Management's Discussion and Analysis

Management's Discussion and Analysis (MD&A) is provided to enable a reader to assess our results of operations, financial condition and future prospects for the fiscal year ended October 31, 2006, 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, 2006. 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). We have reclassified certain prior year information to conform to our current year's presentation, including reclassifications arising from enhancements to our transfer pricing methodologies and the transfer of a specific business between our segments. For further details, refer to the How we manage our business segments section of this Annual Report.

Additional information about us, including our 2006 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.

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 such statements in this document, in other filings with Canadian regulators or the United States Securities and Exchange Commission (SEC), in reports to shareholders or in other communications. These forward-looking statements include, among others, statements with respect to our medium-term and 2007 objectives, and strategies to achieve our objectives, as well as statements with respect to our beliefs, outlooks, plans, objectives, expectations, anticipations, estimates and intentions. The words "may," "could," "should," "would," "suspect," "outlook," "believe," "plan," "anticipate," "estimate," "expect," "intend," "forecast," "objective" and words and expressions of similar import are intended to identify forward-looking statements.

By their very nature, forward-looking statements involve numerous factors and assumptions, and are subject to inherent risks and uncertainties, both general and specific, which give rise to the possibility that predictions, forecasts, projections and other forward-looking statements 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 and other risks identified and discussed under the Risk management section; general business and economic conditions in Canada, the United States and other countries in which we conduct business; the impact of the movement of the Canadian dollar relative to other currencies, particularly the U.S. dollar and British pound; 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 including tax laws; judicial or regulatory judgments and legal proceedings; the accuracy and completeness of information concerning our clients and counterparties; successful execution of our strategy; our ability to complete and integrate strategic acquisitions and joint ventures successfully; changes in accounting standards, policies and estimates; and our ability to attract and retain key employees and executives. Other factors that may affect future results include: the timely and successful development of new products and services; technological changes; 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; the possible impact on our businesses of 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 list of important factors that may affect future results is not exhaustive. 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. 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 factors can be found under the Risk management section and the Additional risks that may affect future results section.

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

Executive summary

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. Our corporate support team enables business growth with expert professional advice and state-of-the-art processes and technology. We employ approximately 70,000 full- and part-time employees who serve more than 14 million personal, business, public sector and institutional clients through offices in North America and 34 countries around the world.

We have three client- and geographic-oriented business segments.

- RBC Canadian Personal and Business consists of our personal and business banking and wealth management businesses in Canada and our global insurance business.
- RBC U.S. and International Personal and Business consists of our personal and business banking and retail brokerage businesses in the U.S., banking in the Caribbean and private banking internationally.
- RBC Capital Markets 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 that 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 prudently 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 our strategic business decisions.

Royal Bank of Canada

RBC Canadian Personal and Business	RBC U.S. and International Personal and Business	RBC Capital Markets
• Personal Banking • Business Financial Services • Cards and Payment Solutions • Wealth Management • Global Insurance	• Wealth Management • Banking	• Global Markets • Global Investment Banking and Equity Markets • RBC Dexia Investor Services (1) • Other

Global Technology and Operations | **Global Functions**

(1) On January 2, 2006, we combined our Institutional & Investor Services (IIS) business with Dexia Funds Services in return for a 50% joint venture interest in RBC Dexia Investor Services (RBC Dexia IS).

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," which drives our Client First approach, and is exhibited in the conduct of all our activities, including how we deal with our clients, develop our products and services and collaborate across businesses and functions. Our Client First approach focuses on enhancing client satisfaction and loyalty in a cost-efficient manner, even as the needs and expectations of our clients continue to develop. We believe that applying this client focused approach to how we conduct business is critical to achieving our strategic goals. As well, this approach will help us generate strong stable revenue and earnings growth, and lead to continuous improvements in productivity, and ultimately, top quartile financial performance versus our North American peer group.

Our domestic market continues to offer significant avenues for growth in both the retail and wholesale sectors. This potential growth, together with the strength of our brand and leading positions in most product categories, provides us with the financial strength to expand internationally. The U.S. is the primary location for such growth, with its geographic proximity, cultural similarity, close trade relationships with Canada and our strength in select markets. In addition, we do business in many other markets where our expertise allows us to compete and strengthen our presence globally.

For 2007, our strategic goals remain focused on driving business growth both domestically and internationally by leveraging and building on our strengths. We expect to achieve these goals through ongoing innovation and collaboration among businesses together with our focus on meeting the needs of clients.

- In Canada, our goal is to be the undisputed leader in financial services. We continue to leverage our extensive distribution capabilities across business lines to maximize distribution effectiveness for personal and business markets. We are also developing innovative solutions for retail and wholesale clients, and expanding and improving our distribution network while strengthening the RBC brand by delivering a superior client experience.
- In the United States, our goal is to build on our strengths in banking, wealth management and capital markets. At RBC Capital Markets, we continue to integrate our mid-market origination and distribution capabilities and develop our product and sector strengths. We are focusing on our primary advisor strategy and on delivering a broader suite of wealth management products at RBC Dain Rauscher. To enhance efficiency, we are combining our capital markets and wealth management operational activities to create an integrated investment bank. We remain focused on enhancing RBC Centura's operating performance and have taken steps to accelerate our expansion through both *de novo* branch openings and acquisitions. In addition, we continue to grow our insurance business.
- Outside North America, our goal is to be a premier provider of selected financial services. RBC Capital Markets continues to enhance distribution by growing niche product and origination capabilities. Global Private Banking is increasing scale through targeted acquisitions, and building additional distribution capabilities, expanding the breadth of its products and services, and enhancing its relationship management model. We are reinforcing

our position in the Caribbean through organic growth and operational improvements, while continuing to explore opportunities to selectively expand our footprint in fast-growing regions. Our Institutional & Investor Services joint venture, RBC Dexia IS, utilizes its global scale and expanded product capability to grow the number and depth of its client relationships.

Guided by our vision and strategic goals, our business segments tailor their strategies to meet client needs as well as strengthening client relationships within their unique operating and competitive environments. The successful execution of our strategies across all retail and wholesale businesses will continue to contribute to the significant enhancement in the quality and diversity of our earnings. Our efforts should also 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 highlights (1) — **Table 1**

(C$ millions, except per share, number of and percentage amounts)	2006	2005	2004	2006 vs. 2005 Increase (decrease)	
Continuing operations					
Total revenue	$ 20,637	$ 19,184	$ 17,802	$ 1,453	7.6%
Non-interest expense	11,495	11,357	10,833	138	1.2%
Provision for credit losses	429	455	346	(26)	(5.7)%
Insurance policyholder benefits, claims and acquisition expense	2,509	2,625	2,124	(116)	(4.4)%
Business realignment charges	–	45	177	(45)	n.m.
Net income before income taxes and non-controlling interest in subsidiaries	6,204	4,702	4,322	1,502	31.9%
Net income from continuing operations	4,757	3,437	3,023	1,320	38.4%
Net loss from discontinued operations	(29)	(50)	(220)	21	n.m.
Net income	$ 4,728	$ 3,387	$ 2,803	$ 1,341	39.6%
Segments – net income from continuing operations					
RBC Canadian Personal and Business	$ 2,794	$ 2,304	$ 2,043	$ 490	21.3%
RBC U.S. and International Personal and Business	444	387	214	57	14.7%
RBC Capital Markets	1,407	760	827	647	85.1%
Corporate Support	112	(14)	(61)	126	n.m.
Net income from continuing operations	$ 4,757	$ 3,437	$ 3,023	$ 1,320	38.4%
Selected information					
Earnings per share (EPS) – diluted (2)	$ 3.59	$ 2.57	$ 2.11	$ 1.02	39.7%
Return on common equity (ROE) (3)	23.5%	18.0%	15.6%	550 bps	n.m.
Return on risk capital (RORC) (3)	36.7%	29.3%	24.6%	740 bps	n.m.
Selected information from continuing operations					
Earnings per share (EPS) – diluted (2)	$ 3.61	$ 2.61	$ 2.28	$ 1.00	38.3%
Return on common equity (ROE) (3)	23.3%	18.1%	16.8%	520 bps	n.m.
Return on risk capital (RORC) (4)	37.0%	29.7%	26.5%	730 bps	n.m.
Net interest margin (5)	1.35%	1.52%	1.53%	n.m.	n.m.
Capital ratios (6)					
Tier 1 capital ratio	9.6%	9.6%	8.9%	– bps	n.m.
Total capital ratio	11.9%	13.1%	12.4%	(120)bps	n.m.
Selected balance sheet and other information					
Total assets	$ 536,780	$ 469,521	$ 426,222	$ 67,259	14.3%
Securities	184,869	160,495	128,946	24,374	15.2%
Consumer loans	148,732	138,288	125,302	10,444	7.6%
Business and government loans	61,207	53,626	47,258	7,581	14.1%
Deposits	343,523	306,860	270,959	36,663	11.9%
Average common equity (3)	19,900	18,600	17,800	1,300	7.0%
Average risk capital (4)	12,750	11,450	11,300	1,300	11.4%
Risk-adjusted assets (6)	223,709	197,004	183,409	26,705	13.6%
Assets under management	143,100	118,800	102,900	24,300	20.5%
Assets under administration – RBC	525,800	1,778,200	1,593,900	n.m.	n.m.
– RBC Dexia IS (7)	1,893,000	–	–	n.m.	n.m.
Common share information (2)					
Shares outstanding (000s) – average basic	1,279,956	1,283,433	1,293,465	(3,477)	(.3)%
– average diluted	1,299,785	1,304,680	1,311,016	(4,895)	(.4)%
– end of period	1,280,890	1,293,502	1,289,496	(12,612)	(1.0)%
Dividends declared per share	$ 1.44	$ 1.18	$ 1.01	$ .26	22.0%
Dividend yield	3.1%	3.2%	3.3%	(10)bps	n.m.
Common share price (RY on TSX) – close, end of period	$ 49.80	$ 41.67	$ 31.70	$ 8.13	19.5%
Market capitalization	63,788	53,894	40,877	9,894	18.4%
Business information for continuing operations (number of)					
Employees (full-time equivalent)	60,858	60,012	61,003	846	1.4%
Bank branches	1,443	1,419	1,415	24	1.7%
Automated banking machines (ABM)	4,232	4,277	4,432	(45)	(1.1)%
Period average US$ equivalent of C$1.00 (8)	$ .883	$ .824	$ .762	$ .06	7.2%
Period-end US$ equivalent of C$1.00	.890	.847	.821	.04	5.1%

