Acceptances

A bill of exchange or negotiable instrument drawn by the seller to the bank or other payee who accepts the instrument at the time of drawing. The bank or other payee accepts the instrument at the time of drawing and agrees to pay the amount due on the due date specified in the instrument.

Allowance for credit losses

The amount deemed adequate by management of a financial institution to cover losses inherent in the institution’s loan and lease portfolio. Allowance for credit losses is charged to income and decreased by the provision for credit losses, which is credited to income and decreased by the amount of write-offs. The allowance is reviewed and increased or decreased at least quarterly.

Alt-A assets

A term used in the U.S. to describe assets (mainly mortgages) with a borrower risk profile between the prime and subprime categorizations. Alt-A assets are generally non-mortgage assets which are generally non-mortgage assets.

Asset-backed securities (ABS)

Securities created through the securitization of a pool of assets, for example auto loans or credit card loans.

Assets-to-capital multiple

Total assets plus specified off-balance sheet items, as defined by OSFI, divided by total regulatory capital.

Assets under administration (AUA)

Assets administered by us, which are beneficially owned by clients, as at December 31, unless otherwise noted. 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, as at December 31, unless otherwise noted. 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.

Auction rate securities (ARS)

Securities issued through variable interest entity (VIE) trusts that hold long-term assets funded with long-term debt, with an interest rate reset every 1-7 days, and are sold to manage interest rate and liquidity risks by participating financial institutions. In the U.S., these securities are issued by sponsors such as municipalities, student loan authorities or other sponsors through bank-managed auctions.

Bank-owned life insurance contracts (BOLI)

Our U.S. Insurance and Pension solutions business provides banks with BOLI stable value contracts. The bank earns a “stamping fee” for providing this guarantee.

Cash capital position

Quantifies the extent to which illiquid (long term) assets are funded by short-term liabilities and represents a formula-based measure of both comparative and directional structural liquidity risk.

Collat $ations

Assets pledged as security for a loan or other obligation. Collateral can take many forms, such as cash, highly rated securities, property, equipment, receivables, or derivatives.

Collateralized debt obligation (CDO)

Securities that may have multiple tranches issued by special purpose vehicles sponsored by certain organizations. Each tranche is a security backed by a pool of assets, such as bonds, loans and any other type of debt instruments which are generally non-mortgage assets.

Collateralized loan obligation (CLO)

Securities which are backed by a pool of commercial or personal loans, structured so that there are several classes of bondholders with varying maturities, called tranches.

Commercial paper

Securities created through the securitization of commercial paper.

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.

Covered bonds

Full recourse off-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.

Credit default swaps (CDS)

A derivative contract that provides the purchaser with a one-time payment should the referenced entity/entities default (or a similar triggering event occur).

Derivative

A contract between two parties, which requires little or no initial investment and where payments between the parties are dependent upon the movement of an underlying instrument, index or financial rate. Examples of derivatives include swaps, options, forward rate agreements and futures.

Dividend yield

Dividends per common share divided by the average of the high and low share prices in the relevant period.

Documentation and commercial letters of credit

Written undertakings by a bank on behalf of its clients, which are irrevocable assurances that a bank will make payments or perform some act, such as honoring drafts drawn 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 number of shares that were outstanding adjusted for the dilutive effects of stock options and other convertible securities.

Economic capital

An estimate of the amount of capital that is required to support the risk appetite of a financial institution. Economic capital is estimated by estimating the level of capital that is necessary to support our various businesses, given their risks, consistent with our desired solvency standards and credit ratings. The identified risks (described above) for which we calculate Economic capital are credit, market (trading and non-trading), operational, business, fixed asset, and insurance. Additionally, Economic capital includes goodwill and other intangibles, and is designed for diversified benefits across risks and business segments.

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.

Fair value adjustments on RBC debt

The change in fair value of deposit liabilities and subordinated debentures designated as held-for-trading, largely as a result of the widening of our credit spreads, is defined as fair value adjustments on RBC debt designated as held-for-trading.

