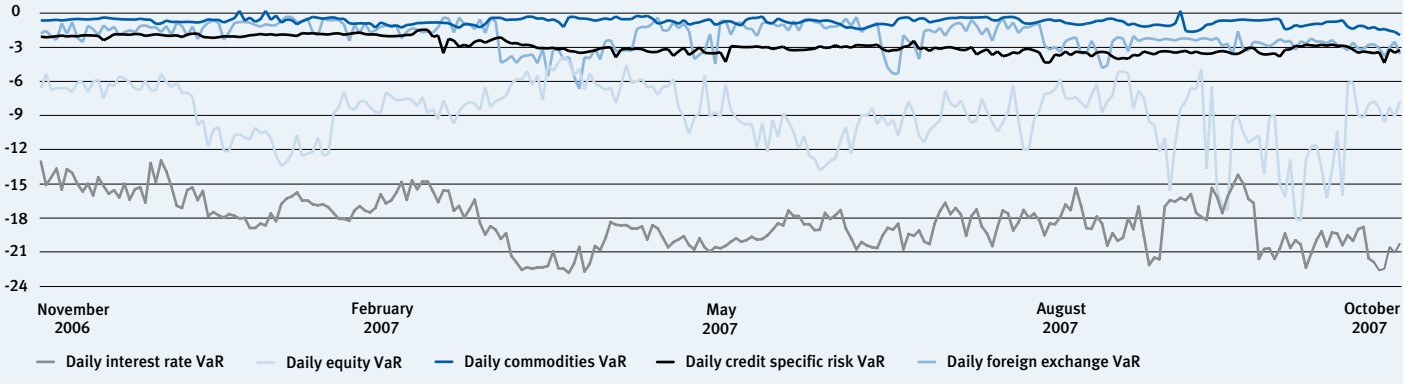
The following table shows our global VaR for total trading activities under our models based approach for capital by major risk category and also shows the diversification effect, which is calculated as the difference between the global VaR and the sum of the separate risk factor VaRs.

Global VAR by major risk category — Table 53

	2007				2006			
	As at	For the year ended October 31			As at	For the year ended October 31		
(C$ millions)	Oct. 31	High	Average	Low	Oct. 31	High	Average	Low
Equity	$ 8	$ 18	$ 9	$ 4	$ 7	$ 11	$ 7	$ 5
Foreign exchange	4	7	2	1	2	4	2	1
Commodities	2	2	1	–	1	2	1	–
Interest rate	20	23	19	14	13	20	13	9
Credit specific	3	5	3	2	3	4	3	2
Diversification	(19)	n.m.	(13)	n.m.	(9)	n.m.	(8)	n.m.
Global VAR	$ 18	$ 27	$ 21	$ 16	$ 17	$ 25	$ 18	$ 13

n.m. not meaningful

Global VaR by major risk category (C$ millions)



Global VaR

2007 vs. 2006

Average global VaR for the year of $21 million was up compared to $18 million a year ago. This increase largely reflected an increase in both Interest rate and Equity VaR due to a higher level of trading activity and increased market volatility during the current year. These increases were mostly offset by an improvement in the overall diversification effect, which rose to 38% compared to 31% a year ago.

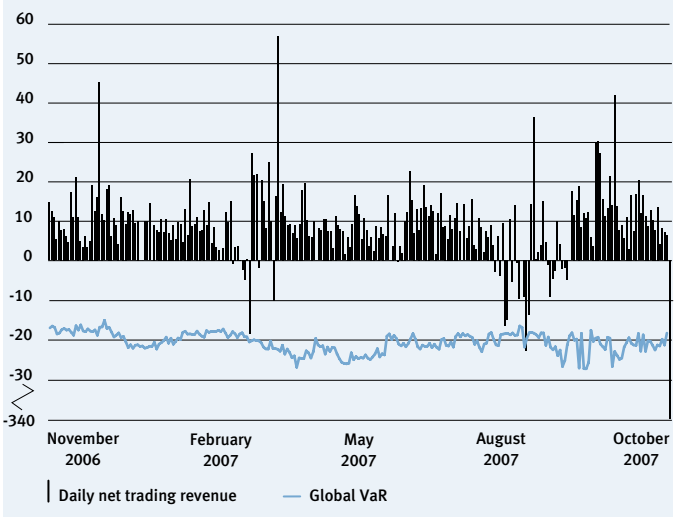
Trading revenue

2007 vs. 2006

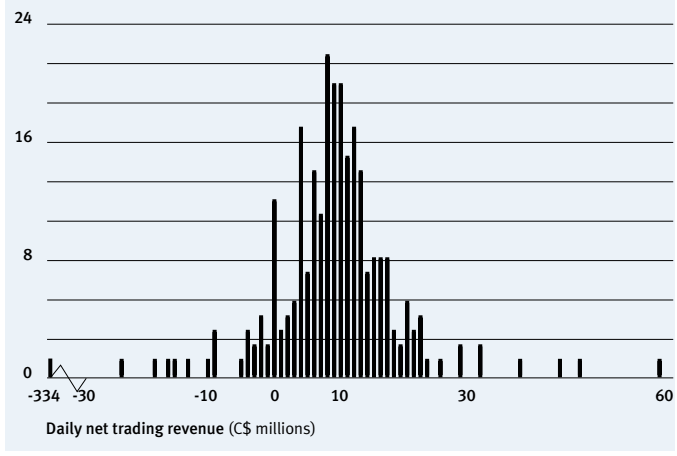
The volatility in daily trading revenue in the latter part of 2007 reflected difficult trading conditions in both interest rates and credit-related products arising from a very stressed market during that period. Equity markets also experienced high volatility in July and August. Writedowns related to the valuation of U.S. subprime RMBS and CDOs of ABS in our Structured Credit business totalled $357 million. In addition to this

one-day trading loss, we experienced 25 days of net trading losses with the largest one-day loss of $23 million.

Daily net trading revenue and global VaR (1), (2) (C$ millions)



Histogram of daily net trading revenue (1), (2) (number of days)



(1) Trading revenue on a taxable equivalent basis excluding revenue related to consolidated VIEs.
(2) The $357 million writedown on the valuation of U.S. subprime RMBS and CDOs of ABS was included on October 31, 2007.

Non-trading market risk (Asset/liability management)

Traditional non-trading banking activities, such as deposit taking and lending, expose us to market risk, of which interest rate risk is the largest component.

Our goal is to manage the interest rate risk of the non-trading balance sheet to a target level. We modify the risk profile of the balance sheet through proactive hedging to achieve our target level. For additional information regarding the use of derivatives in asset and liability management, refer to the Off-Balance sheet section and Note 7 to our Consolidated Financial Statements. We continually monitor the effectiveness of our interest rate risk mitigation activity within Corporate Treasury on a value and earnings basis.

For a discussion of the management of foreign exchange risk in the non-trading balance sheet, refer to the Hedging foreign currency-denominated operations discussion in the Capital management section.

Responsibilities

While our individual subsidiaries and business segments manage the daily activities, Corporate Treasury is responsible for managing our enterprise-wide interest rate risk, monitoring approved limits and compliance with policies and operating standards. Our Asset and Liability Committee (ALCO) provides oversight to Corporate Treasury and reviews the policy developed by Corporate Treasury and provides recommendations to CR&RPC for approval.

Risk measurement

We endeavour to keep pace with best practices in instrument valuation, econometric modeling and new hedging techniques on an ongoing basis. Our investigations range from the evaluation of traditional asset/liability management processes to pro forma application of recent developments in quantitative methods.

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

The economic value of equity is equal to the net present value of our assets, liabilities and off-balance sheet instruments.

Funds transfer pricing

We use a funds transfer pricing mechanism at the transaction level to transfer interest rate risk to Corporate Treasury and identify the profitability of various products. The funds transfer pricing rates are market-based and are aligned with interest rate risk management principles. They are supported by empirical research into client behaviour and are an integral input to the retail business pricing decisions.

We also focus on developing retail product valuation models that incorporate the impact of consumer behaviour. These valuation models are typically derived through econometric estimation of consumer exercise of options embedded in retail products. The most significant embedded options are mortgage rate commitments and prepayment options. In addition, we model the sensitivity of the value of deposits with an indefinite maturity to interest rate changes.

Validation

We supplement our assessment by measuring interest rate risk for a range of dynamic and static market scenarios. Dynamic scenarios simulate our interest income in response to various combinations of business and market factors. Business factors include assumptions about future pricing strategies and volume and mix of new business, whereas market factors include assumed changes in interest rate levels and changes in the shape of the yield curve. Static scenarios supplement dynamic scenarios and are employed for assessing the risks to the value of equity and net interest income.

As part of our monitoring of the effectiveness of our interest rate risk mitigation activity within Corporate Treasury which is done on a value and earnings basis, model assumptions are validated against actual client behaviour.

Risk control

Policies and limits

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

Risk reporting

The individual subsidiaries and business segments report the interest rate risk management activity on a monthly basis. They must also immediately report any exceptions to the interest rate risk policies to Corporate Treasury and seek approval of the corrective actions.

An Enterprise interest rate risk report is reviewed monthly by the ALCO and quarterly by the Group Risk Committee and the Board of Directors.

Market risk measures – Non-trading banking activities — Table 54

	2007						2006		2005	
	Economic value of equity risk			Net interest income risk						
(C$ millions)	Canadian dollar impact	U.S. dollar impact (1)	All currencies	Canadian dollar impact	U.S. dollar impact (1)	All currencies	Economic value of equity risk	Net interest income risk	Economic value of equity risk	Net interest income risk
Before-tax impact of:										
100bp increase in rates	$ (391)	$ (49)	$ (440)	$ 40	$ 14	$ 54	$ (496)	$ 87	$ (435)	$ 106
100bp decrease in rates	315	(6)	309	(97)	(14)	(111)	375	(153)	291	(181)
Before-tax impact of:										
200bp increase in rates	(819)	(111)	(930)	68	29	97	(1,044)	147	(920)	162
200bp decrease in rates	640	(87)	553	(202)	(29)	(231)	658	(319)	461	(365)

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

2007 Analysis

The above table provides the potential before-tax impact of an immediate and sustained 100 basis point and 200 basis point increase or decrease in interest rates on net interest income and economic value of equity of our non-trading portfolio, assuming that no further hedging is undertaken. These measures are based upon assumptions made by senior management and validated by empirical research. All interest rate risk measures are based upon interest rate exposures at a specific time and continuously change as a result of business activities and our risk management initiatives. Over the course of 2007, our interest rate risk exposure was well within our target level.

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

Operational risk is embedded in all our activities, including the practices and controls used to manage other risks. Failure to manage operational risk can result in direct or indirect financial loss, reputational impact, regulatory censure, or failure in the management of other risks such as credit or market risk.

Our operational risk management framework flows directly from our enterprise risk management framework and sets out the principles and practices that we use to manage operational risk by identifying, measuring, controlling, and monitoring and reporting it. During 2007, we strengthened our operational risk management framework by expanding the common operational risk language that supports the consistent identification, assessment and understanding of risks. We also implemented our "converged" operational risk and control assessment and monitoring program. This enterprise-wide program integrated several stand-alone programs to identify and assess operational risks.

Responsibilities

The Board of Directors is responsible for providing oversight and ensuring that appropriate policies have been implemented to manage operational risk. The Chief Risk Officer (CRO) and Group Risk Management (GRM) are responsible for implementing the operational risk management framework on an enterprise-wide basis, as well as for directing and approving significant area-specific operational risk policies. A dedicated team within GRM designs and supports operational risk policies, programs and initiatives, and monitors implementation progress and ongoing execution. The businesses and corporate support groups are responsible for the informed and active management of the operational risks within their activities in accordance with the operational risk management framework. Where appropriate, execution of operational risk management programs is conducted by GTO on behalf of the businesses and corporate support groups.

Risk measurement

Operational risk is difficult to measure in a complete and precise manner, given that exposure to operational risk is often implicit, bundled with other risks, or otherwise not taken on intentionally. In the banking industry, measurement tools and methodologies continue to evolve. Nonetheless, we are able to gauge our operational risk exposure by using several approaches concurrently.

Risk assessment

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

Risk indicators

Our businesses and corporate support groups use a broad range of risk indicators to manage their day-to-day activities. GRM uses indicators to monitor operational risk at the enterprise level. These indicators provide insight into the level and composition of our operational risk exposure and potential changes in these.

Operational event data collection and analysis

Operational risk events are reported in a central enterprise database. Comprehensive information about these events is then collected, and includes information regarding amount, occurrence, discovery date, business area and product involved, root causes and risk drivers. Analysis of operational risk event data helps us to understand where and how our risks are manifesting themselves, provides a historical perspective of our operational risk experience, and establishes a basis for measuring our operational risk exposure and the capital needed to underpin this type of risk.

Industry loss analysis

We review and analyze information on operational losses that have occurred at other financial institutions, using published information and information we acquire through our membership in the Operational Riskdata eXchange (ORX), a private data-sharing

consortium. Both provide insights into the size and nature of potential exposures, which enables us to benchmark our loss experience against those of our peers to determine if our experience puts us in an outlier position. It also allows us to monitor emerging developments and trends that affect the financial industry as a whole.

Risk control

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

A number of our enterprise-wide groups ensure that all of these controls and systems are effective under our operational risk management framework. These include compliance, which ensures a complete view of our regulatory obligations and provides a co-ordinated, effective response to these, and the internal audit group, which provides independent assessment of risk management practices, internal controls and corporate governance processes.

Risk mitigation

Any high-risk exposures that we identify are subject to remedial measures, monitoring and control testing. This includes exposures identified through our integrated risk and control assessment and monitoring program, internal audits, compliance reviews, business continuity readiness reviews, or operational risk event reporting.

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

Reporting

GRM provides quarterly enterprise level risk reporting to senior management and the Board of Directors. The operational risk reporting includes an overview of our operational risk profile and the trend and outlook for our exposure. Details are provided on areas of elevated risk, individual operational risks where there is heightened awareness, regulatory or compliance issues, and large operational risk events. This reporting is supplemented with more detailed specific reporting by groups such as compliance, audit, legal and human resources.

Liquidity and funding risk

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

Our liquidity and funding management framework is designed to ensure that adequate sources of reliable and cost-effective cash or its equivalents are continually available to satisfy our current and prospective financial commitments under normal and contemplated stress conditions. To achieve this goal, we are dedicated to the preservation of the following key liquidity and funding risk mitigation strategies:

- A large base of core client deposits
- Continual access to diversified sources of wholesale funding, including demonstrated capacities to monetize specific asset classes
- A comprehensive and enterprise-wide liquidity contingency plan supported by an earmarked pool of unencumbered marketable securities (referred to as “contingency liquidity assets”) that provide assured access to cash in a crisis.

Our liquidity and funding management practices and processes reinforce these risk mitigation strategies by assigning prudential limits or targets to metrics associated with these activities and regularly measuring and monitoring various sources of liquidity risk under both normal and stressed market conditions. In managing this risk, we aim to achieve a prudent balance between the level of risk we take and the cost of its mitigation, recognizing that this balance may need to be adjusted if our internal and/or external environments change materially.

Responsibilities

The Board of Directors is responsible for oversight of our liquidity and funding management framework, which is developed and implemented by senior management.

- The Audit Committee approves our liquidity and funding management framework, our pledging framework, and liquidity contingency plan and establishes broad liquidity risk tolerance levels, and the Board of Directors is informed on a periodic basis about our current and prospective liquidity condition.
- The Group Risk Committee and our Asset and Liability Committee (ALCO) share management oversight responsibility for liquidity and funding policies and receive regular reports detailing compliance with key limits and guidelines.
- Corporate Treasury has global responsibility for the development of liquidity and funding management policies, strategies and contingency plans and for recommending and monitoring limits within the framework. In this role, Corporate Treasury is assisted by Group Risk Management. Corporate Treasury actively participates in national and international industry initiatives to benchmark and enhance its liquidity management practices.
- Treasury departments of business segments and key subsidiaries execute transactions in line with liquidity management policies and strategies.
- Subsidiaries are responsible for managing their own liquidity in compliance with policies and practices established under advice and counsel by Corporate Treasury and within governing regulatory requirements.

Risk measurement

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

Structural liquidity risk

Structural liquidity risk management addresses the risk due to mismatches in effective maturities between assets and liabilities, more specifically the risk of over-reliance on short-term liabilities to fund longer-term illiquid assets. We use both the cash capital and survival horizon models to assist in the evaluation of balance sheet liquidity and determination of the appropriate term structure of our debt financing. These methodologies also allow us to measure and monitor the relationship between illiquid assets and core funding, including our exposure to a protracted loss of unsecured wholesale deposits under stressed conditions.

Tactical liquidity risk

Tactical liquidity risk management addresses our normal day-to-day funding requirements, which are managed by imposing prudential limits on net fund outflows in Canadian dollar and foreign currencies for key short-term time horizons, as well as on our pledging activities that are subject to an enterprise-wide framework that assigns a risk-adjusted limit to our aggregate pledging exposure and individual limits by types of pledging activities. Pledged assets include a pool of eligible assets that are reserved exclusively to support our participation in payment and settlement systems.

Contingent liquidity risk

Contingent liquidity risk management assesses the impact of and our intended responses to sudden stressful events. The liquidity contingency plan identifies comprehensive action plans that would be implemented depending on the duration and severity of the various liquidity crises identified in our stress testing program. Corporate Treasury maintains and administers the liquidity contingency plan. The Liquidity Crisis Team, consisting of senior representatives of all key business and functional units, meets regularly to engage in stress testing and to review our liquidity contingency preparedness.

Our stress testing exercises are based on models that measure our potential exposure to global, country-specific or RBC-specific events (or a combination thereof) and consider both historical and hypothetical events. Different levels of severity are considered for each type of crisis including ratings downgrades of two and four notches and to non-investment grade for RBC-specific events. These comprehensive tests include elements of scenario and sensitivity stress testing techniques. In all cases, the crisis impact is measured over a nine-week horizon, which is also used in our key measure of tactical liquidity risk and is what we consider to be the most crucial time span for a liquidity event. Liquidity Crisis Team members contribute to assumptions about the expected behaviour of balance sheet asset and liability categories and off-balance sheet exposures based on their specialized client, product and market perspectives. Some tests are run monthly, others are only run annually. Frequency is determined by considering a combination of their likelihood and impact. After reviewing test results, the liquidity contingency plan and other related liquidity and funding risk management practices may be modified in light of lessons learned. Failure to meet predetermined minimum targets in some of these tests, as well as in aforementioned risk measures, would result in discussion with senior management and, as necessary, the Board of Directors, and possibly lead to revised limits and targets.

Our liquid assets are primarily a diversified pool of highly rated marketable securities and include segregated portfolios (in both Canadian and U.S. dollars) of contingency liquidity assets to address potential on- and off-balance sheet liquidity exposures (such as deposit erosion, loan drawdowns and higher collateral demands), that have been estimated through models we have developed or by the scenario analyses and stress tests that we conduct periodically. These portfolios are subject to minimum asset levels and strict eligibility guidelines to ensure ready access to cash in emergencies.

Risk control

We monitor and manage our liquidity position on a consolidated basis and consider legal, regulatory, tax, operational and any other applicable restrictions when analyzing our ability to lend or borrow funds between branches, branches and subsidiaries, and subsidiaries.

Policies

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

Authorities and limits

Targets for our structural liquidity position, based on both a "cash capital" metric and a "survivability horizon" measurement, are approved at least annually and monitored regularly.

With respect to net short-term funding requirements, all limits are monitored regularly to ensure compliance. The prescribed treatment of cash flow assets and liabilities under varying conditions are reviewed periodically to determine if they remain valid or changes to assumptions and limits are required in light of internal and/or external developments. Global market volatility in the latter part of 2007 has prompted us to modify the liquidity treatment of certain asset classes to reflect our expectations that market liquidity for these products will be sporadic for some time. Some limits are in the process of being reviewed and possibly revised to take into consideration the results of updated stress tests that reflect lessons learned during this period of market volatility.

Reporting

Detailed reports on our principal short-term asset/liability mismatches are monitored on a daily basis to ensure compliance with the limits for overall group exposure and by major currency, branches, subsidiaries and geographic locations. As set out in our liquidity and funding management framework, any potential exceptions to established limits on net fund outflows or other rules, whether monitored on a daily, weekly, monthly or quarterly basis, are reported immediately to Corporate Treasury, which provides or arranges for approval after reviewing a remedial action plan.

Funding

Funding strategy

Diversification of funding sources is a crucial component of our overall liquidity management strategy. Diversification expands our funding flexibility while minimizing funding concentration and dependency and generally reducing financing costs. To that effect, we completed the first Canadian covered bond issuance in November 2007. Maintaining competitive credit ratings is also critical to cost-effective funding. Core funding, comprising capital, longer-term liabilities and a diversified pool of personal and, to a lesser extent, commercial deposits, is the foundation of our strong structural liquidity position.

Credit ratings

Our ability to access unsecured funding markets and to engage in certain collateralized business activities on a cost-effective basis is primarily dependent upon maintaining competitive credit ratings. Our credit ratings are largely determined by the quality of our earnings, the adequacy of our capital and the effectiveness of our risk management programs. We estimate, based on periodic reviews of ratings triggers embedded in our existing businesses and of our funding capacity sensitivity, that a minor downgrade would not materially influence our liability composition, funding access, collateral usage and associated costs. However, a series of downgrades could have adverse consequences for our funding capacity, collateral requirements and on the results of our operations.

Credit ratings — **Table 55**

As at November 29, 2007 (1)	Short-term debt	Senior long-term debt	Outlook
Moody's Investors Service	P-1	Aaa	stable
Standard & Poor's	A-1+	AA–	positive
Fitch Ratings	F1+	AA	stable
DBRS	R-1(high)	AA	stable

(1) Credit ratings are not recommendations to purchase, sell or hold a financial obligation inasmuch as they do not comment on market price or suitability for a particular investor. Ratings are subject to revision or withdrawal at any time by the rating organization.

During the year, there were two positive developments with respect to our ratings. In the second quarter of 2007, Moody's Investors Service upgraded our senior long-term debt rating to Aaa from Aa2 as a result of refinements made to their joint default analysis, and in the third quarter of 2007, Standard & Poor's revised our rating outlook to positive from stable, citing among other points, a sound liquidity profile and a very robust liquidity management infrastructure. Our Fitch and DBRS

ratings and outlooks remain unchanged from October 31, 2006. Our collective ratings continue to be the highest categories assigned by the respective agencies to a Canadian bank and these strong credit ratings support our ability to competitively access unsecured funding markets.

Deposit profile

The composition of our global deposit liabilities is summarized in Note 13 to our Consolidated Financial Statements. In 2007, personal deposits remained the key source of funding for our Canadian dollar balance sheet while most foreign currency deposits originated from unsecured, wholesale sources, including large corporate and institutional clients and foreign commercial and central banks.

Our personal deposit franchise constitutes the principal source of constant funding while certain commercial and institutional client groups also maintain relational balances with low volatility profiles. Taken together, these clients represent a highly stable supply of core deposits in most conceivable environments as they typically are less responsive to market developments than transactional lenders and investors due to the impact of deposit insurance and extensive and, at times, exclusive relationships with us. Core deposits, consisting of our own statistically derived estimates of the highly stable portions of all of our relational personal, commercial and institutional balances (demand, notice and fixed-term) together with wholesale funds maturing beyond one year, increased during the year by about 2% to 56% of our total deposits. We encourage wholesale funding diversity and regularly review sources of short-term funds to ensure that they are well-diversified by provider, product, market and geographic origin. In addition, we maintain an ongoing presence in different funding markets, which allows us to constantly monitor market developments and trends in order to identify opportunities and risks and to take appropriate and timely actions.

Term funding sources — Table 56

(C$ millions)	2007	2006	2005
Long-term funding outstanding	$ 51,540	$ 33,361	$ 24,004
Total mortgage-backed securities sold	14,239	12,186	8,487
Commercial mortgage-backed securities sold	2,405	1,914	1,237
Credit card receivables financed through notes issued by a securitization special purpose entity	2,759	2,250	2,500

Our long-term funding sources are managed to minimize cost by limiting concentration by geographic location, investor segment, instrument, currency and maturity profile. In addition, liquidity objectives, market conditions, interest rates, credit spreads and desired financial structure influence our long-term funding activities. We operate debt issuance programs in Canada, the U.S., Europe, Australia and Japan. Diversification into new markets and untapped investor segments is also constantly evaluated against relative issuance costs.

During 2007, we continued to expand our long-term funding base by issuing, either directly or through our subsidiaries, $30.7 billion of senior deposit notes in various currencies and markets. Total long-term funding outstanding increased $18.2 billion. Outstanding senior debt containing ratings triggers, which would accelerate repayment, constitutes a very small proportion of our overall outstanding debt.

Other liquidity and funding sources

We use commercial mortgage, residential mortgage and credit card receivable-backed securitization programs as alternative sources of funding and for liquidity and asset/liability management purposes. We hold retained interests in our residential mortgage and credit card securitization programs. Our total outstanding mortgage-backed securities sold increased year over year by $2.1 billion. Our credit card receivables, which are financed through notes issued by a securitization special purposes entity, increased year over year by $509 million. For further details, refer to the Off-balance sheet arrangements section and Note 5 to our Consolidated Financial Statements.

Impact of global market turmoil to our term funding capacity

Despite recent global market events, including a reduction in liquidity in term funding markets, our liquidity and funding position remains sound and adequate to execute our strategy. There are no known trends, demands, commitments or events that are presently expected to materially change this position.

By leveraging our new and existing domestic and global funding programs, we continued to raise wholesale term funding in size during the latter half of 2007. Most of the funding was raised through large benchmark-sized transactions, but a significant amount was also raised in a variety of lower-cost funding transactions. In 2007, we raised wholesale term funding in 12 different currencies, including six currencies in the fourth quarter. The market turmoil did not prevent us from launching the first Canadian covered bond program, where we sold €2 billion of notes in the inaugural transaction, which settled on November 5, 2007. Our ability to raise wholesale term funding continued to significantly exceed our funding needs during the latter half of 2007.

Contractual obligations

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

Contractual obligations — Table 57

	2007					2006	2005
(C$ millions) (1)	Within 1 year	1 to 3 years	Over 3 to 5 years	Over 5 years	Total	Total	Total
Unsecured long-term funding	$ 16,892	$ 16,350	$ 13,628	$ 4,670	$ 51,540	$ 33,361	$ 24,004
Subordinated debentures	–	118	–	6,117	6,235	7,103	8,167
Obligations under leases (2)	494	835	608	1,224	3,161	2,486	2,508
	$ 17,386	$ 17,303	$ 14,236	$ 12,011	$ 60,936	$ 42,950	$ 34,679

(1) Amounts represent principal only and exclude accrued interest.
(2) Substantially all of our lease commitments are operating.

Reputation risk

Reputation risk is the risk that an activity undertaken by an organization or its representatives will impair its image in the community or lower public confidence in it, resulting in the loss of business, legal action or increased regulatory oversight.

Reputation risk can arise from a number of events and primarily occurs in connection with regulatory, legal and operational risks. Operational failures and non-compliance with laws and regulations can have a significant reputational impact on us.

In addition to the six risk management principles discussed earlier in the Risk management overview section, the following principles also apply to our overall management of reputation risk:

- We must operate with integrity at all times in order to sustain a strong and positive reputation
- Protecting our reputation is the responsibility of all our employees, including senior management, and extends to all members of the Board of Directors.

Code of Conduct

Our corporate values and Code of Conduct underpin the management of risk to our reputation and drive our ethical culture. Our Code of Conduct is the foundation of employee and director awareness of the kinds of conduct that protect our reputation, and those that put our reputation at risk.

Responsibilities

The management of reputation risk is overseen by the Board of Directors. The key senior management committees involved with monitoring and reporting on reputation risk at an enterprise level are: Ethics and Compliance Committee, Policy Review Committee, Structured Transactions Oversight Committee and the Group Risk Committee.

Risk control

Policies

Policies and procedures support the management of reputation risk across the organization. Business segments have specific policies in place to manage the risks within their businesses, including reputation risk. A comprehensive set of policy requirements applies to the identification and assessment of reputation risk, including Know Your Client due diligence controls and procedures, anti-money laundering and anti-terrorist financing policy requirements, auditor independence requirements, research standards, whistle blowing, and the requirements for managing conflicts of interest.

Reporting

The responsibility for monitoring and reporting on reputation risk issues is primarily within GRM. Regular comprehensive reporting is provided to the Group Risk Committee and the Board of Directors and its committees. This includes annual reporting on fraud issues, litigation issues and quarterly reporting on regulatory, compliance and operational risk issues. Reputation risk issues are also raised in internal audit reports provided to senior management, summaries of which are provided to the Audit Committee.

Regulatory and legal risk

Regulatory and legal risk is the risk of negative impact to business activities, earnings or capital, regulatory relationships or reputation as a result of failure to comply with or a failure to adapt to current and changing regulations, law, industry codes or rules, regulatory expectations or ethical standards.

Global Compliance, which is a part of Group Risk Management (GRM) has developed a comprehensive enterprise compliance management (ECM) framework that is consistent with regulatory guidance from the OSFI and other regulators. The framework is designed to promote the proactive, risk-based management of regulatory risk. It applies to all of our businesses and operations, legal entities and employees globally and confirms the shared accountability of all employees across the organization for ensuring we maintain robust and effective regulatory risk and compliance controls. The framework covers the following eight elements of compliance management: liaison with regulators, risk identification and assessment, control design and evaluation, learning and awareness, compliance execution, monitoring and oversight, issue management and reporting, and new initiative management.

Responsibilities

Global Compliance sets out the enterprise-wide requirements for the identification, assessment, control, monitoring and reporting of regulatory and compliance risk (and associated operational and reputation risk), as well as remediation of any issues identified. Oversight is provided by the Board of Directors through the CR&RPC and the Audit Committee. The Ethics and Compliance Committee supports our management of regulatory risk. It approves compliance programs and compliance-related policies and informs and advises the Group Risk Committee (GRC), CR&RPC and the Audit Committee on significant regulatory issues and remedial measures.

The Chief Compliance Officer (CCO) and Global Compliance work closely with business partners to ensure the overall effectiveness of compliance and regulatory risk management controls across the enterprise through the ECM framework, which includes policies for consistent and effective compliance, independent oversight of compliance controls, timely reporting of trends and escalation of issues to senior management and the Board of Directors and timely execution of appropriate action plans.

Risk measurement

The identification and assessment of regulatory risk includes formal risk assessment activities carried out across the organization, both at the individual business and operational level, and at the enterprise level. Risk is measured through the assessment of the impact of regulatory and organizational changes, the introduction of new products and services, and the acquisition or development of new lines of business. It is also measured through the testing of the effectiveness of the controls established to ensure compliance with regulatory requirements and expectations. Although the use of metrics to measure compliance-related matters is relatively new and there are few proven methods for detecting leading indicators, we are working to develop such metrics. Meanwhile, we use what measures are available to identify issues and trends.

Risk control

Policies

We have a strong ethical and compliance culture grounded in our Code of Conduct. The Code of Conduct is regularly reviewed and updated to ensure that it continues to meet the expectations of regulators and other stakeholders. All our employees must reconfirm their understanding of and commitment to comply with the Code of Conduct at least every two years, and employees in certain key roles, such as Group Executive and others in financial oversight roles as identified in our Auditor Independence Policy, must do so annually.

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

Reporting

On a quarterly basis, the CCO reports compliance matters to senior management, management committees, the Audit Committee and CR&RPC. In addition, the CCO provides an annual report on overall compliance, and on specific topics, such as related party transactions, conflicts of interest, and compliance with Canadian consumer protection requirements, and the Global Chief Anti-Money Laundering Officer reports at least annually on anti-money laundering and anti-terrorist financing compliance. Similarly, senior compliance officers of our operating subsidiaries provide relevant annual and quarterly reports to their respective senior management and Boards of Directors.

Environmental risk

Environmental risk is the risk of loss to financial, operational or reputation value resulting from the impact of environmental issues. Environmental risk arises from our business activities and our operations. For example, the environmental issues associated with our clients' purchase and sale of contaminated property or development of large-scale projects may give rise to credit and reputation risk for us. Operational and legal risks may arise when we are faced with environmental issues at our branches, offices or data processing centres.

We undertake independent and collaborative research to identify and better understand the material environmental risks we face. Some current and emerging issues include climate change, biodiversity, water and the rights of indigenous peoples, among others.

Responsibilities

Environmental risk management activities are managed by the Corporate Environmental Affairs Group (CEA) with support from our business segments and Corporate Support groups. The CEA is responsible for developing and implementing the environmental risk management system, including identifying environmental risks in the organization, designing and supporting environmental risk policies, programs and initiatives, monitoring implementation, and leading communication and training. The CEA also provides advisory services and support to business and functional units on the management of specific environmental risks.

Risk measurement

Some environmental risks associated with our business and operational activities can be easily quantified while others are assessed on a qualitative basis. For example, in our lending activities, we quantify the potential cost of cleaning up environmental contamination of properties used as security for loans, and the cost to an obligor of making operational changes that may be required to meet environmental regulatory requirements or satisfy other obligations. In our own operations, we quantify our cost to maintain compliance with environmental regulations or applicable standards. Other environmental risks are assessed on a qualitative basis, for example, the exposure of a particular industry to the effects of climate change and climate change regulations. As environmental risk measurement methodologies mature, particularly with respect to climate change, we will incorporate more quantitative risk measures into our processes.

Risk control

We manage environmental risk by maintaining an environmental management system, including policy requirements, management and mitigation strategies, and reporting. Specifically, to manage environmental risk, we:

- Develop and maintain environmental policies, standards, procedures and guidelines
- Monitor relevant laws and regulations, as well as other requirements to which the bank adheres
- Maintain environmental programs and initiatives
- Establish roles and responsibilities for environmental management in the organization
- Train employees to identify and manage environmental risks
- Maintain an open dialogue with stakeholders, both internal and external to the organization
- Measure our performance and compare it to our objectives, which enables us to identify enhancement opportunities
- Periodically verify that our environmental risk management policies and processes are operating as intended.

Policies

Our Environmental Blueprint, launched in October 2007, updates our corporate environmental policy. It details environmental issues that are important to our stakeholders and us and outlines our commitment to reducing our environmental footprint, responsible lending and investment, and business growth and development of environmental products and services.

Our suite of environmental credit risk management policies enables us to proactively identify and manage environmental risks in our lending activities. These policies are regularly reviewed to ensure compliance with legal and operational requirements, and to take into account evolving business activities.

In addition to general policies for commercial and corporate lending, we have sector-specific and business-segment-specific policies and guidelines. For example, we have a separate Policy on Social and Environmental Review in our Project Finance business, which reflects our commitment to the Equator Principles (EPs). The EPs, which were revised in 2007, are voluntary guidelines that help financial institutions address the environmental and social risks associated with project finance.

Management and mitigation

In addition to adherence to policies, standards, procedures and guidelines, environmental risk is mitigated through transaction structuring and the use of insurance as well as other mechanisms. The CEA supports lenders, risk managers and clients in the management and mitigation of environmental risks in transactions, by recommending strategies to treat, eliminate or transfer (via insurance) environmental risk.

Reporting

The Board of Directors and senior management committees are periodically provided with reports and analysis on risks associated with environmental issues (for example, climate change and the Kyoto Accord, and the EPs), as appropriate. Loan losses resulting from environmental issues are tracked and reported to senior management.

We report on our implementation of the EPs annually in our Corporate Responsibility Report and Public Accountability Statement (CRR & PAS) and on rbc.com. The CRR & PAS also provides information about our environmental policies, lending, emerging issues, stakeholder engagement, and environmental performance and initiatives.

Insurance risk

Insurance risk is the risk of loss that may occur when actuarial assumptions made in insurance product design and pricing activities differ from actual experience. Insurance risk arises from our life and health, creditor, home and auto, and travel insurance, and reinsurance businesses. Insurance risk can be categorized into the following sub-risks:

- *Claims risk:* The risk that the actual severity and/or frequency of claims differ from the levels assumed in pricing calculations. This risk can occur through (i) a misestimation of expected claims activities as compared to actual claims activities, or (ii) the mis-selection of a risk during the underwriting process
- *Policyholder behaviour risk:* The risk that the behaviour of policyholders relating to premium payments, policy withdrawals or loans, policy lapses, surrenders and other voluntary terminations differs from the behaviour assumed in pricing calculations
- *Expense risk:* The risk that the expense of acquiring or administering policies, or of processing claims, exceeds the costs assumed in pricing calculations.

Responsibilities

Insurance risk approval authorities are established by the Board of Directors upon recommendation of its committees and delegated to senior management.

The respective boards of directors of the insurance subsidiaries are responsible for the stewardship of the insurance companies. These boards of directors oversee and monitor the management of the insurance subsidiaries and ensure that the subsidiaries are properly managed and functioning within our overall strategies and policies.

Group Risk Management (GRM) is responsible for providing risk management direction and oversight to the insurance businesses and for providing comprehensive reporting of insurance risks facing the organization. The Appointed Actuaries of our Canadian insurance subsidiaries are appointed by the boards of directors and have statutory requirements to provide opinions on adequacy of liabilities, sufficiency of capital, the insurance company's future financial condition and fairness of treatment for policyholders. External actuarial reviewers, in accordance with the OSFI guidelines and Canadian Institute of Actuaries standards, provide oversight on the work of the Appointed Actuaries. Our international insurance subsidiaries receive similar actuarial oversight. Global Functions and Global Technology and Operations (GTO) also provide direction and oversight to manage risk within their areas of expertise.

Insurance business units are responsible for the active management of insurance risk in partnership with GRM, other Global Functions groups and GTO.

Risk measurement

We measure insurance risks at regular intervals to ensure that our risk profile is appropriately monitored, reported, and aligned with business assumptions. These risk measurements are used for Economic Capital quantification, valuation of actuarial liabilities, and to meet statutory reporting requirements. This process is managed by GRM through the use of models.