(1) Certain consolidated and segment-related amounts have been restated to conform to our current management reporting framework and changes made to our business segments during the year. For further discussion, refer to the How we manage our business segments section.
(2) On April 6, 2006, we paid a stock dividend of one common share on each of our issued and outstanding common shares. The effect is the same as a two-for-one split of our common shares. All common share and per share information has been retroactively adjusted to reflect the stock dividend.
(3) Average common equity and Return on common equity are calculated using month-end balances for the period.
(4) Average amounts are calculated using methods intended to approximate the average of the daily balances for the period. Average risk capital and the Return on risk capital are non-GAAP financial measures. For further discussion and reconciliation, refer to the Key financial measures (non-GAAP) section.
(5) 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.
(6) Calculated using guidelines issued by the Office of the Superintendent of Financial Institutions Canada (OSFI).
(7) Assets under administration – RBC Dexia IS represents the total assets under administration (AUA) of the joint venture, of which we have a 50% ownership interest. RBC Dexia IS was created on January 2, 2006, and we contributed AUA of $1,400 billion to the joint venture at that time. As RBC Dexia IS reports on a one-month lag, Assets under administration – RBC Dexia IS are as at September 30, 2006.
(8) Average amounts are calculated using month-end spot rates for the period.
n.m. not meaningful

Overview of 2006

We achieved record earnings performance this year, reflecting strong business growth across all business segments and our successful execution of growth initiatives, despite the negative impact of the strong Canadian dollar on our foreign currency translated results. Our strong results were also underpinned by continuing favourable economic conditions in both domestic and international markets.

Executing our initiatives

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 client needs and deepen client relationships. We are the fastest growing mutual fund company in the country, based on net sales, and the leader in most of our capital markets lines of business. We have leveraged our leading position in capital markets to grow our mid-market businesses and have become a major player in the Maple bond market, helping global companies to issue Canadian dollar debt. The strength of our brand, together with our leadership position in most major product categories in Canada, provides us the financial strength to expand our business globally.

In the U.S., we continued to build scale and capability in all our major businesses through a combination of organic growth and acquisitions. We announced two agreements (1) that will expand our banking capabilities in the Southeast U.S. The acquisition of Atlanta-based Flag Financial Corporation will significantly increase our banking presence in key Georgia markets. In addition, we also recently announced an agreement (1) to acquire 39 bank branches in Alabama owned by AmSouth Bank, which will make us the seventh largest financial institution in that state, as measured by deposits. These two acquisitions, which are expected to close in early 2007, complement our *de novo* branch openings in high-growth areas. We acquired Delaware-based American Guaranty & Trust Company, enabling us to provide U.S. trust solutions to high net worth clients. We also expanded our U.S. investment banking and fixed income capabilities. We announced an agreement (1) to acquire the broker-dealer business and certain assets of Carlin Financial Group of New York, which will provide our clients with a best-in-class North American electronic execution platform. In November 2006, we announced an agreement (1) to acquire Daniels & Associates, L.P., the most active M&A advisor based on transactions to the cable, telecom and broadcast industries in the U.S., enabling us to better serve our investment banking clients. These two acquisitions are expected to close in the first quarter of 2007.

Internationally, we expanded our distribution network, products and services, and focused our expansion in fast-growing markets and regions. During the year, we acquired Abacus Financial Services Group, which expanded our client base and significantly strengthened our wealth management services in the U.K. and Channel Islands. We also recognized the growing importance of the Chinese market and have made a number of strategic investments in China during the year. We upgraded our representative banking office in Beijing to branch status, enabling us to provide a wide range of services to retail and wholesale clients. We were a co-lead manager of the institutional tranche for the Industrial and Commercial Bank of China's initial public offering (IPO). We strategically reduced our exposure to property catastrophe reinsurance during the year, as we ceased underwriting new business and focused on managing the remaining claim liabilities related to previous commitments.

In all our operations, we sought out opportunities for strong and diversified earnings growth, while enhancing client satisfaction and loyalty in a cost-efficient manner.

To ensure sound corporate governance, we continued to commit ourselves to establishing and maintaining adequate disclosure controls and procedures, as well as internal control over financial reporting in order to provide reasonable assurance regarding the reliability of our financial disclosure, and ultimately, maintaining our clients' trust and investors' confidence. We have also dedicated significant resources and management attention to the implementation of Basel II (*International Convergence of Capital Measurement and Capital Standards: A Revised Framework*), and have made significant progress towards compliance. For further information, refer to the Accounting and control matters and Risk management sections.

2006 Economic and market review

In 2006, North American economic conditions were generally favourable, benefiting from low but rising interest rates, solid yet slowing housing markets, strong employment levels and higher wages, and healthy growth in business investment. The Bank of Canada has maintained the overnight rate at 4.25% since May after 7 consecutive 25 basis point (bps) increases, which served to help slow economic activity and contain inflationary pressures. The Canadian economy remained robust with an estimated growth rate of 2.8%, primarily underpinned by strong domestic demand. These factors were partially offset by a weakening in exports and manufacturing activities against the backdrop of a strong Canadian dollar, high but falling energy prices, slowing U.S. demand and competition from emerging markets. The U.S. Federal Reserve has held the federal funds rate unchanged at 5.25% since June after 17 consecutive rate increases taking into account slowing economic growth and more contained inflationary pressures. Real GDP in the U.S. grew by an estimated 3.4%, 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.

Strong consumer lending was supported by high employment levels, continued wage growth, and a relatively low interest rate environment. Canadian households continued to redeploy their liquidity into wealth management products, resulting in a shift from chequing and savings accounts towards mutual funds and fixed-term deposits to take advantage of higher returns. The favourable credit environment, together with the solid debt-servicing capacity of households, continued to support strong consumer credit quality.

Business lending remained solid, albeit in part offset by surpluses of internally generated funds available for capital and inventory investment. Strong business credit quality continued to reflect solid corporate earnings and healthy balance sheets as well as a benign credit environment.

Capital market conditions were generally favourable, characterized by high equity market volatility and strong performance of natural resource-based equities. M&A activity in Canada rivaled the record high set in 2000. Equity origination activity weakened in the year in part reflecting slower equity market activity outside the resource sector, while debt origination activity in the U.S. and Europe was also down in part due to rising interest rates and the negative impact of the strengthening of the Canadian dollar.

Specified items

A number of specific items were identified during 2006, including a favourable resolution of an income tax audit related to prior years, an adjustment to increase our credit card customer loyalty reward program liability, and additional hurricane-related charges. These items had minimal impacts on our overall results as their effects largely offset each other.

(1) These agreements are subject to customary closing conditions including regulatory approval.

Specified items — Table 2

(C$ millions)	2006 Before-tax	2006 After-tax	2005 Before-tax	2005 After-tax	2004 Before-tax	2004 After-tax	Segments
Income tax reduction	$ n.a.	$ 70	$ –	$ –	$ –	$ –	Corporate Support
Agreement termination fee	51	33	–	–	–	–	RBC Canadian Personal and Business
General allowance reversal	50	33	–	–	175	113	RBC Capital Markets and RBC Canadian Personal and Business
Net gain on the exchange of NYSE seats for NYX shares	40	23	–	–	–	–	RBC Capital Markets and RBC U.S. and International Personal and Business
Amounts related to the transfer of IIS to RBC Dexia IS	(16)	(19)	–	–	–	–	RBC Capital Markets
Credit card customer loyalty reward program liability adjustment	(72)	(47)	–	–	–	–	RBC Canadian Personal and Business
Hurricane-related charges	(61)	(61)	(203)	(203)	–	–	RBC Canadian Personal and Business
Enron litigation provision	–	–	(591)	(326)	–	–	RBC Capital Markets
Business realignment charges (1)	–	–	(58)	(37)	(192)	(125)	All segments
Goodwill impairment (2)	–	–	–	–	(130)	(130)	Discontinued operations
Rabobank settlement costs	–	–	–	–	n.a.	(74)	RBC Capital Markets

(1) For the year ended October 31, 2005, $29 million after-tax related to continuing operations and $8 million after-tax related to discontinued operations. For October 31, 2004, $116 million after-tax related to continuing operations and $9 million after-tax related to discontinued operations.
(2) Relates to RBC Mortgage Company which has been classified as discontinued operations.
n.a. not applicable

Income tax reduction
We realized a favourable resolution of an income tax audit related to prior years, resulting in a $70 million reduction in income tax expense.

Agreement termination fee
We received $51 million related to the termination of an agreement.