Gross-adjusted assets (GAA)

GAA are used in the calculation of the Assets-to-Capital multiple. They represent our total assets including specified off-balance sheet items and net of permitted deductions, in addition to deductions for this calculation are direct credit substitutes, including letters of credit and guarantees, transaction-related contingencies and the net of pre-existing contingent and off-balance sheet obligations.

Guarantees and standby letters of credit

Primarily represent irrevocable assurances that a bank will make payments or perform some act 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 rate (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 instruments such as futures, options or foreign exchange contracts.

Hedge funds

A type of investment fund, marketed to wealthy individuals and institutions, that is subject to limited regulation and restrictions on its investments compared to retail mutual fund operations. Hedge funds utilize aggressive strategies such as 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

Innovative capital instruments are capital instruments issued by Special Purpose Entities (SPEs), whose primary purpose is to facilitate the issuance of, and hence, variously issued innovative capital instruments, RBC Trust Capital Securities (RBC TruSecs) and RBC Trust Subordinated Notes (RBC Subs Secs). SPEs: RBC Trust Capital, RBC Trust Capital II and RBC Subordinated Notes Trust. As per OSFI guidelines, the amount of innovative capital can comprise up to 15% of net Tier 1 capital and an additional 3% for Tier 2 capital.

Leveraged finance

Combines infrastructure finance, essential services and other types of finance. As both arrangers and underwriters, we provide structuring and distribution expertise in support of the financing requirements of clients, which include both corporations and financial sponsors.
Glossary

**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.

**Net interest income as a percentage of total average assets**
Net interest income as a percentage of total average assets.

**Non-bank sponsored asset-backed commercial paper**
A short-term promissory note issued primarily by investment vehicles that hold loans or other assets and are not sponsored by banks.

**Normal course issuer bid (NCIB)**
A tender offer to repurchase our own shares, for cancellation, through a stock exchange that is subject to the various rules of the relevant stock exchange and securities commission.

**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 expenses and other benefit cost**
The cumulative excess of amounts contributed to another party (the option issuer or option writer) for services to be provided in the future.

**Provision for credit losses**
The allowance for credit losses to a level determined by OSFI and then by applying appropriate risk-weighting factors. Specific and general market risk-adjusted assets are calculated using the Basel. See balance sheet risk-weighted assets to obtain the total risk-adjusted assets.

**RAAA**
Risks associated with subprime applicants.

**Reversal repurchase agreements**
Involves the purchase of securities for cash at a near value date and the simultaneous sale of the securities for value at a later date.

**RCM**
A program for the repurchase of our own shares.

**Reverse repurchase agreements**
Involves 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 operational risk, market risk, liquidity and funding risk, reputation risk, regulatory and legal risk, insurance risk, strategic risk, competition and systemic risk.

**Risk-adjusted assets (RAA)**
Used in the calculation of risk-based capital ratios as defined by guidelines issued by OSFI.

**Security lending**
Transactions in which the owner of a security agrees to lend it to another party for 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 borrower 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 various financial assets are packaged into newly issued securities backed by these assets.

**Special purpose entities (SPEs)**
Entities that are formed for a single discrete purpose, have a limited life and serve to legally isolate the financial assets held by the SPE from other assets and liabilities of the originating entity. 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.

**Standardized Approach**
Risk weights prescribed by OSFI are used to calculate risk-weighted assets for the credit risk exposures. Credit assessments by OSFI-recognized rating agencies are noted. Moody's, Fitch and DBRS are used to assign a separate rating to each tranche. For the calculation of the capital requirement for a given exposure in a given currency, the capital charge is determined by applying a risk-weighting factor to the present market value of the exposure. The risk-weighting factors are selected so that the expected loss from a given exposure in a given currency is equivalent to the expected loss from a hypothetical exposure of a given size in a generic currency.

**Structured investment vehicles**
Managed investment vehicles that hold mainly highly rated asset-backed securities and funds in the short-term commercial paper market as well as the medium-term note (MTN) market.

**Super senior tranches of structured credit transactions**
Represents the most senior class of commercial paper notes that are issued in structured credit transactions. These financial instruments benefit from the subordination of all other securities, issuing counterparty and credit vehicles.