Models used for risk measurement are subject to a robust and systematic process of review and reporting in accordance with our Model Risk Policy. Key elements of the policy include maintaining appropriate model documentation, an approval process to ensure appropriate segregation of duties, independent and periodic model reviews, and clear accountability and oversight.

Risk control

Policies

Insurance risk policies articulate our strategies to identify, prioritize and manage insurance risk. GRM is responsible for insurance risk policies which establish the expectations and parameters within which the insurance businesses may operate, communicate our risk tolerance, and ensure accountability through clear roles and responsibilities.

Authorities and limits

Risk approval authorities and limits are established by the Board of Directors and delegated to management within the business units in order to guide insurance business activities. These delegated authorities and limits ensure our insurance portfolio is well diversified and within the risk appetite as approved by the Board of Directors.

Risk oversight and approval

GRM provides independent oversight over our insurance business activities including product development, product pricing, underwriting and claims management. GRM also approves authority for activities, which exceed business unit authorities and limits, and certain business activities, which are deemed to be of significant risk.

Risk mitigation

Our key elements for identifying, assessing and managing insurance risk include a risk-based approach for product development and pricing, effective guidelines and practices for underwriting and claims management. In addition, transferring insurance risk to independent insurance companies or reinsurance is used to diversify our portfolio of insurance risks, limit loss exposure to large risks, and provide additional capacity for future growth.

Actuarial liabilities

Actuarial liabilities are estimates of the amounts required to meet obligations resulting from insurance contracts. Liabilities for estimated future policy benefits and expenses are established in accordance with the standards of practice of the Canadian Institute of Actuaries and the requirements of the OSFI and other relevant professional and regulatory bodies. Actuarial liabilities under Canadian GAAP are calculated using the Canadian Asset Liability Method. These estimates and actuarial assumptions include explicit provisions for adverse deviations to ensure adequacy of liabilities and are validated through extensive internal and independent external reviews and audits.

Reporting

GRM regularly provides independent evaluation and reporting on our insurance risk exposures to management at the business segment level and at the enterprise level. The reports analyze and communicate insurance risk information and contribute to the overall understanding of insurance risk. Reporting includes an assessment of risks facing the insurance business units, trends related to all claims and adequacy of actuarial liabilities. The reports also provide an assessment of the risk-return profile of insurance products and a view of future potential risks.

Strategic risk

Strategic risk is the risk that an enterprise or a particular business area makes inappropriate strategic choices, or is unable to successfully implement selected strategies or related plans and decisions.
We apply the following principles to manage strategic risk:

- Significant decisions are aligned with our enterprise strategy
- Business segment strategy is aligned with our enterprise strategy
- All business strategies are supported by market and competitive analysis and financial projection of their expected impact.

The effective identification and assessment of this risk is critical for us and involves the Group Executive and the Board of Directors when identifying and assessing various strategic opportunities for the organization.

Responsibilities

Responsibility for successfully implementing strategies is mandated to the individual heads of the businesses. The Strategy and Development team within Global Functions is responsible for the articulation of our enterprise strategy. This team also provides support for the development of strategies of the business segments and lines of business. The identification and analysis of strategic issues, opportunities and risks we face is an ongoing component of their overall responsibilities.

Risk control

The project appropriation request (PAR) process is used to manage strategic risk. Our strategic initiatives group provides an initial review and co-ordinates circulating each PAR to GRM, Law and Corporate Treasury for review, comments and approval. The Board of Directors and/or Group Risk Committee may approve the finalized version if their approval is warranted. PARs are a critical part of our corporate governance framework and are available for review by regulators or our external auditors as required.

Competitive risk

Competitive risk is the risk associated with the inability to build or maintain sustainable competitive advantage in a given market or markets. This risk can arise within or outside the financial sector, from traditional or non-traditional competitors, domestically or globally.

We manage competitive risk through appropriate identification and assessment as part of our overall risk management process. This includes risk assessment of new or enhanced products and services, alliances and acquisitions. Our ability to adapt to a changing competitive environment will impact our overall financial performance.

Systemic risk

Systemic risk is the risk that the financial system as a whole may not withstand the effects of a crisis resulting from extraordinary economic, political, social or financial circumstances. This could result in financial, reputation or other losses.

Systemic risk is considered to be the least controllable risk we face. Our ability to mitigate this risk when undertaking business activities is very limited, other than through collaborative mechanisms between industry participants, and, as appropriate, the public sector, to reduce the frequency and impact of these risks.

Additional risks that may affect future results

By their very nature, forward-looking statements, including those made in this document, require us to make assumptions and are subject to inherent risks and uncertainties which may cause our actual results to differ materially from our expectations expressed in such forward-looking statements. Factors that might cause our actual financial performance to vary from that described in our forward-looking statements include credit, market, operational, liquidity and funding risks, and other risks discussed in detail in the Risk management section. In addition, the following discussion sets forth other factors we believe could cause our actual results to differ materially from expected results.

Industry factors

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

Interest rates, foreign exchange rates, the stability of various financial markets, including the impact from the continuing volatility in the U.S. subprime and related markets and lack of liquidity in various other financial markets, consumer spending, business investment, government spending, the level of activity and volatility of the capital markets, inflation and terrorism each impact the business and economic environments in which we operate and, ultimately, the level of business activity we conduct and earnings we generate in a specific geographic region. For example, an economic downturn in a country may result in high unemployment and lower family income, corporate earnings, business investment and consumer spending, and could adversely affect the demand for our loan and other products. In addition, our provision for credit losses would likely increase, resulting in lower earnings. Similarly, a downturn in a particular equity or debt market could cause a reduction in new issue and investor trading activity or assets under management and assets under administration, resulting in lower fee, commission and other revenue. Also, defaults by a large financial institution in Canada, the United States or internationally could adversely affect the financial markets generally and us specifically.

Currency rates

Our revenue, expenses and income denominated in currencies other than the Canadian dollar are subject to fluctuations in the movement of the Canadian dollar relative to those currencies. Such fluctuations may affect our overall business and financial results. Our most significant exposure is to the U.S. dollar due to our level of operations in the U.S., and other activities conducted in U.S. dollars. The strengthening of the Canadian dollar compared to the U.S. dollar over the last four years has had a significant effect on our results. We are also exposed to the British pound and the Euro due to our activities conducted internationally in these currencies. Further appreciation of the Canadian dollar relative to the U.S. dollar, British pound and Euro reduced the translated value of U.S. dollar-, British pound- and Euro-denominated revenue, expenses and earnings.

Government monetary and other policies

Our businesses and earnings are affected by the monetary policies that are adopted by the Bank of Canada and the Board of Governors of the Federal Reserve System in the United States, as well as those adopted by international agencies, in jurisdictions in which we operate. For example, monetary policy decisions by the Bank of Canada have an impact on the level of interest rates, fluctuations of which can have an impact on our earnings. As well, such policies can adversely affect our clients and counterparties in Canada, the United States and internationally, which may increase the risk of default by such clients and counterparties. Our businesses and earnings are also affected by fiscal or other policies that are adopted by various regulatory authorities in Canada, the United States and international agencies.

Level of competition

The competition for clients among financial services companies in the consumer and business markets in which we operate is intense. Client loyalty and retention can be influenced by a number of factors, including relative service levels, the prices and attributes of our products or services, our reputation and actions taken by our competitors. Other financial companies, such as insurance and mono-line companies and non-financial companies are increasingly offering services traditionally provided by banks. Such competition could also reduce fee revenue and adversely affect our earnings.

Changes in laws and regulations

Laws and regulations are in place to protect the financial and other interests of our clients, investors and the public interest. Changes to laws, including tax laws, regulations or regulatory policies, including changes to our capital management framework, as well as changes in how they are interpreted, implemented or enforced, could adversely affect us, for example, by lowering barriers to entry in the businesses in which we operate or increasing our costs of compliance. In addition, our failure to comply with applicable laws, regulations or regulatory policies could result in sanctions and financial penalties by regulatory agencies that could adversely impact our reputation and earnings.

Judicial or regulatory judgments and legal proceedings

Although we take what we believe to be reasonable measures designed to ensure compliance with laws, regulations and regulatory policies in the jurisdictions in which we conduct business, there is no assurance that we always will be, or will be deemed to be, in compliance. Accordingly, it is possible that we could receive a judicial or regulatory judgment or decision that results in fines, damages and other costs that would damage our reputation and negatively impact on our earnings.

We are also subject to litigation arising in the ordinary course of our business. The adverse resolution of any litigation could have a material adverse effect on our results or could give rise to significant reputational damage, which could impact our future business prospects.

Accuracy and completeness of information on clients and counterparties

When deciding to extend credit or enter into other transactions with clients and counterparties, we may rely on information provided by or on behalf of clients and counterparties, including audited financial statements and other financial information. We also may rely on representations of clients and counterparties as to the completeness and accuracy of that information. Our financial results could be adversely impacted if the financial statements and other financial information relating to clients and counterparties on which we rely do not comply with GAAP or are materially misleading.

Bank specific factors

Execution of our strategy

Our ability to execute on our objectives and strategic goals will influence our financial performance. If our strategic goals do not meet with success or there is a change in our strategic goals, our financial results could be adversely affected.

Acquisitions and joint ventures

Although we regularly explore opportunities for strategic acquisitions of, or joint ventures with, companies in our lines of business, there is no assurance that we will receive required regulatory or shareholder approvals or be able to complete acquisitions or joint ventures on terms and conditions that satisfy our investment criteria. There is also no assurance we will achieve our financial or strategic objectives or anticipated cost savings following acquisitions or forming joint ventures. Our performance is contingent on retaining the clients and key employees of acquired companies and joint ventures, and there is no assurance that we will always succeed in doing so.

Changes in accounting standards, accounting policies and estimates

From time to time, the Accounting Standards Board of the CICA changes the financial accounting and reporting standards that govern the preparation of our financial statements. These changes can be difficult to anticipate and can materially impact how we record and report our financial condition and results of operations. In some instances, we may be required to retroactively apply a new or revised standard that results in our restating prior period financial statements.

The accounting policies and methods we utilize determine how we report our financial condition and results of operations, and they require management to make estimates or rely on assumptions about matters that are inherently uncertain. Such estimates and assumptions may require revisions, and changes to them may materially adversely affect our results of operations and financial condition. Significant accounting policies are described in Note 1 to our Consolidated Financial Statements.

As detailed in the Critical accounting policies and estimates section, we have identified seven accounting policies as being "critical" to the presentation of our financial condition and results of operations as they; (i) require management to make particularly subjective and/or complex judgments about matters that are inherently uncertain; and (ii) carry the likelihood that materially different amounts could be reported under different conditions or using different assumptions and estimates.

Ability to attract employees and executives

Competition for qualified employees and executives is intense both within the financial services industry and from non-financial industries looking to recruit. If we are unable to retain and attract qualified employees and executives, our results of operations and financial condition, including our competitive position, may be materially adversely affected.

Changes to our credit ratings

There can be no assurance that our credit ratings and rating outlooks from rating agencies such as Moody's Investors Service, Standard & Poor's, Fitch Ratings or DBRS will not be lowered or that these ratings agencies will not issue adverse commentaries about us, potentially resulting in higher financing costs and reduced access to capital markets. A lowering of our credit ratings may also affect our ability, and the cost, to enter into normal course derivative or hedging transactions.

Development and integration of our distribution networks

Although we regularly explore opportunities to expand our distribution networks, either through acquisitions or organically by adding, for example, new bank branches, insurance offices, online savings accounts and ATMs in high-growth markets in Canada, the United States and internationally, if we are not able to develop or integrate these distribution networks effectively, our results of operations and financial condition may be negatively affected.

Other factors

Other factors that may affect actual results include changes in government trade policy, the timely and successful development of new products and services, technological changes and our reliance on third parties to provide components of our business infrastructure, fraud by internal or external parties, unexpected changes in consumer spending and saving habits, the possible impact on our business from disease or illness that affects local, national or global economies, disruptions to public infrastructure, including transportation, communication, power and water, international conflicts and other political developments including those relating to the war on terrorism, and our success in anticipating and managing the associated risks.

We caution that the foregoing discussion of risk factors is not exhaustive and other factors could also adversely affect our results. When relying on our forward-looking statements to make decisions with respect to us, investors and others should carefully consider the foregoing factors, other uncertainties and potential events, and other industry- and bank-specific factors that may adversely affect our future results and the market valuation placed on our common shares. Unless required by law, we do not undertake to update any forward-looking statement, whether written or oral, that may be made from time to time by us or on our behalf.

Additional financial information

Net interest income on average assets and liabilities from continuing operations (1) — Table 58

(C$ millions, except percentage amounts)	Average balances (2)			Interest (3)			Average rate		
	2007	2006	2005	2007	2006	2005	2007	2006	2005
Assets									
Deposits with other banks									
Canada	$ 1,570	$ 1,218	$ 915	$ 43	$ 41	$ 31	2.74%	3.37%	3.39%
United States	2,904	1,856	1,587	176	155	55	6.06	8.35	3.47
Other International	5,436	4,913	4,068	319	284	145	5.87	5.78	3.56
	9,910	7,987	6,570	538	480	231	5.43	6.01	3.52
Securities									
Trading	162,828	134,166	110,356	6,621	5,056	3,711	4.07	3.77	3.36
Available-for-sale (4)	31,516	–	–	1,044	–	–	3.31	–	–
Investments (4)	–	38,792	37,876	–	1,133	895	–	2.92	2.36
	194,344	172,958	148,232	7,665	6,189	4,606	3.94	3.58	3.11
Asset purchased under reverse repurchase agreements and securities borrowed	71,759	55,615	44,420	3,450	2,827	1,354	4.81	5.08	3.05
Loans (5)									
Canada									
Retail	152,588	135,852	124,001	9,376	8,157	7,037	6.14	6.00	5.67
Wholesale	31,541	31,539	28,087	1,047	1,264	1,262	3.32	4.01	4.49
	184,129	167,391	152,088	10,423	9,421	8,299	5.66	5.63	5.46
United States	25,718	21,871	20,572	2,240	2,110	1,626	8.71	9.65	7.90
Other International	13,388	8,286	6,993	2,061	1,177	865	15.39	14.20	12.37
	223,235	197,548	179,653	14,724	12,708	10,790	6.60	6.43	6.01
Total interest-earning assets	499,248	434,108	378,875	26,377	22,204	16,981	5.28	5.11	4.48
Non-interest-bearing deposits with other banks	2,137	2,806	2,567	–	–	–	–	–	–
Customers' liability under acceptances	10,270	8,748	6,411	–	–	–	–	–	–
Other assets	69,345	56,438	57,447	–	–	–	–	–	–
Total assets	$ 581,000	$ 502,100	$ 445,300	$ 26,377	$ 22,204	$ 16,981	4.54%	4.42%	3.81%
Liabilities and shareholders' equity									
Deposits (6)									
Canada	$ 166,983	$ 167,015	$ 161,866	$ 5,669	$ 5,024	$ 3,724	3.39%	3.01%	2.30%
United States	53,817	47,913	40,004	2,563	2,018	1,047	4.76	4.21	2.62
Other International	121,924	91,334	70,168	5,538	3,666	2,175	4.54	4.01	3.10
	342,724	306,262	272,038	13,770	10,708	6,946	4.02	3.50	2.55
Obligations related to securities sold short	46,654	38,630	34,169	1,997	2,071	1,381	4.28	5.36	4.04
Obligations related to assets sold under repurchase agreements and securities loaned	42,503	32,786	25,912	2,364	1,882	1,120	5.56	5.74	4.32
Subordinated debentures	6,704	8,013	8,359	338	419	442	5.04	5.23	5.29
Other interest-bearing liabilities	3,569	2,759	4,041	376	328	299	10.54	11.89	7.40
Total interest-bearing liabilities	442,154	388,450	344,519	18,845	15,408	10,188	4.26	3.97	2.96
Non-interest-bearing deposits	25,752	17,037	16,159	–	–	–	–	–	–
Acceptances	10,270	8,882	6,414	–	–	–	–	–	–
Other liabilities	79,087	66,755	58,757	–	–	–	–	–	–
Total liabilities	$ 557,263	$ 481,124	$ 425,849	$ 18,845	$ 15,408	$ 10,188	3.38%	3.20%	2.39%
Shareholders' equity									
Preferred	$ 1,553	$ 1,022	$ 811	$ –	$ –	$ –	–%	–%	–%
Common	22,184	19,954	18,640	–	–	–	–	–	–
Total liabilities and shareholders' equity	$ 581,000	$ 502,100	$ 445,300	$ 18,845	$ 15,408	$ 10,188	3.24%	3.07%	2.29%
Net interest income and margin	$ 581,000	$ 502,100	$ 445,300	$ 7,532	$ 6,796	$ 6,793	1.30%	1.35%	1.53%
Net interest income and margin (average earning assets) (7)									
Canada	$ 280,385	$ 257,319	$ 229,184	$ 6,435	$ 6,045	$ 5,628	2.30%	2.35%	2.46%
United States	106,044	90,684	74,842	412	108	608	.39	.12	.81
Other International	112,819	86,105	74,849	685	643	557	.61	.75	.74
Total	$ 499,248	$ 434,108	$ 378,875	$ 7,532	$ 6,796	$ 6,793	1.51%	1.57%	1.79%

(1) Geographic classification for selected assets and liabilities is based on the domicile of the booking point of the subject assets and liabilities.
(2) Calculated using methods intended to approximate the average of the daily balances for the period.
(3) Interest income includes loan fees of $331 million (2006 – $348 million; 2005 – $343 million).
(4) Available-for-sale securities are carried at fair value. Prior to November 1, 2006, Available-for-sale securities were classified as investment securities and were carried at amortized cost.
(5) Average balances include impaired loans.
(6) Deposits include savings deposits with average balances of $46 billion (2006 – $46 billion; 2005 – $46 billion), interest expense of $.4 billion (2006 – $.4 billion; 2005 – $.3 billion) and average rates of .9% (2006 – .8%; 2005 – .6%). Deposits also include term deposits with average balances of $240 billion (2006 – $206 billion; 2005 – $181 billion), interest expense of $10.7 billion (2006 – $8.3 billion; 2005 – $5.3 billion) and average rates of 4.43% (2006 – 4.02%; 2005 – 2.95%).
(7) During the year, we reviewed the geographic information that was used to prepare the Net interest income and margin for the prior periods and determined that some information was incorrectly classified; accordingly, the Net interest income and margins presented for the comparative periods have been revised.

Loans and acceptances by geography (1)

Table 59

(C$ millions)	2007	2006	2005	2004	2003
	As at October 31				
Canada					
Residential mortgages	$ 107,453	$ 94,272	$ 88,808	$ 80,168	$ 73,978
Personal	42,506	37,946	33,986	30,415	26,445
Credit cards	8,142	6,966	6,024	6,298	4,663
Small business (2)	2,652	2,318	1,951	1,928	1,335
Retail	160,753	141,502	130,769	118,809	106,421
Business (3)	51,237	44,353	42,383	35,214	34,551
Sovereign (4)	585	553	521	535	572
Bank	3,235	2,031	74	106	118
Wholesale	55,057	46,937	42,978	35,855	35,241
	$ 215,810	$ 188,439	$ 173,747	$ 154,664	$ 141,662
United States					
Retail	6,804	7,652	7,741	7,010	6,189
Wholesale	18,548	13,847	12,317	11,698	13,213
	25,352	21,499	20,058	18,708	19,402
Other International					
Retail	1,905	1,896	1,729	1,411	1,517
Wholesale	8,148	7,213	3,454	3,961	5,811
	10,053	9,109	5,183	5,372	7,328
Total loans and acceptances	$ 251,215	$ 219,047	$ 198,988	$ 178,744	$ 168,392
Total allowance for loan losses	(1,493)	(1,409)	(1,498)	(1,644)	(2,055)
Total loans and acceptances, net of allowance for loan losses	$ 249,722	$ 217,638	$ 197,490	$ 177,100	$ 166,337

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

Impaired loans by portfolio and geography (1) — Table 60

(C$ millions, except percentage amounts)	As at October 31 2007	2006	2005	2004	2003
Residential mortgages	$ 210	$ 165	$ 146	$ 156	$ 138
Personal	189	205	183	204	255
Small business (2)	19	13	11	8	17
Retail	$ 418	$ 383	$ 340	$ 368	$ 410
Business (3)					
Agriculture	$ 65	$ 45	$ 48	$ 89	$ 146
Automotive	5	8	4	8	12
Consumer goods	83	85	73	59	75
Energy	3	6	47	162	240
Non-bank financial services	14	15	15	14	45
Forest products	29	12	16	163	181
Industrial products	29	17	12	60	44
Mining and metals	4	5	4	10	57
Real estate and related	345	82	74	102	113
Technology and media	10	49	52	89	129
Transportation and environment	19	19	14	19	143
Other	116	108	75	116	150
Sovereign (4)	–	–	–	–	–
Bank	–	–	–	–	–
Wholesale	$ 722	$ 451	$ 434	$ 891	$ 1,335
Total impaired loans (5), (6)	$ 1,140	$ 834	$ 774	$ 1,259	$ 1,745
Canada					
Residential mortgages	$ 149	$ 127	$ 106	$ 96	$ 110
Personal	152	183	161	178	213
Small business (2)	19	13	11	8	17
Retail	$ 320	$ 323	$ 278	$ 282	$ 340
Business (3)	377	266	225	501	724
Sovereign (4)	–	–	–	–	–
Bank	–	–	–	–	–
Wholesale	$ 377	$ 266	$ 225	$ 501	$ 724
	$ 697	$ 589	$ 503	$ 783	$ 1,064
United States					
Retail	$ 57	$ 15	$ 16	$ 44	$ 29
Wholesale	314	151	173	332	332
	$ 371	$ 166	$ 189	$ 376	$ 361
Other International					
Retail	$ 41	$ 45	$ 46	$ 42	$ 41
Wholesale	31	34	36	58	279
	$ 72	$ 79	$ 82	$ 100	$ 320
Total impaired loans	$ 1,140	$ 834	$ 774	$ 1,259	$ 1,745
Specific allowance for loan losses	(351)	(263)	(282)	(487)	(757)
Net impaired loans	$ 789	$ 571	$ 492	$ 772	$ 988
Gross impaired loans as a % of loans and acceptances:					
Residential mortgages	.19%	.17%	.16%	.19%	.18%
Personal	.39%	.46%	.45%	.55%	.79%
Small business (2)	.72%	.56%	.56%	.41%	1.27%
Retail	.25%	.25%	.24%	.29%	.36%
Wholesale	.88%	.66%	.74%	1.73%	2.46%
Total	.45%	.38%	.39%	.70%	1.04%
Specific allowance for loan losses as a % of gross impaired loans	30.79%	31.53%	36.43%	38.68%	43.38%

(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) Sovereign refers to all central governments and agencies, central banks, as well as other qualifying public sector entities and multilateral development banks.
(5) Includes foreclosed assets of $36 million in 2007 (2006 – $9 million; 2005 – $17 million; 2004 – $27 million; 2003 – $34 million).
(6) Past due loans greater than 90 days not included in impaired loans were $353 million in 2007 (2006 – $305 million; 2005 – $304 million; 2004 – $219 million; 2003 – $222 million).

Provision for (recovery of) credit losses by portfolio and geography (1)

Table 61

(C$ millions, except percentage amounts)	2007	2006	2005	2004	2003
	For the year ended October 31				
Residential mortgages	$ 13	$ 6	$ 2	$ 7	$ 8
Personal	364	306	259	222	254
Credit cards	223	163	194	167	155
Small business (2)	34	29	27	27	39
Retail	$ 634	$ 504	$ 482	$ 423	$ 456
Business (3)					
Agriculture	$ 2	$ (1)	$ (12)	$ 7	$ –
Automotive	2	4	–	2	–
Consumer goods	27	7	24	(11)	17
Energy	(7)	(53)	(20)	50	78
Non-bank financial services	–	4	10	–	(1)
Forest products	10	2	(52)	7	16
Industrial products	10	4	(7)	13	5
Mining and metals	1	–	(1)	(3)	5
Real estate and related	70	1	(11)	(1)	(8)
Technology and media	(2)	(5)	(6)	2	32
Transportation and environment	7	1	8	(32)	79
Other	28	14	(26)	64	42
Sovereign (4)	–	–	–	–	–
Bank	–	–	–	–	–
Wholesale	$ 148	$ (22)	$ (93)	$ 98	$ 265
Total specific provision	$ 782	$ 482	$ 389	$ 521	$ 721
Canada					
Residential mortgages	$ 5	$ 6	$ 1	$ 6	$ 4
Personal	334	296	247	211	230
Credit cards	220	161	192	166	152
Small business (2)	34	29	27	27	39
Retail	$ 593	$ 492	$ 467	$ 410	$ 425
Business (3)	102	15	(32)	3	102
Sovereign (4)	–	–	–	–	–
Bank	–	–	–	–	–
Wholesale	$ 102	$ 15	$ (32)	$ 3	$ 102
	$ 695	$ 507	$ 435	$ 413	$ 527
United States					
Retail	$ 34	$ 12	$ 15	$ 13	$ 30
Wholesale	50	(38)	(60)	106	78
	$ 84	$ (26)	$ (45)	$ 119	$ 108
Other International					
Retail	$ 7	$ –	$ –	$ –	$ 1
Wholesale	(4)	1	(1)	(11)	85
	$ 3	$ 1	$ (1)	$ (11)	$ 86
Total specific provision	$ 782	$ 482	$ 389	$ 521	$ 721
Total general provision	$ 9	$ (53)	$ 66	$ (175)	$ –
Total provision for credit losses	$ 791	$ 429	$ 455	$ 346	$ 721
Specific provision as a % of average net loans and acceptances	.33%	.23%	.21%	.30%	.43%

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

Allowance for credit losses by portfolio and geography (1) — Table 62

(C$ millions, except percentage amounts)	2007	2006	2005	2004	2003
Allowance at beginning of year	$ 1,486	$ 1,568	$ 1,714	$ 2,164	$ 2,314
Provision for credit losses	791	429	455	346	721
Write-offs by portfolio					
Residential mortgages	(5)	(5)	(5)	(7)	(10)
Personal	(444)	(379)	(353)	(332)	(379)
Credit cards	(268)	(204)	(237)	(207)	(192)
Small business (2)	(42)	(36)	(34)	(44)	(53)
Retail	$ (759)	$ (624)	$ (629)	$ (590)	$ (634)
Business (3)	$ (109)	$ (89)	$ (141)	$ (411)	$ (348)
Sovereign (4)	–	–	–	–	–
Bank	–	–	–	–	–
Wholesale	$ (109)	$ (89)	$ (141)	$ (411)	$ (348)
Less developed countries exposures	$ –	$ –	$ –	$ –	$ –
Total write-offs by portfolio	$ (868)	$ (713)	$ (770)	$ (1,001)	$ (982)
Recoveries by portfolio					
Residential mortgages	$ 1	$ –	$ –	$ –	$ –
Personal	74	64	69	68	68
Credit cards	46	41	43	39	37
Small business (2)	7	7	9	11	12
Retail	$ 128	$ 112	$ 121	$ 118	$ 117
Business (3)	$ 42	$ 93	$ 53	$ 98	$ 53
Sovereign (4)	–	–	–	–	–
Bank	–	–	–	–	–
Wholesale	$ 42	$ 93	$ 53	$ 98	$ 53
Total recoveries by portfolio	$ 170	$ 205	$ 174	$ 216	$ 170
Net write-offs	$ (698)	$ (508)	$ (596)	$ (785)	$ (812)
Adjustments (5)	(7)	(3)	(5)	(11)	(59)
Total allowance for credit losses at end of year	$ 1,572	$ 1,486	$ 1,568	$ 1,714	$ 2,164
Canada					
Residential mortgages	$ 13	$ 11	$ 9	$ 11	$ 12
Personal	79	88	101	108	129
Small business (2)	9	9	8	6	13
Retail	$ 101	$ 108	$ 118	$ 125	$ 154
Business (3)	$ 153	$ 112	$ 112	$ 202	$ 284
Sovereign (4)	–	–	–	–	–
Bank	–	–	–	–	–
Wholesale	$ 153	$ 112	$ 112	$ 202	$ 284
	$ 254	$ 220	$ 230	$ 327	$ 438
United States					
Retail	$ 14	$ 3	$ 3	$ 5	$ 11
Wholesale	54	12	18	118	131
	$ 68	$ 15	$ 21	$ 123	$ 142
Other International					
Retail	$ 13	$ 12	$ 12	$ 14	$ 15
Wholesale	16	16	19	23	162
	$ 29	$ 28	$ 31	$ 37	$ 177
Total specific allowance for loan losses	$ 351	$ 263	$ 282	$ 487	$ 757
General allowance	$ 1,221	$ 1,223	$ 1,286	$ 1,227	$ 1,407
Total allowance for credit losses	$ 1,572	$ 1,486	$ 1,568	$ 1,714	$ 2,164
Key ratios					
Allowance for credit losses as a % of loans and acceptances	.63%	.68%	.79%	.97%	1.30%
Net write-offs as a % of average net loans and acceptances	.30%	.25%	.32%	.46%	.49%

(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) Sovereign refers to all central governments and agencies, central banks, as well as other qualifying public sector entities and multilateral development banks.
(5) Other adjustments include primarily foreign exchange translations on non-Canadian dollar denominated allowance for credit losses and acquisition adjustments for Flag Bank, $21 million in 2007; Provident Financial Group Inc., $6 million in 2004; Admiralty Bancorp, Inc., $8 million in 2003.

Credit quality information by Canadian province (1)

Table 63

(C$ millions)	2007	2006	2005	2004	2003
Loans and acceptances					
Atlantic provinces (2)	$ 11,556	$ 10,256	$ 10,255	$ 9,598	$ 9,191
Quebec	35,168	32,723	26,646	23,670	22,564
Ontario	92,956	83,839	78,283	70,896	64,351
Prairie provinces (3)	40,956	32,598	31,190	26,701	24,084
B.C. and territories (4)	35,174	29,023	27,373	23,799	21,472
Total loans and acceptances in Canada	$ 215,810	$ 188,439	$ 173,747	$ 154,664	$ 141,662
Gross impaired loans					
Atlantic provinces (2)	$ 53	$ 53	$ 47	$ 60	$ 81
Quebec	118	68	44	131	155
Ontario	322	286	269	254	348
Prairie provinces (3)	112	107	78	93	140
B.C. and territories (4)	92	75	65	245	340
Total gross impaired loans in Canada	$ 697	$ 589	$ 503	$ 783	$ 1,064
Specific provision					
Atlantic provinces (2)	$ 40	$ 33	$ 30	$ 34	$ 46
Quebec	66	47	7	(1)	77
Ontario	490	344	368	318	309
Prairie provinces (3)	51	38	44	31	55
B.C. and territories (4)	48	45	(14)	31	40
Total specific provision for credit losses in Canada	$ 695	$ 507	$ 435	$ 413	$ 527

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

Small business loans and acceptances in Canada by sector (1)

Table 64

	As at October 31				
(C$ millions)	2007	2006	2005	2004	2003
Agriculture	$ 271	$ 248	$ 715	$ 519	$ 70
Automotive	650	601	490	463	462
Consumer goods	2,350	2,043	1,728	1,764	1,777
Energy	370	284	182	150	137
Non-bank financial services	88	73	78	51	97
Forest products	351	366	311	276	298
Industrial products	1,543	1,377	1,057	999	952
Mining and metals	98	88	57	62	65
Real estate and related	2,822	2,565	1,982	1,821	1,777
Technology and media	314	300	243	232	242
Transportation and environment	901	774	549	502	503
Other	4,488	4,098	3,365	3,298	3,325
Total small business loans	$ 14,246	$ 12,817	$ 10,757	$ 10,137	$ 9,705

(1) Includes small business exposure managed on a pooled and individual client basis.

Glossary

Acceptances
A bill of exchange or negotiable instrument drawn by the borrower for payment at maturity and accepted by a bank. The acceptance constitutes a guarantee of payment by the bank and can be traded in the money market. The bank earns a "stamping fee" for providing this guarantee.

Allowance for credit losses
The amount deemed adequate by management to absorb identified credit losses as well as losses that have been incurred but are not yet identifiable as at the balance sheet date. This allowance is established to cover the lending portfolio including loans, acceptances, guarantees, letters of credit, and unfunded commitments. The allowance is increased by the provision for credit losses, which is charged to income and decreased by the amount of write-offs, net of recoveries in the period.

Assets-to-capital multiple
Total assets plus specified off-balance sheet items, as defined by the OSFI, divided by total regulatory capital.

Assets under administration (AUA)
Assets administered by us which are beneficially owned by clients. Services provided in respect of assets under administration are of an administrative nature, including safekeeping, collecting investment income, settling purchase and sale transactions, and record keeping.

Assets under management (AUM)
Assets managed by us which are beneficially owned by clients. Services provided in respect of assets under management include the selection of investments and the provision of investment advice. We have assets under management that are also administered by us and included in assets under administration.

Average balances
Average balances are calculated using methods intended to approximate the average of the daily balances of the period.

Average earning assets
The average carrying value of assets that give rise to our reported net interest income including deposits with banks, securities, assets purchased under reverse repurchase agreements and securities borrowed, and loans based on daily balances for the period ending October 31 in each financial year.

Basis point (bp)
One one-hundredth of a percentage point (.01%).

Canadian GAAP
Canadian generally accepted accounting principles.

Capital adequacy
The level of capital that is sufficient to underpin risk and accommodate potential unexpected increases in risk within specified regulatory targets while maintaining our business plans. This includes risks for which minimum regulatory capital requirements may not be specified.

Capital position
Quantifies the extent to which illiquid assets are funded by non-core liabilities and represents a formula-based measure of both comparative and directional structural liquidity risk.

Cash capital position
Quantifies the extent to which illiquid assets are funded by non-core liabilities and represents a formula-based measure of both comparative and directional structural liquidity risk.

Collateral
Assets pledged as security for a loan or other obligation. Collateral can take many forms, such as cash, highly rated securities, property, inventory, equipment and receivables.

Collateralized debt obligation (CDO)
An investment grade security that is backed by a pool of bonds, loans and/or any other type of debt instrument.

Covered bonds
Full recourse on-balance sheet obligations issued by banks and credit institutions that are also fully collateralized by assets over which investors enjoy a priority claim in the event of an issuer's insolvency.

Commitments to extend credit
Unutilized amount of credit facilities available to clients either in the form of loans, bankers' acceptances and other on-balance sheet financing, or through off-balance sheet products such as guarantees and letters of credit.

Derivative
A contract between two parties which requires little or no initial investment and where payments between the parties are dependent upon the movements in price of an underlying instrument, index or financial rate. Examples of derivatives include swaps, options, forward rate agreements and futures. The notional amount of the derivative is the contract amount used as a reference point to calculate the payments to be exchanged between the two parties, and the notional amount itself is generally not exchanged by the parties.

Dividend payout ratio
Common dividends as a percentage of net income after preferred share dividends.

Dividend yield
Dividends per common share divided by the average of the high and low share prices in the relevant period.

Documentary and commercial letters of credit
Written undertakings by a bank on behalf of its client (typically an importer), authorizing a third party (typically an exporter) to draw drafts on the bank up to a stipulated amount under specific terms and conditions. Such undertakings are established for the purpose of facilitating international trade.

Earnings per share (EPS), basic
Calculated as net income less preferred share dividends divided by the average number of shares outstanding.

Earnings per share (EPS), diluted
Calculated as net income less preferred share dividends divided by the average number of shares outstanding adjusted for the dilutive effects of stock options and other convertible securities.

Economic Capital
An estimate of the amount of equity capital required to underpin risks. It is calculated by estimating the level of capital that is necessary to support our various businesses, given their risks, consistent with our desired solvency standard and credit ratings.

Fair value
The amount of consideration that would be agreed upon in an arm's-length transaction between knowledgeable, willing parties who are under no compulsion to act.

Guarantees and standby letters of credit
Primarily represent irrevocable assurances that a bank will make payments in the event that its client cannot meet its financial obligations to third parties. Certain other guarantees, such as bid and performance bonds, represent non-financial undertakings.

Hedge
A risk management technique used to insulate financial results from market, interest rate or foreign currency exchange risk (exposure) arising from normal banking operations. The elimination or reduction of such exposure is accomplished by establishing offsetting positions. For example, assets denominated in foreign currencies can be offset with liabilities in the same currencies or through the use of foreign exchange hedging instruments such as futures, options or foreign exchange contracts.

Hedge funds
A type of fund, usually used by wealthy individuals and institutions, which is allowed to use aggressive strategies that are unavailable to mutual funds, including selling short, leverage, program trading, swaps, arbitrage and derivatives.

Impaired loans
Loans are classified as impaired when there has been a deterioration of credit quality to the extent that management no longer has reasonable assurance of timely collection of the full amount of principal and interest in accordance with the contractual terms of the loan agreement. Credit card balances are not classified as impaired as they are directly written off after payments are 180 days past due.

Innovative capital instruments
Capital instruments issued by special purpose entities (SPEs), whose primary purpose is to raise capital. We issue innovative capital instruments, RBC Trust Capital Securities (TruCS) and RBC Trust Subordinated Notes (TSNs), through three SPEs: RBC Capital Trust, RBC Capital Trust II and RBC Subordinated Notes Trust. As per the OSFI guidelines, innovative capital can comprise up to 15% of net Tier 1 capital with an additional 5% eligible for Tier 2 capital.

Managed basis
We report our segments on a managed basis, which is intended to measure the performance of each business segment as if it were a stand-alone business and reflect the way each segment is managed.

Mark-to-market
Valuation of financial instruments using prevailing market prices or fair value as of the balance sheet date.

Master netting agreement
An agreement between us and a counterparty designed to reduce the credit risk of multiple derivative transactions through the creation of a legal right of offset of exposure in the event of a default.