General allowance reversal
We reversed $50 million of the general allowance related to our corporate loan portfolio in RBC Capital Markets, in light of the continued favourable credit conditions and the strengthening of the credit quality of our corporate loan portfolio.

Net gain on the exchange of NYSE seats for NYX shares
The broker-dealer subsidiaries of RBC Capital Markets and RBC U.S. and International Personal and Business received shares in NYSE Group (NYX) in exchange for their respective New York Stock Exchange (NYSE) seats. This exchange resulted in a net gain of $32 million being recognized in RBC Capital Markets and a net gain of $8 million in RBC U.S. and International Personal and Business.

Amounts related to the transfer of IIS to RBC Dexia IS
On January 2, 2006, we combined our Institutional & Investor Services (IIS) business, previously part of RBC Capital Markets, with the Dexia Fund Services business of Dexia Banque Internationale à Luxembourg (Dexia) in return for a 50% joint venture interest in the new company, RBC Dexia Investor Services (RBC Dexia IS). Net charges incurred associated with the transfer of our IIS business to RBC Dexia IS were $16 million before-tax ($19 million after-tax which included a write-off of deferred taxes).

Credit card customer loyalty reward program liability adjustment
We made a $72 million adjustment to increase our credit card customer loyalty reward program liability largely as a result of refinements to our model assumptions to reflect higher customer utilization of RBC Rewards points.

Hurricane-related charges
We recorded a $61 million (before- and after-tax) charge in our insurance business for additional estimated net claims for damages predominantly related to Hurricane Wilma which occurred in late October 2005.

Overview of 2005

In 2005, our strong earnings were supported by our successful execution of client-focused initiatives and favourable economic conditions, despite the negative impact of the Enron Corp. litigation-related provision and charges for estimated net claims related to hurricanes Katrina, Rita and Wilma.

In conjunction with our objective of improving revenue growth, we realigned our organization into four segments, three business segments and Corporate Support, to create a more efficient organization, which better meets our client needs and enhances shareholder value. This realignment also provided the opportunity to introduce new leadership at the business segment levels, to eliminate redundant positions, to streamline processes as well as to implement cost-containment initiatives. We also divested non-strategic operations and assets, expanded our distribution network and product offerings, and sought out new revenue growth opportunities while enhancing our service to clients in a cost-efficient manner.

In 2005, the Canadian economy grew by 2.9%, 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 stronger Canadian dollar and higher energy prices. The U.S. economy recorded a growth rate of 3.2%, 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 actions to mitigate the uncertainties regarding Enron-related matters, including the settlement of our part of the MegaClaims bankruptcy lawsuit brought by Enron against us 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 (Enron provision), including a securities class action lawsuit brought on behalf of Enron securities holders in a federal court in Texas.

In the fourth quarter of 2005, 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. This divestiture enabled us to focus on our core life insurance business in the U.S.

We completed the sale of certain assets of RBC Mortgage Company (RBC Mortgage) to Home123 Corporation, as RBC Mortgage was no longer a core business to our U.S. operations.

Overview of 2004

In 2004, we delivered solid earnings growth in most of our businesses, improved credit quality and grew market shares in key products in Canada. We launched our Client First approach to realign our operations, to grow revenue and to create long-term value for shareholders and clients.

In 2004, the Canadian economy grew by 3.3% on declining interest rates and strengthening consumer demand. The U.S. economy also expanded rapidly at a growth rate of 3.9% against a low interest rate environment and an improved labour market. The favourable credit environment supported demand for consumer loans and investment products, while business lending started to pick up with increased investment in capital equipment and inventories.

During 2004, there were several important corporate developments and transactions. We incurred a $192 million business realignment charge. We had a $130 million write-off of goodwill related to RBC Mortgage Company. We also announced a $74 million after-tax settlement net of a related reduction in compensation and tax expense related to a dispute with Cooperatieve Centrale Raiffeisen-Boerenleenbank, B.A. (Rabobank settlement costs). Our insurance business acquired the Canadian operations of Provident Life and Accident Insurance Company (UnumProvident), a wholly owned subsidiary of UnumProvident Corporation. We also acquired William R. Hough & Co. Inc., a full-service investment firm specializing in fixed income sales, trading and underwriting primarily in the Southeast U.S., which provides synergies to our U.S. debt business in RBC Capital Markets. In addition, we acquired the Provident Financial Group's Florida banking operations providing us with continued expansion opportunities in this fast-growing market.

Financial performance 2006

Record net income of $4,728 million for the year ended October 31, 2006, was up $1,341 million, or 40%, from a year ago. Diluted EPS were $3.59, up 40%, over the prior year. Return on common equity was 23.5%. Excluding the prior year Enron provision, net income increased $1,015 million, or 27%, and diluted EPS were up $.77, or 27%, over the prior year. Results excluding the prior year Enron provision are a non-GAAP measure. For a reconciliation and further discussion, refer to the Key financial measures (non-GAAP) section.

Continuing operations

Net income from continuing operations for 2006 was $4,757 million, up $1,320 million, or 38%, from a year ago. Diluted EPS were $3.61, up $1.00, or 38%, over the prior year. ROE was 23.3%. Excluding the prior year Enron provision, net income increased $944 million, or 26% and diluted EPS were up $.75, or 26%, over the prior year. The increase largely reflected strong earnings momentum and solid growth across all our business segments. The reduction in our effective income tax rate and lower hurricane-related charges in the current year, also contributed to the improvement in our results. These factors were partially offset by higher variable compensation reflecting stronger business performance and higher costs related to our growth initiatives. This growth was achieved despite the $125 million reduction in the translated value of our U.S. dollar-denominated earnings due to the stronger Canadian dollar.

Total revenue increased $1,453 million, or 8%, from a year ago, largely due to record trading results on improved market conditions and solid business growth in our wealth management and banking businesses reflecting our successful execution of 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 translated U.S. dollar-denominated revenue, lower debt and equity origination activity and certain favourable items recorded in the prior year. These items included 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 sale of LIS.

Non-interest expense increased $138 million, or 1%, compared to the prior year largely reflecting the prior year Enron provision. Excluding the Enron provision, non-interest expense increased $729 million, or 7%. The increase largely reflected higher variable compensation primarily in RBC Capital Markets and our wealth management businesses reflecting strong business performance. Higher costs in support of our business growth initiatives also contributed to the increase. These costs included a higher level of personnel in our distribution network, increased costs related to technology development, higher marketing and advertising costs and a higher number of branches. The increase in non-interest expense was partially offset by the $215 million reduction in the translated value of U.S. dollar-denominated expenses due to the stronger Canadian dollar and the prior year settlement of the Enron MegaClaims bankruptcy lawsuit.

Total provision for credit losses decreased $26 million, or 6%, from a year ago. The decrease largely reflected a $50 million reversal of the general allowance this year, the favourable impact of the higher level of securitized credit cards, and the continued strong credit quality of our U.S. loan portfolio. The prior year also included 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 portfolios.

Insurance policyholder benefits, claims and acquisition expense decreased $116 million, or 4%, compared to the prior year. The decrease primarily reflected a $142 million (before- and after-tax) reduction in hurricane-related charges for estimated 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 this year.

Discontinued operations

The net loss for discontinued operations for 2006 was $29 million compared to a net loss of $50 million for 2005. The current period net loss mainly reflected charges related to the wind-down of RBC Mortgage. The prior year net loss reflected operating losses prior to the sale of certain assets of RBC Mortgage to Home123 Corporation on September 2, 2005, as well as subsequent charges related to the sale and wind-down of operations, including the costs of closing RBC Mortgage's Chicago office and certain branches, employee incentive payments and the writedown of certain assets. As at October 31, 2006, we have substantially disposed of the assets and obligations related to RBC Mortgage that were not transferred to Home123 Corporation.

Capital ratios

The Tier 1 capital ratio of 9.6% was unchanged from a year ago as strong internal capital generation, the reclassification of innovative capital from Tier 2, and the net issuance of preferred shares were offset by share repurchases and robust balance sheet growth. The Total capital ratio of 11.9% was down 120 bps from the previous year largely reflecting our redemption of subordinated debentures in 2006.

Impact of U.S. vs. Canadian dollar

The translated value of our U.S. dollar-denominated results is impacted by fluctuations in the U.S./Canadian dollar exchange rate. Table 3 depicts the effect of translating current year 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.

Impact of U.S. dollar vs. Canadian dollar		Table 3
(C$ millions, except per share amounts)	2006 vs. 2005	2005 vs. 2004
Reduced total revenue	$ 425	$ 420
Reduced non-interest expense	215	260
Reduced net income from continuing operations	125	65
Reduced net income	123	61
Reduced diluted EPS – continuing operations	$ .10	$ .05
Reduced diluted EPS	$ .09	$ .05
Percentage change in average US$ equivalent of C$1.00 (1)	7%	8%

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

In 2006, the Canadian dollar appreciated 7% on average relative to the U.S. dollar from the prior year, resulting in a $123 million decrease in the translated value of our U.S. dollar-denominated net income and a reduction of $.09 on our current year's diluted EPS. U.S. dollar-denominated net income from continuing operations was reduced by $125 million and diluted EPS by $.10 compared to the prior year.

