

Pursuant to the decision made by the Canadian Accounting Standards Board, we will begin reporting our financial statements in accordance with IFRS on November 1, 2011, including fiscal 2011 comparative results. In order to manage our transition to IFRS, we have implemented a comprehensive enterprise-wide program that focuses on the key areas of impact including financial reporting, systems and processes, as well as communications and training. Our changeover to IFRS is tracking our initial timeline, including the start of our comparative (transition) year which began November 1, 2010.

We began our transition process in 2008 by completing a thorough organization diagnostic to assess the scope and complexity for us of converting to IFRS. This process identified the areas with significant differences between IFRS and existing Canadian GAAP. In 2009, we completed activities and deliverables which support the key areas of impact. We also:

- Developed preliminary assessments regarding accounting policy elections for first-time IFRS adoption;
- Initiated multiple projects within a program framework which conducted more thorough GAAP analysis, assessed financial and economic impacts, and identified process and systems requirements to ensure a successful transition; and,
- Developed a resourcing model to ensure sufficient program resources are available to meet key deliverables.

We also initiated a series of ongoing activities which include:

- Establishing frequent and recurring communications with the Board of Directors, Audit Committee, executive and senior management to ensure timely decisions on key issues and risks;
- Providing frequent updates to our internal and external auditors and OSFI on key elements of program status, program structure and preliminary assessment of accounting impacts;
- Identifying preliminary external communication requirements for the investor and analyst community; and,
- Conducting internal education seminars for key stakeholders across RBC in the various business platforms and functional groups.

We continued with these activities throughout 2010 in addition to making the following significant decisions:

- Preliminary conclusions regarding accounting policy elections for first-time IFRS adoption;
- Identifying key changes in our significant accounting policies; and,
- Conducting more thorough GAAP analysis, assessing financial and economic impacts, and identifying process and systems requirements to ensure a successful transition.

Impact of Adopting International Financial Reporting Standards

Our adoption of IFRS will be impacted by our IFRS 1 elections and by our ongoing policy choices. IFRS 1 sets out the procedures that we must follow when we prepare our consolidated financial statements for the first time after adopting IFRS. The IFRS 1 elections we expect to make upon transition are summarized below; these elections may change pending further developments in IFRS during our transition year. Included in this section and the subsequent “Critical Accounting Policies” section is a description of those key areas that we expect will cause the most significant transition impacts which are: employee benefits, cumulative translation adjustments, securitization and variable interest entities (also referred to as derecognition and consolidation), and goodwill.

Classification of Financial Instruments

Upon adoption of IFRS, an issuer is required to retrospectively apply IAS 39, *Financial Instruments: Recognition and Measurement*, and classify their financial instruments as of the date that the financial instrument was originally acquired. Alternatively, IFRS 1 permits an issuer to classify at the transition date any financial instrument using the fair value option or as available-for-sale. We expect to elect this option and will change the designation of certain financial instruments where appropriate.

Employee Benefits

IFRS 1 provides the option to recognize all cumulative actuarial gains and losses currently deferred under Canadian GAAP directly in Retained earnings. We expect to elect this option which will decrease our Retained earnings on transition. The balance of our Cumulative actuarial gains and losses represents the sum of our unrecognized net actuarial loss, transitional (asset) obligation and prior service cost. We are in the process of calculating the Cumulative actuarial gains and losses under Canadian GAAP as at October 31, 2010 as we currently use a measurement date of September 30, 2010 as described in Note 20 to our 2010 Annual Consolidated Financial Statements.

Business Combinations

IFRS 1 provides the option to apply prospectively IFRS 3, *Business Combinations*, such that business combinations that occur before the transition date need not be restated. We expect to elect this option.

Insurance Contracts

IFRS 1 provides the option to use transitional guidance found in IFRS 4 *Insurance Contracts*. As permitted by IFRS 4, we have decided to continue following our existing insurance contract accounting policies.

Cumulative Translation Adjustments

IFRS 1 provides the option to reclassify cumulative translation gains and losses from foreign operations to Retained Earnings. We expect to elect this option thereby decreasing our Retained earnings on transition, although neither Shareholders’ equity or Tier 1 capital will be impacted. The balance of our Unrealized foreign currency translation gains and losses, net of hedging activities as calculated under Canadian GAAP, is \$1.7 billion as at October 31, 2010, as presented in our Consolidated Statements of Changes in Shareholders’ Equity.

Critical Accounting Policies

We have determined that our critical accounting policies under IFRS will be the same as those under Canadian GAAP. The following summarizes the changes to those policies that we expect to make upon transition.

Financial instruments – Recognition and measurement

The recognition and measurement of financial instruments under IFRS are significantly aligned with Canadian GAAP. We will continue to recognize at inception, financial instruments at fair value. IFRS also has the same categories for financial instruments as Canadian GAAP: held-for-trading, available-for-sale, held-to-maturity, held-for-trading using the fair value option, and loans and receivables.