Net interest income
The difference between what is earned on assets such as loans and securities and what is paid on liabilities such as deposits and subordinated debentures.

Net interest margin (average assets)
Net interest income as a percentage of total average assets.

Net interest margin (average earning assets)
Net interest income as a percentage of total average earning assets.

Non-bank sponsored asset-backed commercial paper
A short-term promissory note issued primarily by corporations, which is securitized with loans or other receivables.

Normal course issuer bid (NCIB)
A program for the repurchase of our own common shares, for cancellation through a stock exchange, that is subject to the various rules of the relevant stock exchange and securities commission.

Notional amount
The contract amount used as a reference point to calculate payments for derivatives.

Off-balance sheet financial instruments
A variety of credit-related arrangements offered to clients, which generally provides liquidity protection.

Office of the Superintendent of Financial Institutions Canada (OSFI)
The primary regulator of federally chartered financial institutions and federally administered pension plans in Canada. The OSFI's mission is to safeguard policyholders, depositors and pension plan members from undue loss.

Options
A contract or a provision of a contract that gives one party (the option holder) the right, but not the obligation, to perform a specified transaction with another party (the option issuer or option writer) according to specified terms.

Prepaid pension benefit cost
The cumulative excess of amounts contributed to a pension fund over the amounts recorded as pension expense.

Provision for credit losses
The amount charged to income necessary to bring the allowance for credit losses to a level determined appropriate by management. This includes both specific and general provisions.

Repurchase agreements
Involve the sale of securities for cash at a near value date and the simultaneous repurchase of the securities for value at a later date.

Residential mortgage-backed securities
Securities created through the securitization of residential mortgage loans.

Return on common equity (ROE)
Net income, less preferred share dividends, expressed as a percentage of average common equity.

Reverse repurchase agreements
Involve the purchase of securities for cash at a near value date and the simultaneous sale of the securities for value at a later date.

Risk
Financial institutions face a number of different risks that expose them to possible losses. These risks include credit risk, market risk, operational risk, liquidity and funding risk, reputation risk, regulatory and legal risk, environmental risk, insurance risk, strategic risk, competitive risk and systemic risk.

Risk-adjusted assets
As prescribed by the OSFI guidelines and used in the calculation of risk-based capital ratios. The face value of on-balance sheet assets is discounted using specified risk-weighting factors that reflect the relative risk of the asset. The risk inherent in off-balance sheet instruments is also recognized, first by determining a credit equivalent amount, and then by applying appropriate risk-weighting factors.

Securities lending
Transactions in which the owner of a security agrees to lend it under the terms of a prearranged contract to a borrower for a fee. The borrower must collateralize the security loan at all times. An intermediary such as a bank often acts as agent for the owner of the security. There are two types of securities lending arrangements: lending with and without credit or market risk indemnification. In securities lending without indemnification, the bank bears no risk of loss. For transactions in which the bank provides an indemnification, it bears risk of loss if the borrower defaults and the value of the collateral declines concurrently.

Securities sold short
A transaction in which the seller sells securities and then borrows the securities in order to deliver them to the purchaser upon settlement. At a later date, the seller buys identical securities in the market to replace the borrowed securities.

Securitization
The process by which high-quality financial assets are packaged into newly issued securities backed by these assets.

Special purpose entities (SPEs)
Entities that are typically organized for a single discrete purpose, have a limited life and serve to legally isolate the financial assets held by the SPE from the selling organization. SPEs are principally used to securitize financial and other assets in order to obtain access to funding, to mitigate credit risk and to manage capital.

Structured investment vehicle
Managed investment vehicle that holds mainly highly rated asset-backed securities and funds itself using the short-term commercial paper market as well as the medium-term note (MTN) market.

Subprime loans
Subprime lending is the practice of making loans to borrowers who do not qualify for the best market interest rates because of their deficient credit history. Subprime lending carries more risk for both lenders and borrowers due to the combination of higher interest rates, poorer credit histories, and adverse financial situations usually associated with subprime applicants.

Survival horizon
Measures the length of time over which we would have sufficient funds to repay our maturing liabilities and finance off-balance sheet commitments if access to wholesale unsecured funding became suddenly unavailable and liquid assets, but no portion of mortgages and loans, were monetized.

Synthetic securitization
The transfer of risks relating to selected elements of our financial assets to unaffiliated third parties through the use of certain financial instruments such as credit default swaps and guarantees.

Taxable equivalent basis (teb)
Income from certain specified tax-advantaged sources is increased to a level that would make it comparable to income from taxable sources. There is an offsetting adjustment in the tax provision, thereby generating the same after-tax net income.

Tier 1 capital and Tier 1 capital ratio
Tier 1 capital is considered to be the most permanent in nature without creating a fixed charge against income. As defined by the OSFI, it includes common equity, retained earnings, non-cumulative preferred shares, and innovative capital instruments. The Tier 1 capital ratio is calculated by dividing Tier 1 capital by risk-adjusted assets.

Total capital ratio
The percentage of risk-adjusted assets supported by capital using the guidelines of the OSFI based on standards issued by the Bank for International Settlements and Canadian GAAP financial information.

Trust Capital Securities (TruCS)
Transferable trust units issued by special purpose entities, RBC Capital Trust or RBC Capital Trust II, for the purpose of raising innovative Tier 1 capital.

Trust Subordinated Notes (TSNs)
Transferable trust units issued by RBC Subordinated Notes Trust for the purpose of raising innovative Tier 2 capital.

U.S. GAAP
U.S. generally accepted accounting principles.

Value-at-Risk (VaR)
A generally accepted risk-measurement concept that uses statistical models based on historical information to estimate within a given level of confidence the maximum loss in market value we would experience in our trading portfolio from an adverse one-day movement in market rates and prices.

Variable interest entity (VIE)
An entity which either does not have sufficient equity at risk to finance its activities without additional subordinated financial support, or where the holders of the equity at risk lack the characteristics of a controlling financial interest.

Consolidated Financial Statements

Reports

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

Consolidated Financial Statements

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

Notes to the Consolidated Financial Statements

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

Management's responsibility for financial reporting

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

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

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

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

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

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

Gordon M. Nixon
President and Chief Executive Officer

Janice R. Fukakusa
Chief Financial Officer

Toronto, November 29, 2007

Report of Independent Registered Chartered Accountants

To the Shareholders of Royal Bank of Canada

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

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

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

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

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

Management's report on internal control over financial reporting

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

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

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

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

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

Gordon M. Nixon
President and Chief Executive Officer

Janice R. Fukakusa
Chief Financial Officer

Toronto, November 29, 2007

Report of Independent Registered Chartered Accountants

To the Shareholders of Royal Bank of Canada

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

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

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

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

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

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

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

Consolidated Balance Sheets

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

Gordon M. Nixon
President and Chief Executive Officer

Robert B. Peterson
Director

Consolidated Statements of Income

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

Consolidated Statements of Comprehensive Income

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

Consolidated Statements of Changes in Shareholders' Equity

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

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

Consolidated Statements of Cash Flows

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

Note 1 Significant accounting policies and estimates

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

Basis of consolidation

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

Significant accounting changes

Financial Instruments

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

Comprehensive Income

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

Financial Instruments – Recognition and Measurement

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

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

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

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

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

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

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

Hedges

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

Impact upon adoption of Sections 1530, 3855 and 3865

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

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

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

Variable Interest Entities

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

Convertible and Other Debt Instruments with Embedded Derivatives

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

Accounting Policy Choice for Transaction Costs

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

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

Translation of foreign currencies

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

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

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

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

Securities

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

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

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

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

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

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

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

Assets purchased under reverse repurchase agreements and sold under repurchase agreements

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

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

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

Loans

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

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

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

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

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

Allowance for credit losses

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

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

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

Specific allowances

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

General allowance

A general allowance is established to cover estimated credit losses incurred in the lending portfolio that have not yet been specifically identified as impaired. For heterogeneous loans (wholesale loans including small business loans individually managed), the determination of the general allowance is based on the application of estimated probability of default, gross exposure at default and loss factors, which are determined by historical loss experience and delineated by loan type and rating. For homogeneous portfolios (retail loans) including residential mortgages, credit cards, as well as personal and small business loans that are managed on a pooled basis, the determination of the general allowance is based on the application of historical loss rates. In determining the general allowance level, management also considers the current portfolio credit quality trends, business and economic conditions, the impact of policy and process changes, and other supporting factors. In addition, the general allowance includes a component for the model limitations and imprecision inherent in the allowance methodologies.

Acceptances

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

Derivatives

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

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

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

Hedge accounting

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

Fair value hedges

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

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

Cash flow hedges

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

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

Net investment hedges

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

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

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

Premises and equipment

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

Business combinations, goodwill and other intangibles

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

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

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

Income taxes

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

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

Pensions and other post-employment benefits

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

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

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

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

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

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

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

Stock-based compensation

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

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

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

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

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

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

Loan securitization

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

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

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

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

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

Insurance

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

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

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

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

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

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

Liabilities and equity

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

Earnings per share

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

Use of estimates and assumptions

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

Change in accounting estimate

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

Change in financial statement presentation

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

Future accounting changes

Capital Disclosures and Financial Instruments – Disclosures and Presentation

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

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

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

Note 2 Fair value of financial instruments

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

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

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

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

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

Carrying value and fair value of selected financial instruments

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Note 3 Securities (1)

	Term to maturity (2)								
	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	2007 Total	2006 Total	2005 Total
Trading account									
Canadian government debt	$ 1,683	$ 3,046	$ 5,106	$ 1,383	$ 2,853	$ –	$ 14,071	$ 13,900	$ 11,814
U.S. government debt	384	1,066	2,084	377	5,106	–	9,017	7,793	7,281
Other OECD government debt (3)	–	1,429	2,699	26	82	–	4,236	4,658	6,476
Mortgage-backed securities	110	59	1,200	1,176	3,099	–	5,644	3,841	2,281
Asset-backed securities	231	47	6,612	53	691	–	7,634	9,064	8,781
Corporate debt and other debt									
Bankers' acceptances	373	1	–	–	–	–	374	766	998
Certificates of deposit	704	3,525	344	125	14	–	4,712	5,245	8,705
Other	5,189	4,011	24,468	2,220	4,986	1,564	42,438	44,139	33,714
Equities	–	–	–	–	–	60,120	60,120	57,831	45,710
	8,674	13,184	42,513	5,360	16,831	61,684	148,246	147,237	125,760
Available-for-sale securities (1)									
Canadian government debt									
Federal									
Amortized cost	195	57	2,031	382	–	–	2,665	3,649	6,214
Fair value	195	57	2,040	384	–	–	2,676	3,677	6,205
Yield (4)	3.5%	4.7%	4.4%	4.5%	–	–	4.4%	4.2%	3.6%
Provincial and municipal									
Amortized cost	–	–	201	78	–	–	279	1,687	2,035
Fair value	–	–	201	77	–	–	278	1,935	2,229
Yield (4)	–	–	4.0%	4.5%	–	–	4.2%	5.4%	4.9%
U.S. government debt									
Federal									
Amortized cost	–	–	–	–	–	–	–	536	633
Fair value	–	–	–	–	–	–	–	508	628
Yield (4)	–	–	–	–	–	–	–	4.5%	2.2%
State, municipal and agencies									
Amortized cost	307	517	1,194	21	–	–	2,039	1,678	2,199
Fair value	307	518	1,155	21	–	–	2,001	1,648	2,139
Yield (4)	5.3%	5.1%	5.0%	5.6%	–	–	5.1%	3.6%	2.5%
Other OECD government debt (3)									
Amortized cost	1	622	107	84	5	–	819	758	1,595
Fair value	1	622	107	83	5	–	818	761	1,599
Yield (4)	3.6%	.5%	4.2%	4.6%	4.9%	–	1.4%	2.6%	1.9%
Mortgage-backed securities									
Amortized cost	80	90	4,854	405	3,573	–	9,002	11,805	8,254
Fair value	80	90	4,872	408	3,522	–	8,972	11,692	8,183
Yield (4)	5.2%	4.7%	4.6%	5.2%	5.0%	–	4.8%	4.5%	4.4%
Asset-backed securities									
Amortized cost	399	5	245	357	998	–	2,004	3,164	1,442
Fair value	399	5	239	357	939	–	1,939	3,171	1,445
Yield (4)	6.0%	4.2%	4.7%	5.2%	5.3%	–	5.4%	5.0%	4.2%
Corporate debt and other debt									
Amortized cost	2,563	2,779	3,229	774	505	–	9,850	11,162	10,676
Fair value	2,554	2,850	3,135	760	495	–	9,794	11,360	10,839
Yield (4)	4.8%	5.2%	4.5%	5.2%	4.4%	–	4.8%	4.8%	3.7%
Equities (5)									
Cost	–	–	–	–	–	2,715	2,715	2,537	1,012
Fair value	–	–	–	–	–	2,874	2,874	2,592	974
Loan substitute									
Cost	–	–	–	–	400	256	656	656	675
Fair value	–	–	–	–	400	252	652	658	683
Yield (4)	–	–	–	–	4.6%	5.3%	4.9%	4.8%	3.7%
Amortized cost	3,545	4,070	11,861	2,101	5,481	2,971	30,029	37,632	34,735
Fair value	3,536	4,142	11,749	2,090	5,361	3,126	30,004	38,002	34,924
Held-to-maturity securities (1)									
Amortized cost	–	3	–	–	2	–	5	–	–
Fair value	–	3	–	–	2	–	5	–	–
Total carrying value of securities (1)	$ 12,210	$ 17,329	$ 54,262	$ 7,450	$ 22,194	$ 64,810	$178,255	$184,869	$160,495

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

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

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

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

.

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

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

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

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

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

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

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

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

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

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

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

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

Note 4 Loans

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

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

Loan maturities and rate sensitivity

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

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

Impaired loans (1), (2)

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

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

Note 4 Loans (continued)

Allowance for loan losses

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

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

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

Net interest income after provision for credit losses

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

Note 5 Securitizations

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

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

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

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

Cash flows from securitizations (1)

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

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

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

Key assumptions (1), (2)

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

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

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

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

Loans managed

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

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

Note 5 Securitizations (continued)

Sensitivity of key assumptions

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

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

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

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

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

Note 6 Variable interest entities (VIEs)

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

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

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

Multi-seller and third-party conduits

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

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

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

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

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

Investment funds

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

Structured finance VIEs

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

Creation of credit investment products

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

Compensation vehicles

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

Capital trusts

RBC Subordinated Notes Trust (Trust III) was created in 2007 to issue $1 billion of innovative subordinated debentures and RBC Capital Trust II (Trust II) was created in 2003 to issue $900 million of innovative capital instruments. We issued senior deposit notes of the same amounts to Trust II, and a senior deposit note of $999.8 million to Trust III. Although we own the common equity and voting control of these trusts, we are not the Primary Beneficiary since we are not exposed to the majority of the expected losses, and we do not have a significant interest in these trusts. For details on our innovative capital instruments, refer to Note 17.

Securitization of our financial assets

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

Note 7 Derivative financial instruments and hedging activities

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

Types of derivatives

Forwards and futures

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

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

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

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

Swaps

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

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

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

Options

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

Credit derivatives

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

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

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

Other derivative products

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

Derivatives issued for trading purposes

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

Derivatives issued for other than trading purposes

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

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

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

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

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

Hedge activities

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

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

Notional amount of derivatives by term to maturity

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

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

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

Fair value of derivative instruments

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

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

Derivative-related credit risk

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

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

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

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

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

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

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

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

Derivative-related credit risk

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

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

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

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

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

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

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

Note 8 Premises and equipment

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

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

Note 9 RBC Dexia Investor Services joint venture

RBC Dexia Investor Services

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

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

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

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

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

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

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

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

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

Note 10 Goodwill and other intangibles

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

Goodwill

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

(1) Other adjustments in 2006 primarily include the impact of foreign exchange translations on foreign currency-denominated goodwill, changes in goodwill related to our IIS business with RBC Dexia IS (refer to Note 9), and the transfer of $6 million of housing tax credit syndication business goodwill from RBC U.S. and International Personal and Business to RBC Capital Markets. Refer to Note 30.

(2) During 2006, we adjusted the foreign exchange translation of certain foreign currency-denominated goodwill of RBC Canadian Personal and Business to better align with the nature of the net assets supporting the segment. This resulted in an increase of $182 million of goodwill for RBC Canadian Personal and Business. A corresponding increase was made to Unrealized foreign currency translation adjustments on our Consolidated Statements of Changes in Shareholders' Equity.

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

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

Reallocation of goodwill

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

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

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

Other intangibles

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

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

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

Note 11 Significant acquisitions and dispositions

2007

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

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

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

Other acquisitions

Capital Markets

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

Wealth Management

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

Pending acquisitions

U.S. & International Banking

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

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

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

Note 11 Significant acquisitions and dispositions (continued)

2006

Acquisitions

Wealth Management

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

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

The details of these acquisitions are as follows:

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

(1) These acquisitions, which were previously included in the operations of RBC U.S. and International Personal and Business segment, are included in the Wealth Management business segment effective February 2, 2007 upon reorganization of our business segments. Refer to Note 30.
(2) Includes £20 million placed in an escrow account for future payments of claims as agreed to in the purchase agreement. Amounts remaining in the escrow account will be released to the vendors over a three-year period after completion of the acquisition.
(3) Customer lists and relationships are amortized on a straight-line basis over an estimated average useful life of 15 years.

Dispositions

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

Note 12 Other assets

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

(1) Insurance-related assets include policy loan balances, premiums outstanding, amounts due from other insurers in respect of reinsurance contracts and pooling arrangements, and deferred acquisition costs.
(2) Prepaid pension benefit cost represents the cumulative excess of pension fund contributions over pension benefit expense.

Note 13 Deposits

The following table details our deposit liabilities:

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

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

The contractual maturities of the term deposits are as follows:

Term deposits (1)

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

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

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

Average deposit balances and rates

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

Note 14 Insurance

Insurance claims and policy benefit liabilities

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

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

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

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

Reinsurance

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

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

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

Net premiums

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

Note 15 Other liabilities

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

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

Note 16 Subordinated debentures

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

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

The terms and conditions of the debentures are as follows:

(1) Redeemed on the earliest par value redemption date at par value.

(2) Redeemable at any time prior to the earliest par value redemption date at the greater of (i) the fair value of the subordinated debentures based on the yield on Government of Canada bonds plus 18 basis points and (ii) par value, and thereafter at any time at par value.

(3) Interest at stated interest rate until earliest par value redemption date, and thereafter at a rate of 1.00% above the 90-day Bankers' Acceptance rate.

(4) Redeemable at any time prior to the earliest par value redemption date at the greater of (i) the fair value of the subordinated debentures based on the yield on Government of Canada bonds plus 8 basis points and (ii) par value, and thereafter at any time at par value.

(5) Redeemable at any time prior to the earliest par value redemption date at the greater of (i) the fair value of the subordinated debentures based on the yield on Government of Canada bonds plus 9 basis points and (ii) par value, and thereafter at any time at par value.

(6) Redeemable at any time prior to the earliest par value redemption date at the greater of (i) the fair value of the subordinated debentures based on the yield on Government of Canada bonds plus 12.5 basis points and (ii) par value, and thereafter at any time at par value.

(7) Redeemable at any time prior to the earliest par value redemption date at the greater of (i) the fair value of the subordinated debentures based on the yield on Government of Canada bonds plus 22 basis points and (ii) par value, and thereafter at any time at par value.

(8) Redeemable at any time prior to the earliest par value redemption date at the greater of (i) the fair value of the subordinated debentures based on the yield on Government of Canada bonds plus 14 basis points and (ii) par value, and thereafter at any time at par value.

(9) Redeemable on or after June 26, 2017, at par value.

(10) Fixed interest rate at 2.86% per annum, payable semi-annually.

(11) Redeemable on any interest payment date at par value.

(12) Interest at a rate of 40 basis points above the 30-day Bankers' Acceptance rate.

(13) Interest at a rate of 25 basis points above the U.S. dollar 3-month LIMEAN. In the event of a reduction of the annual dividend we declare on our common shares, the interest payable on the debentures is reduced pro rata to the dividend reduction and the interest reduction is payable with the proceeds from the sale of newly issued common shares.

(14) Redeemable on June 18, 2009, or every fifth anniversary of such date at par value. Redeemable on any other date at the greater of par and the yield on a non-callable Government of Canada bond plus 21 basis points if redeemed prior to June 18, 2014, or 43 basis points if redeemed at any time after June 18, 2014.

(15) Interest at a rate of 5.95% until earliest par value redemption date and every 5 years thereafter at the 5-year Government of Canada yield plus 172 basis points.

Maturity schedule

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

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

Note 17 Trust capital securities

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Note 18 Preferred share liabilities and share capital

Authorized share capital

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

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

Issued and outstanding shares

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

(1) On November 24, 2006, we redeemed Non-cumulative First Preferred Shares Series O. The excess of the redemption price over carrying value of $3 million was charged to retained earnings in preferred share dividends.

(2) On October 6, 2006, we redeemed Non-cumulative First Preferred Shares Series S. The excess of the redemption price over carrying value of $10 million was charged to retained earnings in preferred share dividends.

(3) On January 31, 2005, we issued 12 million Non-cumulative First Preferred Shares Series W at $25 per share.

(4) On April 4, 2006, we issued 12 million Non-cumulative First Preferred Shares Series AA at $25 per share.

(5) On July 20, 2006, we issued 12 million Non-cumulative First Preferred Shares Series AB at $25 per share.

(6) On November 1, 2006, we issued 8 million Non-cumulative First Preferred Shares Series AC at $25 per share.

(7) On December 13, 2006, we issued 10 million Non-cumulative First Preferred Shares Series AD at $25 per share.

(8) On January 19, 2007, we issued 10 million Non-cumulative First Preferred Shares Series AE at $25 per share.

(9) On March 14, 2007, we issued 8 million Non-cumulative First Preferred Shares Series AF at $25 per share.

(10) On April 26, 2007, we issued 10 million Non-cumulative First Preferred Shares Series AG at $25 per share.

(11) Includes the exercise of stock options from tandem stock appreciation rights (SARs) awards, resulting in a reversal of the accrued liability, net of related income taxes, of $10 million (2006 – $8 million), and from renounced tandem SARs, net of related income taxes, of $6 million (2006 – $2 million).

Terms of preferred share liabilities and preferred shares

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

(1) Non-cumulative preferential dividends on Series N, W, AA, AB, AC, AD, AE, AF and AG are payable quarterly, as and when declared by the Board of Directors, on or about the 24th day of February, May, August and November.

(2) The redemption price represents the price as at October 31, 2007 or the contractual redemption price, whichever is applicable. Subject to the consent of the OSFI and the requirements of the Act, we may, on or after the dates specified above, redeem First Preferred Shares. These may be redeemed for cash, in the case of Series N at a price per share of $26, if redeemed during the 12 months commencing August 24, 2003, and decreasing by $.25 each 12-month period thereafter to a price per share of $25 if redeemed on or after August 24, 2007; and in the case of Series W, at a price per share of $26, if redeemed during the 12 months commencing February 24, 2010, and decreasing by $.25 each 12-month period thereafter to a price per share of $25 if redeemed on or after February 24, 2014; and in the case of Series AA, at a price per share of $26, if redeemed during the 12 months commencing May 24, 2011, and decreasing by $.25 each 12-month period thereafter to a price per share of $25 if redeemed on or after May 24, 2015; and in the case of Series AB, at a price per share of $26, if redeemed during the 12 months commencing August 24, 2011, and decreasing by $.25 each 12-month period thereafter to a price per share of $25 if redeemed on or after August 24, 2015; and in the case of Series AC, at a price per share of $26, if redeemed during the 12 months commencing November 24, 2011, and decreasing by $.25 each 12-month period thereafter to a price per share of $25 if redeemed on or after November 24, 2015; and in the case of Series AD, at a price per share of $26, if redeemed during the 12 months commencing February 24, 2012, and decreasing by $.25 each 12-month period thereafter to a price per share of $25 if redeemed on or after February 24, 2016; and in the case of Series AE, at a price per share of $26, if redeemed during the 12 months commencing February 24, 2012, and decreasing by $.25 each 12-month period thereafter to a price per share of $25 if redeemed on or after February 24, 2016; and in the case of Series AF, at a price per share of $26, if redeemed during the 12 months commencing May 24, 2012, and decreasing by $.25 each 12-month period thereafter to a price per share of $25 if redeemed on or after May 24, 2016; and in the case of Series AG, at a price per share of $26, if redeemed during the 12 months commencing May 24, 2012, and decreasing by $.25 each 12-month period thereafter to a price per share of $25 if redeemed on or after May 24, 2016.

(3) Subject to the consent of the OSFI and the requirements of the Act, we may purchase the First Preferred Shares Series N, W, AA, AB, AC, AD, AE, AF and AG for cancellation at the lowest price or prices at which, in the opinion of the Board of Directors, such shares are obtainable.

(4) Subject to the approval of the Toronto Stock Exchange, we may, on or after the dates specified above, convert First Preferred Shares Series N and W into our common shares. First Preferred Shares may be converted into that number of common shares determined by dividing the then-applicable redemption price by the greater of $2.50 and 95% of the weighted average trading price of common shares at such time.

(5) Subject to our right to redeem or to find substitute purchasers, the holder may, on or after the dates specified above, convert First Preferred Shares into our common shares. Series N may be converted, quarterly, into that number of common shares determined by dividing the then-applicable redemption price by the greater of $2.50 and 95% of the weighted average trading price of common shares at such time.

Restrictions on the payment of dividends

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

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

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

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

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

Regulatory capital

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

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

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

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

Dividend reinvestment plan

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

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

Shares available for future issuances

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

Normal Course Issuer Bid

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

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

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

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

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

Note 19 Non-controlling interest in subsidiaries

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

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

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

Note 20 Pensions and other post-employment benefits

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

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

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

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

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

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

Plan assets, benefit obligation and funded status

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

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

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

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

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

Benefits payment projection

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

Composition of defined benefit pension plan assets

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

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

Asset category

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

Investment policy and strategies

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

(i) investment characteristics including expected returns, volatilities and correlations between plan assets and plan liabilities;

(ii) the plan's tolerance for risk, which dictates the trade-off between increased short-term volatility and enhanced long-term expected returns;

(iii) diversification of plan assets to minimize the risk of large losses;

(iv) the liquidity of the portfolio relative to the anticipated cash flow requirements of the plan; and

(v) actuarial factors such as membership demographics and future salary growth rates.

Pension and other post-employment benefit expense

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

Pension benefit expense

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

Other post-employment benefit expense

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

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

Significant assumptions

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

Overall expected long-term rate of return on assets

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

Discount rate

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

Sensitivity analysis

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

2007 Sensitivity of key assumptions

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

Reconciliation of defined benefit expense recognized with defined benefit expense incurred

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

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

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

Defined benefit pension expense incurred

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

Other post-employment benefit expense incurred

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

Note 21 Stock-based compensation

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

Stock option plans

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

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

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

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

A summary of our stock option activity and related information

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

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

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

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

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

Fair value method

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

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

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

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

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

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

Employee savings and share ownership plans

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

Deferred share and other plans

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

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

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

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

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

Note 22 Trading revenue

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

Trading revenue

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

(1) Includes precious metals.

Note 23 Business realignment charges

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

Business realignment charges

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

Note 24 Income taxes

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

(1) Other comprehensive income was introduced under GAAP upon the adoption of Section 1530 on November 1, 2006 (refer to Note 1). Accordingly, there are no comparative figures for prior periods, other than the figures related to foreign currency translation gains (losses), which are now included as part of OCI.

n.a. not applicable

Sources of future income taxes

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

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

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

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

Reconciliation to statutory tax rate

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

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

Note 25 Earnings per share

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

(1) Refer to Note 11.

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

Note 26 Concentrations of credit risk

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

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

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

Note 27 Guarantees, commitments and contingencies

Guarantees

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

As the carrying value of these financial guarantees is not indicative of the maximum potential amount of future payments, we continue to consider financial guarantees as off-balance sheet credit instruments. The maximum potential amount of future payments represents the maximum risk of loss if there was a total default by the guaranteed parties, without consideration of possible recoveries under recourse provisions, insurance policies or from collateral held or pledged.

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

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

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

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

Credit derivatives and written put options

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

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

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

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

Backstop liquidity facilities

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

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

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

Stable value products

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

Financial standby letters of credit and performance guarantees

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

Credit enhancements

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

Mortgage loans sold with recourse

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

Securities lending indemnifications

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

Indemnifications

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

Other off-balance sheet credit instruments

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

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

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

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

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

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

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

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

Other off-balance sheet credit instruments

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

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

Pledged assets

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

Pledged assets

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

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

Collateral

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

Lease commitments

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

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

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

Litigation

Enron Corp. (Enron) litigation

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

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

Other

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

Note 28 Contractual repricing and maturity schedule

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

Note 28 Contractual repricing and maturity schedule (continued)

Carrying amount by earlier of contractual repricing or maturity date

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

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

Note 29 Related party transactions

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

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

Note 30 Results by business and geographic segment

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

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

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

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

Revenue by business line

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

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

Changes in 2007

Composition of business segments

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

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

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

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

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

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

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

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

Visa restructuring

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

Management reporting framework

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

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

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

Geographic segments

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

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

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

Condensed Consolidated Balance Sheets

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

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

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

Condensed Consolidated Statements of Income

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

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

(2) Refer to Note 11.

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

Condensed Consolidated Statements of Cash Flows (1)

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

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

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

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

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

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

Consolidated Statements of Comprehensive Income

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

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

Material balance sheet reconciling items

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

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

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

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

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

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

Material differences between Canadian and U.S. GAAP

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

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

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

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

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

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

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

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

Restricted net assets

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

Pensions and other post-employment benefits

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

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

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

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

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

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

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

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

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

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

Hedging activities

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

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

Fair value hedge

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

Cash flow hedge

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

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

Hedges of net investments in foreign operations

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

Average assets, U.S. GAAP

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

Significant accounting changes

Guidance for quantifying financial statement misstatements

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

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

Future accounting changes

Guidance on accounting for income taxes

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

Accounting for deferred acquisition costs for insurance operations

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

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

Guidance for written loan commitments recorded at fair value through earnings

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

Framework on fair value measurement

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

Fair value option for financial assets and liabilities

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

Offsetting of amounts related to certain contracts

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

Income tax benefits of dividends on share-based payment awards

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

Note 32 Parent company information

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

Condensed Balance Sheets

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

Condensed Statements of Income

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

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

Note 32 Parent company information (continued)

Condensed Statements of Cash Flows

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

EXHIBIT 3.1

CONSENT OF INDEPENDENT REGISTERED CHARTERED ACCOUNTANTS

We consent to the use of our reports dated November 29, 2007 relating to the consolidated financial statements of Royal Bank of Canada (which report on the financial statements expresses an unqualified opinion and includes an explanatory paragraph referring to our consideration of internal control over financial reporting 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 that have a material effect on the comparability of the financial statements) appearing in the Annual Report on Form 40-F of Royal Bank of Canada for the year ended October 31, 2007.

/s/ Deloitte & Touche LLP
Independent Registered Chartered Accountants
Licensed Public Accountants

Toronto, Ontario
November 30, 2007

EXHIBIT 3.2

CONSENT OF INDEPENDENT REGISTERED CHARTERED ACCOUNTANTS

We consent to the incorporation by reference in Registration Statements Nos. 333-8434, 333-12036, 333-12050, 333-13050, 333-13052, 333-13112, 333-13176, 333-13602, 333-13752, 333-14144, 333-110953 and 333-117922 on Form S-8 and No. 333-139359 on Form F-3 and to the use of our reports dated November 29, 2007 relating to the consolidated financial statements of Royal Bank of Canada (which report on the financial statements expresses an unqualified opinion and includes an explanatory paragraph referring to our consideration of internal control over financial reporting 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 that have a material effect on the comparability of the financial statements) appearing in the Annual Report on Form 40-F of Royal Bank of Canada for the year ended October 31, 2007.

/s/ Deloitte & Touche LLP
Independent Registered Chartered Accountants
Licensed Public Accountants

Toronto, Canada
November 30, 2007

EXHIBIT 4

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 company's financial statements, such as the changes described in Notes 1, 2, 3, 7, and 31. Our report to the shareholders dated November 29, 2007, 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.

/s/ Deloitte & Touche LLP
Independent Registered Chartered Accountants
Licensed Public Accountants

Toronto, Canada
November 30, 2007

RBC Financial Group

EXHIBIT 5

Our Code of Conduct

lual resp fidentiality • fairness • corporate responsibility • honouring our trust in you • objectivity

GUIDING PRINCIPLES

integrity respect honouring our trust in you fairness

Table of Contents

Foreword by Gord M. Nixon

Introduction
- Multiple Jurisdictions
- Waivers

P R I N C I P L E 1: Upholding the Law
- Laws, Rules and Regulations
- Inside Information
- Copyright
- Workplace Safety

P R I N C I P L E 2: Confidentiality
- Client Privacy
- Employee Privacy
- Protection of Proprietary Information and Intellectual Property
- Information Shared with Third Parties
- Solicitation

P R I N C I P L E 3: Fairness
- Equal Opportunity
- Free Competition

P R I N C I P L E 4: Corporate Responsibility
- Political Contributions
- Social Responsibility
- Environmental Responsibility

P R I N C I P L E 5: Honouring our Trust in You
- Misappropriation
- Information Technology Use/Information Security
- Employee as a Client
- Reporting Breaches of Our Code of Conduct and Other Irregularities and Dishonesty
- Compliance with RBC Policies, Procedures and Standards
- Compliance with Instructions

P R I N C I P L E 6: Objectivity
- Payments, Gifts, Entertainment
- Conflicts of Interest
- Directorships

P R I N C I P L E 7: Integrity
- Telling the Truth
- Integrity of Records
- Employee Character

P R I N C I P L E 8: Individual Responsibility
- Respectful Workplace
- Harassment
- Other Disrespectful and Inappropriate Behaviour
- Retaliation

Appendix
- Key Contacts

Foreword

Dear Colleague,

The very essence of the financial services industry demands that we consistently maintain the highest possible standards of honest and ethical behaviour. In keeping with this objective, RBC has eight Guiding Principles that express these high standards and they form the foundation for Our Code of Conduct.

Our Code of Conduct is integral to the way we do business at RBC, defining who we are and providing all employees with the same frame of reference for dealing with issues that can be both sensitive and complex.

Our Code of Conduct broadly addresses a variety of ethical and legal concerns that many of us face on a day-to-day basis – it does not replace established manuals or policies, nor does it answer many of the specific questions you may have. Our Code of Conduct is established to guide your judgment and to help you better understand the ethical demands and constraints related to your work. Each of us is accountable for putting these principles into practice, demonstrating the character and personal integrity that are a prerequisite for success in every RBC company. Our ability to achieve and to sustain quality earnings in this industry depends upon the trust which each of us earns every day from our clients, colleagues, communities and shareholders.

Please review this document carefully, to ensure that you understand it fully. You play an important role in representing our organization both on and off the job and in advancing our reputation with clients and the public at large.

Gord M. Nixon
President and Chief Executive Officer

Introduction

Based on the eight Guiding Principles established by RBC, Our Code of Conduct is for all RBC companies and applies equally to all employees.

As every employee contributes to the process of compliance, it is your responsibility to familiarize yourself with the contents of this Code and with any of the more detailed policies that may directly affect you or your work.

If, at any time, you are uncertain about the proper course of action, we urge you to discuss your concerns with your manager. Should you feel that this is not appropriate for some reason, you may also contact any of the key contacts listed in the Appendix.

The importance of Our Code of Conduct cannot be overemphasized. Your understanding of it and your cooperation in adhering to it is critical to the integrity of our industry and to maintaining the trust that our clients have placed in RBC. Accordingly, any employee who fails to meet the standards set out in this Code will be subject to corrective or disciplinary action, including immediate or eventual dismissal.

The term "RBC" has been used throughout this document to refer collectively to all RBC companies. In some instances, it may refer to individual employers.

Multiple Jurisdictions
Our Code of Conduct and the eight Guiding Principles govern the actions of every employee regardless of the specific company for which they work and regardless of the legal jurisdiction or location of that company. It extends to every employee in every location worldwide. References to specific regulatory bodies should be interpreted to mean the relevant entity or organization in your jurisdiction.

Waivers

Royal Bank of Canada's Board of Directors must approve any waiver of a departure from Our Code of Conduct involving a Royal Bank of Canada director or certain executive officers, and any approved waiver must be disclosed publicly in accordance with applicable legal or regulatory requirements and relevant RBC policies. RBC's Chief Human Resources Officer and Chief Compliance Officer must approve any other waiver of a departure from Our Code of Conduct in accordance with relevant RBC policy.

1. Upholding the Law

Every RBC company and employee will, at all times, abide by the law and respect its intent in the best interests of our clients, employees and shareholders.

Laws, Rules and Regulations

Numerous laws, rules and regulations have been established to govern the operations of financial institutions. RBC companies and employees are subject to, and are expected to comply with, the laws, rules and regulations of all countries in which they operate, as well as the expectations and requirements of our various regulators. These laws include, but are not limited to, banking laws, securities laws and regulations, laws prohibiting the corruption of foreign officials, laws designed to combat money laundering and terrorist financing, as well as employment legislation.

We have designed all of our policies and procedures to ensure compliance with these laws, regulations, rules, requirements and expectations. As an employee, your adherence to these policies and procedures is essential to ensuring we fulfill our obligations. In some cases, you will be required to review and understand policies, procedures and other guidance around compliance issues that relate to your job responsibilities and your obligations as an RBC employee. If in doubt, discuss with your manager.

As an employee:

- You are not to take any action that violates any applicable law, rule or regulation. To avoid or minimize legal or compliance difficulties, seek any necessary advice at the onset of your business dealings.

- You have a duty to cooperate with valid internal and external investigations, audits and regulatory examinations in a forthright manner and to provide honest, accurate and timely information.