2006 Performance vs. objectives		Table 4
(C$ millions, except per share amounts)	2006 Objectives (1)	2006 Performance
Diluted earnings per share (EPS) growth (2)	20%+	40%
Return on common equity (ROE)	20%+	23.5%
Revenue growth	6–8%	8%
Operating leverage (3)	>3%	1%
Portfolio quality (4)	.40–.50%	.23%
Capital management: Tier 1 capital ratio (5)	8%+	9.6%
Dividend payout ratio	40–50%	40%

(1) Our 2006 financial objectives were established late in fiscal 2005 and reflected our economic and business outlook for 2006. We established objectives for 2006 to position us as a top quartile performer with respect to total return to shareholders relative to our Canadian and U.S. peers. At the time these objectives were established, we expected an average Canadian dollar value of US$.817 in 2006; however, the actual dollar value was US$.883.
(2) Based on 2005 total reported diluted EPS of $5.13, which has been retroactively adjusted to $2.57 to reflect our stock dividend paid on April 2, 2006.
(3) Operating leverage is the difference between our revenue growth rate and the non-interest expense growth rate. Our 2006 objective for operating leverage was based on 2005 non-interest expense excluding the Enron provision of $591 million.
(4) Ratio of specific provision for credit losses to average loans and acceptances.
(5) Calculated using guidelines issued by the OSFI.

2006 Annual objectives

In 2006, we met all but one of our objectives with the exception of our operating leverage objective. Diluted EPS growth was 40% (27% excluding the Enron provision) and ROE was 23.5%, exceeding their targets of diluted EPS growth of 20% plus and ROE of 20% plus, largely reflecting strong earnings growth. Revenue growth of 8% was at the top end of our range of 6% to 8%, despite the negative impact of a stronger Canadian dollar on our U.S. dollar- and GBP-denominated revenue, primarily due to strong trading revenue and growth in our banking and wealth management businesses. Favourable credit conditions in 2006 continued to support our strong credit quality ratio of .23%, which was significantly better than our objective of .40% to .50%. We also maintained our solid capital position with a Tier 1 capital ratio of 9.6%, which was significantly above our target of 8% plus, due to strong earnings generation and net capital issuances. Our dividend payout ratio of 40% met our target payout ratio of 40% to 50% due in large part to the 22% increase in dividends during the year. However, we missed our operating leverage target for the year as it was impacted by our business mix and certain factors which contribute to our earnings growth but were not appropriately captured in this measure. These factors included the impact of tax-advantaged sources, consolidated VIEs and insurance-related revenue and expense. Accordingly, we have adjusted our 2007 operating leverage calculation to incorporate these factors in order to more appropriately reflect the performance of our businesses going forward. If this new approach was applied to our 2006 results, our adjusted operating leverage would have been 2.5% (1).

Medium-term objective

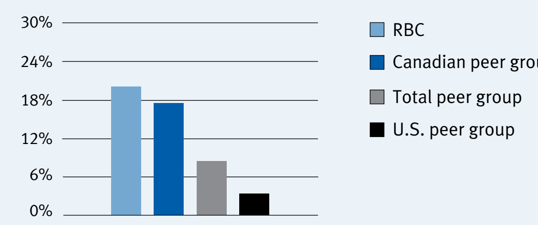
Commencing in 2006, our medium-term objective is to consistently achieve top quartile (2) total shareholder return (TSR) (3) compared to our Canadian and U.S. peers. This medium-term objective increases our focus on our priority to maximize shareholder value and requires us to consider both our current performance and our investment in higher return businesses that will provide sustainable competitive advantage and stable earnings growth.

Our 5-year (4) average annual TSR of 20% (28% in U.S. dollars) ranks us in the top quartile against our peer group and compares favourably with the 5-year average annual TSR for our peer group of 8% (16% in U.S. dollars). Our performance reflects our strong financial results, including returns on our investment in our businesses, and management of our risks which has allowed us to successfully meet most of our annual earnings, capital and credit quality objectives over the last two years.

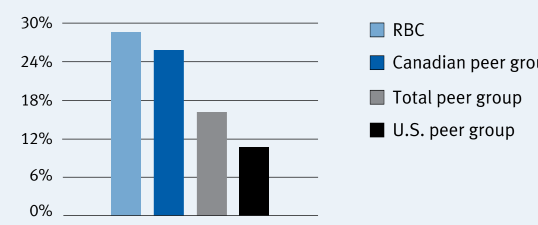
Dividends paid over the five-year period have increased at an average annual compounded rate of 16%.

(1) Adjusted operating leverage is a non-GAAP financial measure. For a further discussion and reconciliation, refer to the Key financial measures (non-GAAP) section.
(2) Versus seven large Canadian financial institutions (Manulife Financial Corporation, Bank of Nova Scotia, TD Bank Financial Group, BMO Financial Group, Sun Life Financial Inc., Canadian Imperial Bank of Commerce and National Bank of Canada) and 13 U.S. financial institutions (Bank of America, JP Morgan Chase & Co., Wells Fargo & Company, Wachovia Corporation, US Bancorp, Sun Trust Banks, Inc., The Bank of New York, BB&T Corporation, Fifth Third Bancorp, National City Corporation, The PNC Financial Services Group, KeyCorp and Northern Trust Corporation).
(3) Total shareholder return is calculated based on share price appreciation from October 31, 2001 to October 31, 2006 plus reinvested dividend income over this period.
(4) This refers to the period October 31, 2001 to October 31, 2006.

Five-year average annual total shareholder return (C$)



Five-year average annual total shareholder return (US$)



Economic outlook

The Canadian economy is expected to remain strong, with real GDP growth of 2.7% in 2007, compared to an estimated 2.8% in 2006. Domestic demand is likely to remain the key driver of economic growth. Consumer spending should continue to benefit from a solid labour market, good household balance sheet conditions, relatively stable interest rates and tax relief, while solid business investment in capital goods underpinned by a firm currency and strong corporate balance sheets is anticipated. We expect the Bank of Canada to ease interest rates in the latter part of 2007 taking into account an anticipated slowing of economic growth in part reflecting the waning U.S. demand for Canadian exports and the expectation that inflation will fall in line with the Bank of Canada's target.

Real GDP growth in the U.S. is expected to slow to 2.6% in 2007 from an estimated 3.4% for 2006, largely attributable to slower growth in consumer spending and a cooling housing market. Growth in consumer spending is projected to slow in response to the lagged effects of higher interest rates and lower gains in household wealth amid a softening housing market. However, a major slowdown in consumer spending is unlikely as strong household liquidity and tight labour market conditions should continue to support growth. Business investment should remain solid, aided by healthy corporate balance sheets. The U.S. trade deficit is likely to recover moderately, reflecting increasing demand from foreign nations given firm global growth, the delayed impact of the weakening U.S. dollar on exports, and declining import growth as the economy gears down. We anticipate the U.S. Federal Reserve to lower interest rates in the second half of 2007 in response to slower economic growth and more contained inflationary pressures.

Business outlook

Consumer lending growth is expected to moderate in 2007, largely driven by lower construction and resale activity in housing markets and somewhat slower growth in consumer spending. We expect business lending to remain solid with ongoing business investment in inventories, machinery and equipment, albeit in part constrained by continued high corporate liquidity.

While a gradual deterioration in credit quality is anticipated, 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 higher loan volume and lower recoveries.

The outlook for capital markets globally is expected to remain relatively favourable with stable interest rates and improving equity markets. We expect a modest rebound in origination activity, which will be partially offset by a weakening in M&A activity from a near historical high in 2006. Equity origination activity is expected to increase from a relatively slow 2006 as markets other than the resource and income trust sectors should improve, while debt origination is expected to benefit from municipal banking activity in new sectors and growth in U.S. dollar distribution. In addition, core lending activities are expected to increase as spread compression is showing signs of abating, while term is extending.

2007 Objectives — Table 5

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

(1) Adjusted operating leverage is 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 VIEs, accounting adjustments related to the new Financial Instruments Standard and Insurance-related revenue. Non-interest expense excludes Insurance-related expense. This is a non-GAAP measure. For a further discussion and reconciliation, refer to the Key financial measures (non-GAAP) section.
(2) Calculated using guidelines issued by the OSFI.

Our primary objective continues to focus on providing top quartile total shareholder return (TSR) (1) relative to our North American peers (2). This medium-term objective requires our focus on both current performance as well as prudent investment in higher return businesses that will provide sustainable competitive advantage and stable earnings growth.

For 2007, our objectives have been established based on our economic and business outlooks, including a robust Canadian economy with continuing strong consumer spending and solid business investment. In the U.S., we expect a moderately slower economy, largely attributable to slightly weaker growth in consumer spending and a cooling housing market. We expect to continue to benefit from relatively favourable equity markets, a relatively stable interest rate environment, and strong domestic fiscal conditions.

Our 2007 diluted EPS growth objective of 10% plus is lower than our 2006 objective, as our 2005 earnings included the impact of the Enron provision and charges for estimated net claims related to hurricanes Katrina, Rita and Wilma. Our commitment to strong revenue growth and prudent cost containment continues to be encapsulated in our adjusted operating leverage objective, which remains greater than 3%. However, we have adjusted our operating leverage calculation for 2007 to more appropriately reflect the performance of our businesses, and to address the factors that were not appropriately captured in the ratio previously. The adjusted operating leverage ratio now includes the gross up adjustment for certain tax-advantaged income (Canadian taxable corporate dividends), and excludes our insurance-related revenue and expense, amounts related to the consolidation of variable interest entities (VIEs), and accounting adjustments related to the new Financial Instruments Standard. Our objective for ROE remains unchanged at 20% plus. We also retained our Tier 1 capital and dividend payout ratio targets, which reflect sound and effective management of capital resources. Our Tier 1 capital ratio target remains greater than 8%, which compares favourably to the target of 7% set by our primary regulator (OSFI). Our dividend payout ratio also remains unchanged at 40% to 50%. Our revenue growth target is reflected in our earnings per share and adjusted operating leverage objectives, and we believe our portfolio quality is adequately captured in our profitability and other objectives. Accordingly, we do not have 2007 objectives for revenue and credit quality.