Impairment of Available-for-sale and Held-to-maturity securities (Other-than-temporary impairment of securities under Canadian GAAP)

Similar to Canadian GAAP, IFRS requires all financial assets to be reviewed for impairment except those measured at fair value through profit or loss. Unlike Canadian GAAP, impairment review under IFRS does not have the concept of other-than-temporary decline in fair value nor does an entity’s intention to sell or hold a security factor into the assessment of whether it is impaired. Instead, IFRS focuses on specific events and objective evidence of impairment including a significant or prolonged decline in fair value below cost to be evidence of impairment. As a result, when an impairment is recognized and how it is measured, may differ under IFRS.

Securitization

Under IFRS, the approach to derecognizing financial assets is significantly different than the approach under Canadian GAAP. IFRS requires consideration of the risks and rewards of ownership with a secondary focus on control over transferred assets. Under Canadian

GAAP, the derecognition model follows the legal form of the transaction and the ability to shield assets from bankruptcy. We have determined that most of our securitizations will not qualify for derecognition under IAS 39; this will result in the associated assets, namely, mortgages and credit card receivables, being recognized on our consolidated balance sheets and the gains previously recognized will be included in the transition adjustment as a reduction to retained earnings. Although the initial impact of this policy change will be significant, including a decrease to Retained earnings, we will recognize the net income they generate over their remaining lives. Information regarding our securitization activities as at October 31, 2010 is presented in Note 5 to our 2010 Annual Consolidated Financial Statements.

Loans – Allowance for credit losses

IFRS and Canadian GAAP are significantly aligned in this area with an entity recognizing incurred losses that have been identified and yet to be specifically identified. The grouping of these allowances will differ under IFRS as they will now be grouped into loans where the allowance is determined individually (wholesale loan allowance) and those that were determined collectively (allowances based on pools of loans or portfolios, i.e. specific retail loan allowances and our general allowance).

Special Purpose Entities (Variable Interest Entities under Canadian GAAP)

Under IFRS, consolidation of an entity is determined on the basis of control which is broader than the concepts of voting control and exposure to variable interests that are applied under Canadian GAAP. We have determined that as a result of this change in policy, we will now consolidate certain entities and not consolidate others. We will continue to monitor our structures for changes in business activities that may impact our initial consolidation decisions. The full impact of this policy change upon adoption of IFRS will depend on the assets and liabilities in the structures on the transition date. Information regarding entities in which we have a significant variable interest and those we consolidate under Canadian GAAP as at October 31, 2010 is in Note 6 to our 2010 Annual Consolidated Financial Statements.

Goodwill and Intangibles

IFRS and Canadian GAAP both require goodwill and intangibles to be assessed for impairment. Under IFRS, impairment testing is required to be performed at the level of cash generating units (CGU) which in some cases is lower than that of reporting units used for Canadian GAAP. IFRS and Canadian GAAP both use discounted cash flow models in determining fair value, but IFRS has specific guidance regarding the use of forecasted cash flows. We have eight reporting units under Canadian GAAP and we expect to have nine CGUs under IFRS.

The goodwill that is attributable to a CGU is generally that which arose upon the acquisition of the entities that comprise that CGU. Our International Banking reporting unit will reside in two CGUs, U.S.

Banking and Caribbean Banking. The goodwill that arose upon the acquisition of RBTT will be attributed to the Caribbean Banking CGU with the remainder residing in the U.S. Banking CGU, resulting in approximately equal balances.

Our current goodwill allocation, which is presented in Note 10 to our 2010 Annual Consolidated Financial Statements, will be realigned to the new CGUs for impairment testing; the first such assessment must be completed as of November 1, 2010. Any resulting impairment will be recorded as a transition adjustment but it will have no impact on our Tier 1 ratio.

Employee Benefits – Actuarial Gains and Losses (Pensions and post-employment benefits under Canadian GAAP)

IFRS provides four alternatives for accounting for changes in our defined benefit liability. We may elect any one of the following:

- Apply the corridor approach, which we currently apply under Canadian GAAP, and continue to recognize a portion of our actuarial gains and losses as income or expense;
- Recognize actuarial gains and losses related to benefit plans over the expected average remaining working lives of the employees participating in that plan;
- Recognize actuarial gains and losses in the period in which they occur in the Consolidated Statements of Income; or
- Recognize actuarial gains and losses in Other Comprehensive Income (OCI).

We have elected to continue applying the corridor approach under IFRS.

Income Taxes

Under both IFRS and Canadian GAAP, income taxes are assessed based on the balance sheet approach; however, differences exist in the detailed application of the guidance related to the recognition and measurement of deferred taxes. With respect to the areas with significant judgment, primarily uncertain tax positions and the recognition of deferred tax assets, we believe that there is no significant change required in how we recognize and measure these items.

Other Significant Accounting Policies

We will continue to monitor changes in IFRS to determine the implications on our current accounting policies as well as our business and capital position. In addition to the critical accounting policies described above, the following change in accounting policy is expected to have an impact upon transition.

Interests in Joint Ventures

Under IFRS, jointly controlled entities may be accounted for using the proportionate consolidation or the equity method. We have elected to use the equity method for measurement of investments whereas we are currently applying proportionate consolidation under Canadian GAAP.