- You must refer all external authorities requesting information about RBC to your Manager or to Group Risk Management – Global Compliance or RBC Law Group before providing any information in response to the request.

Inside Information

Through your work, you may sometimes be privy to confidential information concerning the affairs of an RBC company, a client, a potential client, a supplier, or other company whose securities are publicly traded on a stock exchange. This knowledge is referred to as "inside information" when two specific conditions are met:

- the information has not been generally disclosed to the public
- the information is "material"

In this situation, "material" refers to information that an investor could consider important in deciding whether or not to buy or sell that company's stock or securities. Examples might include knowledge of a potential merger or acquisition, a valuable natural resource or scientific/technological discovery, the financial stability of the company, etc.

Possession of inside information is legal – the misuse of it is illegal. Those who have access to inside information should clearly recognize this distinction.

"Tipping" is the act of passing inside information to another person who has no right or need to have it, and it is illegal.

All employees – regardless of their role, level, department or area – are to scrupulously avoid using, sharing or disclosing non-public information about any RBC company, its subsidiaries, affiliates or clients (both current and prospective), except in the legitimate course of doing business.

Policies, procedures and guidelines have been established to limit the potential for the misuse of inside information and to offer protection to you and RBC. You are to refer to the policies, procedures and guidelines that deal with information barriers and compliance issues. If in doubt, seek guidance from your manager.

As an employee:

- You are not to discuss or pass on inside information unless the exchange is necessary for a specific business purpose. Adherence to this practice will reduce the chances of inadvertent tipping. Please refer to the Confidentiality section of this document for further guidance.

- You are not to trade in stock or securities, or recommend or advise others to do so, on the basis of inside information you have acquired through your job. It is unethical and usually illegal.

- Before investing in RBC securities, employees are to familiarize themselves with our policies, procedures and guidelines on personal trading, including insider trading laws and RBC securities trading policies, as well as the effect that the perception of wrongdoing may have. If you have any doubts, do not trade.

- Executive officers or directors of RBC as well as other "insiders" identified by RBC are to refer to the Insider Trading Policy and reporting instructions for further guidance.

Copyright

Most printed, broadcast, recorded material and software, including RBC's name, logo and other RBC trademarks, are protected by copyright laws. The prior approval of the copyright holder may be required before making copies of such material. If in doubt, consult guidelines issued by the RBC Law Group or contact the RBC Law Group.

As an employee:

- You are required to follow the specific terms of the licensing agreement issued by the publisher of any computer software program used in the course of business or on a computer owned by an RBC company.

- Care is to be exercised when making copies of printed or recorded material and software, and you are to respect any prior approval requests required by the copyright holder.

- Under no circumstances, are you to:

- *install or use any software not licensed for use by RBC companies on any company-owned computer*
- *copy software programs licensed to RBC companies for use by others, except as permitted by the copyright or licensing agreement. The use of any copies is to strictly comply with the licensing agreement and RBC guidelines*
- *use RBC's name or logo to identify yourself in non-business social media forums*

Workplace Safety

Safety and health in the workplace is a shared responsibility of RBC, managers and employees. Managers are responsible for ensuring that employees are aware of any potential work hazards, are trained in safe work practices and are expected to comply with the safety and health laws, rules and regulations of the country in which they operate. All employees are to take every reasonable and necessary precaution to ensure personal safety and health as well as that of their colleagues.

Management approval is to be obtained before alcohol can be served on company premises. At any function or event sponsored

by an RBC employer at which alcohol is served, the senior officer hosting the event is to ensure that all applicable permits have been obtained and that employee safety is maintained.

As an employee:

- You are not to possess or use illegal drugs on company premises under any circumstances, nor are you to be under the influence of illegal drugs or misuse prescription drugs. You are not to encourage, persuade, or coerce a fellow employee to engage in illegal drug use, sell or transfer prescription medication, or in any way contribute to such use, either on or off company premises.

- You are not to threaten, intimidate or endanger anyone associated with RBC, either verbally or through your actions.

- You are not to have a weapon of any kind in your possession while on company premises. This includes handguns, rifles, knives, explosives, or any other dangerous implement or material. RBC employers may require any person in possession of such an item to leave the property immediately.

2. Confidentiality

Clients and employees have a right to privacy and to the security of their personal information. RBC companies and employees will respect and preserve this right.

Client Privacy

Respect for the privacy rights of clients is a fundamental principle in the financial services industry. As such, you are expected to have a thorough knowledge of our Client Privacy Policy.

As an employee:

- You are to comply with the client Privacy Policy at all times and respect the confidentiality of client information.

- You are to safeguard and handle client information with care at all times in accordance with RBC's Information Security Standards.

- If, in your position, you have access to client information from more than one RBC company, you are to ensure that proper client consent is in place before sharing that information with member companies.

Employee Privacy

Employees have the right to privacy as well. Many employees have both an employment relationship as well as a client relationship with RBC companies. Personal information about you as a client is confidential and is treated in the same manner as any other client. As with any other client, cross-referrals or product/service promotions require your prior written consent. Similarly, personal information about you as an employee is confidential. Any sharing or use of this information for client-related purposes needs your prior consent.

As an employee:

- Any inquiries you may receive about an employee or requests for employee information – including those concerning former employees – is to be handled in strict compliance with our Employee Privacy Policy.

Protection of Proprietary Information and Intellectual Property

Certain information concerning the plans, methods, practices and activities of RBC companies is proprietary and classified either as Restricted, Confidential or RBC Internal. Such information is to be protected in keeping with RBC's Employee Guide to Information Security Policy and Standards.

Client lists and information (i.e. computer/electronic files, paper records, etc.) are the property of RBC.

Intellectual property, including inventions, improvements, works of authorship, developments, concepts or ideas, data, processes, computer software programs, and discoveries, created by employees during their employment belongs to and remains the exclusive property of RBC.

As an employee:

- You are not to access, use or disclose any Restricted, Confidential or RBC Internal information about an RBC company without the proper authorization. Requests for this type of information are to be forwarded to your manager who, if necessary, will direct it to the appropriate corporate function.

- You are not to remove any proprietary information from company premises without permission from your manager.

- You are not to give testimony about RBC or general industry policies or business practices in a legal proceeding not involving RBC as a party without prior authorization from the Law Group.

- Should you leave the service of an RBC employer, you are obliged to continue safeguarding the privacy of both clients and employees, and to protect the confidentiality of the company's business indefinitely. Specific client information – including names, lists, profiles, data, etc. – is not to be used in subsequent employment situations. Any client or proprietary information you have in your possession is to be returned to the organization when you leave.

- Should you leave the service of an RBC employer, any intellectual property you create for RBC or while using RBC resources remains RBC's exclusive property.

Information Shared with Third Parties

In the course of regular business activities, RBC companies frequently enter into arrangements with a variety of outside parties including vendors, suppliers, service providers, etc., often resulting in the exchange of information.

As an employee:

- You are to share Restricted, Confidential or RBC Internal information only with third parties who have undertaken in writing to keep the information confidential in accordance with RBC requirements and then you may share only that information which is needed to satisfy the conditions of the arrangement and only with those who need to know. Similarly, you are not to share any confidential information about an outside party (vendor, supplier, service provider, etc.) except to satisfy the obligations outlined in the arrangement. Once again, this information is only to be shared with those who need to know.

Solicitation

Employees should be able to enjoy a work environment where others do not unduly solicit them on issues unrelated to their legitimate work.

As an employee:

- You are not to solicit employees for non-RBC-related business on company premises without first receiving the approval from your manager.

3. Fairness

In all our dealings, we strive to treat people fairly, carefully weighing our responsibilities to all stakeholders. Business relationships – whether cooperative or competitive – will be pursued freely, fairly and openly.

Equal Opportunity

RBC companies are committed to promoting equal opportunity in all dealings with employees, clients, suppliers and others.

RBC companies abide by the non-discrimination or human rights legislation in the various jurisdictions where we operate. These laws often prohibit discrimination on various grounds, with some examples being race, colour, religion/creed, age, gender, marital status, sexual orientation and disability. This is not a complete list and managers and employees are required to be familiar with those that apply in their jurisdiction.

Where laws do not prohibit discrimination, or where they allow for differential treatment, RBC companies are still committed to non-discrimination principles and will ensure that they do not operate in a way that simply continues stereotypes or establishes barriers. An example of where differential treatment may be necessary could be where a sound legitimate business need exists and where accommodations cannot effectively address the business need and the individual. If in doubt, seek guidance from Human Resources or the Law Group (refer to key contacts).

RBC employers will also respect and accommodate the diversity of their clients and workforce when determining appropriate dress codes.

As an employee:

- You are not to engage in discriminatory practices that are contrary to applicable laws or the principles and policies established for RBC companies.

Free Competition

RBC companies are committed to free competition and do not support any agreements, actions or concerted practices that restrict or impede fair competition. It is recognized that this is a complex area, particularly for sales and front-line staff. Employees who work in a sales function should familiarize themselves with policies on tied selling and associated compliance manuals and instructions.

As an employee:

- You are to avoid any collusive, anti-competitive discussions and/or agreements with competitors.

- You are to use only fair and honest sales and negotiating methods. At the same time, you are to avoid any sales practices that could be misconstrued as an attempt to impose undue pressure on or coerce a client into obtaining a product or service from an RBC company as a condition of closing a sale.
- If in doubt, you are to seek guidance from your manager, Group Risk Management – Global Compliance or the Law Group.

4. Corporate Responsibility

It is our duty as a corporate citizen to add value to society while earning a profit for our shareholders. RBC companies take responsibility for the effects of their actions, both social and economic.

Political Contributions

RBC companies will make only those contributions permitted by law to a political party, candidate, or campaign and only as an expression of responsible citizenship – not to "purchase" favours or to gain improper advantage. Contributions to political parties, riding associations, and candidates are not included in the corporate philanthropy program. Head Office decides on and reports such contributions separately for RBC companies.

Employees are encouraged to take their citizenship seriously and to participate in general political processes such as school board, municipal, provincial and/or federal elections, etc.

As an employee:

- You are not to make political contributions in the name of an RBC company unless you are specifically and explicitly mandated by the company to do so.

- Should you choose to become involved in political activity, you do so on your own behalf and not as a representative of RBC. You are not, in any way, to use your affiliation with RBC in a marketing fashion.

Social Responsibility

RBC companies accept responsibility and are accountable for the social and economic effects of their business actions and decisions.

As an employee:

- You need to recognize and conscientiously evaluate these factors whenever you make a business decision. If in doubt, seek the assistance or advice of a senior manager.

Environmental Responsibility

RBC companies believe human welfare depends upon sound economic growth and the maintenance of a healthy environment. We are committed to managing our businesses to promote these aims.

As an employee:

- You need to manage all aspects of your work to ensure environmental laws and recognized standards are met or exceeded.

5. Honouring Our Trust in You

The funds, property, information and services entrusted to our care belong to RBC companies and their clients alone. Using these assets carelessly, inappropriately, or for personal gain is a violation of this trust.

Misappropriation

RBC companies are obliged to safeguard the assets of their clients and member companies at all times, and to protect them from all forms of misuse.

Terms used to describe misappropriation might include theft, fraud, embezzlement, unauthorized "borrowing", or "kiting" (taking advantage through any means of the time delay required for a cheque to clear at one financial institution and be charged back to another) *or obtaining funds through false pretences such as depositing a cheque known to be NSF (Non-Sufficient Funds) or making an "empty envelope deposit" in an Automated Banking Machine*.

As an employee:

- You must not, under any circumstances, misappropriate funds, property or other assets, or knowingly assist another individual to do so. Similarly, you are not to convert any assets that do not belong to you, or use them for the benefit of yourself or anyone other than the rightful owners. You are not to knowingly assist another in this pursuit.

- If you have access to a company expense account, you are to claim only those expenses that are eligible for reimbursement under RBC's expense guidelines. Intentional use of expense accounts for personal purposes represents misappropriation of company funds.

Information Technology Use / Information Security

Internet access, e-mail and access to Restricted, Confidential or RBC Internal information are provided to employees, as a tool to support their business needs. All computer equipment, including wireless devices, as well as the files and data stored on that equipment – including Internet access and any e-mail messages – remain the property of RBC. RBC companies reserve the right to monitor logs detailing their employees' Internet usage and their employees' electronic mail and computer files at any time.

As an employee:

- You are required to follow RBC policies, procedures and standards relating to Information Technology, Information Security and Privacy. Any observed or suspected Information Technology, Information Security or Privacy incidents or lapses are to be reported promptly to your local information security or technology department or other responsible unit.

When using company computer equipment:

- You are not to participate in any online forum, or send or display any material in a manner that can tarnish the image and reputation of an RBC company

- You are not to access or download obscene or offensive material of any type

- You are not to violate copyright, trademark or patent laws, or any other legal right (please refer also to "Copyright" in the section entitled Upholding the Law)

- You may not access or download games nor, except for the occasional incidental use, make use of the Internet or electronic mail for personal reasons.

Employee as a Client

As a result of their employment with RBC companies, some employees have access to cash, negotiable instruments, systems and processes which are not available to regular clients.

As an employee:

- Any personal business or transaction of yours, or of someone with whom you are personally associated, including friends and relatives, is to be handled at arm's length, and on a strictly "business/client" basis. You are to ensure that all personal transactions are handled by another employee according to standard operating procedures and that they receive the same treatment and scrutiny as any normal client transaction.

Reporting Breaches of Our Code of Conduct and Other Irregularities and Dishonesty

Employees also share responsibility for ensuring that honesty and integrity prevail within the workplace, and for protecting the rights and assets of clients and the reputation of RBC companies.

You will be protected from any adverse repercussions arising from reporting irregularities in good faith.

As an employee:

- If you become aware of any dishonest or illegal activities, of any material transaction or relationship that reasonably could be expected to give rise to a conflict of interest, of the falsification of records or returns by another employee, of any breach or material waiver of this Code of Conduct, or of any other serious infraction that has occurred either inside or outside the company, you are to promptly report the facts to your manager, to senior management or to any of the key contacts, each of whom is then required to report the issue through the Code of Conduct Centralized Reporting Process. In addition to any other

reporting requirements, breaches and waivers of the provisions of this Code of Conduct involving executive officers of RBC are to be reported to RBC's Ombudsman.

- At the same time, anything unusual that you might notice about a client's affairs that could affect an RBC company is also to be promptly reported to your manager, to senior management or to any of the key contacts listed in the Appendix.

- If you are unsure of the proper course of action, or are uncomfortable or unable to talk to your manager, you are required to bring your concerns to the attention of any of the key contacts listed in the Appendix.

- Employees must not take any retaliatory action against another employee for making a report in good faith under this provision of the Code of Conduct.

Compliance with RBC Policies, Procedures and Standards

Employees of RBC companies are expected to perform the work they have been assigned and as requested, consistent with the authorities they have been granted and with the applicable policies, procedures and standards.

As an employee:

- You are expected to work within the boundaries of what you have been authorized to perform such as lending, signing, delegated authorities, and comply with policies, procedures and standards relevant to your job responsibilities.

Compliance with Instructions

Employees of RBC companies are expected to comply with instructions provided by their supervisors.

As an employee:

- You are expected to comply promptly with all instructions received from a supervisor, unless the instruction specifically violates an RBC policy, procedure, standard, principle or rule, or could result in an out-of-the-ordinary health or safety risk.

6. Objectivity

The judgments we make as employees will be independent of personal interests arising from other business dealings or obligations created by social relationships or personal favours.

In general, employees should consider all of the following factors in making business decisions:
- is this legal
- is this fair, ethical and moral
- would RBC's reputation be negatively impacted if this situation became public knowledge
- would clients, fellow employees or third parties perceive this situation as a conflict of interest

Payments, Gifts, Entertainment

Employees are encouraged to consider the motive behind business gifts and entertainment. Employees are to ensure that the practice is done only in the spirit of business courtesy and relationship management and in no way creates an environment where one party feels a sense of obligation to the other party or creates a real, potential or perceived conflict of interest. A modest value of approximately 100 local currency should be applied in assessing what is acceptable to give or to accept. Gifts in the form of cash, bonds or negotiable securities, in any amount, may not be accepted or given.

The value of business entertainment can sometimes exceed the guideline above, since some commonly accepted business invitations include, for example, event tickets (i.e. sports, arts, etc.). Therefore, in the case of business entertainment only, if the value is likely to exceed the value of 100 local currency, the entertainment must still be considered moderate, must in no way create a sense of obligation or real or perceived conflict of interest, and is to be of a style or value commonly accepted for business occasions. If in doubt, as to what is considered acceptable, seek guidance from your manager prior to accepting or extending an invitation.

The same considerations apply for payments, gifts or entertainment provided to employees as well as to those personally associated with employees, including friends or relatives, where the motive could be perceived as attempting to influence the employee.

As an employee:
- You are to familiarize yourself with RBC's enterprise-wide Policy on Gifts and Entertainment.

- You are not to be involved in any act that could be interpreted as seeking, receiving or dispensing a bribe, kickback or questionable payment. It is unethical and generally illegal.

- You may supply or accept modest gifts, favours, entertainment or services provided they:

- *do not consist of cash, bonds, or negotiable securities*
- *are unlikely to be interpreted as a bribe or other improper payment*
- *conform with generally accepted ethical and legal standards as well as public disclosure requirements*
- *are reasonably considered customary and usual business practice*
- *will not embarrass RBC or the recipient*
- *meet the requirements of RBC's Enterprise-Wide Policy on Gifts and Entertainment*

Conflicts of Interest

Even the slightest impression of an impropriety or conflict of interest can have a devastating effect. Employees are encouraged to familiarize themselves with the types of situations that could give rise to a perception of a conflict of interest and to handle themselves accordingly. Employees must report any real, potential or perceived conflict of interest situation to their manager.

Employees should also refer to "Inside Information" in the section entitled Upholding the Law.

As an employee:
- Your primary business loyalty must be to RBC. You are to avoid any situation that could result in a real, potential or perceived conflict of interest.

- Any decision made by you in the course of your work is to be:

- *made in an objective manner*
- *based solely on the best interests of RBC*

- *unaffected by any consideration of personal gain for you or for anyone personally associated with you including friends and relatives*

- You are not to approve a product, service request or transaction for yourself or for any client with whom you are personally associated, including friends and relatives. These decisions are to be referred to your manager or through other approved channels. Personal transaction processing for investment advisers within the broker/dealer environment and insurance advisers in the insurance environment may be subject to different considerations. For guidance consult with your compliance group or applicable guidelines.

- Neither you nor members of your immediate family are to acquire any assets or property from a client's estate, either directly or indirectly, nor to accept executorships (paid or unpaid) for the settling of a client's estate, unless you can clearly demonstrate that the assets, property or executorship appointment is totally independent of your employment status. Your business unit or functional compliance officer or group is to be consulted in making this determination.

- You may accept other employment while employed by an RBC company providing it:

- *is legal*
- *is not with a competitor*
- *will not result in a conflict of interest*
- *will not interfere with your work performance at RBC*

- You may work in the same unit or department with someone with whom you are personally associated, including friends and relatives, providing it will not result in a potential security risk or a conflict of interest. As direct reporting relationships may more easily constitute a conflict of interest, employees who are in a direct reporting relationship with someone with whom they are personally associated are to disclose the relationship in keeping with RBC's Conflicts of Interest, Outside Activities & External Directorships policy. *Reporting relationships involving investment advisers in the broker/dealer environment may be subject to different considerations. For guidance, consult your compliance group or applicable guidelines.*

Directorships

Employees who are invited to sit on the boards of external organizations or to accept other appointments may do so, providing they observe the established RBC guidelines.

For publicly traded, private for-profit, or venture capital entities/organizations, even where the organization or entity is connected to an RBC company, refer to policy guidelines for required process and approvals.

For not-for-profit organizations, review and approval by Management is required prior to accepting the Directorship.

As an employee:
- Before you accept a directorship or similar appointment, you are to obtain approval in accordance with RBC's Conflicts of Interest, Outside Activities and External Directorships policy and have the prior approval of your manager.

- If you are a member of a public or quasi-public decision-making body such as a school board or town council, you should recognize that these institutions are often consumers of financial services and may be actual or potential clients of RBC companies. You are cautioned to assess the potential for a conflict of interest before accepting and:

- *declare any such conflict to the institution and your manager*
- *carefully judge whether your employment warrants your voluntary withdrawal from any deliberations on the placement of the institution's financial business*

7. Integrity

Our word is our bond. As representatives of RBC companies, we tell the truth in all our communications and do not mislead by commission or omission.

Telling the Truth

Employees should evaluate all communications for which they are responsible, including sales representations and advertising, and ensure information is true and does not mislead the public, either directly or indirectly.

As an employee:

- You are to tell the truth in all communications, making every reasonable effort to provide full, fair, accurate, timely, and understandable disclosure in reports, documents and communications, and to avoid errors, omissions, or misunderstandings in statements issued on behalf of RBC.

Integrity of Records

The books and records of RBC companies are to be maintained with scrupulous integrity and are to accurately reflect all business dealings.

As an employee:

- You are to ensure that all transactions, documents, agreements and dealings are recorded and maintained in an accurate and timely manner, and that such records are managed in accordance with records management policies.

- No employee, officer or director should ask or encourage another person to report anything other than truthful and accurate financial or other information.

Employee Character

The cornerstone of financial services is trust. RBC companies require employees whose integrity is beyond reproach.

As an employee:

- You are to avoid any conduct or association – either inside or outside of work – which could bring your honesty, integrity or trustworthiness into question, or which could be detrimental to RBC's security or to its reputation within the community.

8. Individual Responsibility

As responsible women and men, we treat each other with respect. Our working relationships are based on candour, openness and our commitment to empower others rather than to exploit them.

Respectful Workplaces

RBC is committed to maintaining workplaces characterized by professionalism, and respect for the dignity of every individual with whom its employees interact. RBC expects each employee to respect the diversity of other employees, clients and others with whom they interact, respecting differences such as gender, race, colour, age, disability, sexual orientation, ethnic origin and religion. RBC does not tolerate harassment, other disrespectful and inappropriate behaviour and retaliation, as our employees have every right to work in an environment that is free from such conduct.

RBC has policies designed to prevent harassment, other disrespectful and inappropriate behaviour and retaliation and all RBC employers will take every reasonable measure to ensure a respectful workplace. Likewise, RBC expects that all employees take personal responsibility for their interactions, communications and behaviour to maintain a respectful workplace.

Any complaints of harassment, other disrespectful and inappropriate behaviour and retaliation are promptly, thoroughly and impartially investigated.

Harassment

Harassment is any kind of unwelcome behaviour that has the effect of creating an offensive, hostile or intimidating work environment or unreasonably interfering with an individual's work performance. It interferes with a climate of understanding and mutual respect for the dignity and worth of each person, thereby undermining the integrity of the employment relationship and eroding morale.

Other Disrespectful and Inappropriate Behaviour

Like harassment, other disrespectful and inappropriate behaviour creates an offensive, hostile and intimidating work environment affecting employee morale and performance.

Retaliation

RBC prohibits retaliation of any kind against an individual for making a complaint in good faith, providing information in connection with an investigation, or as a result of the resolution of the complaint. Likewise, retaliation against individuals who have exercised their legal rights is prohibited.

As an employee:

- Under no circumstances are you to engage in harassment, or disrespectful or inappropriate behaviour toward a fellow employee, client or others with whom you are interacting for the purposes of RBC's business.

- You may lodge a complaint of harassment or other disrespectful or inappropriate behaviour against an employee, a client or a supplier of an RBC company through one of the key contacts. Should you so desire, you may also lodge a complaint through regulatory channels, e.g. Human Rights Commission.

Appendix – Key Contacts

- **Your manager**

- **Your manager's manager, or the executive or senior officer** responsible for your unit, function, department or division

- **Your business or functional unit compliance officer or group**

- **Group Risk Management – Global Compliance**
  RBC
  Royal Trust Tower
  77 King Street West, 9th Floor
  Toronto, Ontario M5W 1P9
  Canada
  Transit #6786

- **Law Group**
  RBC
  Royal Bank Plaza, 14th Floor, North Tower
  Toronto, Ontario M5J 2J5
  Canada
  Transit #4626

- **Your local Corporate Investigation Services group***

- **Corporate Investigation Services**
  RBC
  20 King Street West, 5th Floor
  Toronto, Ontario M5H 1C4
  Canada
  Transit #4266

- **Your local Internal Audit Department***

- **Executive Vice-President & Chief Internal Auditor**
  RBC
  20 King Street West, 8th Floor
  Toronto, Ontario M5H 1C4
  Canada
  Transit #7471

- **The Ombudsman**
  RBC
  P.O. Box 1, Royal Bank Plaza
  Toronto, Ontario M5J 2J5
  Canada
  Transit #1725

  Tel: 1-800-769-2542
  or (416) 974-4591
  Fax: (416) 974-6922
  ombudsman@rbc.com
  www.rbc.com/ombudsman

  RBC Reporting Hotline
  Toll Free Telephone Numbers

Australia:	1-800-981-220
Bahamas:	1-866-764-9759
Barbados:	1-866-764-9762
Canada/U.S.:	1-866-796-8710
Cayman Islands:	1-866-764-9764
Chile:	800201350
Mexico:	001-800-514-1315
Singapore:	800-1011-499
St Kitts:	1-866-773-1317

United Kingdom: 08009176486

The Ombudsman for RBC personally monitors messages received by telephone and e-mail and files a report on all reported issues to RBC Board of Director's Audit Committee. The employee name and any other personal information is removed from the report and **kept in strict confidence** by the Ombudsman **who is the only person** who can contact the employee for further information.

E-mail: rbcreportinghotline@rbc.com or on Outlook at RBC Reporting Hotline

- **Employee Ombudsman**
  RBC
  P.O. Box 1, Royal Bank Plaza
  Toronto, Ontario M5J 2J5
  Canada
  Transit #1725

  For service in English: 1-800-265-7823
  For service in French: 1-800-465-7823

  TDD/TTY Service for the hearing impaired:
  1-888-974-2555; 416-974-3489 (Toronto Area)

  Outside North America - Call collect to 416-974-4778

- **HR Advisory Services**
  c/o Human Resources Department
  Royal Bank of Canada
  P.O. Box 1
  Royal Bank Plaza
  Toronto, Ontario M5J 2J5
  Canada
  North America and Caribbean
  – Telephone 1-800-545-2555

From all other global locations, HR Advisory Services is available by calling 905-606-1609 with the appropriate international code from the country where the call is being originated.

* may not be applicable to all locations outside Canada. For contact information refer to RBCnet or your local RBC directory

EXHIBIT 7

Industry Guide 3 – Return on Equity and Assets Ratios

	2007	2006	2005
Return on Assets	0.92%	0.90%	0.73%
Return on Equity	24.3%	23.2%	18.3%
Dividend Payout Ratio	43%	40%	44%
Equity to Assets Ratio	4.04%	4.07%	4.16%

(1) Where applicable, ratios are calculated using methods intended to approximate the average of the daily balances for the period.

EXHIBIT 8

Management Proxy Circular

As of January 10, 2007, except as otherwise provided.

Section 1 Voting information

Who is soliciting my proxy?

The management of the Bank is soliciting your proxy for use at the Bank's Annual Meeting of Common Shareholders.

What will I be voting on?

You will be voting on:

- election of directors (see page 4);
- appointment of Deloitte & Touche LLP as the Bank's auditor (see page 9);
- a resolution to amend the Bank's stock option plan (see pages 11 and 12); and
- shareholder proposals (see page 12).

How will these matters be decided at the meeting?

A simple majority of the votes cast, by proxy or in person, will constitute approval of each of the matters specified in this Circular.

How many votes do I have?

Subject to the voting restrictions noted below, you will have one vote for every Common Share of the Bank you own at the close of business on January 11, 2007, the record date for the meeting.

If you acquired your shares after the record date, please see the instructions below under the heading "How can I vote shares acquired subsequent to the record date?"

Voting restrictions

Shares cannot be voted either in person or by proxy if they are beneficially owned by:

- the government of Canada or of a province;
- the government of a foreign country or of any political subdivision of a foreign country;
- an agency of any of these entities;
- any person who has acquired a significant interest in any class of shares of the Bank (more than 10% of the class) without the approval of the Minister of Finance; or
- any person who has a significant interest in any class of shares of the Bank (more than 10% of the class) and who has a significant interest in any class of shares of another widely held bank with equity of $5 billion or more.

In addition, no person and no entity controlled by any person may cast votes in respect of any shares beneficially owned by the person or the entity that represent, in the aggregate, more than 20% of the eligible votes.

How many shares are eligible to vote?

The number of Common Shares outstanding on January 11, 2007, is indicated under the heading "Important" in the Notice of Annual Meeting of Common Shareholders. Subject to certain restrictions under the *Bank Act*, these shares are eligible to be voted at the meeting.

To the knowledge of the Bank's directors and officers, no person owns or exercises control or direction over more than 10% of the outstanding Common Shares.

How do I vote?

You can own Common Shares of the Bank as a registered or non-registered shareholder. If your shares are not registered in your own name, they will be held in the name of a "nominee," which is usually a trust company, securities broker or other financial institution. If you are a registered shareholder eligible to vote, you can vote your shares in person at the meeting or by proxy, as explained below.

If your shares are held in the name of a nominee, please see the instructions below under the headings "How can a non-registered shareholder vote?" and "How can a non-registered shareholder vote in person at the meeting?"

How can I vote shares acquired subsequent to the record date?

To vote shares you acquired as a registered shareholder subsequent to the record date, you must, not later than 10 days before the meeting:

- request that the Bank add your name to the voters' list; and
- produce properly endorsed share certificates or otherwise establish that you own the shares.

If the shares you acquired subsequent to the record date are not registered in your name, please contact your nominee to confirm what arrangements, if any, can be made to allow you to vote these shares.

Note: Information contained in or otherwise accessible through websites mentioned in this Circular does not form part of this Circular. All references to websites are inactive textual references only.

Voting by proxy

Whether or not you attend the meeting, you can appoint someone else to vote for you as your proxyholder. You can use the enclosed form of proxy, or any other proper form of proxy, to appoint your proxyholder. The persons named in the enclosed form of proxy are directors or officers of the Bank. **However, you can choose another person or company to be your proxyholder, including someone who is not a shareholder of the Bank. You may do so by deleting the names printed on the proxy and inserting another person's name or the name of a company in the blank space provided, or by completing another proper form of proxy.**

How will my proxy be voted?

On the form of proxy, you can indicate how you want your proxyholder to vote your shares, or you can let your proxyholder decide for you.

If you have specified on the form of proxy how you want your shares to be voted on a particular issue (by marking FOR, AGAINST or WITHHOLD), then your proxyholder must vote your shares accordingly. If you have not specified on the form of proxy how you want your shares to be voted on a particular issue, then your proxyholder can vote your shares as he or she sees fit.

Unless contrary instructions are provided, Common Shares represented by proxies received by management will be voted:
FOR the election as directors of the proposed nominees whose names are set out on the following pages;
FOR the appointment of Deloitte & Touche LLP as auditor;
FOR the resolution to amend the Bank's stock option plan;
FOR management's proposals generally; and
AGAINST the shareholder proposals set out in Schedule 'C'.

What if there are amendments or if other matters are brought before the meeting?

The enclosed form of proxy gives the persons named on it authority to use their discretion in voting on amendments or variations to matters identified in the Notice.

As of the time of printing of this Circular, management is not aware that any other matter is to be presented for action at the meeting. If, however, other matters properly come before the meeting, the persons named on the enclosed form of proxy will vote on them pursuant to the discretionary authority conferred by the form of proxy with respect to such matters.

What if I change my mind and want to revoke my proxy?

You can revoke your proxy at any time before it is acted upon. You can do this by stating clearly, in writing, that you want to revoke your proxy and by delivering this written statement to the Secretary of the Bank, 200 Bay Street, South Tower, Toronto, Ontario, Canada M5J 2J5, not later than the last business day before the day of the meeting, or to the Chairman of the meeting on the day of the meeting or any adjournment.

Who counts the votes?

Proxies are counted by Computershare Trust Company of Canada, the transfer agent of the Bank.

Is my vote confidential?

The transfer agent preserves the confidentiality of individual shareholder votes, except (a) where the shareholder clearly intends to communicate his or her individual position to management, and (b) as necessary to comply with legal requirements.

How are proxies solicited?

The solicitation of proxies will be primarily by mail. However, the directors, officers and employees of the Bank may also solicit proxies by telephone, in writing or in person. The Bank may also use the services of outside firms to solicit proxies. The Bank has retained Georgeson Shareholder Communications Canada, Inc. to assist in the solicitation of proxies for an estimated fee of $30,000. The Bank will pay the cost of proxy solicitation.

How can a non-registered shareholder vote?

If your shares are not registered in your own name, your nominee is required to seek your instructions as to how to vote your shares. For that reason, you have received this Circular from your nominee, together with a voting instruction form. Each nominee has its own signing and return instructions, which you should follow carefully to ensure your shares will be voted. If you are a non-registered shareholder who has voted and want to change your mind and vote in person, contact your nominee to discuss whether this is possible and what procedure to follow.

How can a non-registered shareholder vote in person at the meeting?

Since the Bank does not have unrestricted access to the names of its non-registered shareholders, if you attend the meeting, the Bank may have no record of your shareholdings or of your entitlement to vote, unless your nominee has appointed you as proxyholder. Therefore, if you are a non-registered shareholder and wish to vote in person at the meeting, please insert your own name in the space provided on the voting instruction form sent to you by your nominee. By doing so, you are instructing your nominee to appoint you as proxyholder. Then follow the signing and return instructions provided by your nominee. Do not otherwise complete the form, as you will be voting at the meeting.

Section 2 Business of the meeting

Financial statements

The consolidated financial statements for the year ended October 31, 2006 are included in the Annual Report, which has been mailed to shareholders with this Circular.

Election of directors

The number of directors to be elected is 16. Each director will be elected to hold office until the next Annual Meeting of Common Shareholders or until such office is earlier vacated. The persons named on the enclosed form of proxy intend to vote for the election of the proposed nominees whose names are set out in the following pages and who are currently directors of the Bank.

The following pages set out the names of proposed nominees for election as directors, together with their municipality and country of residence, age, year first elected or appointed as a director, principal occupation, other principal directorships and committee memberships. Also indicated for each person proposed as a director is the number of Common Shares beneficially owned, directly or indirectly, or over which control or direction was exercised on January 10, 2007 and, as of the same date, the number of Director Deferred Stock Units (DDSUs) credited to the account of the director under the Director Deferred Stock Unit Plan and the number of options held by each director under the Director Stock Option Plan. See the description of these plans under "Section 3: Disclosure of compensation and other information" in this Circular. In November 2002, the Board of Directors discontinued on a permanent basis all further grants of options under the Director Stock Option Plan. Gordon M. Nixon(1) did not receive any options under the Director Stock Option Plan. The number of Common Shares and DDSUs held by each nominee at approximately the same time last year is also indicated below.(2)

Except where required for qualification as a director of a subsidiary, none of the directors of the Bank holds shares of its subsidiaries. For further information relating to the proposed nominees, including previous board memberships, please refer to the section entitled "Directors and Executive Officers" in the Bank's annual information form dated November 29, 2006. It may be found on SEDAR at *sedar.com* or obtained free of charge on request from the Secretary of the Bank.

A record of attendance by directors at meetings of the board and its committees during the 12 months ended October 31, 2006 is set out in Schedule 'A' to this Circular.

(1) Options granted to Mr. G.M. Nixon under the Stock Option Plan for eligible employees of the Bank are reported under "Officers' remuneration" in this Circular.

(2) Numbers of Common Shares, DDSUs and options reflect the two-for-one stock split of Common Shares by way of stock dividend on April 6, 2006.

W. Geoffrey Beattie, Toronto, Ontario, Canada

Mr. Beattie, 46, has served on the board of the Bank since May 23, 2001. Mr. Beattie is President and Chief Executive Officer of The Woodbridge Company Limited (an investment company). He is also the Deputy Chairman and a director of The Thomson Corporation (a publishing and information company), Chairman and a director of CTVglobemedia Inc. and a director of RBC Centura Banks, Inc. Mr. Beattie is a director of the Canadian Council of Chief Executives, the Dean's Advisory Board of the Joseph L. Rotman School of Management (University of Toronto) and a trustee of the University Health Network. In the past five years, Mr. Beattie served as a director of Hydro One Inc. and Tm Bioscience Corporation.

Committee memberships	Shareholdings	Current	2005	Options
Conduct Review and Risk Policy	Common	2,000	2,000	20,000
Corporate Governance and Public Policy	DDSUs	20,684	16,722	(last awarded in 2002)

George A. Cohon, O.C., O.Ont., Toronto, Ontario, Canada

Mr. Cohon, 69, has served on the board of the Bank since June 1, 1988. Mr. Cohon is the Founder of McDonald's Restaurants of Canada Limited (a quick service restaurants company) and Founder of McDonald's in Russia. He is a director of RBC Dexia Investor Services Trust and Astral Media Inc. and several not-for-profit organizations. He is the founding patron of Ronald McDonald Houses, the Founder of Ronald McDonald House Charities of Canada and Russia and Co-Chairman of the Toronto Santa Claus Parade. In the past five years, Mr. Cohon served as a director and Senior Chairman of McDonald's Restaurants of Canada Limited, and as a director of Loews Cineplex Entertainment Corporation.

Committee memberships	Shareholdings	Current	2005	Options
Audit	Common	26,618	24,724	36,000
Human Resources	DDSUs	14,908	13,622	(last awarded in 2002)

Douglas T. Elix, A.O., Ridgefield, Connecticut, U.S.A.

Mr. Elix, 58, has served on the board of the Bank since August 22, 2000. Mr. Elix is Senior Vice-President and Group Executive of Sales & Distribution, IBM Corporation (an information technology company). Prior to May 2004, Mr. Elix was Senior Vice-President and Group Executive of IBM Global Services, IBM Corporation.