(1) Total shareholder return is calculated based on share price appreciation plus dividend income.
(2) Includes seven large Canadian financial institutions (Manulife Financial Corporation, Bank of Nova Scotia, TD Bank Financial Group, BMO Financial Group, Sun Life Financial Inc., Canadian Imperial Bank of Commerce and National Bank of Canada) and 13 U.S. financial institutions (Bank of America, JP Morgan Chase & Co., Wells Fargo & Company, Wachovia Corporation, US Bancorp, Sun Trust Banks, Inc., The Bank of New York, BB&T Corporation, Fifth Third Bancorp, National City Corporation, The PNC Financial Services Group, KeyCorp and Northern Trust Corporation).

Critical accounting policies and estimates

Application of critical accounting policies and estimates

Our significant accounting policies are contained in Note 1 to the 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, securitization, variable interest entities, pensions and other post-employment benefits, income taxes, and other-than-temporary impairment of investment securities. 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, as at the balance sheet date. The allowance for credit losses is comprised of 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, excluding credit card balances as they are directly written off after payments are 180 days past due, 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 experience 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 absorb probable losses on 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 large business and government portfolios, 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 homogeneous portfolios, 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 experience, 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 absorb probable losses on accounts in the lending portfolio that have not yet been specifically classified 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 committed amount that will be drawn when the account is classified as impaired; 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 credit 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 are assessed to determine the appropriate allowance level.

For large business and government loans, the general allowance level is estimated based on management's judgment of business and economic conditions, historical loss experience, the impact of policy changes and other relevant factors. The range of loss is derived through the application of a number of risk parameters related to committed obligations. The key parameters used are probability of default (PD), loss given default (LGD) and usage given default (UGD). PDs are delineated by borrower type and risk rating; LGDs are largely based on seniority of debt, collateral security and client type, and UGDs are applied based on risk rating. These parameters are based on long-term historical loss experience (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 it 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 loans, including residential mortgages, credit cards, and personal and small business loans, probable losses are estimated on a portfolio basis. Long-term historical loss experience is 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 is of the opinion that the total allowance for credit losses of $1,486 million is adequate to absorb estimated credit losses incurred in the lending portfolio as at October 31, 2006. This amount includes $77 million classified in Other liabilities, which relates to letters of credit and guarantees and unfunded commitments.

Fair value of financial instruments

In accordance with GAAP, certain financial instruments are carried on our balance sheet at their fair value. These financial instruments comprise securities held in our trading portfolio, obligations related to securities sold short and derivative financial instruments (excluding non-trading derivatives qualifying for hedge accounting). At October 31, 2006, approximately $184 billion, or 35%, of our financial assets and $80 billion, or 19%, of our financial liabilities were carried at fair value ($164 billion, or 36%, of financial assets and $75 billion, or 19%, of financial liabilities at October 31, 2005). Note 2 to our Consolidated Financial Statements provides disclosure of the estimated fair value of all our financial instruments at October 31, 2006.

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 prices in an active market. 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 profile or internal or external valuation models using 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 the potential exists that the amount realized on sale will 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.

The majority of our trading securities portfolio and obligations related to securities sold short comprise or relate to actively traded debt and equity securities, which are carried at fair value based on available quoted prices. As few derivative financial instruments are actively quoted, we rely primarily on internally developed pricing models and established industry-standard pricing models, such as Black-Schöles, 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, 2006, and October 31, 2005.

Assets and liabilities carried at fair value by valuation methodology — Table 6

	2006				2005			
	Financial assets		Financial liabilities		Financial assets		Financial liabilities	
(C$ millions, except percentage amounts)	Trading securities	Derivatives	Obligations related to securities sold short	Derivatives	Trading securities	Derivatives	Obligations related to securities sold short	Derivatives
Fair value	$ 147,237	$ 37,008	$ 38,252	$ 41,728	$ 125,760	$ 38,341	$ 32,391	$ 42,404
Based on								
Quoted market prices	87%	–	97%	–	85%	–	93%	–
Pricing models with significant observable market parameters	13	100	3	100	15	99	7	100
Pricing models with significant unobservable market parameters	–	–	–	–	–	1	–	–
	100%	100%	100%	100%	100%	100%	100%	100%

2006 vs. 2005
The increases of $21.5 billion in Trading securities and $5.9 billion in Obligations related to securities sold short in 2006 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. These activities are consistent with our strategy for these businesses and the increases in 2006 are within the approved risk limits.

The determination of fair value where quoted market 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.

As outlined in Note 1 to our Consolidated Financial Statements, changes in the fair value of Trading securities and Obligations related to securities sold short are recognized as Trading revenue in Non-interest income and changes in the fair value of our trading and non-trading derivatives that do not qualify for hedge accounting are recognized in Non-interest income.

Securitization

We periodically securitize 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 on 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 establish legal isolation of the transferred loans. 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

We adopted the Canadian Institute of Chartered Accountants (CICA) Accounting Guideline 15, *Consolidation of Variable Interest Entities* (AcG-15) on November 1, 2004, which 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 to analyze and calculate its expected losses and its 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. 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 timing 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.

Other-than-temporary impairment of investment securities

Investments in equity and debt securities which are purchased for longer term purposes are classified as Investment account securities. These securities 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. Investment account equity securities, including non-public and venture capital equity securities for which representative market quotes are not readily available, are carried at cost. Investment account debt securities are carried at amortized cost.

Debt and publicly traded equity investment securities are reviewed at each quarter-end to determine whether the fair value is below its carrying value. Investments in private companies' securities with carrying value greater than $5 million are reviewed semi-annually to determine whether the fair value is below its carrying value. All other strategic investments in equity securities are reviewed, at a minimum, on an annual basis to determine whether the fair value is below its carrying value.

When the fair value of any of our Investment account securities has declined below its carrying value, management is required to assess whether the decline is other than temporary. In making this assessment, we consider factors such as the type of investment, the length of time and extent to which the fair value has been below the carrying value, 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 decisions to record a writedown, its amount and the period in which it is recorded could change if management's assessment of those factors is different. As at October 31, 2006, total unrealized losses on Investment account securities for which the carrying value exceeded fair value were $294 million. Of this amount, $219 million was related to securities for which the carrying value had exceeded fair value for 12 months or more. During 2006, we recorded $24 million in Non-interest income on the Consolidated Statement of Income for the recognition of other-than-temporary impairment of Investment account securities.

Financial Instruments

In 2005, the CICA issued three new accounting standards: Handbook Section 1530, *Comprehensive Income* (Section 1530), Handbook Section 3855, *Financial Instruments – Recognition and Measurement* (Section 3855), and Handbook Section 3865, *Hedges* (Section 3865). These new standards became effective for us on November 1, 2006.

Comprehensive Income

Section 1530 introduces Comprehensive income which is comprised of Net income and Other comprehensive income and represents changes in Shareholders' equity during a period arising from transactions and other events with non-owner sources. Other comprehensive income (OCI) includes unrealized gains and losses on financial assets classified as available-for-sale, unrealized foreign currency translation amounts, net of hedging, arising from self-sustaining foreign operations, and changes in the fair value of the effective portion of cash flow hedging instruments. Our Consolidated Financial Statements will include a Consolidated Statement of Comprehensive Income while the cumulative amount, Accumulated other comprehensive income (AOCI), will be presented as a new category of Shareholders' equity in the 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 the balance sheet when we become a party to the contractual provisions of the financial instrument or a non-financial derivative contract. All financial instruments should 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 liabilities.

Financial assets and financial liabilities held-for-trading will be measured at fair value with gains and losses recognized in Net income. Financial assets held-to-maturity, loans and receivables and financial liabilities other than those held-for-trading, will be measured at amortized cost using the effective interest method of amortization. Available-for-sale financial assets will be 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 will be measured at cost.

Derivative instruments must be recorded on the balance sheet at fair value including those derivatives that are embedded in financial instrument or other contracts but are not closely related to the host financial instrument or contract, respectively. Changes in the fair values of derivative instruments will be recognized in Net income, except for derivatives that are designated as a cash flow hedge, the fair value change for which will be recognized in OCI.

Section 3855 permits an entity to designate any financial instrument as held-for-trading on initial recognition or adoption of the standard, even if that instrument would not otherwise satisfy the definition of held-for-trading set out in Section 3855. Instruments that are classified as held-for-trading by way of this "fair value option" must have reliable fair values and are subject to additional conditions and disclosure requirements set out by the OSFI.

Other significant accounting implications arising on adoption of Section 3855 include the initial recognition of certain financial guarantees at fair value on the balance sheet and the use of the effective interest method of amortization for any transaction costs or fees, premiums or discounts earned or incurred for financial instruments measured at amortized cost.

Hedges

Section 3865 specifies the criteria under which hedge accounting can be applied and how hedge accounting should be executed for each of the permitted hedging strategies: fair value hedges, cash flow hedges and hedges of a foreign currency exposure of a net investment in a self-sustaining foreign operation. In a fair value hedging relationship, the carrying value of the hedged item will be adjusted by gains or losses attributable to the hedged risk and recognized in Net income. The change in the fair value of the hedged item, to the extent that the hedging relationship is effective, will be offset by changes in the fair value of the hedging derivative. In a cash flow hedging relationship, the effective portion of the change in the fair value of the hedging derivative will be recognized in OCI. The ineffective portion will be recognized in Net income. The amounts recognized in AOCI will be reclassified to Net income in the periods in which Net income is affected by the variability in the cash flows of the hedged item. 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 will be recognized in OCI and the ineffective portion is recognized in Net income.