**Survival horizon**
Measures the length of time over which RBC would have sufficient funds to repay its maturing liabilities. If access to wholesale unsecured funding became suddenly unavailable and liquid assets, but no portion of mortgages and loans, were monetized.

**Synthetic securitizations**
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 swap guarantees.

**Tangible equivalent basis (teb)**
Income from certain specified tax-advantaged sources is increased to a level that would make it possible to invest in those sources. There is an offsetting adjustment in the tax provision, thereby generating the same after-tax net income.

**Tier 1 capital**
A ratio that includes the most permanent and liquid components of capital and consists primarily of common shareholders’ equity, non- cumulative preferred shares, and any other capital instruments that might be either converted into shares or have features that could be converted into shares, and the eligible amount of innovation capital instruments. In addition, goodwill and other items as prescribed by OSFI are deducted from Tier 1 capital to determine adjusted net Tier 1 capital. The Tier 1 capital ratio is calculated by dividing the adjusted net Tier 1 capital by total capital.

**Tier 1 and Tier 2 capital**
Tier 1 capital consists mainly of subordinated debentures, trust subordinated notes, the eligible amount of innovation capital instruments that could not be included in Tier 1 capital, and an eligible portion of the total general allowance for credit losses, less OSFI-prescribed deductions. The capital adequacy ratio is calculated by dividing total capital by total risk-adjusted assets.

**Tier 2 capital**
The capital adequacy ratio is calculated by dividing total capital by total risk-adjusted assets.

**Tranche**
A security class created by a process used in structured finance whereby the risks and returns associated with a pool of assets is packaged into separate tranches that are assigned a degree of risk and return profiles from those of the underlying asset pool. The aggregate risk of the tranches created is the same as the underlying asset pool from which it is derived, but the amount of subordination attached to a specific tranche for losses experienced in the underlying pool of assets and entitlement distributions is different. The process typically results in the creation of at least three tranches — senior, mezzanine, and equity — with each having a progressively higher degree of credit risk and potential returns. Tranches are typically rated by ratings agencies, and reflect both the credit quality of underlying collateral as well as the level of protection based on the tranches’ relative subordination.

**Trust Capital Securities**
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 (RBC 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 that could experience in our trading portfolio from an adverse one-day movement in market prices and rates.

**Variable interest entity (VIE)**
Any entity in which one or more other business entities do 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 an interest holding financial interest.
Directors

W. Geoffrey Beattie (2001)  
Toronto, Ontario  
President and  
Chief Executive Officer  
The Woodbridge Company Limited  
Deputy Chairman  
Thomson Reuters Corporation  
Thomson Reuters PLC

Ridgefield, Connecticut  
Corporate Director

Edmonton, Alberta  
Chairman and  
Chief Executive Officer  
Princeton Developments Ltd.  
Princeton Ventures Ltd.

The Hon. Paule Gauthier,  
Quebec, Quebec  
Senior Partner  
Stein Monast L.L.P.

Timothy J. Hearn (2006)  
Calgary, Alberta  
Corporate Director

Alice D. Laberge (2005)  
Vancouver, British Columbia  
Corporate Director

Outremont, Quebec  
President and  
Chief Executive Officer  
SNC-Lavalin Group Inc.

West Vancouver, British Columbia  
President and  
Chief Executive Officer  
H.Y. Louie Co. Limited  
Chairman and  
Chief Executive Officer  
London Drugs Limited

Michael H. McCain (2005)  
Toronto, Ontario  
President and  
Chief Executive Officer  
Maple Leaf Foods, Inc.

Gordon M. Nixon (2001)  
Toronto, Ontario  
President and  
Chief Executive Officer  
Royal Bank of Canada

Edward Sonshine (2008)  
Toronto, Ontario  
President and  
Chief Executive Officer  
RioCan Real Estate Investment Trust

Kathleen P. Taylor (2001)  
Toronto, Ontario  
President and  
Chief Operating Officer  
Four Seasons Hotels and Resorts

Victor L. Young, O.C. (1991)  
St. John's, Newfoundland and Labrador  
Corporate Director

Alice D. Laberge  
Canadian Director

The date appearing after the name of each director indicates the year in which the individual became a director.