Committee membership	Shareholdings	Current	2005	Options
Human Resources	DDSUs	24,087	20,560	28,000 (last awarded in 2002)

John T. Ferguson, F.C.A., Edmonton, Alberta, Canada

Mr. Ferguson, 65, has served on the board of the Bank since April 3, 1990. Mr. Ferguson is Founder, Chief Executive Officer, Chairman and a director of Princeton Developments Ltd. and Princeton Ventures Ltd. (real estate companies). He is also a director of Suncor Energy Inc., Strategy Summit Ltd., Fountain Tire Ltd., the C.D. Howe Institute and the Directors' Advisory Council of the Canadian Institute of Chartered Accountants, an advisory member of the Canadian Institute for Advanced Research and serves on the Business Advisory Council of the School of Business (University of Alberta). In the past five years, Mr. Ferguson served as Chairman and a director of TransAlta Corporation.

Committee memberships	Shareholdings	Current	2005	Options
Human Resources – Chair	Common	11,420	11,244	36,000
Corporate Governance and Public Policy	DDSUs	22,689	19,504	(last awarded in 2002)

The Hon. Paule Gauthier, P.C., O.C., O.Q., Q.C., Quebec City, Quebec, Canada

Mrs. Gauthier, 63, has served on the board of the Bank since October 1, 1991. Mrs. Gauthier is a senior partner of the law firm of Desjardins Ducharme L.L.P. ATTORNEYS. She is a director of RBC Dexia Investor Services Trust, Metro Inc., Rothmans Inc. and TransCanada Corporation. She is also the President and a director of the Institut Québécois des Hautes Études Internationales (Laval University).

Committee memberships	Shareholdings	Current	2005	Options
Conduct Review and Risk Policy	Common	14,209	15,594	36,000
Corporate Governance and Public Policy	DDSUs	25,813	22,522	(last awarded in 2002)

Timothy J. Hearn, Calgary, Alberta, Canada

Mr. Hearn, 62, has served on the board of the Bank since March 3, 2006. Mr. Hearn has been Chairman, President and Chief Executive Officer of Imperial Oil Limited (an integrated petroleum company) since April 2002. Mr. Hearn joined Imperial Oil Limited in 1967 and became Vice-President of its marketing retail business in 1986. Since then he has held a series of progressively more responsible executive positions with Imperial Oil Limited and its affiliates, becoming Vice-President of Human Resources of Exxon Mobil Corporation (an integrated petroleum company) in 1999 and President of Imperial Oil Limited in January 2002. Mr. Hearn also serves as Chairman of the Board of the C.D. Howe Institute. He is a member of the Canadian Council of Chief Executives, and co-chairs a national fundraising campaign for the University of Alberta and chairs a fundraising campaign for Tyndale University College.

Committee memberships	Shareholdings	Current	2005	Options
Audit	Common	15,300	7,000	–
Corporate Governance and Public Policy	DDSUs	2,377	–	

Alice D. Laberge, Vancouver, British Columbia, Canada

Ms. Laberge, 50, has served on the board of the Bank since October 18, 2005. Ms. Laberge is a director of Potash Corporation of Saskatchewan, United Way of the Lower Mainland and St. Paul's Hospital Foundation. From December 2003 to July 2005, Ms. Laberge served as President, Chief Executive Officer and a director of Fincentric Corporation (a global provider of software solutions to financial institutions). From October 2000 to November 2003, she served as Fincentric Corporation's Chief Financial Officer. Prior to that, Ms. Laberge served as Chief Financial Officer and Senior Vice-President of Finance for MacMillan Bloedel Limited. In the past five years, Ms. Laberge served as a director of BC Hydro and Catalyst Paper Corporation.

Committee memberships	Shareholdings	Current	2005	Options
Audit	Common	2,500	2,000	–
Conduct Review and Risk Policy	DDSUs	3,702	252	

Jacques Lamarre, O.C., Montreal, Quebec, Canada

Mr. Lamarre, 63, has served on the board of the Bank since September 23, 2003. Mr. Lamarre is President, Chief Executive Officer and a director of SNC-Lavalin Group Inc. (a global engineering and construction company). Mr. Lamarre is a director of the Canadian Council of Chief Executives and a member of the Conference Board of Canada, the World Economic Forum, the Engineering Institute of Canada and several other not-for-profit organizations. In the past five years, Mr. Lamarre served as a director of Canadian Pacific Railway Limited.

Committee memberships	Shareholdings	Current	2005	Options
Audit	Common	15,000	15,000	–
Conduct Review and Risk Policy	DDSUs	13,476	9,692	

Brandt C. Louie, F.C.A., West Vancouver, British Columbia, Canada

Mr. Louie, 63, has served on the board of the Bank since November 20, 2001. Mr. Louie is President, Chief Executive Officer and a director of H.Y. Louie Co. Limited (a food retail distribution company) and Chairman, Chief Executive Officer and a director of London Drugs Limited (a drug retail distribution company). Mr. Louie is also Vice-Chairman and a director of IGA Canada Limited, Vice-Chairman and a director of Canfor Corporation, Chancellor of Simon Fraser University, Governor of the Vancouver Board of Trade/World Trade Centre, Governor of the British Columbia Business Council, and a member of the Canadian Council of Chief Executives and the Dean's Council of the John F. Kennedy School of Government at Harvard University. In the past five years, Mr. Louie served as Chairman and a director of the British Columbia Lottery Corporation and Chairman and a director of Slocan Forest Products Ltd.

Committee memberships	Shareholdings	Current	2005	Options
Conduct Review and Risk Policy	Common	37,216	17,216	–
Corporate Governance and Public Policy	DDSUs	19,314	15,520	

Michael H. McCain, Toronto, Ontario, Canada

Mr. McCain, 48, has served on the board of the Bank since October 18, 2005. Mr. McCain is the President, Chief Executive Officer and a director of Maple Leaf Foods Inc. (a food processing company). Mr. McCain is Chairman and a director of Canada Bread Company Limited, a director of McCain Capital Corporation, McCain Foods Group Inc. and the American Meat Institute, a member of the Canadian Council of Chief Executives and a member of the Advisory Board of the Richard Ivey School of Business and of the Board of Trustees of The Hospital for Sick Children. In the past five years, Mr. McCain served as a director of Bombardier Inc.

Committee membership	Shareholdings	Current	2005	Options
Conduct Review and Risk Policy	Common	26,400	26,400	–
	DDSUs	3,419	252	

Gordon M. Nixon, Toronto, Ontario, Canada

Mr. Nixon, 49, has served on the board of the Bank since April 1, 2001. Mr. Nixon has been President and Chief Executive Officer of the Bank since August 1, 2001. Mr. Nixon first joined RBC Dominion Securities Inc. 27 years ago, where he held a number of operating positions, serving as Chief Executive Officer from December 1999 to April 2001. Mr. Nixon is a member of the Board of Trustees of The Hospital for Sick Children, a director of the Institute of International Finance, a director of the Canadian Council of Chief Executives, a member of the Catalyst Canada Advisory Board, a member of the Advisory Council of DaimlerChrysler Canada Inc. and Co-Chair of the Toronto Region Research Alliance.

Committee membership	Shareholdings	Current	2005	Options
N/A	Common	440,789	399,256	(2)
	DSUs	322,453(1)	264,126	

(1) Represents 132,415 Deferred Share Units under the Deferred Share Unit Plan for executive officers of the Bank and 190,038 Performance Deferred Share Units under the Performance Deferred Share Unit Program (see the description of these Programs under "Report on executive compensation" in this Circular).

(2) No options have been granted to Mr. G.M. Nixon under the Director Stock Option Plan. Mr. Nixon has been granted options under the Stock Option Plan for eligible employees of the Bank and has a total of 1,908,740 options outstanding.

David P. O'Brien, Calgary, Alberta, Canada

Mr. O'Brien, 65, is Chairman of the Board of the Bank and has served as a director of the Bank since May 7, 1996. Mr. O'Brien is also the Chairman and a director of EnCana Corporation (an oil and gas company). From October 2001 to April 2002, Mr. O'Brien was Chairman, Chief Executive Officer and a director of PanCanadian Energy Corporation (an oil and gas company), which merged with Alberta Energy Company Ltd. in April 2002 to form EnCana Corporation. Mr. O'Brien is also Chancellor of Concordia University, and a director of FET Resources Ltd. (Focus Energy Trust), Molson Coors Brewing Company, TransCanada Corporation and the C.D. Howe Institute. In the past five years, Mr. O'Brien served as a director of Air Canada, Fairmont Hotels & Resorts Inc. and Inco Limited. Mr. O'Brien was for five years prior to October 1, 2001, Chairman, President and Chief Executive Officer of Canadian Pacific Limited, and served as well on the boards of directors of a number of Canadian Pacific Limited subsidiaries.

Committee memberships	Shareholdings	Current	2005	Options
Corporate Governance and Public Policy – Chair Human Resources	Common	112,055	107,398	36,000 (last awarded in 2002)

Robert B. Peterson, Toronto, Ontario, Canada

Mr. Peterson, 69, has served on the board of the Bank since September 10, 1992. Mr. Peterson is retired Chairman and Chief Executive Officer of Imperial Oil Limited (an integrated petroleum company). He is a life member of the Association of Professional Engineers, Geologists and Geophysicists of Alberta and an inductee in The Canadian Petroleum Hall of Fame. In the past five years, Mr. Peterson served as a director of Fording Inc. and Imperial Oil Limited.

Committee memberships	Shareholdings	Current	2005	Options
Audit – Chair Human Resources	Common DDSUs	17,060 40,787	15,060 35,252	36,000 (last awarded in 2002)

J. Pedro Reinhard, Key Biscayne, Florida, U.S.A.

Mr. Reinhard, 61, has served on the board of the Bank since May 18, 2000. Mr. Reinhard served as the Chief Financial Officer of The Dow Chemical Company (a science and technology company) from 1995 to 2005 and as its Executive Vice-President and Chief Financial Officer from 1996 to 2005. Mr. Reinhard is a director of the Colgate-Palmolive Company, The Dow Chemical Company and Sigma-Aldrich Corporation. In the past five years, Mr. Reinhard served as a director of The Coca-Cola Company and the Dow Corning Corporation.

Committee memberships	Shareholdings	Current	2005	Options
Conduct Review and Risk Policy – Chair Audit	DDSUs	30,389	25,772	28,000 (last awarded in 2002)

Kathleen P. Taylor, Toronto, Ontario, Canada

Ms. Taylor, 49, has served on the board of the Bank since November 20, 2001. Ms. Taylor is the President and Chief Operating Officer of Four Seasons Hotels Inc. (a hotel and resort management company) and prior to January 1, 2007, served as its President of Worldwide Business Operations. Ms. Taylor is a director of The Hospital for Sick Children Foundation, a cabinet member of the United Way of Greater Toronto and a member of The World Travel & Tourism Council, the Industry Real Estate Financing Advisory Council of the American Hotel and Motel Association and the International Advisory Council of the Schulich School of Business (York University).

Committee memberships	Shareholdings	Current	2005	Options
Audit	Common	9,240	8,240	20,000
Human Resources	DDSUs	19,782	15,772	(last awarded in 2002)

Victor L. Young, O.C., St. John's, Newfoundland and Labrador, Canada

Mr. Young, 61, has served on the board of the Bank since April 2, 1991. From 1984 until May 2001, Mr. Young served as Chairman and Chief Executive Officer of Fishery Products International Limited (a frozen seafood products company). Mr. Young is a trustee of Bell Aliant Income Trust and a director of BCE Inc., Imperial Oil Limited, McCain Foods Limited and RBC Dexia Investor Services Trust.

Committee memberships	Shareholdings	Current	2005	Options
Conduct Review and Risk Policy	Common	15,804	15,354	36,000
Corporate Governance and Public Policy	DDSUs	16,136	13,968	(last awarded in 2002)

Appointment of auditor

The persons named in the enclosed form of proxy intend to vote for the appointment of Deloitte & Touche LLP as auditor of the Bank, to hold office until the next Annual Meeting of Common Shareholders. Deloitte & Touche LLP has served as one of the Bank's auditing firms since January 11, 1990 and became the Bank's sole auditor on September 23, 2003. PricewaterhouseCoopers LLP also acted as one of the Bank's two firms of auditors from March 5, 1998 to September 23, 2003. Representatives of the auditor will be in attendance and available to answer questions at the Annual Meeting.

Auditor's fees

Fees relating to the years ended October 31, 2006 and October 31, 2005 to Deloitte & Touche LLP and its affiliates were $25.9 million and $22.1 million and are detailed below.

($ Millions)	Year ended October 31, 2006	Year ended October 31, 2005
Audit fees	$23.9	$20.6
Audit-related fees	1.7	1.0
Tax fees	–	0.2
All other fees	0.3	0.3
	$25.9	$22.1

The nature of each category of fees is described below.

Audit fees

Audit fees were paid for professional services rendered by the auditor for the audit of the annual financial statements of the Bank and its subsidiaries and the audit of management's assessment of, and the effectiveness of, the Bank's internal control over financial reporting. In addition, audit fees were paid for services provided in connection with statutory and regulatory filings and engagements.

Audit-related fees

Audit-related fees were paid for assurance and related services that are reasonably related to the performance of the audit or review of the annual financial statements and are not reported under the audit fees item above. These services consisted of:

- special attest services not required by statute or regulation;
- reporting on the effectiveness of internal controls as required by contract or for business reasons;
- accounting consultations and special audits in connection with acquisitions;
- the audit of the financial statements of the Bank's various pension plans and charitable foundations;

- the audits of various trusts and limited partnerships; and
- the audit of certain special purpose vehicles relating to complex structured products.

Tax fees

Tax fees were paid for tax compliance services including the review of original and amended tax returns, assistance with questions regarding tax audits and assistance in completing routine tax schedules and calculations.

All other fees

All other fees were paid for products and services other than the audit fees, audit-related fees and tax fees described above. These services consist of French translation of financial statements and related continuous disclosure and other public documents containing financial information for the Bank and certain of its subsidiaries.

Pre-approval policies and procedures

The Audit Committee has adopted a policy that requires pre-approval by the Audit Committee of audit services and other services within permissible categories of non-audit services. The policy prohibits the Bank from engaging the auditor for "prohibited" categories of non-audit services.

Report of the Audit Committee

The Audit Committee assists the Bank's Board of Directors in its oversight of: (i) the integrity of the Bank's financial statements; (ii) the qualifications and independence of the Bank's external auditor, Deloitte & Touche LLP; (iii) the performance of the Bank's internal audit function and of Deloitte & Touche LLP; (iv) the adequacy and effectiveness of internal controls; and (v) the Bank's compliance with legal and regulatory requirements. The Audit Committee operates pursuant to a charter approved by the board, a copy of which is attached as Appendix C to the Bank's annual information form dated November 29, 2006. The Audit Committee's charter is also available at *rbc.com/governance* and the Committee's key responsibilities are summarized in Schedule 'B' to this Circular in the section of the Statement of Corporate Governance Practices and Guidelines entitled "Audit Committee."

As required by the *Bank Act*, none of the members of the Audit Committee is an officer or employee of the Bank or of an affiliate of the Bank. All of the members of the Audit Committee are "unaffiliated," pursuant to the regulations made under the *Bank Act*. In addition, the board has determined that all of the members of the Audit Committee are independent under the Director Independence Policy, which incorporates the independence standards under applicable Canadian and U.S. laws, rules and regulations. The board has determined that each member of the Audit Committee is "financially literate" within the meaning of the rules of the Canadian Securities Administrators relating to audit committees and the corporate governance standards of the New York Stock Exchange. The board has determined that each of Alice D. Laberge and J. Pedro Reinhard qualifies as an "audit committee financial expert" as defined by rules of the U.S. Securities and Exchange Commission (SEC).

As set forth in the charter, management of the Bank is responsible for the preparation, presentation and integrity of the Bank's financial statements and for maintaining appropriate accounting and financial reporting principles, policies, internal controls and procedures designed to ensure compliance with accounting standards and applicable laws and regulations. The Bank's external auditor, Deloitte & Touche LLP, is responsible for planning and carrying out, in accordance with professional standards, an audit of the Bank's annual financial statements. Deloitte & Touche LLP also reviews the Bank's quarterly financial information. The Audit Committee is responsible for reviewing the adequacy and effectiveness of these activities. During the 2006 fiscal year, the Audit Committee held nine meetings. Members of the Audit Committee met regularly with Deloitte & Touche LLP without management present.

In the performance of its oversight function, the Audit Committee has reviewed and discussed the audited financial statements with management and Deloitte & Touche LLP. In addition, the Audit Committee has discussed with Deloitte & Touche LLP the responsibilities of Deloitte & Touche LLP in performing an integrated audit in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States) and the design of the audit. The objectives of the audit are to express opinions on the fairness of the presentation in the Bank's consolidated financial statements and on the effectiveness of the Bank's internal control over financial reporting.

The Audit Committee has also discussed with Deloitte & Touche LLP matters arising from the audit that are required to be discussed by Canadian generally accepted auditing standards, and by Statement on Auditing Standards No. 61, *Communication with Audit Committees*, as currently in effect, including: that the audit is performed to obtain reasonable but not absolute assurance as to whether the financial statements are free of material misstatement; the initial selection of and changes in significant accounting policies; the effect of significant accounting policies in controversial or emerging areas; the process used by management in formulating critical accounting policies and estimates; the basis for the external auditor's conclusions regarding the reasonableness of the estimates made by management; the external auditor's responsibility with respect to information, other than the annual or interim financial statements, that management prepares and includes in the Annual Report; any disagreements with management about matters that individually or in the aggregate could be significant to the financial statements or the external auditor's report; whether management has

consulted with other accountants about auditing and accounting matters; any major issues discussed with management in connection with the appointment of Deloitte & Touche LLP, including discussions regarding the application of accounting principles and auditing standards and fees; and any serious difficulties encountered while performing the audit.

The Audit Committee has also received the written disclosures and the letter from Deloitte & Touche LLP required by Canadian generally accepted auditing standards, and by Independence Standards Board Standard No. 1, *Independence Discussions with Audit Committees*, as currently in effect, which disclose all relationships between the Bank and its related entities and the external auditor and its related entities that, in the external auditor's judgment, may reasonably be thought to bear on its independence, and which confirm the independence of Deloitte & Touche LLP from the Bank. The Audit Committee has discussed with Deloitte & Touche LLP that firm's independence.

Based upon the reports and discussions described in this report, and subject to the limitations on the role and responsibilities of the Audit Committee in its charter, the Audit Committee recommended for approval by the board the audited financial statements for the year ended October 31, 2006, earnings releases on quarterly and annual results, the 2006 Annual Report and the Bank's Annual Report on Form 40-F for the year ended October 31, 2006, to be filed with the SEC.

SUBMITTED BY THE AUDIT COMMITTEE

Robert B. Peterson, Chair
George A. Cohon, O.C., O.Ont.
Timothy J. Hearn
Alice D. Laberge
Jacques Lamarre, O.C.
J. Pedro Reinhard
Kathleen P. Taylor

Amendments to the Bank's stock option plan

The Bank's stock option plan creates an incentive to participants who are granted options or stock appreciation rights (SARs) to enhance shareholder value by providing a form of compensation which is tied to the value of the Bank's Common Shares. Options and SARs are granted to participants by the Human Resources Committee of the Board of Directors.

On November 30, 2006, the Board of Directors approved the amendments to the Bank's stock option plan described below, subject to the approval of the Bank's shareholders.

Proposed amending provisions

The Toronto Stock Exchange (TSX) recently advised that, effective June 30, 2007, TSX issuers with "general amendment" provisions in their stock option and other securities-based compensation plans will no longer be able to make amendments to those plans, and outstanding awards under the plans, including amendments considered to be of a "housekeeping" nature, without shareholder approval. The Bank's stock option plan contains a "general amendment" provision.

The TSX has advised issuers to seek shareholder approval of detailed amending provisions to securities-based compensation plans to clarify when shareholder approval for amendments to such plans and outstanding awards will not be required. In keeping with the TSX's advice, proposed amendments to the Bank's stock option plan will provide that shareholder approval is required for all amendments to the plan and outstanding options and SARs except for the following limited amendments, which may be made by the Board of Directors without shareholder or stock exchange approval:

1. amendments of a technical, clerical or "housekeeping" nature, or to clarify any provision of the plan;
2. termination of the plan;
3. amendments to respond to changes in legislation, regulations, stock exchange rules or accounting or auditing requirements;
4. changes to the vesting provisions of any outstanding option or SAR;
5. amendments to termination provisions of the plan or any outstanding option or SAR provided no such amendment may result in an extension of any outstanding option or SAR beyond its original expiry date; and
6. adjustments to reflect stock splits, stock dividends or other alterations of the capital stock of the Bank.

Clarifying amendments regarding exercise prices

The Bank's stock option plan currently provides that options or SARs are granted with an exercise price equal to the weighted average of the trading prices per share of a board lot of the Bank's Common Shares traded on the TSX for the five-day trading period ending on the last trading day preceding the date of grant.

To add clarity to the plan, and in keeping with high standards of governance and the Bank's conservative process for determining exercise prices, the proposed amendments specify that the exercise price of options and SARs will be the higher of the volume weighted averages of the trading prices per share of a board lot of the Bank's Common Shares traded on the TSX:

1. on the day preceding the day of grant; and
2. for the five consecutive trading days ending immediately preceding the day of grant.

A copy of the Bank's stock option plan reflecting these amendments may be obtained by contacting our Investor Relations Department, Royal Bank of Canada, 123 Front Street West, 6th Floor, Toronto, Ontario M5J 2M2 and is available at *rbc.com/investorrelations/proxy*. Copies of the plan, as amended, will also be available at the meeting.

The Board of Directors recommends that the shareholders of the Bank approve the proposed amendments.

The resolution to approve the amendments to the Bank's stock option plan which will be presented at the meeting and, if deemed appropriate, adopted with or without variation is as follows:

"1. THAT the amendments made to the Bank's stock option plan by the Board of Directors of the Bank on November 30, 2006, as described in the Management Proxy Circular, are hereby approved; and

2. THAT any officer of the Bank is hereby authorized to do all such things and to sign, execute and deliver any and all documents and instruments as may be necessary or advisable in order to give effect to this resolution."

Additional housekeeping amendments

On November 30, 2006, pursuant to the then existing amending provisions of the Bank's stock option plan, the Board of Directors made certain other housekeeping amendments. The most significant of these deleted a provision providing for financial assistance to holders of options for the purpose of purchasing shares covered by options and confirmed the availability of a cashless method of exercising options under the Bank's stock option plan.

Under the Bank's stock option plan, these amendments do not require the approval of shareholders.

Shareholder proposals

Set out in Schedule 'C' to this Circular are the shareholder proposals that have been submitted for consideration at the Annual Meeting of Common Shareholders. The final date for submission of proposals by shareholders to the Bank for inclusion in the Proxy Circular in connection with next year's Annual Meeting of Common Shareholders will be October 15, 2007.

Section 3 Disclosure of compensation and other information

Compensation of directors

Directors who are also officers of the Bank or its subsidiaries receive no remuneration as directors.

Annual retainers and attendance fees were paid to other members of the Board of Directors on the following basis during the year ended October 31, 2006:

(i)	basic annual board retainer	$30,000
(ii)	dedicated annual board retainer in Common Shares or Director Deferred Stock Units	Value of $90,000[1]
(iii)	additional annual retainer for Audit Committee chair	$50,000
(iv)	additional annual retainer for chairs of other board committees (excluding regional director committees)	$10,000
(v)	additional annual retainer for members of Audit Committee (excluding Committee chair)	$6,000
(vi)	additional annual retainer for members of other board committees (excluding committee chairs and regional director committees)	$3,000
(vii)	each board meeting attended	$2,000
(viii)	each committee meeting attended (except regional director committee meetings)	$1,500
(ix)	each regional director committee meeting attended (to a maximum of two)	$1,000
(x)	additional annual retainer for Chairman of the Board	$275,000

Directors are also reimbursed for transportation and other expenses incurred for attendance at board and committee meetings.

During the 2006 fiscal year, certain directors of the Bank received compensation for serving as directors of RBC Centura Banks, Inc. and RBC Centura Bank, subsidiaries of the Bank, and RBC Dexia Investor Services Trust, a company in which the Bank indirectly holds a 50% ownership interest.[2]

Share ownership guideline

Directors are required to hold Common Shares or Director Deferred Stock Units (DDSUs) with a value of not less than $500,000. Directors are expected to reach this level within five years.

Dedicated annual board retainer

The $90,000 dedicated annual board retainer may be received either in Common Shares under the Director Share Purchase Plan (described below) or in DDSUs under the Director Deferred Stock Unit Plan (described below) at the option of each director. The dedicated annual board retainer continues to be invested as described above even after a director reaches the minimum share ownership level under the share ownership guideline. Until retirement from the board, directors are required to retain all DDSUs and Common Shares acquired with the dedicated annual board retainer.

Director Share Purchase Plan

The Director Share Purchase Plan allows directors to receive in Common Shares the entire amount, or a portion, of their basic board fees, being board and committee retainers and attendance fees, other than the dedicated annual board retainer. In addition, where a director has so elected, the dedicated annual board retainer is paid in Common Shares under the Director Share Purchase Plan. All administration costs as well as any brokerage fees associated with the purchase and registration of Common Shares are paid by the Bank.

(1) The dedicated annual board retainer was increased to $90,000 per year, from $70,000, with effect on April 1, 2006.

(2) Mr. W.G. Beattie is a director of both RBC Centura Banks, Inc. and RBC Centura Bank, and serves as Chair of the Corporate Governance Committee of each of these subsidiaries. As a non-management director, Mr. Beattie is paid a single annual retainer of US$25,000 for service on both boards (increased from US$20,000 in August of 2006). For concurrent meetings of both boards, he is paid a single meeting fee of US$2,000. As Chair of the Corporate Governance Committee of each of these subsidiaries, Mr. Beattie is paid a single annual retainer of US$5,000. For concurrent meetings of both Corporate Governance Committees, he is paid a single meeting fee of US$3,000.

Until December 14, 2006, Mr. C.W. Sewell, Jr. served as Chairman of the boards of both RBC Centura Banks, Inc. and RBC Centura Bank, and as a member of the Corporate Governance Committee of each of these subsidiaries. Mr. Sewell received no remuneration for his service on these boards until after his retirement as an officer and employee of RBC Centura Banks, Inc. in July 2006. As Chairman of both these subsidiaries, Mr. Sewell was paid a single annual retainer of US$30,000. For concurrent meetings of both boards, he was paid a single meeting fee of US$3,000 and for concurrent meetings of both Corporate Governance Committees, he was paid a single meeting fee of US$2,000.

Mr. G.A. Cohon, Mrs. P. Gauthier and Mr. V.L. Young serve on the board of RBC Dexia Investor Services Trust, a company in which the Bank indirectly holds a 50% ownership interest, and each receives annual fees of $30,000. In addition, Mrs. Gauthier and Mr. Young each receive $5,000 annually for service as Chair of the Conduct Review Committee and Chair of the Audit Committee, respectively.

Director Deferred Stock Unit Plan

Under the Director Deferred Stock Unit Plan, directors may receive 50% or 100% of their basic board fees, and may receive 100% of their dedicated annual board retainer, in the form of DDSUs. Each DDSU has an initial value equal to the market value of a Common Share at the time the DDSU is credited to a director. The value of a DDSU, when converted to cash, is equivalent to the market value of a Common Share at the time the conversion takes place. DDSUs attract dividends in the form of additional DDSUs at the same rate as dividends on Common Shares. A director cannot convert DDSUs to cash until the director ceases to be a member of the board.

Director Stock Option Plan

On November 19, 2002, the Board of Directors permanently discontinued all further grants of options under the Director Stock Option Plan. Outstanding options granted prior to the plan's termination remain in effect.

For options still outstanding, the exercise price was set at the market value of the Common Shares at the time of grant. Options granted under the plan may be exercised for a period of 10 years from the date of the grant, subject to earlier termination five years following the retirement of their holder from the board or two years following the death of their holder.

Retention guidelines are applicable to Common Shares acquired on the exercise of options granted under the plan. Until their retirement from the board, directors who exercise options under the Director Stock Option Plan are required to retain ownership of the number of Common Shares that corresponds to one-half of the realizable gain after costs of exercise and imputed taxes on each exercise of options.

Alignment of interests

The Board of Directors believes that the following measures effectively align the interests of directors with those of shareholders:

- the share ownership guideline;
- the dedicated annual board retainer paid in Common Shares or DDSUs;
- the requirement for directors to retain until retirement all Common Shares acquired with the dedicated annual board retainer;
- the requirement for directors to retain until retirement all DDSUs; and
- the requirement for directors to retain until retirement a portion of Common Shares acquired upon the exercise of options.

Individual compensation paid to directors in fiscal 2006[1]

The following table shows the amounts, before withholdings, received by individual non-management directors in respect of membership on the Board of Directors of the Bank and its committees in the fiscal year ended October 31, 2006.

Name	Board retainer ($)		Committee member retainer ($)	Board attendance fees[3] ($)	Committee attendance fees ($)	Total fees earned ($)	Total fees paid ($)		Total number of Common Shares/ DDSUs at October 31, 2006 (#)[4]	Total value of Common Shares/ DDSUs at October 31, 2006 ($)[5]
	Dedicated retainer[2]	Basic retainer					In cash	In Common Shares/ DDSUs		
W.G. Beattie	81,667	30,000	6,000	26,000	17,500[6]	161,167	–	161,167	22,532	1,122,094
G.A. Cohon	81,667	30,000	9,000	24,000	19,000[6]	163,667	–	163,667	41,283	2,055,893
D.T. Elix	81,667	30,000	3,000	18,000	3,000	135,667	–	135,667	23,909	1,190,668
J.T. Ferguson	81,667	30,000	13,000[7]	26,000	10,500	161,167	39,750	121,417	33,897	1,688,071
P. Gauthier	81,667	30,000	6,000	26,000	19,000[6]	162,667	40,500	122,167	39,777	1,980,895
T.J. Hearn[8]	58,333	20,000	6,000	16,000	13,000[6]	113,333	–	113,333	12,584	626,683
A.D. Laberge	81,667	30,000	6,000	26,000	17,000[6]	160,667	–	160,667	5,675	282,615
J. Lamarre	81,667	30,000	9,000	22,000	20,500[6]	163,167	–	163,167	28,377	1,413,175
B.C. Louie	81,667	30,000	6,000	22,000	15,500[6]	155,167	–	155,167	56,388[9]	2,808,122
M.H. McCain	81,667	30,000	2,000	26,000	7,500	147,167	–	147,167	29,794	1,483,741
D.P. O'Brien[10]	81,667	305,000	13,000[7]	26,000	12,500[6]	438,167	326,500	111,667	111,336	5,544,532
R.B. Peterson	81,667	30,000	53,000[11]	26,000	18,000	208,667	–	208,667	57,546	2,865,791
J.P. Reinhard	81,667	30,000	16,000[7]	26,000	25,500	179,167	–	179,167	30,165	1,502,217
K.P. Taylor	81,667	30,000	9,000	26,000	18,000	164,667	–	164,667	27,877	1,388,275
V.L. Young	81,667	30,000	6,000	24,000	19,000[6]	160,667	79,000	81,667	31,706	1,578,959
TOTAL	1,201,671	715,000	163,000	360,000	235,500	2,675,171	485,750	2,189,421	552,846	27,531,731

(1) Does not include directors who are also officers of the Bank or its subsidiaries. Does not include payments for services as a director of subsidiaries or companies in which the Bank has a significant interest, as described under "Compensation of directors" above.

Mr. C.W. Sewell Jr., who will not be standing for re-election as a director on March 2, 2007, became eligible to receive compensation as a director of the Bank upon his retirement as an officer and employee of RBC Centura Banks, Inc. in July 2006. In the fiscal year ended October 31, 2006, Mr. Sewell earned total fees in the amount of $48,000 as a director of the Bank.

(2) Dedicated annual retainer must be paid in Common Shares or DDSUs. This retainer was increased to $90,000 per year, from $70,000, with effect on April 1, 2006.

(3) In addition to board meetings, directors participated in a strategy meeting on June 26 and June 27, 2006, and each received $2,000 for attendance.

(4) The total, as of October 31, 2006, of (i) the number of Common Shares beneficially owned, directly or indirectly, or over which control or direction was exercised, including personal holdings, and (ii) the number of DDSUs credited to the account of the director under the Director Deferred Stock Unit Plan. Numbers of Common Shares and DDSUs reflect the two-for-one stock split of Common Shares by way of stock dividend on April 6, 2006.

(5) The value of Common Shares/DDSUs is calculated using the fair market value of the Common Shares on October 31, 2006, which was $49.80 per share.

(6) Includes regional committee meeting fees.

(7) Includes Committee chair retainer of $10,000.

(8) Mr. T.J. Hearn was elected to the board on March 3, 2006.

(9) Includes 20,000 shares acquired by Mr. B.C. Louie in 2006 on the exercise of stock options under the Director Stock Option Plan.

(10) As Chairman of the Board, Mr. D.P. O'Brien receives an additional cash retainer of $275,000.

(11) Includes Audit Committee chair retainer of $50,000.

Report on executive compensation

Overview

Compensation is one of the primary tools used by the Bank to attract, retain and motivate employees with the skills and commitment needed to create sustainable value for shareholders. This is particularly true for the most senior Bank officers, who have a significant influence on corporate performance.

The Bank's base salaries and benefits are set at competitive market levels. A major portion of senior executive incentive compensation, however, is variable; the total amount received is directly influenced by the results of an executive's business area as well as by overall Bank performance. In addition, the Bank believes that significant equity-based compensation and shareholding requirements for senior executives are effective ways to encourage the sustained performance that leads to lasting shareholder value. The various components, philosophy and details of the Bank's executive compensation are described in the sections that follow.

The Human Resources Committee (the Committee) acts as the compensation committee of the board and is composed solely of independent directors:

J.T. Ferguson, F.C.A., Chair
G.A. Cohon, O.C., O.Ont.
D.T. Elix, A.O.
D.P. O'Brien
R.B. Peterson
K.P. Taylor

This report on executive compensation is presented by the Committee.

The Committee advises the board on compensation and human resource principles, as well as related policies, programs and plans designed to achieve the strategic goals and financial objectives of the Bank. Each year the Committee also approves the Code of Conduct and reviews senior management succession plans, senior talent development programs, executive compensation disclosure and matters concerning the Bank's pension plans.

The President and Chief Executive Officer's compensation is approved by the Board based on the recommendations of the Human Resources Committee in light of the Bank's performance against approved objectives and comparable financial institutions. The Committee also makes recommendations to the Board on the compensation of senior management, including those whose compensation is set forth under the summary compensation table.

Independent advice

The Committee has sole authority to retain and approve the fees of any independent compensation consultant to assist in determining compensation for officers of the Bank. The Committee engages the services of an independent consultant from the Hay Group to provide advice and counsel on executive compensation matters. The Chair of the Committee has direct access to the independent consultant.

The fees paid to the Hay Group for this activity were $36,400 for fiscal 2006. In addition, the Hay Group provides the Bank with position evaluation services and surveys of compensation market data. The fees for these additional services were $88,800 for 2006, and both the fees and services were reviewed by the Committee as they are every year.

The Bank's general approach to executive compensation

The compensation package for senior Bank officers has three main components: base salary, benefits and performance based compensation, which includes the Annual Short-Term Incentive Program and Mid-Term and Long-Term Equity Incentive Programs.

The components of total compensation, including base salary and benefits, annual short-term incentive, and mid-term and long-term equity incentives for executives including the Named Executive Officers are evaluated against competitive market practices. The compensation package for most executives is compared to financial services companies in Canada, primarily the four major Canadian banks and two large insurance companies: BMO Financial Group, Scotiabank, TD Bank Financial Group, CIBC, Manulife Financial and Sun Life Financial. However, certain positions are also benchmarked in whole or in part against other large Canadian companies and U.S. and global financial services companies against which the Bank competes for talent in different businesses or locations.

Base salary and benefits generally correspond to the average range of salary and benefits paid by the major Canadian financial institutions with which the Bank compares itself. The annual short-term incentive programs and mid-term and long-term equity incentive programs are broadly designed to produce awards in the top quartile of similar awards by comparative companies when the Bank has strong performance, as measured against its targets and the competition. The Bank does not predetermine the relative weight of each component in the total.

The Committee has set an annual target range for the annual short-term incentive of between 1.0 and 1.5 times base salary for the most senior officers of the Bank, including the Named Executive Officers. The incentive target for the Group Head, Global Capital Markets, is based on market practice in the capital markets sector.

At more senior levels of the Bank, a significant portion of compensation is delivered through mid-term and long-term equity incentive programs. These awards reflect the executive's level of business influence, accountabilities, decisions and actions, as well as the executive's impact on long-term shareholder value creation.

The Committee establishes the actual amount of the components of compensation for the President and Chief Executive Officer on the basis of the Committee's and the board's assessment of the President and Chief Executive Officer's performance, and for each Named Executive Officer on the basis of the assessment and recommendations by the President and Chief Executive Officer.

The Committee's decisions on mid-term and long-term equity incentive awards are made on an annual basis and are not based on the number of outstanding options, the in-the-money value of outstanding options, or the number of performance deferred shares that a senior Bank officer holds.

The components of compensation

1) Base salary and benefits

Each year, the Committee reviews the individual salaries for the Named Executive Officers and, if needed, makes adjustments to reflect individual responsibility and experience, as well as the contribution expected from each officer. The Bank also offers levels of benefits, pensions and perquisites that are comparable to peer financial institutions.

2) Annual Short-Term Incentive Program

The Bank believes that incentive pay rewards employees for their contribution not only to their unit's performance but also to the Bank's overall performance. While key performance drivers may result in different measures for each business or functional unit, a key component of an employee's annual short-term incentive pay remains the Bank's overall performance.