For hedging relationships existing prior to adopting Section 3865 that are continued and qualify for hedge accounting under the new standard, the transaction accounting is as follows: (i) Fair value hedges – any gain or loss on the hedging instrument is recognized in the opening balance of retained earnings on transition and the carrying amount of the hedged item is adjusted by the cumulative change in fair value that reflects the designated hedged risk and the adjustment is included in the opening balance of retained earnings on transition; (ii) Cash flow hedges and hedges of a net investment in a self-sustaining foreign operation – any gain or loss on the hedging instrument that is determined to be the effective portion is recognized in AOCI and the ineffectiveness in the past periods is included in the opening balance of retained earnings on transition.

Deferred gains or losses on the hedging instrument with respect to hedging relationships that were discontinued prior to the transition date but qualify for hedge accounting under the new standards will be recognized in the carrying amount of the hedged item and amortized to Net income over the remaining term of the hedged item for fair value hedges, and for cash flow hedges it will be recognized in AOCI and reclassified to Net income in the same period during which the hedged item affects Net income. However, for discontinued hedging relationships that do not qualify for hedge accounting under the new standards, the deferred gains and losses are recognized in the opening balance of retained earnings on transition.

In October 2006, the CICA's Accounting Standards Board issued a Board Notice, *Hedges*, Section 3865, in order to provide clarifying guidance with respect to the transition provisions for deferred gains or losses on continuing and discontinued hedging relationships. The amended version of Section 3865 incorporating the clarifying guidance is expected to be issued in December 2006, with early adoption permitted. We have adopted the proposed amendments on November 1, 2006.

Impact of adopting sections 1530, 3855 and 3865

The transition adjustment attributable to the following will be recognized in the opening balance of retained earnings as at November 1, 2006: (i) financial instruments that we will classify as held-for-trading and that were not previously recorded at fair value, (ii) the difference in the carrying amount of loans and deposits prior to November 1, 2006, and the carrying amount calculated using the effective interest rate from inception of the loan, (iii) the ineffective portion of cash flow hedges, (iv) deferred gains and losses on discontinued hedging relationships that do not qualify for hedge accounting under the new standards, (v) unamortized deferred net realized gains or losses on investments that support life insurance liabilities, and (vi) consequential effects on insurance claims and policy benefit liabilities due to remeasuring the financial assets supporting these liabilities.

Adjustments arising due to remeasuring financial assets classified as available-for-sale and hedging instruments designated as cash flow hedges will be recognized in the opening balance of Accumulated other comprehensive income.

Neither of the transition amounts that will be recorded in the opening retained earnings or in the opening AOCI balance on November 1, 2006 is expected to be material to our consolidated financial position.

The tax consequences, if any, of the new standards on the transition or subsequent accounting is unknown. The tax authorities are currently reviewing the standards to determine any such implications.

Variability in Variable Interest Entities

On September 15, 2006, the EIC issued Abstract No. 163, *Determining the Variability to be Considered in Applying AcG-15* (EIC-163). This EIC provides additional clarification on how to analyze and consolidate VIEs. EIC-163 will be effective for us on February 1, 2007 and its implementation will result in the deconsolidation of certain investment funds. However, the impact is not expected to be material to our consolidated financial position or 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 designated 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.

As of October 31, 2006, an evaluation was carried out, under the supervision of and with the participation of management, including the President and Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures as defined in Rule 13a-15(e) under the *U.S. Securities Exchange Act of 1934* and under Multilateral Instrument 52-109. Based on that evaluation, the President and Chief Executive Officer and Chief Financial Officer concluded that the design and operation of our disclosure controls and procedures were effective as at October 31, 2006.

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 at October 31, 2006, and based on that assessment determined that our internal control over financial reporting was effective. See page 101 for Management's report on internal control over financial reporting and the Report of Independent Registered Chartered Accountants with respect to management's assessment of internal control over financial reporting.

No changes were made in our internal control over financial reporting during the year ended October 31, 2006, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Consolidated results from continuing operations

- **Net income of $4,757 million, up $1,320 million, or 38%. Excluding the prior year Enron litigation-related provision (1) of $326 million after-tax, net income increased $994 million, or 26%, largely due to strong earnings momentum across all business segments and lower hurricane-related charges.**
- **Revenue up $1,453 million, or 8%, from 2005 due to record trading results on improved market conditions and solid business growth in our wealth management and banking businesses.**
- **Non-interest expense up $138 million, or 1%. Excluding the prior year Enron litigation-related provision of $591 million, non-interest expense increased $729 million, or 7%, primarily due to higher variable compensation on stronger business performance.**

The following provides a discussion of our reported results from continuing operations for the year ended October 31, 2006. Factors that primarily relate to a specific segment are discussed in detail in the respective segment results section. For a discussion of our discontinued operations, refer to the Executive summary section.

In addition to providing an analysis comparing the current year to the prior year, we have included an analysis of our 2005 results compared to those for 2004.

Total revenue — Table 7

(C$ millions)	2006	2005	2004
Interest income	$ 22,170	$ 16,958	$ 13,866
Interest expense	15,408	10,188	7,468
Net interest income	$ 6,762	$ 6,770	$ 6,398
Investments (1)	$ 3,820	$ 3,380	$ 3,142
Insurance (2)	3,348	3,270	2,870
Trading	2,574	1,594	1,563
Banking (3)	2,391	2,326	2,173
Underwriting and other advisory	1,024	1,026	918
Other (4), (5)	718	818	738
Non-interest income	$ 13,875	$ 12,414	$ 11,404
Total revenue	$ 20,637	$ 19,184	$ 17,802
Additional information			
Total trading revenue (6)			
Net interest income – related to trading activities	$ (539)	$ 21	$ 286
Non-interest income – trading revenue	2,574	1,594	1,563
Total	$ 2,035	$ 1,615	$ 1,849
Total trading revenue by product (6)			
Fixed income and money markets	$ 1,174	$ 1,025	$ 1,044
Equity	561	355	527
Foreign exchange contracts	300	235	278
Total	$ 2,035	$ 1,615	$ 1,849

(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) During the year, we reclassified the changes in the fair value of certain derivative instruments designated as economic hedges of our stock-based compensation plan at RBC Dain Rauscher from Non-interest income – Other to Non-interest expense – Stock-based compensation, in order to more appropriately reflect the purpose of these instruments and our management of our compensation plan. All amounts have been restated to reflect this reclassification. For further details, refer to Note 1 to the Consolidated Financial Statements.
(6) Total trading revenue is comprised of trading-related revenue recorded in Net interest income and Non-interest income. Total trading revenue includes revenue from cash and related derivative securities.

2006 vs. 2005

Total revenue increased $1,453 million, or 8%, from a year ago, largely due to record trading results on improved market conditions and solid business growth in our wealth management and banking businesses reflecting our successful execution of 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 translated U.S. dollar-denominated revenue, lower debt and equity origination activity and certain favourable items recorded in the prior year. These items included 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 sale of LIS.

Net interest income decreased $8 million, largely driven by increased funding costs related to certain equity trading strategies and the impact of higher securitization balances. This decrease was largely offset by strong loan and deposit growth and increased spreads on deposits and personal investment products.

Investments-related revenue increased $440 million, or 13%, primarily due to strong net sales and capital appreciation in our mutual fund businesses, growth in fee-based accounts and client balances, the inclusion of Abacus and higher volumes in our full-service and self-directed brokerage businesses.

Insurance-related revenue increased $78 million, or 2%, primarily reflecting growth in our Canadian life business as well as our 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 on the translated value of U.S. dollar-denominated revenue resulting from the stronger Canadian dollar and policy lapses on discontinued and mature product lines. Lower revenue from property catastrophe reinsurance reflecting our strategic reduction in exposure as we have ceased underwriting new business also contributed to the decrease.

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 our higher credit card customer loyalty reward program costs that were recorded against revenue.

(1) Results excluding the Enron litigation-related provision are non-GAAP financial measures. For a further discussion and reconciliation, refer to the Key financial measures (non-GAAP) section.

Trading revenue increased by $980 million, or 61%. Total trading revenue (including Net interest income and Non-interest income related to trading) 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 the prior year 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 both recorded in 2006.

2005 vs. 2004

Total revenue in 2005 increased $1,382 million, or 8%, compared to 2004, reflecting revenue growth across all lines of business in part due to our growth initiatives and favourable North American business conditions. These factors resulted in increased revenue from our lending, deposit, insurance and wealth management businesses. The increase was partially offset by a reduction of $420 million due to the negative impact of the stronger Canadian dollar on translated U.S. dollar-denominated revenue.

Net interest income increased $372 million, or 6%, largely driven by increased loan and deposit volumes in both Canada and the U.S., partially offset by increased funding costs as a result of higher volumes and rates on funding positions related to equity trading.

Investments-related revenue increased $238 million, or 8%, primarily due to higher transaction volumes and growth in client assets in our full-service brokerage business and strong mutual fund sales and capital appreciation.

Insurance-related revenue increased $400 million, or 14%, reflecting growth in our disability insurance business, which has included UnumProvident since May 1, 2004, as well as strong growth in our property and casualty, life and reinsurance businesses. This was partially offset by the effect of the sale of LIS in 2005.

Banking revenue increased $153 million, or 7%, mainly due to increased foreign exchange revenue and higher service fees.