Group Executive

Janice R. Fukakusa  
Chief Financial Officer

M. George Lewis  
Group Head  
Wealth Management

A. Douglas McGregor  
Co-Group Head  
Capital Markets

David I. McKay  
Group Head  
Canadian Banking

Gordon M. Nixon  
President and  
Chief Executive Officer

Mark A. Standish  
Co-Group Head  
Capital Markets

Barbara G. Stymiest  
Chief Operating Officer

W. James Westlake  
Group Head  
International Banking and Insurance

The date appearing after the name of each director indicates the year in which the individual became a director.
## Principal subsidiaries

<table>
<thead>
<tr>
<th>Principal subsidiaries (1)</th>
<th>Principal office address (3)</th>
<th>Carrying value of voting shares owned by the bank (2)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Royal Bank of Canada (USA)</td>
<td>New York, New York, U.S.</td>
<td>26,769</td>
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<tr>
<td>RBC Financial (Caribbean) Limited</td>
<td>Port of Spain, Trinidad and Tobago</td>
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<tr>
<td>RBC Holding (Singapore) Limited</td>
<td>Singapore, Singapore</td>
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<tr>
<td>RBC Bank (UK)</td>
<td>London, England</td>
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<tr>
<td>RBC Capital Markets Corporation</td>
<td>Minneapolis, Minnesota, U.S.</td>
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<tr>
<td>RBC Capital Markets Holdings (USA) Inc.</td>
<td>New York, New York, U.S.</td>
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<td>RBC Charitable Foundation</td>
<td>New York, New York, U.S.</td>
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<td>RBC Investment Services Asia Limited</td>
<td>Tokyo, Japan</td>
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<tr>
<td>RBC Private Counsel Inc.</td>
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<tr>
<td>RBC Life Insurance Company</td>
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<td>RBC Wealth Planning International Limited</td>
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<tr>
<td>RBC Regent Tax Consultants Limited</td>
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<td>RBC Asset Management Inc.</td>
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<td>RBC Offshore Fund Managers Limited</td>
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<td>RBC Capital Markets Arbitrage S.A.</td>
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<td>RBC Investment Services Limited</td>
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<td>RBC Capital Markets (Singapore) Limited</td>
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<td>RBC Capital Markets (Australia) Limited</td>
<td>Sydney, Australia</td>
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<td>RBC Capital Markets (Japan) Limited</td>
<td>St. Michael, Barbados</td>
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</table>

(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, RBC Capital Markets Holdings (USA) Inc. and RBC Alternative Asset Management Inc., which are incorporated under the laws of the State of Delaware, U.S., RBC Capital Markets Corporation, which is incorporated under the laws of the State of Minnesota 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 6.68% and Prism Financial Corporation owns 3.25% of RBC Bancorporation (USA).
(6) RBC PH&N Holdings Inc. has exchangeable shares outstanding that were issued as part of the consideration to acquire PH&N and which will be exchanged on a one-for-one basis for RBC common shares three years after closing in accordance with the purchase agreement.
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Excellent service to clients and each other
Working together to succeed
Personal responsibility for high performance
Diversity for growth and innovation
Trust through integrity in everything we do

In Canada, to be the undisputed leader in financial services
In the U.S., to be a leading provider of banking, wealth management and capital markets services by building on and leveraging RBC’s considerable capabilities Internationally, to be a premier provider of select banking, wealth management and capital markets services in markets of choice

ROYAL BANK OF CANADA (RY on TSX and NYSE) and its subsidiaries operate under the master brand name RBC. We are Canada’s largest bank as measured by assets and market capitalization, one of North America’s leading diversified financial services companies and among the largest banks in the world, as measured by market capitalization. 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 80,000 full- and part-time employees who serve more than 17 million personal, business, public sector and institutional clients through offices in Canada, the U.S. and 48 other countries. For more information, please visit rbc.com.

This annual report contains forward-looking statements within the meaning of certain securities laws, including the “safe harbor” provisions of the United States Private Securities Litigation Reform Act of 1995 and applicable Canadian securities legislation. 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. Additional information about these factors can be found under Caution regarding forward-looking statements on page 29.