The key performance drivers used in determining incentives for 2006 under the Bank's Annual Short-Term Incentive Program were Net Income Before Tax (NIBT) growth achieved by the Bank during the fiscal year when compared to the previous year's NIBT and relative Return on Equity (ROE) during the fiscal year compared to that achieved by 20 North American financial institutions with which the Bank compares itself as shown in the following table.

2006 Incentive Comparator Group		
BMO Financial Group	BB&T	Northern Trust
CIBC	Bank of America	PNC
National Bank of Canada	Bank of New York	Sun Trust Banks Inc.
Scotiabank	Fifth Third Bank	U.S. Bancorp
TD Bank Financial Group	J.P. Morgan Chase & Co.	Wachovia
Manulife Financial	Keycorp	Wells Fargo
Sun Life Financial	National City	

Before the start of a new fiscal year, the Committee and Board of Directors determine potential award levels under the Bank's Annual Short-Term Incentive Program associated with different rates of growth of NIBT and relative ROE. The actual 2006 annual short-term incentive for each Named Executive Officer was weighted as follows: 30% for the overall Bank NIBT growth and relative ROE performance based on the last four quarters and 70% for his or her business area contribution, adjusted for individual performance. This contribution is reviewed against a variety of factors, including business results, judgment, managerial performance and overall contribution to the Bank's success. For corporate roles, business contribution is the weighted average of the three business units' results (Canadian Personal and Business, U.S. and International Personal and Business and RBC Capital Markets). For the President and Chief Executive Officer, the annual short-term incentive award is based on overall Bank financial performance and other corporate priorities such as strategy, talent management and corporate reputation (see page 20 for details).

2006 Annual Short-Term Incentive Performance Drivers	
Measure	**Actual Result**
NIBT growth (excluding Enron)*	17%
Bank ROE	23.5%
Relative ROE	Top third

* If the 2005 Enron litigation-related provision is included, NIBT growth is 32% as reported.

It is possible that no award under the Annual Short-Term Incentive Program would be made to the President and Chief Executive Officer or a Named Executive Officer in a given year if his or her individual performance fell significantly below expectations. In addition, no Named Executive Officer, executive or senior manager would receive an annual short-term incentive payment if the Bank's performance fell below the minimum performance thresholds set by the board.

For 2006, the Annual Short-Term Incentive Program payout was determined based on the NIBT growth of 17% (excluding Enron) and the Bank's relative ROE in the top third of the 2006 Incentive Comparator Group.

3) Mid-term and Long-Term Equity Incentive Programs

Performance Deferred Share Program

Like the Bank's other equity incentive programs, the Performance Deferred Share Program is intended to encourage greater alignment between the interests of participants and shareholders. The Program enhances opportunities for Common Share ownership and rewards participants for the relative performance of the Bank versus North American financial institutions with which it compares itself (see page 17 for the 2006 Incentive Comparator Group).

At time of vesting, the award can remain the same or be increased or decreased depending on the Bank's three-year Total Shareholder Return (TSR) relative to the comparator group.

For the awards granted in December 2006, for senior executives, including the President and Chief Executive Officer and Named Executive Officers, at time of vesting, 100% of the award can remain the same or be increased or decreased by 50% or 25% depending on the Bank's TSR relative to the 2006 Incentive Comparator Group. If at time of maturity, the three-year TSR is in the bottom quintile and if ROE is below 8%, the award will result in no payout for senior executives.

The table below outlines the payout ranges for all outstanding and new performance deferred share awards.

Performance Deferred Share Program Payout Ranges

Grant date	Jan. 2003 (vested Jan. 2006)	Dec. 2003 (vested Dec. 2006)	Dec. 2004 (vests Dec. 2007)	Dec. 2005 (vests Dec. 2008)	Dec. 2006 (vests Dec. 2009)
Performance Driver – Relative Total Shareholder Return					
Payout range	75%–125%	75%–125%	75%–125%	75%–125%	0%–150% for senior executives; 75%–125% for all other participants
Actual payout	100%	125%	–	–	–
Comparator group	15 financial institutions	15 financial institutions	20 financial institutions	20 financial institutions	20 financial institutions*

* See 2006 Incentive Comparator Group on page 17.

Stock Option Plan

The Bank's stock option plan provides senior officers with an incentive to enhance shareholder value by providing participants with a form of compensation that is tied to increases in the market value of Common Shares.

Options are granted by the Committee to eligible senior officers, including the President and Chief Executive Officer and the other Named Executive Officers.

Effective 2003, the Bank commenced expensing stock options in its financial statements.

The President and Chief Executive Officer, Named Executive Officers, and the other members of the top executive team, defined as the Group Executive, have agreed that for a 12-month period following each exercise of stock options, they will hold Common Shares with a value equivalent to the after-tax gain realized through the exercise of the options.

Effective October 2006, on a voluntary basis, the President and Chief Executive Officer, Chief Financial Officer and Group Executive have the ability to request that their stock options be automatically exercised beginning the 7th year after the grant over 10 quarterly installments on the first day of each trading window.

Over the years, the Bank has reduced its use of stock options as a component of total compensation. This reduction has resulted in a decline in overhang, lower dilution and a decline in annual burn rates. The table below provides the Bank's position relative to these measures over the last three years:

Stock Option Information

Measure (as a % of shares outstanding at year end)	2006	2005	2004
Options – outstanding and available to grant (overhang)	4.3%	4.9%	5.7%
Outstanding options (dilution)	2.5%	3.0%	3.6%
Number of options issued each year (burn rate)	0.14%	0.16%	0.18%

Deferred Share Unit Plan
The purpose of the Deferred Share Unit (DSU) Plan is to strengthen the alignment of interests between senior Bank officers and shareholders by linking annual short-term incentive awards to the future value of Common Shares. DSUs earn dividend equivalents in the form of additional DSUs. The participant is not allowed to redeem the DSUs until retirement, permanent disability, death or termination of employment. The cash value of the DSUs is equivalent to the market value of Common Shares when redemption takes place.

Under the DSU Plan, each participant may elect to receive all or a percentage (0%, 25%, 50%, 75% or 100%) of his or her annual short-term incentive bonus in the form of DSUs. A participant must make an irrevocable election to take part in the Plan prior to the beginning of the fiscal year. When bonus awards are determined at the end of the fiscal year, the amount elected is converted to DSUs based on the five-day average closing market price of Common Shares prior to fiscal year end.

RBC Share Unit Plan
This program is used selectively to attract and retain key talent. The awards are either actual shares held in trust, which earn dividends, or share units on which dividend equivalents are credited. The shares and share units have a value equal to the market value of Common Shares on vesting. These awards have a variety of vesting schedules. Some vest over a three-year period in equal installments of one-third per year, while other awards vest fully at the end of three years.

Stock ownership
To align the interests of senior Bank officers and employees with the interests of shareholders, the Bank encourages Common Share ownership. The vast majority of employees also have the opportunity to own stock through the Bank's savings and share ownership plans. Under the Canadian plans, an employee can contribute up to 10% of his or her base salary towards the purchase of Common Shares, with the Bank matching 50% of eligible contributions up to a maximum of 3% of the employee's base salary with additional Bank Common Shares. For employees in RBC Capital Markets, the Bank matches eligible contributions up to a maximum of $4,500. All Named Executive Officers, and approximately 80% of employees globally, own Common Shares through these programs.

The Bank requires all senior Bank officers to own Common Shares, including Deferred Share Units and Performance Deferred Share Units, in proportion to the individual's annual compensation and management responsibilities.

Bank officers are given three years to achieve these minimum stock holdings, and newly employed officers are allowed five years. All Bank officers meet or exceed the required share ownership guidelines.

Minimum share ownership guidelines

President and Chief Executive Officer	7 times last three years' average base salary
Group Executive members (other than Group Head, Global Capital Markets)	5 times last three years' average base salary
Group Head, Global Capital Markets	2 times last three years' average base salary and annual short-term incentive
Executive Vice-Presidents including the Chief Financial Officer	3 times last three years' average base salary
RBC Capital Markets Executive Committee	1.5 times last three years' average base salary and annual short-term incentive
Senior Vice-Presidents	2 times last three years' average base salary
Vice-Presidents	1 times last three years' average base salary

President and Chief Executive Officer's compensation
The components of the President and Chief Executive Officer's total compensation are the same as those for other executive officers of the Bank, namely, base salary and benefits, an annual short-term incentive, and mid-term and long-term equity incentives.

The Committee's objective is to provide competitive compensation. In setting total compensation levels for the President and Chief Executive Officer, the Bank defines total direct compensation as the aggregate of base salary, annual short-term incentive, and mid-term and long-term equity incentives such as Performance Deferred Share Units and stock options. The Bank views the annual value of the pension benefit as a component of the overall compensation program even if there are no current payouts. Information on the annual pension service cost, accrued liability and annual pension available at retirement is disclosed in the executive pension value disclosure table.

2006 President and Chief Executive Officer performance assessment

In order to strengthen the relationship between the President and Chief Executive Officer's performance and his compensation for 2006, the Committee had set the President and Chief Executive Officer's performance objectives with 50% weighting on the Bank's financial results and 50% weighting on other corporate priorities, including strategic positioning of the Bank, risk profile and credit quality, management of succession plans and quality of the Bank's relationships.

Measure	Weighting
Financial performance	50%
Other corporate priorities	50%

2006 Annual Short-Term Incentive Performance Drivers	
Measure	**Actual Result**
NIBT growth (excluding Enron)*	17%
Bank ROE	23.5%
Relative ROE	Top third

* If the 2005 Enron litigation-related provision is included, NIBT growth is 32% as reported.

The Committee assessed the overall performance of Mr. G.M. Nixon for the past fiscal year as having exceeded the high performance objectives established for him. The Bank achieved top quartile results and Mr. Nixon demonstrated strong and effective leadership on other corporate priorities.

Mr. Nixon's bonus was calculated based on his annual target of 150% of base salary, adjusted by financial results and by his personal performance, resulting in an actual bonus of $5,000,000 for 2006.

Mr. Nixon's base salary remained unchanged at $1,400,000. On December 12, 2006, Mr. Nixon was granted stock options covering 238,140 Common Shares and 50,524 Performance Deferred Share Units at a price of $54.43 under the Performance Deferred Share Unit Program. The following table shows the total direct compensation, as well as pension and other annual compensation for the President and Chief Executive Officer for the last three calendar years (2004, 2005 and 2006).

	Year		
G.M. Nixon **President and Chief Executive Officer**	**2006** **$**	**2005** **$**	**2004** **$**
Annualized base salary	1,400,000	1,400,000	1,400,000
Performance-based compensation			
Annual short-term incentive	5,000,000	2,600,000	1,800,000
Performance deferred shares[1]	2,750,000	2,750,000	2,250,000
Stock options[2]	2,750,000	2,750,000	2,250,000
Total performance-based compensation	10,500,000	8,100,000	6,300,000
Total direct compensation	**11,900,000**	**9,500,000**	**7,700,000**
Perquisites	135,037	150,710	107,353
Employee savings & share ownership program	41,885	41,885	40,734
Annual pension service cost[3]	766,000	620,000	479,000
Total	**12,842,922**	**10,312,595**	**8,327,087**

(1) This item represents the portion of total direct compensation that was granted under the Performance Deferred Share Program. For the award made in December 2006, this represents 50,524 Performance Deferred Share Units at a grant price of $54.43.

(2) This item represents the portion of total direct compensation that was granted as stock option awards. For compensation purposes, the award made in December 2006 is valued using the five-year average Black Scholes value of 21% (the corresponding values for 2005 and 2004 were 26% and 29%, respectively). For the award made in December 2006, 238,140 options were granted at a strike price of $54.99 with a 10-year term.

(3) Annual pension service cost is the value of the projected pension earned for the year of service credited for the specific fiscal year. The annual pension service cost increases with age and is impacted by changes in interest rates.

Total compensation

The following tables show the total direct compensation, as well as pension and other annual compensation, for the Named Executive Officers for the last three calendar years (2004, 2005 and 2006).

J.R. Fukakusa Chief Financial Officer	Year 2006 $	 2005 $	 2004 $
Annualized base salary[1]	400,000	400,000	340,000
Performance-based compensation			
Annual short-term incentive	1,100,000	700,000	360,000
Performance deferred shares[2]	500,000	450,000	437,500
Stock options[3]	500,000	450,000	437,500
RBC Share Units[4]	–	–	300,000
Total performance-based compensation	2,100,000	1,600,000	1,535,000
Total direct compensation	**2,500,000**	**2,000,000**	**1,875,000**
Perquisites	54,200	55,811	61,346
Employee savings & share ownership program	11,967	11,829	10,114
Annual pension service cost[7]	160,000	122,000	105,000
Total	**2,726,167**	**2,189,640**	**2,051,460**

B.G. Stymiest Chief Operating Officer	Year 2006 $	 2005 $	 2004 $
Annualized base salary	700,000	700,000	–
Performance-based compensation			
Annual short-term incentive	1,650,000	1,300,000	550,000
Performance deferred shares[2]	1,100,000	1,100,000	1,000,000
Stock options[3]	1,100,000	1,100,000	1,000,000
RBC Share Units[4]	–	–	4,000,000
Total performance-based compensation	3,850,000	3,500,000	6,550,000
Total direct compensation	**4,550,000**	**4,200,000**	**6,550,000**
Perquisites	58,309	116,390	–
Employee savings & share ownership program	20,942	20,137	–
Annual pension service cost[7]	239,000	179,000	–
Total	**4,868,251**	**4,515,527**	**6,550,000**

M.J. Lippert Group Head, Global Technology and Operations	Year 2006 $	 2005 $	 2004 $
Annualized base salary[1]	500,000	500,000	500,000
Performance-based compensation			
Annual short-term incentive[5]	1,500,000	1,500,000	1,500,000
Performance deferred shares[2]	1,100,000	1,000,000	975,000
Stock options[3]	1,100,000	1,000,000	975,000
Total performance-based compensation	3,700,000	3,500,000	3,450,000
Total direct compensation	**4,200,000**	**4,000,000**	**3,950,000**
Perquisites	83,318	77,886	69,537
Employee savings & share ownership program	14,959	14,959	14,959
Canadian allowance[6]	600,000	900,000	1,200,000
Annual pension service cost[7]	174,000	131,000	131,000
Total	**5,072,277**	**5,123,845**	**5,365,496**

W.J. Westlake Group Head, Canadian Personal and Business	Year 2006 $	 2005 $	 2004 $
Annualized base salary[1]	600,000	600,000	600,000
Performance-based compensation			
Annual short-term incentive	1,725,000	1,300,000	600,000
Performance deferred shares[2]	1,100,000	1,000,000	975,000
Stock options[3]	1,100,000	1,000,000	975,000
Total performance-based compensation	3,925,000	3,300,000	2,550,000
Total direct compensation	**4,525,000**	**3,900,000**	**3,150,000**
Perquisites	61,715	59,732	53,002
Employee savings & share ownership program	17,951	17,951	17,663
Annual pension service cost[7]	212,000	165,000	165,000
Total	**4,816,666**	**4,142,683**	**3,385,665**

C.M. Winograd Group Head, Global Capital Markets	Year 2006 $	2005 $	2004 $
Annualized base salary	400,000	400,000	271,800
Performance-based compensation			
Annual short-term incentive	5,000,000	2,800,000	3,300,000
Performance deferred shares[2]	2,500,000	1,400,000	1,650,000
Stock options[3]	2,500,000	1,400,000	1,650,000
Total performance-based compensation	10,000,000	5,600,000	6,600,000
Total direct compensation	**10,400,000**	**6,000,000**	**6,871,800**
Employee savings & share ownership program	4,500	4,500	4,500
Annual pension service cost[7]	24,000	21,000	23,000
Total	**10,428,500**	**6,025,500**	**6,899,300**

(1) Effective January 1, 2007, Ms. J.R. Fukakusa's annual base salary increased to $500,000, Mr. W.J. Westlake's annual base salary increased to $700,000 and Mr. M.J. Lippert's annual base salary increased to $700,000.

(2) This item represents the portion of total direct compensation that was granted as performance deferred shares. For the awards made in December 2006, this represents 9,186 performance deferred shares for Ms. J.R. Fukakusa, 20,209 for Ms. B.G. Stymiest, 20,209 for Mr. M.J. Lippert, 20,209 for Mr. W.J. Westlake, and 45,931 for Mr. C.M. Winograd, all at a grant price of $54.43.

(3) This item represents the portion of total direct compensation that was granted as stock option awards. For compensation purposes, the award made in December 2006 is valued using a five-year average Black Scholes value of 21% (the corresponding values for 2005 and 2004 were 26% and 29%, respectively). For the award made in December 2006, options were granted at a strike price of $54.99. The award for Ms. J.R. Fukakusa was 43,300, for Ms. B.G. Stymiest, 95,256, for Mr. M.J. Lippert, 95,256, for Mr. W.J. Westlake, 95,256, and for Mr. C.M. Winograd, 216,492.

(4) Represents a share award made in January 2004 to Ms. J.R. Fukakusa that vested on January 7, 2007, and a share unit award made in November 2004 to Ms. B.G. Stymiest to compensate for forfeited long-term incentive awards at her prior employer. Ms. Stymiest's share units vest one-third per year. Both awards are conditional on Ms. Stymiest and Ms. Fukakusa being actively employed by the Bank on the vesting dates.

(5) Mr. M.J. Lippert's employment arrangements provide for an annual payment exclusive of base salary of $1,500,000, inclusive of his annual short-term incentive payment.

(6) Amount represents the annual Canadian allowance recognizing the differences in currency values and taxes resulting from Mr. Lippert's employment relocation in 1997 from the U.S. to Canada.

(7) Annual pension service cost is the value of the projected pension earned for the year of service credited for the specific fiscal year.

Executive compensation

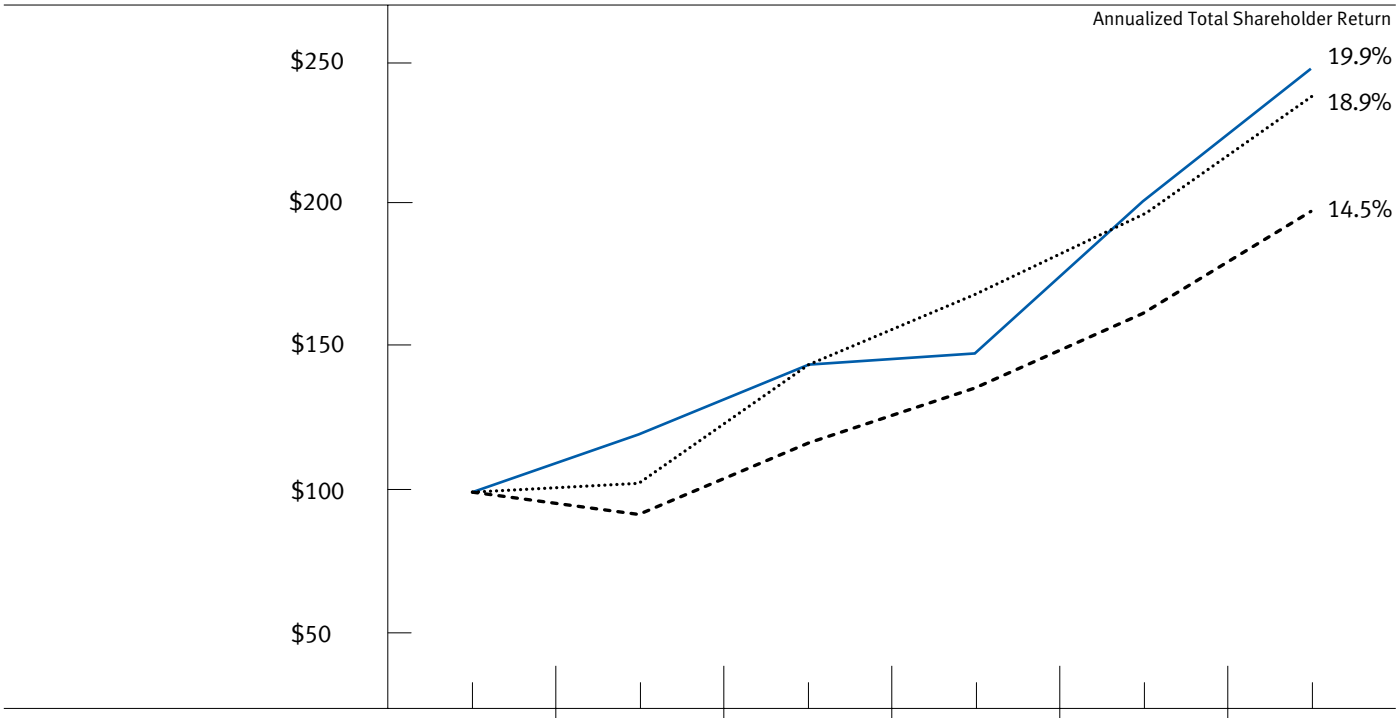
As a measure of effective use of compensation, the Committee reviews the key ratios of total aggregate compensation for the President and Chief Executive Officer, Chief Financial Officer and the next three highest-paid Named Executive Officers, in a policy setting role, over the Bank's total Market Capitalization and over total Net Income After Tax. The ratios are shown below.

Cost of Management Ratio	2006	2005	2004
Total Aggregate Named Executive Officer Compensation	$35.7 million	$27.9 million	$25.8 million
As a % of Total Market Capitalization	0.06%	0.05%	0.06%
As a % of Total Net Income After Tax	0.75%	0.82%	0.92%

Total Shareholder Return performance graph

The following performance graph shows the cumulative Total Shareholder Return for Royal Bank of Canada's Common Shares (assuming dividends are reinvested) compared to the S&P/TSX Composite Banks Index and the S&P/TSX Composite Index over a five-year period ended October 31, 2006. The graph and the table show what a $100 investment made at the end of fiscal 2001 in Royal Bank of Canada Common Shares and in each of the indices would be worth every year. The annualized Total Shareholder Return percentages are also provided.

Five-Year Total Shareholder Return on $100 investment*



	2001	2002	2003	2004	2005	2006
Royal Bank of Canada	$100	$120	$144	$148	$201	$247
S&P/TSX Composite Banks Index	$100	$104	$144	$169	$196	$238
S&P/TSX Composite Index	$100	$ 92	$117	$136	$162	$197

* Assumes dividends are reinvested.

Officers' remuneration

Compensation of Named Executive Officers of the Bank

The summary compensation table details annual and long-term compensation during the three fiscal years ended October 31, 2006 for the President and Chief Executive Officer, the Chief Financial Officer and the four other most highly compensated senior Bank officers, measured by base salary and annual short-term incentive bonuses earned during fiscal 2006.

Summary compensation table

The summary compensation table is laid out as prescribed by the Ontario Securities Commission and is based on the fiscal year in which the compensation was granted. This differs from the three-year compensation tables shown on pages 20 to 22, as these tables include the long-term incentive awarded during the calendar year. This is shown for Mr. G.M. Nixon in the table on page 20. For the other Named Executive Officers, these amounts are shown in the tables on pages 21 and 22.

		Annual compensation			Long-term compensation awards			
Name and principal position	**Year**	**Salary ($)**	**Bonus ($)[a]**	**Other annual compensation ($)[c]**	**Securities under options/SARs granted (#)**	**Shares or units subject to resale restrictions ($)**	**All other compensation ($)[i]**	**LTI payout of previous years' awards ($)**
G.M. Nixon President and Chief Executive Officer	2006	1,400,000	5,000,000	135,037	239,704	2,750,000 Note (d)	511,075	5,116,514 based on 112,082 shares Note (f)
	2005	1,400,000	2,600,000	150,709	244,752	2,250,000 Note (d)	462,958	2,768,584 based on 88,452 shares Note (f)
	2004	1,366,000	1,350,000 and 7,223 share units based on $450,000	107,353	302,824	2,749,888 Note (d)	396,714	1,329,647 Note (h)
J.R. Fukakusa Chief Financial Officer	2006	400,000	550,000 and 11,066 share units based on $550,000 Note (b)	54,200	39,224	450,000 Note (d)	149,362	647,180 based on 14,176 shares Note (f)
	2005	400,000	8,498 share units based on $700,000	55,811	47,592	437,500 Note (d)	107,469	344,535 based on 11,004 shares Note (f)
	2004	337,419	5,778 share units based on $360,000	61,346	31,936	589,943 Note (e)	77,443	–
M.J. Lippert Group Head Global Technology and Operations	2006	500,000	1,500,000 + 200,000	683,318	87,168	1,000,000 Note (d)	171,408	1,813,701 based on 39,730 shares Note (f)
	2005	500,000	1,300,000 + 1,175,000	977,866	106,064	975,000 Note (d)	155,772	957,041 based on 30,576 shares Note (f)
	2004	500,000	325,000 + 1,100,000	1,269,536	107,360	974,927 Note (d)	134,252	1,329,647 Note (h)

Name and principal position	Year	Annual compensation			Long-term compensation awards		All other compensation ($)[i]	LTI payout of previous years' awards ($)
		Salary ($)	Bonus ($)[a]	Other annual compensation ($)[c]	Securities under options/SARs granted (#)	Shares or units subject to resale restrictions ($)		
B.G. Stymiest Chief Operating Officer	2006	700,000	825,000 and 16,600 share units based on $825,000 Note (b)	58,309	95,880	1,100,000 Note (d)	225,907	1,820,755 based on 44,095 shares Note (g)
	2005	700,000	1,300,000	116,390	108,784	1,000,000 Note (d) 4,000,000 Note (e)	158,974	–
	2004	–	550,000	–	–	–	–	–
W.J. Westlake Group Head Canadian Personal and Business	2006	600,000	1,725,000	61,715	87,168	1,000,000 Note (d)	180,276	929,821 based on 20,368 shares Note (f)
	2005	600,000	1,300,000	59,732	106,064	975,000 Note (d)	137,430	512,700 based on 16,380 shares Note (f)
	2004	590,685	9,630 share units based on $600,000	53,002	107,360	975,000 Note (d)	87,576	1,386,872 Note (h)
C.M. Winograd Group Head Global Capital Markets	2006	400,000	5,000,000	–	122,032	1,400,000 Note (d)	1,191,600	725,881 Note (j)
	2005	378,633	2,800,000	–	179,488	1,650,000 Note (d)	908,782	1,275,052 Note (j)
	2004	271,800	3,300,000	–	99,104	900,000 Note (d)	729,175	1,896,164 Note (j)

Note: Number of Common Shares, stock options and share units reflect the two-for-one stock split of Common Shares by way of stock dividend on April 6, 2006.

(a) Total annual short-term incentive bonus for each Named Executive Officer consists of cash and/or deferred share unit (DSU) amounts shown under the "Bonus" column.

(b) The DSUs awarded for fiscal 2006 are based on the average closing price of Common Shares over the five trading days prior to October 31, 2006, which was $49.70. Additional DSUs are credited to reflect dividends paid on Common Shares. Aggregate holdings of DSUs as at October 31, 2006 and their value, based on an October 31, 2006 Common Share price of $49.80, are as follows:

Name	Aggregate Holdings of DSUs (#) at October 31, 2006	Value of DSUs ($) at October 31, 2006
G.M. Nixon	131,441	6,545,751
J.R. Fukakusa	63,807	3,177,603
M.J. Lippert	32,854	1,636,118
B.G. Stymiest	Nil	Nil
W.J. Westlake	37,253	1,855,182
C.M. Winograd	777,358	38,712,445

(c) The amounts in this column represent perquisites, other taxable benefits and other annual compensation. These amounts include costs for leased automobiles for Mr. G.M. Nixon of $77,963, Ms. J.R. Fukakusa of $32,200, Mr. M.J. Lippert of $58,318, Ms. B.G. Stymiest of $23,309 and Mr. W.J. Westlake of $36,715. The amounts also include a financial counselling allowance of $20,000 for Ms. Stymiest. For Mr. Lippert, amounts appearing in this column for 2004, 2005 and 2006 include a Canadian allowance recognizing the differences in currency values and taxes resulting from Mr. Lippert's employment relocation in 1997 from the U.S. to Canada. In fiscal 2002, Mr. Lippert's Canadian allowance started being phased out and is scheduled for complete elimination by November 1, 2007. For fiscal 2006, the allowance was set at $600,000.

(d) Amounts shown for fiscal 2006 for Mr. G.M. Nixon, Ms. J.R. Fukakusa, Mr. M.J. Lippert, Ms. B.G. Stymiest, Mr. W.J. Westlake and Mr. C.M. Winograd represent awards made on December 9, 2005 under the Bank's Performance Deferred Share Program. Awards under this program are granted based on the average closing price of Common Shares on the Toronto Stock Exchange on the five consecutive trading days ending immediately prior to the grant date. For 2004 the grant price was $31.12, for 2005 the grant price was $31.70 and for 2006 the grant price was $44.13. Dividend equivalents accrued during the year are credited in the form of additional units under the Performance Deferred Share Program. Aggregate holdings of deferred shares granted under this program as at October 31, 2006 and their value, based on a Common Share price of $49.80, are as follows:

Name	Aggregate holdings of performance deferred shares/ units (#) at October 31, 2006	Value of performance deferred shares/units ($) at October 31, 2006
G.M. Nixon	234,554	11,680,814
J.R. Fukakusa	35,093	1,747,624
M.J. Lippert	89,633	4,463,706
B.G. Stymiest	58,718	2,924,147
W.J. Westlake	89,633	4,463,706
C.M. Winograd	118,719	5,912,202

(e) For Ms. J.R. Fukakusa, the amount appearing in this column for 2004 also includes an award under the RBC Share Unit Plan made on January 7, 2004. Aggregate holdings of Ms. Fukakusa's RBC share units as at October 31, 2006 were 10,539 units with a value of $524,897 based on a Common Share price of $49.80. Dividend equivalents accrued during the year were credited in the form of additional units. These shares vested on January 7, 2007 with a value equal to the market value of Common Shares on the vesting date and were paid in Common Shares. For Ms. B.G. Stymiest, the amount appearing in this column for 2005 includes a $4 million RBC Share Unit Plan award made on November 1, 2004 to compensate for forfeited long-term incentive awards from her prior employer. Aggregate holdings of Ms. Stymiest's RBC share units as at October 31, 2006 were 90,130 units with a value of $4,488,466 based on a Common Share price of $49.80. These share units vest one-third per year beginning on November 1, 2005, and are conditional on Ms. Stymiest being actively employed by the Bank on the vesting dates, and will have a value equal to the market value of Common Shares on the vesting dates and will be paid in cash. Dividend equivalents accrued during the year are credited in the form of additional units.

(f) Amounts shown for fiscal 2006 and 2005 for Mr. G.M. Nixon, Ms. J.R. Fukakusa, Mr. M.J. Lippert and Mr. W.J. Westlake represent payouts as a result of awards made on January 17, 2003 and January 14, 2002 under the Performance Deferred Share Program. Dividend equivalents accrued during the vesting period were credited in the form of additional units. Awards vested three years from the grant date, on January 17, 2006 and January 14, 2005, and were paid out in Common Shares to each executive, based on a share price of $45.65 and $31.30, respectively.

(g) Amount shown for fiscal 2006 for Ms. B.G. Stymiest represents the payout based on a share price of $41.29, as a result of the vesting of one-third of the RBC Share Unit Plan award made on November 1, 2004. Dividend equivalents accrued during the year are credited in the form of additional units.

(h) In order to align the compensation of senior Bank officers more closely to the North American market, in 2001, awards were made under the North American Compensation Program to some officers, including $3,000,000 awards made to Messrs. G.M. Nixon and M.J. Lippert on April 1, 2001. Messrs. Nixon and Lippert's awards were converted into 127,098 share units each. The units vested over a three-year period in equal installments of one-third per year. The units had a value equal to the market value of Common Shares on each vesting date and were paid in cash at the option of the Bank. The number of share units initially awarded was determined based on the award amount divided by the average closing price of Common Shares traded on the Toronto Stock Exchange for the five trading days immediately preceding the date of the award. The first third of these share units vested on April 1, 2002, the second third of these shares vested on April 1, 2003 and the final third of these shares vested on April 1, 2004. In March 2001, Mr. W.J. Westlake received a $3,000,000 award that converted into 128,700 share units. The first third of these share units vested on March 1, 2002, the second third of these share units vested on March 1, 2003 and the final third of these share units vested on March 1, 2004. The units did not attract dividends. No awards have been made under this Program since 2001.

(i) The amounts in this column represent the Bank's contribution under the employee savings and share ownership plans. These officers participate in these plans on the same basis as all other Bank employees. Employees can contribute up to 10% of their salary towards the purchase of Common Shares, with the Bank contributing additional Common Shares to the extent of 50% of eligible contributions up to a maximum of 3% of the employee's salary. The amounts in this column also include the amount of dividends accrued during the year and credited in the form of additional units under the Deferred Share Unit Plan, the Performance Deferred Share Program and the RBC Share Unit Plan.

(j) The amounts in this column represent payment to Mr. C.M. Winograd of the deferral component of the RBC Capital Markets Incentive Program. Under the deferral component of the RBC Capital Markets Incentive Program, 30% of Mr. Winograd's combined salary and incentive was deferred into share units. Additional share units are credited to reflect dividends paid on Common Shares. The amount deferred is payable at the rate of one-third per year and is paid in cash at the then-prevailing Common Share price. Since December 2003, Mr. Winograd has been part of the Bank's Mid-Term and Long-Term Incentive Programs and no longer participates in the deferral component of the RBC Capital Markets Incentive Program.

Performance Deferred Shares

The following table shows for each Named Executive Officer share units awarded under the Performance Deferred Share Program during the year ended October 31, 2006. Value realized upon vesting is the market value of the Common Shares on the vesting date. Performance Deferred Share grants vest three years after their award date. The share units were awarded on December 9, 2005, at a price of $44.13.

The value of unvested Performance Deferred Shares at financial year-end is equivalent to the number of share units awarded multiplied by the market value of the Common Shares on October 31, 2006, which was $49.80 per share. Details of the program can be found in the "Mid-term and long-term equity incentive programs" section in this Circular under the heading "Performance Deferred Share Program."

Mid–term equity incentive awards granted during the most recently completed financial year

Name	Securities, units or other rights (#)	Performance or other period until maturation or payout	Estimated future payouts under non-securities-price based plans[1], [2]		
			Threshold ($)	Target ($)	Maximum ($)
G.M. Nixon	31,156	December 9, 2008	1,551,569	1,551,569	1,551,569
	31,156	December 9, 2008	775,784	1,551,569	2,327,354
J.R. Fukakusa	5,098	December 9, 2008	253,880	253,880	253,880
	5,098	December 9, 2008	126,940	253,880	380,820
M.J. Lippert	11,330	December 9, 2008	564,234	564,234	564,234
	11,330	December 9, 2008	282,117	564,234	846,351
B.G. Stymiest	12,462	December 9, 2008	620,608	620,608	620,608
	12,462	December 9, 2008	310,304	620,608	930,912
W.J. Westlake	11,330	December 9, 2008	564,234	564,234	564,234
	11,330	December 9, 2008	282,117	564,234	846,351
C.M. Winograd	15,862	December 9, 2008	789,928	789,928	789,928
	15,862	December 9, 2008	394,964	789,928	1,184,892

(1) Estimated future payouts are calculated based on the market value of the Common Shares on October 31, 2006, which was $49.80. Actual payouts will be based on the Common Share value at the time of vesting and may therefore differ from amounts shown in this table. Estimated future payouts are expressed in Canadian dollars.

(2) At time of vesting, half of the award remains the same and the other half can be increased or decreased by 50% based on the Bank's relative TSR performance, as shown above.

Stock option plan

On November 30, 2006, the Board approved stock option awards to be granted on December 12, 2006, five business days after the trading window opens. The Committee grants options to eligible employees, including the President and Chief Executive Officer and other Named Executive Officers, for the purchase of a set number of Common Shares. The exercise price for each grant is the market value of the shares based on the weighted average of the trading prices on the Toronto Stock Exchange for (i) the five-trading-day period ending immediately before the option grant or (ii) the day of the option grant, whichever is higher. Each option may be exercised over a 10-year period; 25% of the options granted vest one year after the date of grant and an additional 25% per year vest over the following three years. Bank stock option granting practices are in line with Toronto Stock Exchange requirements.

No single participant may be granted options for more than 5% of the outstanding Common Shares. In the event that a participant ceases to be a full-time employee for any reason other than retirement, disability or death, the maturity date for options which are vested at the time of termination is the earlier of (i) the expiry of the initial 10-year option period, and (ii) 90 days after termination, after which all unexercised options are forfeited. In the event of retirement or disability, the option maturity date is the earlier of (i) the expiry of the initial 10-year option period, and (ii) five years after retirement or disability; normal vesting continues during this period. In the event of the death of a participant before or after retirement, the options vest immediately and the option maturity date is the earlier of (i) the expiry of the initial 10-year option period, and (ii) 24 months from date of death.

The following table shows stock option grants made to the Named Executive Officers under the Bank's stock option plan during the financial year ended October 31, 2006.

Option/SAR grants during the most recently completed financial year[1]

Name	Securities under options/SARs granted (#)	% of total options/ SARs granted to employees in fiscal 2006	Exercise or base price ($)/Common Share	Market value of securities underlying options/SARs on the date of grant ($)/Common Share	Expiration date
G.M. Nixon	239,704	13.65%	44.13	44.13	Dec. 9, 2015
J.R. Fukakusa	39,224	2.23%	44.13	44.13	Dec. 9, 2015
M.J. Lippert	87,168	4.96%	44.13	44.13	Dec. 9, 2015
B.G. Stymiest	95,880	5.46%	44.13	44.13	Dec. 9, 2015
W.J. Westlake	87,168	4.96%	44.13	44.13	Dec. 9, 2015
C.M. Winograd	122,032	6.95%	44.13	44.13	Dec. 9, 2015

(1) The number of options reflects the two-for-one stock split of Common Shares by way of stock dividend on April 6, 2006.