Trading revenue improved $31 million, or 2%. Total trading revenue (including Net interest income and Non-interest income related to trading) was $1,615 million, down $234 million, or 13%, from a year ago across all product categories but primarily in our equity trading business largely due to challenging market conditions for most of 2005.

Underwriting and other advisory revenue increased $108 million, or 12%, on higher debt originations due to a historically low interest rate environment and higher equity originations arising from strength in income trust and structured products.

Other revenue increased $80 million, or 11%, largely due to the gain on the sale of an Enron-related claim, higher securitization revenue and higher private equity gains, which were partially offset by the gain on the sale of real estate in 2004.

Net interest income and margin — **Table 8**

(C$ millions, except percentage amounts)	2006	2005	2004
Net interest income	$ 6,762	$ 6,770	$ 6,398
Average assets (1)	502,100	445,300	418,200
Net interest margin (2)	1.35%	1.52%	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.

2006 vs. 2005

Net interest margin decreased 17 bps reflecting both lower net interest income and an increase in lower yielding and non-interest earning assets.

The decrease in net interest income compared to the prior year primarily reflected higher funding costs in support of growth in certain equity trading strategies which was partially offset by stronger loan and deposit growth and increased spreads on deposits and personal investment products.

We experienced higher growth and activity 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 Tables 56 and 57 in the Additional financial information section.

2005 vs. 2004

Net interest margin decreased 1 bp, largely reflecting higher funding costs in RBC Capital Markets in support of their trading activities. This decrease was partially offset by net interest margin improvement in RBC U.S. and International Personal and Business largely due to strong loan growth relative to other assets, which earn lower returns.

Non-interest expense — **Table 9**

(C$ millions)	2006	2005	2004
Salaries	$ 3,264	$ 3,155	$ 3,199
Variable compensation	2,827	2,309	2,283
Stock-based compensation (1)	169	169	124
Benefits and retention compensation	1,080	1,103	1,095
Human resources	$ 7,340	$ 6,736	$ 6,701
Equipment	957	960	906
Occupancy	792	749	765
Communications	687	632	672
Professional and other external services	926	825	768
Other expenses	793	1,455	1,021
Non-interest expense	$ 11,495	$ 11,357	$ 10,833

(1) During the year, we reclassified the changes in the fair value of certain derivative instruments designated as economic hedges of our stock-based compensation plan at RBC Dain Rauscher from Non-interest income – Other to Non-interest expense – Stock-based compensation, in order to more appropriately reflect the purpose of these instruments and our management of our compensation plan. All amounts have been restated to reflect this reclassification. For further details, refer to Note 1 to the Consolidated Financial Statements.

2006 vs. 2005

Non-interest expense increased $138 million, or 1%, compared to the prior year. Excluding the Enron provision, non-interest expense increased $729 million, or 7%, which largely reflected higher variable compensation primarily in RBC Capital Markets and our wealth management businesses reflecting strong business performance. Higher costs in support of our growth initiatives also contributed to the increase. These costs reflected 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. The increase in non-interest expense was partially offset by the $215 million reduction in the translated value of U.S. dollar-denominated expenses due to the stronger Canadian dollar and the prior year settlement of the Enron MegaClaims bankruptcy lawsuit.

Non-interest expense excluding the prior year Enron provision is a non-GAAP measure. For a reconciliation and further discussion, refer to the Key financial measures (non-GAAP) section.

2005 vs. 2004

Non-interest expense increased $524 million, or 5%, from 2004, largely reflecting the prior year Enron provision of $591 million. Stock-based compensation was also higher in light of the significant appreciation in our common share price in 2005. Increased costs related to the higher level of sales and service personnel in our Canadian branch network also contributed to the increase. These factors were partially offset by a $260 million decline in expenses due to the positive impact of the stronger Canadian dollar on the translation of U.S. dollar-denominated expenses and improved productivity reflecting cost-reduction efforts attributable to streamlining head office and support operations, procurement initiatives and lower occupancy costs as a result of optimizing our office space. The prior year also included the Rabobank settlement costs.

Provision for credit losses — Table 10

(C$ millions)	2006	2005	2004
Residential mortgages	$ 6	$ 2	$ 7
Personal	306	259	222
Credit cards	163	194	167
Consumer	$ 475	$ 455	$ 396
Business and government	7	(66)	125
Specific provision	$ 482	$ 389	$ 521
General provision	(53)	66	(175)
Provision for credit losses	$ 429	$ 455	$ 346

2006 vs. 2005

Total provision for credit losses decreased $26 million, or 6%, from a year ago. The decrease largely reflected a $50 million reversal of the general allowance this year, the favourable impact of the higher level of securitized credit cards, and the continued strong credit quality of our U.S. loan portfolio. The prior year also included our 50% proportionate share of a provision booked at 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 portfolios.

Specific provision for credit losses for consumer loans was up $20 million, or 4%, compared to the previous year. The increase was largely due to higher provisions in Canadian personal loans in part reflecting portfolio growth, which was partly offset by the favourable impact of the higher level of securitized credit cards.

Business and government provision for credit losses increased $73 million over the prior year. The increase primarily reflected the transfer of $52 million from the specific allowance to the general allowance in the prior year as a result of the alignment of our enterprise-wide accounting treatment of credit losses, lower recoveries in our corporate and agriculture portfolios, and higher provisions in small business loans in the current year. These factors were partially offset by a lower provision in our U.S. business portfolio reflecting continued strong credit quality. The prior year included our 50% proportionate share of a provision booked at Moneris.

The general provision decreased $119 million from a year ago. The decrease was largely due to a $50 million reversal of the general allowance this year in light of the strengthening of our corporate loan portfolio reflecting continuing favourable credit conditions, and the transfer of $52 million from the specific allowance to the general allowance in the prior year.

2005 vs. 2004

Total provision for credit losses increased $109 million, or 32%, from 2004. The increase was mainly due to the $175 million reversal of the general allowance in 2004 and higher specific provisions in personal credit lines and credit cards mainly due to portfolio growth in 2005. The increase was partially offset by higher corporate recoveries and lower student loan losses in 2005.

Insurance policyholder benefits, claims and acquisition expense — Table 11

(C$ millions)	2006	2005	2004
Insurance policyholder benefits, claims and acquisition expense	$ 2,509	$ 2,625	$ 2,124

2006 vs. 2005

Insurance policyholder benefits, claims and acquisition expense decreased $116 million, or 4%, compared to the prior year. The decrease primarily reflected a $142 million (before- and after-tax) reduction in hurricane-related charges for estimated 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 this year.

2005 vs. 2004

Insurance policyholder benefits, claims and acquisition expense increased $501 million, or 24%, over 2004 largely reflecting higher business volumes in the disability insurance business, which has included UnumProvident since May 1, 2004, and charges for estimated net claims for damages related to hurricanes Katrina, Rita and Wilma. Net increases in life insurance liabilities reflecting decreases in long-term interest rates, a change in the tax treatment of certain invested assets, and higher policy maintenance costs also contributed to the increase. These items were partially offset by a net decrease in health insurance reserves due to improved disability claims and termination experience.

Taxes — Table 12

(C$ millions, except percentage amounts)	2006	2005	2004
Income taxes	$ 1,403	$ 1,278	$ 1,287
Other taxes			
Goods and services and sales taxes	$ 218	$ 218	$ 225
Payroll taxes	217	220	207
Capital taxes	107	164	140
Property taxes (1)	92	93	84
Insurance premium taxes	39	39	33
Business taxes	7	9	13
	680	743	702
Total	$ 2,083	$ 2,021	$ 1,989
Effective income tax rate (2)	22.6%	27.2%	29.8%
Effective total tax rate (3)	30.3%	37.1%	39.6%

(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.

2006 vs. 2005

As shown in Table 12 above, income taxes are up from last year, largely reflecting higher earnings and the impact of the $591 million ($326 million after-tax) Enron litigation-related provision recorded in the prior year. The effective income tax rate for the year decreased 4.6% primarily due to higher income reported by our international subsidiaries that operate in lower income tax jurisdictions, 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 by $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.

In addition to the income and other taxes reported in the Consolidated Statements of Income, we recorded income taxes of $136 million in 2006 (2005 – $220 million) in Shareholders' equity, a reduction of $84 million, reflecting a decrease in unrealized foreign currency translation gains as shown in Note 24 to our Consolidated Financial Statements.

2005 vs. 2004

Income taxes were relatively unchanged compared to 2004, despite higher income before income taxes from continuing operations. Higher income reported by our international subsidiaries that operated in lower income tax jurisdictions, additional income from tax-advantaged sources, and a tax recovery resulting from the Enron litigation provision had the effect of lowering our effective tax rate by 2.6% to 27.2% compared to 2004.

Other taxes increased by $41 million, largely due to an increase in capital and payroll taxes as a result of higher capital levels and business growth. In addition to the income and other taxes reported in the Consolidated Statements of Income, we recorded income taxes of $220 million in 2005 ($330 million in 2004) in Shareholders' equity, a reduction of $110 million, reflecting a decrease in unrealized foreign currency translation gains as shown in Note 24 to our Consolidated Financial Statements.

Business realignment charges — Table 13

	Expense for the year ended October 31			Liability balance as at October 31		
(C$ millions)	2006	2005	2004	2006	2005	2004
Employee-related	$ –	$ 45	$ 164	$ 41	$ 118	$ 164
Other	–	–	13	2	–	13
Total business realignment charges from continuing operations	$ –	$ 45	$ 177	$ 43	$ 118	$ 177

In 2006, we continued to implement the additional cost-reduction activities identified during 2005. However, we did not record any additional business realignment charges for continuing operations. The charges incurred in the prior year primarily related to the net additional positions identified for elimination.