The following table shows for each Named Executive Officer:

- the number of Common Shares acquired through the exercise of stock options during the financial year ended October 31, 2006;
- the aggregate value realized upon exercise of options, if any; and
- the number of Common Shares covered by unexercised options under the stock option plan of the Bank as at October 31, 2006.

In the table, value realized upon exercise of options is the difference between the fair market value of the Common Shares on the exercise date and the exercise price of the option. The value of unexercised in-the-money options at financial year-end is the difference between the exercise price of the options and the fair market value of the Common Shares on October 31, 2006, which was $49.80 per share.

Aggregated option/SAR exercises during the most recently completed financial year and financial year-end option values

Name	Securities acquired at exercise (#)	Aggregate value realized ($)	Unexercised options/SARs at October 31, 2006 (#)		Value of unexercised in-the-money options/SARs at October 31, 2006 ($)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
G.M. Nixon	Nil	Nil	1,407,590	663,010	33,209,996	9,318,943
J.R. Fukakusa	Nil	Nil	234,382	102,058	5,729,043	1,396,204
M.J. Lippert	268,000	8,268,996	1,204,156	251,716	33,030,292	3,578,228
B.G. Stymiest	Nil	Nil	27,196	177,468	492,248	2,020,862
W.J. Westlake	Nil	Nil	378,376	236,456	8,772,858	3,260,820
C.M. Winograd	Nil	Nil	94,424	306,200	1,728,152	4,045,050

Securities authorized for issuance under equity compensation plans

The following table shows, as of October 31, 2006, compensation plans under which equity securities of the Bank are authorized for issuance from treasury. The information has been aggregated either by equity compensation plans providing for the issuance of Common Shares previously approved by shareholders, or equity compensation plans providing for the issuance of Common Shares not previously approved by shareholders, of which there are none to report. The numbers shown under "Equity compensation plans approved by security holders" relate to the Bank's stock option plan. Please refer to the description of the stock option plan under "Report on executive compensation" in this Circular.

Plan category	Number of securities to be issued upon exercise of outstanding options (a)	Weighted average exercise price of outstanding options ($) (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	32,243,187	24.66	23,121,488
Equity compensation plans not approved by security holders	0	0	0
Total	32,243,187	24.66	23,121,488

Pensions

Pension arrangements are in place to provide certain senior officers, including the Named Executive Officers, with lifetime annual retirement income of up to 65% of their average pensionable earnings. This income is inclusive of benefits from the registered defined benefit pension plan and the Canada and Quebec Pension Plans.

The pension arrangements available to Mr. G.M. Nixon, Ms. J.R. Fukakusa, Mr. M.J. Lippert, Ms. B.G. Stymiest and Mr. W.J. Westlake consist of three components:

1) a registered defined benefit pension plan to which the employer makes contributions up to the allowable limit as provided under the *Income Tax Act*;
2) a defined benefit supplemental arrangement that provides pension benefits calculated on the first $175,000 of average pensionable earnings net of the registered portion; and

3) an unfunded supplemental arrangement that provides retirement income as described in this section (the third component is inclusive of the amounts from the first two components).

The first two components are available to all full-time Canadian employees of the Bank. Since January 2002, the Bank has funded this supplemental liability for active and retired pension plan members through a Retirement Compensation Arrangement in combination with the Bank's registered pension plans, up to the first $120,000 of annual total pension.

Pensions are based on credited years of service and on average annual pensionable earnings. These earnings are defined as base salary and annual short-term incentive, including the amount elected to be taken in the form of DSUs, during the best 60 consecutive months in the last 10 years of employment. Pensionable earnings are capped and cannot exceed 160% of the final base salary for Mr. Nixon; for Mr. Lippert, Ms. Stymiest and Mr. Westlake, pensionable earnings cannot exceed 150% of the final base salary; and for Ms. Fukakusa, cannot exceed 145% of the final base salary.

Normally, these pension arrangements accrue from age 40 on the basis of certain percentages per year, as follows: 40–44, 2% per year; 45–59, 3% per year; 60–64, 2% per year, up to a maximum of 65% of average pensionable earnings. The normal retirement age under these arrangements is 65 years. Early retirement benefits are available from age 55. The pension payable is reduced, however, when the individual does not have 35 years of pension plan membership or if the individual is over age 60 and does not have 25 years of membership.

The pension plan table below indicates pension levels at various years of credited service and levels of pensionable earnings.

Pension plan table

	Years of credited service at normal retirement age of 65			
Pensionable earnings ($)	**10**	**15**	**20**	**25**
500,000	125,000	200,000	275,000	325,000
750,000	187,500	300,000	412,500	487,500
1,000,000	250,000	400,000	550,000	650,000
1,250,000	312,500	500,000	687,500	812,500
1,500,000	375,000	600,000	825,000	975,000
1,750,000	437,500	700,000	962,500	1,137,500
2,000,000	500,000	800,000	1,100,000	1,300,000
2,250,000	562,500	900,000	1,237,500	1,462,500
2,500,000	625,000	1,000,000	1,375,000	1,625,000
2,750,000	687,500	1,100,000	1,512,500	1,787,500

The pension arrangements for Messrs. G.M. Nixon and M.J. Lippert have slightly different accrual schedules from the normal schedule described above:

- Mr. Nixon's arrangement provides for an accrual of 4.4% per year for ages 40–44, 4.5% per year for ages 45–49 and 4.1% per year thereafter, to a maximum of 65%. Early retirement benefits are available to Mr. Nixon, subject to board approval.
- Mr. Lippert's arrangement provides for an accrual of 2% per year for ages 38–44 and 60–64, 3% per year for ages 45–49 and 55–59 and 2.2% per year for ages 50–54.

Mr. C.M. Winograd is a member of the Pension Plan for directors of RBC Dominion Securities Inc. with the same terms and conditions applicable to all directors of RBC Dominion Securities Inc. This Plan provides pension benefits up to the maximum pension allowed under a registered plan under the *Income Tax Act*. Mr. Winograd's estimated annual pension payable upon retirement at normal retirement age is $63,692.

The following estimated pension service costs, accrued pension obligations and annual pension benefits under the Bank's pension plans are provided by the Bank on a voluntary basis and exceed applicable disclosure requirements.

Executive pension value disclosure[1], [2]

Name	Current 2006 service cost ($)[3]	Accrued obligations at October 31, 2006 ($)[4]	Annual pension benefits payable at age 65 ($)[5]	Age (as of Oct. 31, 2006)	Credited service	Normal retirement age
G.M. Nixon	766,000	7,882,000	1,456,000	49	9.8 years	65
J.R. Fukakusa	160,000	2,237,000	377,000	51	12.0 years	65
M.J. Lippert	174,000	1,328,000	487,500	47	9.3 years	65
B.G. Stymiest	239,000	522,000	470,832	50	2.0 years	65
W.J. Westlake	212,000	2,735,000	574,200	52	11.8 years	65
C.M. Winograd	24,000	740,000	63,692	58	28.9 years	65

(1) The unfunded supplemental pension benefits arrangements do not vest until the Named Executive Officer reaches age 55, or earlier for Mr. G.M. Nixon with board approval. In the case of Mr. C.M. Winograd, his accrued pension to date has already vested.

(2) Amounts shown include pension benefits under the Bank's registered pension plan and supplemental pension arrangements other than for Mr. C.M. Winograd, who participates only in the Pension Plan for directors of RBC Dominion Securities Inc.

(3) Service cost is the value of the projected pension earned for the period November 1, 2005 to October 31, 2006. Amounts shown are consistent with our disclosures in Note 20 of the 2006 Consolidated Financial Statements.

(4) Accrued obligation is the value of the projected pension earned for service to October 31, 2006. Amounts shown are consistent with our disclosure in Note 20 of the 2006 Consolidated Financial Statements. The accrued obligation changes from year to year. Variations include amounts attributable to interest accruing on the beginning-of-year obligation, experience gains and losses and changes in actuarial assumptions. For 2006, all actuarial assumptions remained the same. The change in accrued obligation, net of current service cost, is, for Mr. G.M. Nixon, $216,000; for Ms. J.R. Fukakusa, $153,000; for Mr. M.J. Lippert, $33,000; for Ms. B.G. Stymiest, $33,000; for Mr. W.J. Westlake, $80,000 and for Mr. C.M. Winograd, $18,000.

(5) Amounts in this column are based on current compensation levels and assume accrued years of service to age 65 for each of the Named Executive Officers.

Change-in-control provisions, termination of employment and employment contracts

In May 2001, the Bank adopted a change-in-control policy, which was reaffirmed in May 2003 and again in May 2006. The policy covers, in the absence of other contractual arrangements, the Named Executive Officers and certain other selected senior Bank officers. The policy is designed to ensure continuity of management in the event of a major shareholder transaction involving the Bank.

A major shareholder transaction is defined as:

- an entity or individual acquiring 20% or more of the voting shares of the Bank;
- a change in the majority (over 50%) of the directors of the Bank;
- a merger or consolidation with another entity which would result in the voting shares of the Bank representing less than 60% of the combined voting power of the Bank (or subsequent entity) following the merger or consolidation; or
- a sale or disposition of 50% or more of the net book value of the assets of the Bank.

The change-in-control provisions for covered executives will be triggered by a major shareholder transaction and termination, except for cause, of a covered senior Bank officer within 24 months of the major shareholder transaction. The severance will be paid as a lump sum payment of up to two years of salary and annual short-term incentive determined using a formula based on criteria such as service, age, salary and annual short-term incentive. For the Named Executive Officers, the payments would amount to two years of salary and annual short-term incentives. Benefits will continue through the severance period.

For all participants in the stock option plan or other mid-term and long-term incentive programs who are terminated without cause within 24 months of a change in control, all options and other awards vest immediately upon termination and would remain exercisable for a three-month period following termination.

The Bank maintains a severance program for qualifying Canadian employees that uses a formula based on criteria such as service, age, salary and annual short-term incentive. For employees meeting certain age and service requirements, severance will be paid to bridge the employee to early retirement entitlement under the applicable pension arrangements.

For Mr. G.M. Nixon and the other Named Executive Officers, the severance would be approximately two years of base salary and annual short-term incentive. Mr. M.J. Lippert's employment arrangements provide for an annual payment, exclusive of base salary, of $1,500,000, inclusive of his annual short-term incentive payment. Mr. Lippert receives benefits under a Canadian allowance arrangement put in place at the time of his transfer from the U.S. to recognize the differences in currency values and taxes on employment. The Canadian allowance amounted to $1,500,000 for the year ended October 31, 2003, and beginning fiscal 2004 was reduced by $300,000 per annum; the allowance will be completely eliminated by November 1, 2007. For fiscal 2006, Mr. M.J. Lippert's Canadian allowance was $600,000.

Indebtedness of directors and executive officers

Indebtedness of directors and executive officers other than under securities purchase programs

At December 29, 2006, the total debt, other than "routine indebtedness" under applicable Canadian securities laws, owed to the Bank or its subsidiaries by all executive officers, directors and employees globally, amounted to approximately $3,067 million. The major portion of this amount was for housing loans secured on the borrower's principal residence.

Indebtedness of directors and executive officers other than under securities purchase programs

Name and principal position	Involvement of issuer or subsidiary	Largest amount outstanding during year ended October 31, 2006 ($)	Amount outstanding as at December 29, 2006 ($)[1]
D.R. Allgood, EVP and General Counsel	Bank loans	100,754	85,278

Note: Executive officers are executive officers of Royal Bank of Canada as defined under National Instrument 51-102 *Continuous Disclosure Obligations*.

(1) Loans for personal purposes, principally for consumer purchases, home improvements, recreational property acquisition and sundry investment. Security in conformity with the Bank's regular customer lending practices is held. Such loans are granted on a demand basis, generally subject to regular repayment schedules and bear interest at a rate based on the Bank's Prime rate.

Indebtedness of directors and executive officers under securities purchase programs

As at December 29, 2006 there was no outstanding indebtedness (other than "routine indebtedness" under applicable Canadian securities laws) to the Bank or its subsidiaries of any executive officers, directors or employees made in connection with the purchase of securities of the Bank or its subsidiaries.

Additional items

Corporate governance

Under rules adopted by Canadian securities regulatory authorities, the Bank is required to disclose information relating to its corporate governance. The Bank's disclosure is set out in Schedule 'B' to this Circular. Additional information relating to corporate governance at the Bank may be found on its governance website at *rbc.com/governance*.

Directors' and officers' liability insurance

The Bank has purchased, at its expense, an integrated insurance program that includes directors' and officers' liability insurance. This insurance provides protection for directors and officers against liability incurred by them in their capacities as directors and officers of the Bank and its subsidiaries. The directors' and officers' liability insurance has a dedicated policy limit of $300,000,000 for each claim and as an aggregate for the 12 months ending June 1, 2007. There is no deductible for this coverage. The insurance applies in circumstances where the Bank may not indemnify its directors and officers for their acts or omissions. Premiums paid by the Bank relating to directors' and officers' liability insurance are approximately $1.2 million per annum.

Available documentation

The Bank is a reporting issuer under the securities acts of all of the provinces of Canada and is therefore required to file financial statements and information circulars with the various securities commissions. The Bank also files an annual information form with such securities commissions. Financial information is provided in the Bank's comparative financial statements and management's discussion and analysis. Copies of these documents and additional information relating to the Bank may be found on SEDAR at *sedar.com* or obtained on request from the Secretary of the Bank.

Directors' approval

The Board of Directors of the Bank has approved the content and sending of this Management Proxy Circular.

January 10, 2007

Carol J. McNamara
Vice-President and Secretary

Schedule 'A' Record of attendance by directors

For the 12 months ended October 31, 2006

Director	Number of meetings attended	
	Board	Committees[1]
W. Geoffrey Beattie	12 of 12	11 of 12
George A. Cohon, O.C., O.Ont.	11 of 12	12 of 12
Douglas T. Elix, A.O.[2]	8 of 12	2 of 3
John T. Ferguson, F.C.A.	12 of 12	7 of 7
The Hon. Paule Gauthier, P.C., O.C., O.Q., Q.C.	12 of 12	12 of 12
Timothy J. Hearn[3]	7 of 7	8 of 8
Alice D. Laberge	12 of 12	10 of 10
Jacques Lamarre, O.C.	10 of 12	13 of 17
Brandt C. Louie, F.C.A.	10 of 12	9 of 12
Michael H. McCain	12 of 12	5 of 5
Gordon M. Nixon[4]	12 of 12	N/A
David P. O'Brien[5]	12 of 12	7 of 7
Robert B. Peterson	12 of 12	12 of 12
J. Pedro Reinhard	12 of 12	17 of 17
Kathleen P. Taylor	12 of 12	12 of 12
Victor L. Young, O.C.	11 of 12	12 of 12

(1) Excludes directors' attendance at regional director committee meetings.

(2) Mr. D.T. Elix missed certain meetings for medical reasons.

(3) Joined the board on March 3, 2006.

(4) As President and Chief Executive Officer of the Bank, Mr. G.M. Nixon is not a member of any board committee but attends meetings of all committees at the invitation of the board whenever possible.

(5) As Chair of the Corporate Governance and Public Policy Committee and a member of the Human Resources Committee, Mr. D.P. O'Brien attended all meetings of those committees. In his capacity as Chairman of the Board, Mr. O'Brien attends the meetings of other committees whenever possible.

Summary of board and committee meetings held

Board	12
Audit	9
Conduct Review and Risk Policy	8
Corporate Governance and Public Policy	4
Human Resources	3
Regional director committees of the board also held meetings as follows:	
Atlantic	1
Quebec	1
Ontario	1
Prairies	2
British Columbia	2

Mr. Cecil W. Sewell, Jr., who is not standing for re-election on March 2, 2007, attended 12 of 12 board meetings during the 12-month period ended October 31, 2006. Mr. Sewell was not a member of any board committee.

Schedule 'B' Statement of Corporate Governance Practices and Guidelines

A sound and effective approach to corporate governance is fundamental to enhancing the board's ability to supervise and counsel management in generating long-term shareholder value. To maintain high standards of governance in a rapidly changing environment, the Bank's governance system is subject to ongoing review and assessment. The Board of Directors has proactively adopted governance policies and practices designed to align the interests of the board and management with those of shareholders and to promote high standards of ethical behaviour at every level of the organization.

The Bank's Common Shares are listed on the Toronto Stock Exchange (TSX), the New York Stock Exchange (NYSE) and the Swiss Exchange (SWX). The board exercises its authority in accordance with the Bank's Code of Conduct, the Bank's By-laws and the *Bank Act*, as well as other applicable laws and regulations, including those imposed by the Canadian Securities Administrators (CSA), the TSX, the U.S. Securities and Exchange Commission (SEC) and the NYSE. The Bank's governance practices are consistent with the CSA's corporate governance guidelines and rules relating to audit committees. The Bank is not required to comply with most of the corporate governance listing standards of the NYSE (NYSE Rules) and instead may comply with Canadian governance practices. However, except as summarized on our website at *rbc.com/governance*[(1)], the Bank meets or exceeds the NYSE Rules in all significant respects.

On the recommendation of its Corporate Governance and Public Policy Committee, the Board of Directors has approved this corporate governance disclosure, which is responsive to the CSA's disclosure requirements as well as applicable NYSE Rules and SEC rules adopted pursuant to the U.S. *Sarbanes-Oxley Act of 2002* (SOX).

Independence of the board

The board believes that independence from management is fundamental to its effectiveness. As a Canadian financial services company listed on the TSX and NYSE, the Bank is subject to various guidelines, requirements and disclosure rules governing the independence of the board and its committees.

The Bank complies with provisions of the *Bank Act* that limit the number of affiliated directors. Of the 16 persons proposed in this Circular for election to the board at the 2007 Annual Meeting, only Gordon M. Nixon, President and Chief Executive Officer, is affiliated with the Bank.

The board also meets the independence requirements of the CSA corporate governance guidelines and voluntarily conforms to the NYSE Rules regarding independent directors. To assist it in making determinations as to the independence of directors, the board has adopted the categorical standards of independence expressed in our Director Independence Policy, attached as Appendix '1'. A director will be considered independent only if the board has affirmatively determined that the director has no direct or indirect material relationship with the Bank. A director who qualifies as independent under this policy will be independent under the CSA's corporate governance guidelines and the NYSE Rules.

The board has analyzed the relationships between each director and the Bank, and on advice from the Corporate Governance and Public Policy Committee, has affirmatively determined that the following 14 of the 16 persons proposed in this Circular for election as directors (or 87.5%), have no direct or indirect material relationship with the Bank and are therefore independent: W. Geoffrey Beattie, George A. Cohon, Douglas T. Elix, John T. Ferguson, Paule Gauthier, Timothy J. Hearn, Alice D. Laberge, Jacques Lamarre, Brandt C. Louie, David P. O'Brien, Robert B. Peterson, J. Pedro Reinhard, Kathleen P. Taylor and Victor L. Young. To assist the board in these determinations, directors annually complete a detailed questionnaire concerning their personal and business relationships with the Bank. The Bank has banking or business relationships with some of the directors or the entities in which they serve as officers. The board considered these relationships in its evaluation and determined they were within the materiality limits defined in the Director Independence Policy.

The board has determined that the following two persons proposed in this Circular for election as directors are not independent:

- Gordon M. Nixon, as President and Chief Executive Officer of the Bank; and
- Michael H. McCain, as an officer and director of an entity that is a borrower of the Bank.

Following every board meeting, the Chairman of the Board leads sessions attended only by non-management directors and, at least once a year, leads sessions attended only by independent directors. During the 2006 financial year there was one session attended only by independent directors.

(1) Information contained in or otherwise accessible through websites mentioned in this Statement of Corporate Governance Practices and Guidelines does not form a part of this Statement. All references in this Statement to websites are inactive textual references only.

To enhance board independence each board committee may engage external advisors at the expense of the Bank. In addition, with the approval of the Chairman of the Board, individual directors may engage external advisors at the expense of the Bank.

The board's policies permit no more than two board members from management, and further provide that no more than two board members may sit on the same public company board[2]. The biographies on pages 4 to 9 of this Circular identify the other reporting issuers of which each nominee is a director. Common memberships on boards of public companies among the Bank's directors are set out below. The board has determined that these common board memberships do not impair the ability of these directors to exercise independent judgment as a member of the Board of Directors of the Bank.

Common public company board memberships	
TransCanada Corporation	
Paule Gauthier	Director
David P. O'Brien	Director
Imperial Oil Limited	
Timothy J. Hearn	Director, Chairman, President and Chief Executive Officer
Victor L. Young	Director

Independent Chairman of the Board

An independent director, David P. O'Brien, serves as Chairman of the Board and Chair of the Corporate Governance and Public Policy Committee. Mr. O'Brien was first appointed Chairman on February 27, 2004. The non-executive Chairman of the Board is responsible for the management, development and effective functioning of the Board of Directors and provides leadership in every aspect of its work. The Chairman chairs meetings of shareholders and of the Board of Directors, including those when management is not present, as well as sessions of independent directors. The Chairman also participates in the orientation and mentoring of new directors and the continuing education of current directors. The Chairman oversees the process for regular director peer review and supplements the formal review process by meeting with each director individually. The Chairman is also a key advisor to the President and Chief Executive Officer on major issues and serves as a liaison among the directors and between the board and senior management. The board has approved and annually reviews the written position description for the Chairman of the Board, which is available at *rbc.com/governance*.

Director attendance

Board members are expected to attend the Annual Meeting as well as board meetings and meetings of committees on which they serve. Minimum attendance of 75% of board and committee meetings is required, except where the Corporate Governance and Public Policy Committee determines that factors beyond a director's control prevented the director from achieving the minimum attendance level.

Each director's attendance record during the 2006 financial year is disclosed in Schedule 'A' to this Circular.

The role of the board

The Board of Directors is responsible for the overall stewardship of the Bank. The board is elected by shareholders to supervise management of the Bank's business and affairs, with the goal of enhancing long-term shareholder value. In performing its role, the board makes major policy decisions, participates in strategic planning, delegates to management the authority and responsibility for day-to-day affairs and reviews management's performance and effectiveness.

The *Bank Act* specifies certain important matters that must be dealt with by the board, such as approval of financial statements and declarations of dividends. By formal resolution, the Board of Directors reserves for itself the right to make certain decisions and delegates other decisions to management. Any responsibilities not delegated to management remain with the board and its committees. In some matters, management's discretion is limited by dollar thresholds beyond which board approval is required. For example, such thresholds exist for investments and divestitures, equity commitments, intra-group transactions and entering into strategic alliances, licensing and outsourcing agreements.

Some of the board's supervisory responsibilities are described below. The board's functions are more fully described in its charter, attached as Appendix '2', and in the charters of its committees, which are available at *rbc.com/governance*.

Strategic planning

- The board oversees the Bank's strategic direction and major policy decisions.
- Strategies and their implementation are frequently discussed at board meetings.
- The board participates with management in an annual session dedicated to strategic planning.
- The board approves the enterprise strategy, which takes into account, among other things, the opportunities and risks of the businesses.

(2) Board policy allows more than two directors to sit on the board of a Bank subsidiary or, when it is in the best interests of the Bank in order to ensure appropriate oversight, an entity in which the Bank holds a substantial investment.

- The board reviews and approves the corporate financial objectives, operating plans and actions of the Bank, including significant capital allocations, expenditures and transactions that exceed delegated authorities.

Identification of risks

- Through its Conduct Review and Risk Policy Committee, the board identifies the principal risks of the Bank's businesses and seeks to ensure that an effective risk control environment is in place. Among other things, that Committee reviews risk management policies and processes, including those concerning credit risk, market risk, operational risk, liquidity and funding risk, reputation risk, regulatory and legal risk, environmental risk and insurance risk. The Committee receives regular reports on key risks affecting the Bank.
- The Audit Committee reviews reports from the internal audit function and reviews the internal controls and risk management policies and processes related to management of capital and liquidity and prevention and detection of fraud and error.
- Both the Audit Committee and the Conduct Review and Risk Policy Committee receive reports on regulatory compliance matters.

Succession planning

- The Human Resources Committee reviews succession planning for the President and Chief Executive Officer and other key senior officers and reviews the Bank's plans for the development of senior talent and candidates for senior positions.
- The Committee reports to the board at least annually on succession planning matters.
- The President and Chief Executive Officer has a written objective that makes succession planning a priority.

Communications

- The board reviews and approves the contents of major disclosure documents, including the Annual Report, quarterly reports to shareholders, the annual information form, management's discussion and analysis, and this Circular.
- The board approves the Bank's disclosure policy that addresses how the Bank interacts with analysts, investors and the public and that contains measures to avoid selective disclosure in accordance with the Bank's policies and procedures and legal disclosure requirements.
- Procedures are in place to provide timely information to current and potential investors and respond to their inquiries.
- The Bank's Investor Relations group is responsible for maintaining communications with the investing public. It is the Bank's policy that every shareholder inquiry should receive a prompt response. Investor Relations staff are available to shareholders by telephone, email and fax, and significant disclosure documents are available at *rbc.com/investorrelations*.
- Senior executives, including the President and Chief Executive Officer, Chief Operating Officer, Chief Financial Officer and Head, Investor Relations, meet regularly with financial analysts and institutional investors.
- The quarterly earnings conference calls with analysts and institutional investors are broadcast live and, for a period of three months after each call, are archived on the Bank's Investor Relations website at *rbc.com/investorrelations/conference* and are accessible for a period of three months after each call.
- Shareholders may communicate directly with the independent directors by writing to the Chairman of the Board of Directors, Royal Bank of Canada, Royal Bank Plaza, P.O. Box 1, Toronto, Ontario, Canada M5J 2J5.

Integrity of internal controls and management information systems

- The board establishes the Bank's values, as set out in the Code of Conduct.
- The board requires management to implement and maintain effective systems of internal control.
- The Audit Committee regularly meets with the Chief Internal Auditor and with management of the Bank to assess the adequacy and effectiveness of systems of internal control.
- The board reviews the Bank's financial statements and oversees its compliance with applicable audit, accounting and reporting requirements.

Governance

- The board develops the Bank's corporate governance principles and guidelines and establishes appropriate structures and procedures to allow the board to function effectively and independently of management.

Position descriptions of the Chairman of the Board, board committee chairs and the President and Chief Executive Officer

The Board of Directors has approved written position descriptions for the Chairman of the Board and the chairs of the board's committees. In addition, the board has approved and reviews annually a written position description for the President and Chief Executive Officer. These position descriptions are available at *rbc.com/governance*. The Human Resources Committee of the board approves the corporate objectives that the President and Chief Executive Officer is responsible for meeting and assesses the President and Chief Executive Officer against these objectives.

Director orientation and continuing education

The Bank has procedures in place that are designed to ensure that the board has timely access to the information it needs to carry out its duties. Directors are involved in setting the agenda for board and committee meetings. They receive a comprehensive package of information prior to each board and committee meeting, and attend an annual strategic planning session. As well, after each committee meeting, the board receives a report on the committee's work. Directors have full access to senior management and employees of the Bank.

The Bank prepares and updates a Director's Guide for new and existing board members. The Director's Guide describes the role of the board, its committees and directors, contains the Bank's key policies and procedures and provides information relating to the Bank and its management.

New directors also meet with members of the Group Executive representing the Bank's core businesses, and with other senior officers, to discuss the business functions and activities of the Bank. The goal is to ensure that new directors fully understand the nature and operation of the Bank's businesses, the role of the board and its committees and the contribution that individual directors are expected to make, including the commitment of time and energy that the Bank expects of its directors.

To assist board members in understanding their responsibilities and liabilities, as well as keeping their knowledge and understanding of the Bank's businesses current, the Bank provides directors with an ongoing education program. Presentations on the business and regulatory environment and on specialized and complex aspects of the Bank's business operations are regularly made to the board. In 2006, these included educational sessions concerning:

- the implications of the Basel II Capital Accord for the Bank's capital management framework;
- complex products and related risk management;
- specialized aspects of accounting related to insurance liabilities, derivatives and hedge funds; and
- new financial instruments standards and their impact on financial statements and disclosure controls and certifications.

Our Code of Conduct

By setting the tone at the top, the Board of Directors fosters a strong governance culture that influences every level of the organization. The board endorses the principles and compliance elements expressed in Our Code of Conduct, which is also approved annually by the Human Resources Committee. Our Code of Conduct is filed on SEDAR and is also available at *rbc.com/governance*.

The Code establishes written standards designed to promote integrity and ethical behaviour that apply to the Chairman and members of the Board of Directors, senior management and all employees. The Code sets out fundamental principles that guide the board in its deliberations and shape the organization's business activities globally:

- upholding the law at all times;
- confidentiality, privacy and security of personal information;
- fairness in all our dealings;
- corporate responsibility and adding value to society;
- honouring trust by safeguarding client and corporate assets;
- objectivity and avoidance of conflicts of interest;
- integrity and telling the truth in all our communications; and
- individual responsibility and respect within working relationships.

The Code also deals with reporting of unethical or illegal behaviour. It creates a frame of reference for dealing with sensitive and complex issues, and provides for accountability if standards of conduct are not upheld. Waivers are considered only in exceptional circumstances, and any waiver must be reported to the Conduct Review and Risk Policy Committee. Waivers for the members of the Board of Directors or members of the Bank's top management team must be approved by the Conduct Review and Risk Policy Committee, reported to the Human Resources Committee and promptly disclosed. In the 2006 financial year, no waivers from the Code were granted.

To enhance understanding throughout our worldwide organization of the values and principles outlined in Our Code of Conduct, an online learning program was designed and implemented, together with regular online testing and tracking of completion by employees, including senior management. Members of the Board of Directors annually acknowledge they have read and understand the Code and certify that they are in compliance with its principles, as they apply to the Bank's directors.

The board has approved the establishment and mandate of an Ethics and Compliance Committee, composed of senior management, to monitor effectiveness of the Bank's overall ethics and compliance program in promoting a corporate culture that encourages ethical conduct and a commitment to compliance with laws and regulations. This committee establishes ethics and compliance training and awareness programs and advises senior management and the board on significant compliance and regulatory issues.

Where the personal or business relationships or interests of directors may conflict with those of the Bank, directors are required to disclose in writing the nature and extent of the conflict of interest. In the event of a conflict of interest, the director or executive officer will leave the relevant portion of the meeting and the director will not vote or participate in the decision.

Nomination of directors by the Corporate Governance and Public Policy Committee

The board derives its strength from the background, diversity, qualities, skills and experience of its members. Directors are elected by the shareholders at each Annual Meeting to serve for a term expiring on the date of the next Annual Meeting.

The Corporate Governance and Public Policy Committee, which is composed solely of independent directors, acts as the nominating committee responsible for recommending to the board individuals qualified to become board members. Every year, the Committee considers the competencies and skills that the board, as a whole, should possess. It reviews the credentials and performance of candidates proposed for election to the board, and assesses their competencies and skills. In doing so, it considers their qualification under applicable laws, regulations and rules as well as the needs of the Bank and the talents already represented on the board. Based on its assessment of the existing strengths of the board and the changing needs of the organization, the Committee determines the competencies, skills and personal qualities it should seek in new board members to add value to the organization. The Committee considers all qualified candidates identified by members of the Board of Directors, by management and by shareholders.

Nominees are selected for such qualities as integrity and ethics, business judgment, independence, business or professional expertise, international experience and residency and familiarity with geographic regions relevant to the Bank's strategic priorities. The Committee reviews each candidate's biographical information, assesses each candidate's suitability against criteria that have been developed by the Committee and set out in the Committee's charter and considers the results of internal and external due diligence reviews.

This assessment involves exercise of the Committee's independent judgment. The Committee uses the same process for evaluating all potential candidates, including those recommended by shareholders. In this context, the Committee considers whether:

- in personal and professional dealings, the candidate has demonstrated integrity, high ethical standards and commitment to the values expressed in the Bank's Code of Conduct;
- the candidate has sufficient time and energy to devote to the performance of duties as a member of the Board of Directors, having regard to positions the candidate holds in other organizations and other business and personal commitments;
- the candidate possesses knowledge and appreciation of public issues and exhibits familiarity with international, as well as national and local affairs;
- the candidate has a history of achievements that demonstrates the ability to perform at the highest level and that reflects high standards for themselves and others;
- the candidate's background includes business, governmental, professional, non-profit or other experience that is indicative of sound judgment and the ability to provide thoughtful advice;
- the candidate is likely to take an independent approach and to provide a balanced perspective;
- the candidate is financially literate and able to read financial statements and other indices for evaluating corporate performance;
- the candidate has specific skills, expertise or experience that would complement those already represented on the board; and
- the candidate recognizes the strengths of diversity.

On this basis, the Committee makes recommendations to the board regarding potential director candidates.

External consultants: The Committee has sole authority to retain, and approve the fees of, any external consultants to conduct searches for appropriate candidates, or other external advisors that it determines to be necessary to carry out its duties.

Nomination by shareholders: Any shareholder who wishes to recommend a candidate to be considered by the Committee may do so by submitting the candidate's name and biographical information, including background, qualifications and experience to: Chairman of the Board, Royal Bank of Canada, Royal Bank Plaza, P.O. Box 1, Toronto, Ontario, Canada M5J 2J5. Potential candidates may be informally approached to determine their interest in joining the board.

Director tenure policies: Directors are not renominated at the Annual Meeting following their 70th birthday. In the following circumstances a director is expected to submit his or her resignation to the Chairman of the Board for determination by the board upon recommendation of the Corporate Governance and Public Policy Committee if:

- the director is no longer qualified under the *Bank Act* or other applicable laws;

- the director does not meet eligibility rules under the board's conflict of interest guidelines; or
- the credentials underlying the appointment of the director change.

In addition, board policy requires that in an uncontested election of directors, any nominee who receives a greater number of votes "withheld" than votes "for" will tender a resignation to the Chairman of the Board promptly following the Bank's Annual Meeting. The Corporate Governance and Public Policy Committee will consider the offer of resignation and, except in special circumstances, will be expected to recommend that the board accept the resignation. The Board of Directors will make its decision and announce it in a press release within 90 days following the Annual Meeting, including the reasons for rejecting the resignation, if applicable.

Board size: The Board of Directors has carefully considered issues relating to its size. The optimal size for the board represents a balance between two opposing needs: a business need for strong geographical, professional and industry sector representation; and the need to be small enough to facilitate open and effective dialogue and decision making. In keeping with the board's determination based on the recommendation of the Corporate Governance and Public Policy Committee, this year 16 nominees are proposed for election as directors at the Annual Meeting on March 2, 2007.

Compensation

Board compensation: The Corporate Governance and Public Policy Committee, which is composed solely of independent directors, reviews the amount and the form of compensation of directors. In recommending the form of directors' compensation, the Committee seeks to align the interests of directors and shareholders. Directors are required to own Common Shares or Director Deferred Stock Units with a minimum value of $500,000. In addition, directors receive a dedicated annual retainer in the form of Common Shares or Director Deferred Stock Units, which must be retained until retirement from the board. Directors must also retain until retirement ownership of the number of Common Shares that corresponds to one-half of the realizable gain after cost of exercise and imputed taxes on each exercise of options granted under the Director Stock Option Plan prior to the end of 2002, at which time all further grants of options under this Plan were permanently discontinued.

The Committee has sole authority to retain and approve the fees of any compensation consultant to assist in determining board compensation. The Committee did not retain a consultant for this purpose in 2006 and recommended no increase in board compensation for the coming year. Directors who are also officers of the Bank receive no remuneration as directors. More specific information concerning the compensation of directors is disclosed under the heading "Compensation of directors" on pages 13 to 15 of this Circular.

Executive compensation: The Human Resources Committee, which is composed solely of independent directors, acts as the compensation committee of the board. This Committee advises the board on compensation and human resource principles, as well as related policies, programs and plans designed to achieve the strategic goals and financial objectives of the Bank. The Committee approves the financial performance objectives and other corporate priorities, such as strategy, talent management and corporate reputation, against which the President and Chief Executive Officer's performance is assessed.

The President and Chief Executive Officer's compensation is approved by the board's independent directors based on the recommendation of the Human Resources Committee, in light of the Bank's performance against approved objectives and comparable financial institutions.

The Human Resources Committee also makes recommendations to the board on the compensation of other senior management. The process by which the board determines compensation for senior officers is described in this Circular under the heading "Report on executive compensation." The Committee has sole authority to retain, and approve the fees of, any independent compensation consultant to assist in determining compensation of officers of the Bank. Details of compensation consultants retained to assist in determining compensation for the Bank's senior officers are provided on page 16 of this Circular under the subheading "Report on executive compensation – Independent advice."

Committees of the Board of Directors

To assist it in exercising its responsibilities, the board has established four committees. Each committee is composed entirely of non-management directors. The Audit Committee, the Corporate Governance and Public Policy Committee (the board's nominating committee) and the Human Resources Committee (the board's compensation committee) are composed solely of independent directors. A significant majority of the members of the Conduct Review and Risk Policy Committee are independent. Each committee is chaired by an independent director. Each committee may engage external advisors at the expense of the Bank. The Board of Directors does not have an executive committee.

Corporate Governance and Public Policy Committee

Members: D.P. O'Brien (Chair), W.G. Beattie, J.T. Ferguson, P. Gauthier, T.J. Hearn, B.C. Louie, V.L. Young

At the Bank, ensuring the effectiveness of the board is an ongoing process, at the centre of which is a strong, independent Corporate Governance and Public Policy Committee. In addition to serving as the nominating committee of the board, this Committee:

- advises and assists the board in applying governance principles and practices;
- monitors developments in corporate governance, adapting best practices to the needs and circumstances of the Bank;
- reviews shareholder proposals and recommends to the board responses to the proposals; and
- makes recommendations regarding the effectiveness of the system of corporate governance at the Bank, including:
  - the information requirements of the board;
  - the frequency and content of meetings;
  - communication processes between the board and management;
  - the charters of the board and its committees; and
  - policies governing retirement or resignation of board members and the size and composition of the board.

Human Resources Committee

Members: J.T. Ferguson (Chair), G.A. Cohon, D.T. Elix, D.P. O'Brien, R.B. Peterson, K.P. Taylor

In addition to its role in setting executive compensation, the independent Human Resources Committee annually approves the Code of Conduct, reviews senior talent development programs and executive compensation disclosure and advises the board on matters concerning the Bank's pension plans.

Audit Committee

Members: R.B. Peterson (Chair), G.A. Cohon, T.J. Hearn, A.D. Laberge, J. Lamarre, J.P. Reinhard, K.P. Taylor

All members of the Audit Committee must be independent directors who also meet additional independence standards specified for Audit Committee members in our Director Independence Policy. None of the members of the Committee receives, directly or indirectly, any compensation from the Bank, other than for service as a director and a member of the board committees of the Bank or of a subsidiary.

All members of the Committee are financially literate. In considering criteria for determinations of financial literacy, the board looks at the ability to read and understand a balance sheet, an income statement and a cash flow statement of a financial institution.

The board has determined that each of Alice D. Laberge and J. Pedro Reinhard qualifies as an "audit committee financial expert" as defined by SEC rules.

Board policy provides that none of the members of the Audit Committee will serve on the audit committees of more than three public companies, including the Bank.

The Committee assists the board in its oversight of:

- the integrity of the Bank's financial statements;
- the external auditor's qualifications and independence;
- the performance of the Bank's internal audit function;
- the performance of the Bank's external auditor;
- the adequacy and effectiveness of internal controls; and
- compliance with legal and regulatory matters.

Subject to the powers of the shareholders under the *Bank Act* to appoint and revoke the appointment of the external auditor, the Committee has the authority and responsibility to recommend the appointment and revocation of appointment of the external auditor and to approve the external auditor's remuneration. The Committee is directly responsible for the oversight of the work of the external auditor, including resolution of differences between management and the external auditor regarding financial reporting. It has sole authority to approve all audit engagement fees and terms, as well as the provision of any legally permissible non-audit services provided by the external auditor, and has established policies and procedures for the pre-approval of audit and legally permissible non-audit services. The Committee is responsible for reviewing the independence and objectivity of the external auditor, including reviewing any relationships between the external auditor and the Bank that may affect the external auditor's independence and objectivity. The Audit Committee is also charged with reviewing with the external auditor any audit issues and management's response.

Among other things, the Committee reviews:

- the annual and quarterly financial statements, the annual information form, the annual and quarterly management's discussion and analysis and earnings press releases;
- investments and transactions that could adversely affect the well-being of the Bank, as identified by the external auditor or management;
- prospectuses relating to the issuance of securities by the Bank; and
- any significant issues reported to management by the internal audit function and management's responses to any such reports.

The Audit Committee's charter provides that the Committee will, at least quarterly, meet separately with the external auditor, the Chief Internal Auditor and management to discuss and review specific issues as appropriate. The Committee has oversight responsibility for management reporting on internal controls and requires that management implement and maintain appropriate internal control procedures, including internal controls over financial reporting and for the prevention and detection of fraud and error. The Committee meets with the Chief Internal Auditor and with management to assess the adequacy and effectiveness of these systems of internal control. In addition, the Committee has established procedures for the receipt and resolution by the Bank of complaints concerning accounting, internal accounting controls or auditing matters, as well as procedures for the confidential and anonymous submission by employees of concerns regarding accounting or auditing matters.

For further information relating to the Audit Committee and the Bank's external auditor, please refer to the Report of the Audit Committee on pages 10 and 11 of this Circular and to the section entitled "Audit Committee" in the Bank's annual information form dated November 29, 2006. The annual information form may be found on SEDAR at *sedar.com* or obtained on request from the Secretary of the Bank.

Conduct Review and Risk Policy Committee

Members: J.P. Reinhard (Chair), W.G. Beattie, P. Gauthier, A.D. Laberge, J. Lamarre, B.C. Louie, M.H. McCain, V.L. Young

The other standing committee of the board is the Conduct Review and Risk Policy Committee. As a matter of board policy, a majority of the members of the Conduct Review and Risk Policy Committee must be independent. Currently, seven of the eight members of the Committee are independent.

The purpose of the Committee is to ensure that management has established policies and procedures relating to compliance with the self-dealing provisions of the *Bank Act* and to direct and oversee risk management of the Bank and its business groups, ensuring that management has in place policies and processes to manage significant risks, including compliance with applicable laws and regulations.

The Committee considers the significant risks to which the Bank is exposed, under the Bank's risk framework, and the policies, procedures and controls used by management to assess and manage these risks. The Committee also reviews actions taken to ensure a sound and consistent risk profile.

Assessments of the board, its committees and board members

To serve the interests of shareholders and other stakeholders, governance must improve continuously and the Bank's governance system is subject to ongoing review and assessment. The Board of Directors employs a number of mechanisms to assess its own performance:

- The directors conduct an annual evaluation of the performance and effectiveness of the board in light of its charter. The resulting data is analyzed by an independent external consultant and reviewed by the Corporate Governance and Public Policy Committee and the Board of Directors.
- In addition, each committee annually evaluates its effectiveness in carrying out the duties specified in its charter.
- There is also a process for regular written peer review to assess individual directors on the attributes that contribute to an effective board. This consists of both an evaluation of peers and a self-evaluation.
- The written peer evaluation process is complemented with one-on-one meetings between the Chairman of the Board and each director.

Controls and certifications

The Bank has disclosure controls and procedures designed to ensure that material information relating to the Bank is communicated to senior executives of the Bank, including the President and Chief Executive Officer and Chief Financial Officer, and to the Bank's Disclosure Committee.

The Bank's internal control over financial reporting is a process designed 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.

The Bank's Disclosure Committee is responsible for ensuring there is an adequate and effective process for establishing, maintaining and evaluating disclosure controls and procedures for the Bank's external disclosures. Senior management, with the assistance of the Disclosure Committee, is responsible for establishing and maintaining adequate internal control over financial reporting as well as annually evaluating the effectiveness of these controls.

In addition to their certifications regarding the Bank's disclosure controls and procedures and internal control over financial reporting, the President and Chief Executive Officer and the Chief Financial Officer, following review by senior management and the Disclosure Committee, also certify that the Bank's annual filings filed with Canadian securities regulatory authorities and the SEC do not contain an untrue statement of a material fact or omit to state a material fact, and that the financial statements and other financial information included in the annual filings fairly present, in all material respects, the financial condition and results of operations of the Bank.

The President and Chief Executive Officer and Chief Financial Officer also certify the financial statements and other financial information included in the Bank's quarterly reports and certify that the design and operation of the Bank's disclosure controls and procedures and internal control over financial reporting are effective.

Subsidiary Governance Office

The Bank's Subsidiary Governance Office (SGO) enhances and harmonizes governance in the Bank's subsidiaries.

The SGO advises on the creation, acquisition, reorganization and termination of subsidiaries by any business or functional unit. Web-based software allows quick and easy access to up-to-date corporate information on all of the Bank's subsidiaries by all parts of the Bank's global network.

The SGO promotes consistency, simplicity and transparency in the organizational structure of the Bank and its subsidiaries. In this regard, the SGO establishes and communicates policies on subsidiary board composition and functioning, the role and qualifications of corporate secretaries and the lifecycle management of subsidiaries. It also plays a key role in maintaining accurate corporate information.

Additional governance disclosure

Additional information about the Bank's governance practices can be found on pages 14 to 16 of our Annual Report.

The following information is available at *rbc.com/governance*:

- governance information from our Annual Report;
- the Code of Conduct;
- the charters of the Board of Directors and of its committees;
- the Director Independence Policy;
- position descriptions for the Chairman of the Board, the chairs of committees of the board and the President and Chief Executive Officer;
- a summary of significant differences between the NYSE Rules and the Bank's governance practices;
- the Corporate Responsibility Report; and
- this Statement of Corporate Governance Practices and Guidelines.

Printed versions of any of these documents can be obtained from the Secretary of the Bank, 200 Bay Street, South Tower, Toronto, Ontario, Canada M5J 2J5.

Appendix '1' Director Independence Policy

A substantial majority of the Board of Directors of the Bank will be independent as determined by this policy. The Audit Committee, Corporate Governance and Public Policy Committee and Human Resources Committee will be composed solely of independent directors. The Conduct Review and Risk Policy Committee will be composed of a majority of independent directors.

A director will be considered independent only if the board has affirmatively determined that the director has no direct or indirect material relationship[1] with the Bank[2]. A director who qualifies as independent under this policy will be "independent" as determined by both National Policy 58-201 (the Canadian Corporate Governance Guidelines) and the New York Stock Exchange's Corporate Governance Listing Standards (the NYSE Rules).

In considering the nature and extent of the director's relationships with the Bank, the board will be guided by criteria, as set out below, adapted from the "affiliated persons" regulations under the *Bank Act* and the definitions of "independence" in the Canadian Corporate Governance Guidelines and the NYSE Rules.

A director will be considered NOT to be independent if:

1. The director or the director's spouse is (or in any of the last three years was) an employee or executive officer[3] of the Bank or any subsidiary of the Bank, or the director has an immediate family member[4], other than the director's spouse, who is (or in any of the last three years was) an executive officer of the Bank or any subsidiary of the Bank;
2. The director received, or an immediate family member of the director (as an executive officer, or other than in the capacity of an employee) received, more than C$75,000 in direct compensation[5] from the Bank in any 12-month period within the last three years;
3. The director or the director's spouse has a significant interest[6] in a class of shares of the Bank;
4. The director or the director's spouse has a substantial investment[7] in an affiliate of the Bank;
5. The director or the director's spouse is a significant borrower[8], an officer or employee of a significant borrower, or controls one or more entities[9] which together would constitute a "significant borrower" of the Bank;
6. (a) The director or an immediate family member is a current partner of a firm that is the Bank's internal or external auditor;
   (b) The director is a current employee of such a firm;
   (c) The director has an immediate family member who is a current employee of such a firm and who participates in the firm's audit, assurance or tax compliance (but not tax planning) practice; or
   (d) The director or an immediate family member was within the last three years a partner or employee of such a firm and personally worked on the Bank's audit within that time;
7. Any of the Bank's current executive officers serves (or in any of the last three years served) on the compensation committee of an entity that concurrently employed, as an executive officer, the director or an immediate family member of the director;
8. The director is an employee or executive officer (or has an immediate family member who is an executive officer) of a company (which term includes any parent or subsidiary in a consolidated group with the company), which in any of its last three fiscal years made payments to or received payments from the Bank for property or services in an amount that exceeds the greater of 2% of such company's consolidated gross revenues and C$1.5 million (or US$1 million, whichever is less);
9. The director or the director's spouse is:
   (a) an individual;
   (b) a partner in or an employee of a partnership; or
   (c) an officer or an employee of, or a person who has a substantial investment in, a company

   that annually receives payments from the Bank for goods or services in an amount that exceeds 10% of the total annual billings of the person, partnership or company, as the case may be;
10. The Bank has any credit exposure[10] to:
    (a) the director, or the director's spouse; or
    (b) an entity (i) controlled by the director, or the director's spouse, (ii) in which the director or the director's spouse has an investment equal to 15% or more of his or her net worth, (iii) for which the director or the director's spouse is an employee, executive officer or has a similar position, or (iv) for which the director or the director's spouse could reasonably be deemed to have a material influence on the management of such entity

    that the Bank's Chief Risk Officer has not certified[11] to:
    (A) be made in compliance with the *Bank Act* and its regulations;

(B) have resulted from a transaction made on terms and conditions (including underwriting standards, where relevant) no more favourable than the Bank would offer to similarly situated customers that have no material relationship to the Bank (i.e., market terms and conditions), and the Bank's normal credit process was followed in connection with the transaction;
(C) be in good standing as defined by the *Bank Act*[12];
(D) not involve a more than normal risk of collectability; and
(E) be an arrangement that could be easily and promptly replaced by the borrower or counterparty by entering into a similar arrangement with another institution, on terms substantially similar to the current terms;

11. The Bank has any credit exposure to an entity, of which a director of the Bank or a director's spouse is also a director, which is not in good standing, or which has been granted as an exception to the Bank's credit policy and has not been reviewed or approved by the board's Conduct Review and Risk Policy Committee; or
12. The Bank beneficially owns[13] 5% or more of any class of equity securities of an entity (a) controlled by the director, (b) in which the director has an investment equal to 15% or more of the director's net worth, (c) for which the director is an executive officer or has a similar position, or (d) for which the director could reasonably be deemed to have a material influence on the management of such entity.

Relationships that do not affect director independence

Subject to the foregoing, the relationships below are presumed not to affect a director's independence, unless otherwise determined by the board in respect of a specific director relationship. The fact that a particular relationship is not listed here does not mean that the relationship affects the independence of a director.

- Having previously acted as an interim chief executive officer of the Bank or acting, or having previously acted, as a chair or vice-chair of the board or of any board committee of the Bank on a part-time basis.
- Maintaining a brokerage, margin, banking or similar account with the Bank, so long as the director does not receive any benefit not customarily provided by the Bank to similar account holders who are not directors of the Bank.
- Purchasing investment services, investment products, securities, insurance products or other products and services from the Bank on terms no more favourable to the director than those customarily offered to similar persons who are not directors of the Bank.
- The existence of a credit exposure of the type described in Section 10 above for which the certification of the Bank's Chief Risk Officer contemplated by such section has been received.
- Owning equity or other securities of the Bank, provided that such ownership does not constitute a significant interest under this policy.
- Receiving compensation for services rendered to the Bank as a consultant or in any capacity, so long as such compensation does not exceed C$75,000 in any fiscal year.
- Owning an interest in a partnership or fund which is sponsored or managed by the Bank, so long as the terms on which the director acquired the interest and participates in the fund are no more favourable to the director than the terms upon which persons who are not directors of the Bank acquired their interests and participate in the partnership or fund.
- Any other relationship or transaction in which the amount involved does not exceed C$75,000.
- The Bank, whether directly or indirectly, such as through a foundation, making contributions or agreeing to make contributions to a tax-exempt organization of which the director is an executive officer or director (or person holding a similar position), if such payments do not exceed the greater of 2% of the tax-exempt organization's gross revenues and C$1.5 million (or US$1 million, whichever is less), in any of the past three fiscal years.
- Providing goods or services to the Bank, or being an executive officer, partner or employee of or person who has a substantial investment in an entity that provides goods or services to the Bank, so long as the total annual billings to the Bank in respect of the goods and services provided does not exceed 0.5% of the gross revenue of the person or entity, as the case may be, in any of its three most recent fiscal years.
- Having an immediate family member with any of the above relationships.

Additional considerations for Audit Committee members

All members of the Audit Committee must be affirmatively determined by the board to be independent with reference to the above considerations.

In addition, a director who accepts, directly or indirectly, any consulting, advisory or other compensatory fee(14) from the Bank (other than as remuneration for acting as a member of the board or any board committee, or as a part-time chair or vice-chair of the board or any board committee) will not be considered to be independent for the purposes of serving on the Audit Committee.

Indirect acceptance of compensation includes payments to:

i. a spouse, minor children or stepchildren, or children or stepchildren sharing a home with the member; or
ii. an entity in which such member is a partner, member, an officer such as a managing director occupying a comparable position or executive officer, or occupies a similar position (except limited partners, non-managing members and those occupying similar positions who, in each case, have no active role in providing services to the entity) and which provides accounting, consulting, legal, investment banking or financial advisory services to the Bank.

(1) A "material relationship" is a relationship which could, in the view of the Bank's Board of Directors, be reasonably expected to interfere with the exercise of a director's independent judgment. Indirect material relationships shall include material relationships as a partner, shareholder or officer of an organization that has a relationship with the Bank.

(2) "Bank" includes the Bank and its subsidiaries.

(3) "Executive officer" means an entity's chair or vice-chair (if such positions are held on a full-time basis), president, principal financial officer, principal accounting officer (or, if there is no such accounting officer, the controller), any vice-president in charge of a principal business unit, division or function (such as sales, administration or finance), any other officer who performs a policy making function, or any other person who performs similar policy making functions for the entity. Executive officers of subsidiaries may be deemed executive officers of the entity if they perform such policy making functions for the entity.

(4) "Immediate family member" of a director means the director's spouse, parents, children, siblings, mothers- and fathers-in-law, sons- and daughters-in-law, and brothers- and sisters-in-law and anyone (other than domestic employees) who shares the director's home.

(5) "Compensation" does not include remuneration for acting as a member of the board or any board committee, or fixed amounts of compensation under a retirement plan (including deferred compensation) for prior service with the Bank if the compensation is not contingent in any way on continued service.

(6) A person has a significant interest in a class of shares of the Bank if the aggregate of shares of that class beneficially owned by that person and by entities controlled by that person exceeds 10% of outstanding shares of that class of shares of the Bank.

(7) A person has a substantial investment in an entity if the person and any entities controlled by the person together beneficially own shares (i) to which are attached voting rights exceeding 10% of the voting rights attaching to outstanding voting shares of the entity, or (ii) which represent ownership of more than 25% of the shareholders' equity of the entity.

(8) A "significant borrower" is a natural person indebted to the Bank in an amount exceeding 1/50th of 1% of the Bank's regulatory capital, or an entity which has indebtedness to the Bank in an amount which exceeds the greater of 1/20th of 1% of the Bank's regulatory capital and 25% of the value of the entity's assets.

(9) An "entity" means a corporation, limited liability company, partnership, trust, fund, joint venture, unincorporated association or organization, or any other type of entity.

(10) "Credit exposure" includes loans, committed credit facilities, investment in securities including commercial paper, acceptances, other debt securities, margin loans, mortgages, preferred stock and exposure through derivative instruments.

(11) The certification will provide that in the event of a material change to the facts certified, the Bank's Corporate Governance and Public Policy Committee will be promptly advised.

(12) "Not in good standing," in respect of a loan, means a loan in respect of which (i) any payment of principal or interest is 90 days or more overdue, (ii) interest is not being accrued on the books of the Bank because it is doubtful whether the principal or interest will be paid or recovered, or (iii) the rate of interest is reduced by the Bank because the borrower is financially weak.

(13) A "beneficial owner" of a security includes any person who, directly or indirectly, through any contract, arrangement, understanding, relationship, or otherwise has or shares (i) voting power, which includes the power to vote, or to direct the voting of such security, or (ii) investment power, which includes the power to dispose or to direct the disposition of such security.

(14) Compensatory fees do not include the receipt of fixed amounts of compensation under a retirement plan (including deferred compensation) for prior service with the Bank if the compensation is not contingent in any way on continued service.

Appendix '2' Charter of the Board of Directors

The role of the board has two fundamental elements: decision making and oversight. The decision making function is exercised with respect to the formulation with management of fundamental policies and strategic goals and through the approval of certain significant actions; the oversight function concerns the review of management decisions, the adequacy of systems and controls and the implementation of policies. The Board of Directors establishes formal delegations of authority, defining the limits of management's power and authority and delegating to management certain powers to manage the business of the Bank. The delegations of authority conform to statutory limitations specifying responsibilities of the board that cannot be delegated to management. Any responsibilities not delegated to management remain with the Board of Directors and its committees.

Among the board activities that derive from these responsibilities are:

1. Strategic planning process

- Supervising the formulation of the strategic direction, plans and priorities of the Bank and annually approving the strategic plan.
- Monitoring implementation and effectiveness of the approved strategic and operating plans.
- Reviewing and approving the corporate financial objectives and operating plans and actions of the Bank, including capital allocations, expenditures and transactions which exceed threshold amounts set by the board.
- Approving major business decisions.

2. Identification and management of risks

- Ensuring that processes are in place to identify the principal risks of the Bank's business.
- Reviewing the systems that are implemented by management to manage those risks.
- Reviewing the processes that ensure compliance with applicable regulatory, corporate, securities and other legal requirements.

3. Succession planning and evaluation of management performance

- Supervising the succession planning processes of the Bank, including the selection, appointment, development, evaluation and compensation of the Chairman of the Board, the Chief Executive Officer and the senior management team.

4. Oversight of communications and public disclosure

- Assessing the effectiveness of the Bank's communications, including measures for receiving feedback from stakeholders.
- Overseeing establishment of processes for accurate, timely and full public disclosure, including the Bank's disclosure policy.
- Reviewing due diligence processes and controls in connection with certification of the Bank's financial statements.

5. Internal controls

- Reviewing the effectiveness of the Bank's internal controls and the Bank's management information systems.
- Establishing the Bank's values, as set out in policies expressed in the Code of Conduct.
- Reviewing the Bank's financial statements and overseeing its compliance with applicable audit, accounting and reporting requirements.
- Approving dividends, as well as capital allocations, expenditures and transactions which exceed threshold amounts set by the board.

6. Governance

- Developing a set of corporate governance principles and guidelines.
- Establishing appropriate structures and procedures to allow the board to function independently of management.
- Establishing board committees and defining their mandates to assist the board in carrying out its roles and responsibilities.
- Setting expectations and responsibilities of directors, including attendance at, preparation for, and participation in meetings.
- Undertaking regular evaluation of the board, its committees and its members, and reviewing its composition with a view to the effectiveness and independence of the board and its members.

Schedule 'C' Shareholder proposals

The following seven shareholder proposals have been submitted for consideration at the Annual Meeting of Common Shareholders. These proposals and their supporting statements represent the views of the shareholders submitting them. They are set out in this Circular as required by the *Bank Act*.

The Mouvement d'éducation et de défense des actionnaires (MÉDAC) of 82 Sherbrooke Street West, Montreal, Quebec H2X 1X3 has submitted six proposals. The proposals and MÉDAC's supporting comments (translated from French to English) are set out in italics below.

Proposal No. 1: Disclose in Annual Report details of compensation experts

It is proposed that disclosure be made in the Bank's Annual Report of the names of compensation "experts," the term of their engagement, the sums paid to them, the firms to which they belong, the evaluation criteria they use and, if applicable, any other form of remuneration paid to them or their affiliated firms.

The prodigious compensation of executive officers of public companies has been universally condemned in recent years. It is time for shareholders to put a stop to these practices! Jean-François Kahn, a French media owner, writes:

"When top executives vote in favour of astronomical pay, golden handshakes or outrageous bonuses for themselves, it proves that they are incredibly disconnected from reality, that they suffer from a form of madness. No one is 600 times, let alone 1,400 times, more intelligent than anyone else. We should demand that stock options be taxed at 90%" [translation].

The culture of greed and rapacity that pervades many public companies is corrosive and destructive and the cause of the proliferation of scandals that abound in the industrialized world.

THE BOARD OF DIRECTORS RECOMMENDS SHAREHOLDERS VOTE AGAINST THE PROPOSAL FOR THE FOLLOWING REASONS:

The Human Resources Committee, which is composed solely of independent directors, acts as the compensation committee of the Board of Directors. Management of the Bank does not participate in determining its own compensation. In accordance with the highest standards of governance in Canada and the United States, the Human Resources Committee has sole authority to retain and approve the fees of any independent compensation consultant to assist in determining compensation of senior officers of the Bank. The Bank already provides disclosure concerning the Committee's consultant, substantially meeting the suggestions in this proposal. The Bank discloses fees paid to the consultant, going beyond mandated disclosure requirements in so doing. This disclosure is set out on page 16 of this Circular under the subheading "Independent advice." The Bank will continue to provide clear and transparent disclosure as governance standards evolve.

Proposal No. 2: Correlation between executive compensation and the Bank's salaries, costs and financial success

It is proposed that executive compensation be related to average salaries of employees, the Bank's costs and its financial successes.

The relationship between executive compensation, including stock options, and average salaries of employees of the Bank should be disclosed. Compensation should be awarded based on the financial results obtained. A recent study by the Ontario Municipal Employees Retirement System (OMERS) was unable to establish any correlation between the financial success of over 60 publicly listed Canadian companies, including Royal Bank, and executive compensation. It is therefore logical to conclude that executive compensation at the Bank is fixed arbitrarily, without regard for principles of good governance and the interests of shareholders.

THE BOARD OF DIRECTORS RECOMMENDS SHAREHOLDERS VOTE AGAINST THE PROPOSAL FOR THE FOLLOWING REASONS:

The Bank's total compensation is competitive and performance-driven. The Bank has a pay-for-performance approach to compensation that reinforces the link between an individual's contribution and the Bank's financial performance.

The board's Human Resources Committee, which is composed solely of independent directors, serves as its compensation committee. The compensation policies and practices established by the Committee have a long-term focus, and total compensation incorporates challenging performance goals with a view to motivating the Bank's top management team to create shareholder value.

The Committee provides shareholders with extensive and transparent disclosure relating to executive compensation. As a measure of effective use of compensation, the Bank, as a best practice company, discloses ratios of aggregate compensation to Market Capitalization and Net Income After Tax for the Chief Executive Officer, Chief Financial Officer and the next three highest-paid Named Executive Officers in a policy setting role. The strong correlation between the Bank's performance and executive compensation is disclosed on page 22 of this Circular under the heading "Executive compensation."

Proposal No. 3: Align executive stock option awards to the Bank's Economic Value Added

It is proposed that stock options awarded to executive officers be aligned strictly according to the Bank's Economic Value Added (EVA).

Stock options granted to executives create an incentive to increase the value of the shares in the short term, to the detriment of the interests of the Bank's shareholders. "If options vest immediately, you might as well just give them cash and get it over with," said Robert Bertram, Executive Vice-President of the powerful Ontario Teachers' Pension Plan Board (Teachers'). "Don't go through the illusion that you are trying to tie them into shareholder value. Clearly the shareholders' interests are not being taken care of in those plans."

The cost of the options and their exercise must be tied to the creation of value for shareholders. If profits rise faster than debt, the economic value added is positive. If economic value added (EVA) is positive, management has created value for shareholders; if EVA is negative, management has put shareholders' equity at risk, even if in the short term the stock trades at a higher value.

THE BOARD OF DIRECTORS RECOMMENDS SHAREHOLDERS VOTE AGAINST THE PROPOSAL FOR THE FOLLOWING REASONS:

The board's independent Human Resources Committee establishes compensation policies and practices designed to align executive compensation with the achievement of the Bank's financial objectives. The Committee believes in the importance of performance-based compensation and the proper role of equity-based incentives, including stock options.

As disclosed annually in this Circular, the Bank's stock option grants are designed to focus senior management on enhancing long-term shareholder value. The Bank's stock options do not vest immediately, but rather over a four-year period. In addition, the Bank's Chief Executive Officer and top management team have agreed that for one year following the exercise of any options, they will hold Common Shares with a value equivalent to the after-tax gain realized through the exercise of the options.

It is in the best interests of shareholders to preserve the flexibility and discretion of the independent Human Resources Committee to ensure long-term incentive design is the most appropriate for achieving the Bank's strategic objectives and financial goals. Best practices for measuring corporate performance evolve over time.

Proposal No. 4: Increase to one-third the percentage of women on the Bank's Board of Directors

It is proposed that, no later than three years from the date hereof, at least one-third of the members of the Bank's Board of Directors be women.

The percentage of women on the Bank's Board of Directors is ridiculously low, as a result of an old and outdated tradition of relegating women to an inferior status in large financial institutions, despite the fact that women represent more than half of university graduates. In Quebec, 24 crown corporations will in future be obliged to see that half of their board members are women. This example should be followed in the longer term by the Bank, which is currently representative of an almost venerable age, illustrating how the immense majority of boards of directors of public companies continue to be a male preserve. This is borne out by the fact that 30% of the boards of Canadian companies have only one woman director; 12% have two; 4% have three; 1% have four and 1% have 5, with National Bank of Canada, exceptionally, figuring in the latter category.

THE BOARD OF DIRECTORS RECOMMENDS SHAREHOLDERS VOTE AGAINST THE PROPOSAL FOR THE FOLLOWING REASONS:

The Board of Directors supports the objective of increasing the number of women on the board. The Corporate Governance and Public Policy Committee serves as the nominating committee for the board. The process followed by the Committee is described on page 37 of this Circular under the heading "Nomination of directors by the Corporate Governance and Public Policy Committee." Of the 16 individuals proposed in this Circular for election to the Board of Directors, three, or 19%, are women. The Committee will continue to place a special emphasis on recruiting women to serve on the board as opportunities arise. However, the board believes it must maintain flexibility in seeking to identify highly qualified candidates to serve the best interests of the Bank and its shareholders.

Proposal No. 5: Include in Annual Report an exhaustive summary of financial statements of subsidiaries

It is proposed that the Annual Report include an exhaustive summary of the financial statements of the Bank's subsidiaries.

Section 157(2) of the Canada Business Corporations Act and section 310(2) of the Bank Act state that: "Shareholders of a corporation and their personal representatives may on request examine the statements of [subsidiaries] during the usual business hours of the corporation and may make extracts free of charge." When the company objects to a shareholder's request to examine the statements, the shareholder has to incur significant legal expenses, making the recognition of this right difficult or illusory, although it could be satisfied in part by the publication in the Annual Report of a summary of the financial statements of the Bank's subsidiaries.

In truth, a prudent shareholder can only cast his vote based on accurate, audited information regarding all the business's operations, including subsidiaries whose financial statements are currently shielded from examination by the shareholders. A culture of secrecy is inconsistent with principles of good governance. It is contrary to logic and to the nature of things that a publicly listed company which raises funds publicly should be both public and private!

THE BOARD OF DIRECTORS RECOMMENDS SHAREHOLDERS VOTE AGAINST THE PROPOSAL FOR THE FOLLOWING REASONS:

Since the financial results of the Bank are audited and reported to shareholders on a consolidated basis, the financial results of all of the subsidiaries of the Bank are reflected in these audited financial statements. The board believes that publishing a further summary of the financial statements of the Bank's many subsidiaries would add to the complexity, length and cost of the Annual Report and would not assist shareholders in seeking to understand the Bank's operations.

Proposal No. 6: Disclose information on direct or indirect involvement in hedge funds

In view of the great concern expressed by numerous observers and regulators about the effects of so-called hedge funds on the stability of the financial system, it is proposed that the Bank disclose information on its direct or indirect involvement in such operations.

"The power of hedge funds is a threat to global finance" [translation] was a headline in the Monde Économie supplement on October 3, 2006. The article referred particularly to the speculative American hedge fund Amaranth, which in two days lost over US$6 billion, or over half its assets, by speculating on natural gas markets. The article recalled the collapse of another American fund, LTCM, which forced the U.S. Federal Reserve to lower its interest rates in order to avoid a chain reaction in the financial system. Meanwhile, on October 5, 2006, La Presse reported a recommendation of the IDA that speculative funds be regulated in order to protect investors. These funds have tripled in number in recent years. Most of them, based in tax havens, remain opaque and beyond the reach of controls. They are only indirectly regulated through the supervision of the banks whose creditors they are.*

THE BOARD OF DIRECTORS RECOMMENDS SHAREHOLDERS VOTE AGAINST THE PROPOSAL FOR THE FOLLOWING REASONS:

Given the size and scope of the Bank, there are a number of business units that interact with hedge funds while providing products and services to clients. Our exposure to hedge funds comes from three different business lines: trading-related exposure, prime brokerage (funding and execution services for hedge funds) and lending to funds of funds. All of these activities are collateralized with a small portion of the trading-related exposure being unsecured. In addition, we have indirect exposure through our alternative assets and structured products businesses. The revenue that the Bank earns from activities related to hedge funds is not significant in the context of the Bank's total revenue for fiscal 2006.

On a regular basis, the Conduct Review and Risk Policy Committee of the Board of Directors reviews the Bank's risk management policies and practices and monitors the Bank's risk exposure, including its exposure to hedge funds. As well, the Bank conducts regular extensive due diligence on our hedge fund counterparties as part of the controls on the exposure to this sector. The Annual Report contains extensive disclosure as to the risks of the Bank's businesses and operations and the Bank's approach to ensuring an effective risk control environment is in place.

On this basis, the Board of Directors does not feel that further disclosure is required.

Mr. J. Robert (Bob) Verdun of 153-B Wilfred Avenue, Kitchener, Ontario N2A 1X2 has submitted one proposal. The proposal and Mr. Verdun's supporting comments are set out verbatim in italics below.

Proposal No. 7: Tightening the definition of "independent" director

A Director of this Bank shall not be qualified as "independent" if that Director was a Named Executive Officer of another company at the same time as one of the current Named Executive Officers of this Bank. This means that if any of the current "top five" officers of this Bank previously held a top-level executive position in another company, the other Named Executive Officers with whom he or she served at that

* Investment Dealers' Association of Canada.

other company shall not be qualified as "independent" Directors of this Bank as long as the former colleague continues to be employed as a Named Executive Officer of this Bank. The New York Stock Exchange is continually tightening the definition of "independent director," and calls upon listed companies to "consider all relevant facts and circumstances" when determining a director's independence. This proposed policy is consistent with that NYSE directive.

Shareholder's Statement:
Prior to October 2000, Karen Maidment was Chief Financial Officer of Clarica Life Insurance Company, while Robert Astley was Chief Executive Officer of the same company. Ms. Maidment, now the CFO of Bank of Montreal, is very closely associated with Mr. Astley, having spoken in his support at an event sponsored by BMO in his home community of Waterloo, Ontario, after Mr. Astley's former company was found by a judicial inquiry to have acted unethically in the financing of RIM Park in the City of Waterloo. As a Director of Bank of Montreal, Mr. Astley is a member of the Management Compensation Committee, which is responsible for setting Ms. Maidment's income package. Under NYSE policy, the compensation committee must consist entirely of independent Directors. Tightening the definition would eliminate this type of failure of independent supervision of Named Executive Officers.

THE BOARD OF DIRECTORS RECOMMENDS SHAREHOLDERS VOTE AGAINST THE PROPOSAL FOR THE FOLLOWING REASONS:

The Bank's Board of Directors meets all independence requirements under applicable laws, as well as the NYSE corporate governance standards, and has affirmatively determined that 14 of the 16 director nominees (or 87.5%) are independent. To assist it in making determinations as to the independence of individual directors, the board has followed best practices in adopting an extensive Director Independence Policy, which is disclosed on pages 42 to 44 of this Circular. Directors annually complete a detailed questionnaire concerning personal and business relationships with the Bank. The board then analyzes any relevant relationships between each director and the Bank and considers all pertinent facts and circumstances. The Board of Directors believes this process for determining the independence of individual directors is in the best interests of the Bank and its shareholders.

Mr. J. Robert (Bob) Verdun submitted another proposal advocating the "STAR" principle of executive compensation, under which the most senior executives of the Bank would be paid in a manner that is Simplified, Transparent, Allocated (to future years as appropriate), and Retractable (in case of catastrophic events significantly impacting the Bank's profits). Following discussions with the Bank, Mr. Verdun withdrew the proposal in recognition of the Bank's continuing constructive reforms to executive compensation as disclosed in this Circular. These innovations include, among other things, reliance on performance based equity programs inclusive of a zero-pay outcome, meaningful share ownership requirements and extended retention of shares resulting from option exercises. The Bank acknowledges Mr. Verdun's efforts in critically reviewing current practices with a view to enhancing corporate governance.

Mr. Bob Brown of Leon A. Brown Ltd., Winnipeg, Manitoba, submitted a shareholder proposal suggesting that the Bank withhold for disbursement to charity one cent per share of the dividends that would otherwise be paid to shareholders. Mr. Brown withdrew this proposal in light of the fact that the Bank's total community support in 2006 was more than C$65 million worldwide and the Bank was named Canada's most socially responsible corporation for the 11th successive year.

The carbon dioxide emissions associated with the production and distribution of this Circular have been mitigated by Zerofootprint according to the highest standards in carbon offsetting.

This Circular has been printed on paper stock that contains 10 per cent post-consumer fibre and is FSC (Forest Stewardship Council) certified. FSC fibre used in the manufacture of the paper stock comes from well-managed forests independently certified by SmartWood according to Forest Stewardship Council rules.

#81110 (01/07)

EXHIBIT 31.1

CERTIFICATIONS

I, Gordon M. Nixon, President and Chief Executive Officer of Royal Bank of Canada, certify that:

1. I have reviewed this annual report on Form 40-F of Royal Bank of Canada;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this report;

4. The issuer's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the issuer and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

   (c) Evaluated the effectiveness of the issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the issuer's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the issuer's internal control over financial reporting; and

5. The issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the issuer's auditors and the audit committee of the issuer's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the issuer's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the issuer's internal control over financial reporting.

November 30, 2007

/s/ Gordon M. Nixon
Name: Gordon M. Nixon
Title: President and Chief Executive Officer

EXHIBIT 31.2

CERTIFICATIONS

I, Janice R. Fukakusa, Chief Financial Officer of Royal Bank of Canada, certify that:

1. I have reviewed this annual report on Form 40-F of Royal Bank of Canada;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this report;

4. The issuer's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the issuer and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

   (c) Evaluated the effectiveness of the issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the issuer's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the issuer's internal control over financial reporting; and

5. The issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the issuer's auditors and the audit committee of the issuer's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the issuer's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the issuer's internal control over financial reporting.

November 30, 2007

/s/ Janice R. Fukakusa
Name: Janice R. Fukakusa
Title: Chief Financial Officer

EXHIBIT 32.1

CERTIFICATIONS

Pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code), the undersigned officer of Royal Bank of Canada, a Canadian chartered Bank (the "Bank"), hereby certifies, to such officer's knowledge, that:

The annual report on Form 40-F for the year ended October 31, 2007 (the "Report") of the Bank fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Bank.

Dated: November 30, 2007

/s/ Gordon M. Nixon
Name: Gordon M. Nixon
Title: President and Chief Executive Officer

EXHIBIT 32.2

CERTIFICATIONS

Pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code), the undersigned officer of Royal Bank of Canada, a Canadian chartered Bank (the "Bank"), hereby certifies, to such officer's knowledge, that:

The annual report on Form 40-F for the year ended October 31, 2007 (the "Report") of the Bank fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Bank.

Dated: November 30, 2007

/s/ Janice R. Fukakusa
Name: Janice R. Fukakusa
Title: Chief Financial Officer