The business realignment liability from continuing operations decreased by a net of $75 million from the prior year largely reflecting employee-related payments for income-protection and professional fees. Although the majority of our realignment initiatives were completed by the end of 2006, certain payments related to income-protection and certain lease obligations will continue. For additional details, refer to Note 23 to our Consolidated Financial Statements.

Results by geographic segment (1), (2) — Table 14

(C$ millions)	2006 Canada	2006 United States	2006 Other International	2006 Total	2005 Canada	2005 United States	2005 Other International	2005 Total	2004 Canada	2004 United States	2004 Other International	2004 Total
Net interest income	$ 6,011	$ 108	$ 643	$ 6,762	$ 5,605	$ 608	$ 557	$ 6,770	$ 5,011	$ 934	$ 453	$ 6,398
Non-interest income	7,552	4,397	1,926	13,875	6,901	3,955	1,558	12,414	6,121	3,743	1,540	11,404
Total revenue	13,563	4,505	2,569	20,637	12,506	4,563	2,115	19,184	11,132	4,677	1,993	17,802
Provision for (recovery of) credit losses	456	(28)	1	429	433	23	(1)	455	343	61	(58)	346
Insurance policyholder benefits, claims and acquisition expense	1,379	683	447	2,509	1,270	809	546	2,625	909	872	343	2,124
Non-interest expense	7,056	3,038	1,401	11,495	6,685	3,595	1,077	11,357	6,395	3,457	981	10,833
Business realignment charges	–				45	–	–	45	142	29	6	177
Income taxes and non-controlling interest	1,495	13	(61)	1,447	1,299	(64)	30	1,265	1,172	46	81	1,299
Net income from continuing operations	$ 3,177	$ 799	$ 781	$ 4,757	$ 2,774	$ 200	$ 463	$ 3,437	$ 2,171	$ 212	$ 640	$ 3,023
Net income (loss) from discontinued operations	$ –	$ (29)	$ –	$ (29)	$ –	$ (50)	$ –	$ (50)	$ –	$ (220)	$ –	$ (220)
Net income	$ 3,177	$ 770	$ 781	$ 4,728	$ 2,774	$ 150	$ 463	$ 3,387	$ 2,171	$ (8)	$ 640	$ 2,803

(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.

(2) Certain consolidated and segment-related amounts have been restated to conform to our current management reporting framework and changes made to our business segments during the year. For further discussion, refer to the How we manage our business segments section.

2006 vs. 2005

Net income in Canada was $3,177 million, up $403 million, or 15%, compared to the prior year. This increase largely reflected strong revenue growth in our wealth management and banking businesses due to our successful execution of growth initiatives and the continuing favourable economic conditions. Stronger M&A activity also contributed to the increase. 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 is comprised of 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 the prior year largely reflecting the prior year Enron provision and strong trading results in the current period. 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 the prior year. The current period net loss reflected charges related to the wind-down of operations of RBC Mortgage. The prior year net loss largely reflected charges related to the sale of certain assets and wind-down of operations, including the costs of closing RBC Mortgage'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 $142 million reduction in net estimated hurricane-related charges, as we recorded $203 million in the prior year related to hurricanes Katrina, Rita and Wilma and $61 million for additional claims in the current period predominantly related to Hurricane Wilma, 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.

2005 vs. 2004

Net income in Canada was $2,774 million, up $603 million, or 28%, from 2004. This increase reflected growth in our banking and wealth management businesses, and volume growth in our disability insurance business as a result of the acquisition of UnumProvident. These factors were partly offset by higher non-interest expense, largely reflecting higher levels of sales and service personnel in our Canadian distribution network, higher benefit costs and higher advertising and new program costs in support of business growth. The provision for credit losses increased $90 million, which largely reflected the reversal of the general allowance in 2004.

U.S. net income of $150 million in 2005 compared to a net loss of $8 million in 2004. U.S. net income from continuing operations of $200 million in 2005 compared to net income of $212 million in 2004. Net income from continuing operations in 2005 largely reflected the Enron litigation provision recorded and the negative impact of the stronger Canadian dollar on the translated value of U.S. dollar-denominated earnings. These factors were partially offset by reductions in non-interest expense related to Client First and lower provision for credit losses reflecting improved credit conditions. Also, 2004 included the Rabobank settlement costs. Net loss from discontinued operations of $50 million in 2005 compared to a net loss of $220 million in 2004. The net loss in 2005 reflected charges related to the sale and wind-down of operations, including the costs of closing RBC Mortgage's Chicago office and certain branches, employee incentive payments and the writedown of certain assets. The net loss in 2004 of $220 million largely reflected the $130 million goodwill impairment charge related to RBC Mortgage.

Other international net income was down $177 million, or 28%, from 2004, mainly reflecting the $203 million charges for estimated net claims from hurricanes Katrina, Rita and Wilma.

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 21 to our Consolidated Financial Statements.

Quarterly financial information

Results and trend analysis

Our quarterly earnings, revenue and expense are impacted by a number of trends and recurring factors which include seasonality, general economic conditions and competition.

Seasonality

Seasonal factors impact our results in most quarters. The second quarter has fewer days than the other three quarters, resulting in a decrease in individual revenue and 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 the past eight quarters and positively impacted our businesses. A relatively solid housing market, a low but rising interest rate environment, strong labour markets conditions, as well as solid consumer and business spending supported loan and deposit growth and strong demand for our wealth management products over the period. These favourable factors, along with our continued risk management efforts, contributed to a general improvement in our portfolio credit quality. In general, capital market conditions were more favourable in 2006 compared to the prior year, characterized by higher equity market volatility, near record high M&A activity and solid cash equities business which benefited from healthy foreign demand for Canadian natural resource-based equities.

Partly offsetting these favourable factors was the strengthening of the Canadian dollar over the period, which resulted in a lower translated value of our U.S. dollar- and GBP-denominated earnings, primarily in our wholesale and U.S. retail operations. In addition, heightened market competition in both Canadian and U.S. lending products resulted in spread compression. There was also increased competition in wholesale banking, as U.S.-based investment banks expanded their presence in Canada after the elimination of foreign content restrictions on Canadian registered retirement products.

The following table summarizes our results for the last eight quarters.

Quarterly results (1) — Table 15

	2006				2005			
(C$ millions, except per share amounts)	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Net interest income	$ 1,721	$ 1,757	$ 1,609	$ 1,675	$ 1,757	$ 1,657	$ 1,662	$ 1,694
Non-interest income	3,628	3,449	3,513	3,285	3,039	3,272	3,024	3,079
Total revenue	$ 5,349	$ 5,206	$ 5,122	$ 4,960	$ 4,796	$ 4,929	$ 4,686	$ 4,773
Non-interest expense	2,955	2,861	2,928	2,751	3,310	2,732	2,661	2,654
Provision for credit losses	159	99	124	47	103	128	116	108
Insurance policyholder benefits, claims and acquisition expense	611	627	619	652	740	681	622	582
Business realignment charges	–	–	–	–	40	1	2	2
Net income before income taxes and non-controlling interest in subsidiaries	$ 1,624	$ 1,619	$ 1,451	$ 1,510	$ 603	$ 1,387	$ 1,285	$ 1,427
Income taxes	342	381	348	332	90	392	353	443
Non-controlling interest in net income of subsidiaries	19	44	(25)	6	(30)	(6)	16	7
Net income from continuing operations	1,263	1,194	1,128	1,172	543	1,001	916	977
Net income (loss) from discontinued operations	(1)	(17)	(10)	(1)	(21)	(22)	(9)	2
Net income	$ 1,262	$ 1,177	$ 1,118	$ 1,171	$ 522	$ 979	$ 907	$ 979
Earnings per share (2) – basic	$ .97	$ .91	$ .86	$ .90	$ .40	$ .75	$ .70	$ .76
– diluted	$ .96	$ .90	$ .85	$ .89	$ .39	$ .74	$ .69	$ .75
Earnings per share (2) from continuing operations – basic	$ .97	$ .92	$ .87	$ .90	$ .42	$ .77	$ .71	$ .76
– diluted	$ .96	$ .91	$ .86	$ .89	$ .41	$ .76	$ .70	$ .75
Segment net income (loss) from continuing operations								
RBC Canadian Personal and Business	$ 775	$ 742	$ 608	$ 669	$ 504	$ 679	$ 524	$ 597
RBC U.S. and International Personal and Business	126	111	106	101	132	80	82	93
RBC Capital Markets	315	329	433	330	(57)	255	294	268
Corporate Support	47	12	(19)	72	(36)	(13)	16	19
Net income from continuing operations	$ 1,263	$ 1,194	$ 1,128	$ 1,172	$ 543	$ 1,001	$ 916	$ 977
Period average USD equivalent of C$1.00 (3)	$ .897	$ .896	$ .877	$ .865	$ .850	$ .810	$ .811	$ .827
Period-end USD equivalent of C$1.00	.890	.884	.894	.878	.847	.817	.795	.806

(1) Certain consolidated and segment-related amounts have been restated to conform to our current management reporting framework and changes made to our business segments during the year. For further discussion, refer to the How we manage our business segments section.

(2) On April 6, 2006, we paid a stock dividend of one common share on each of our issued and outstanding common shares. The effect is the same as a two-for-one split of our common shares. All earnings per share calculations have been retroactively adjusted to reflect the stock dividend.

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

Trend analysis

Overview

Over the last eight quarters, our results were affected by a number of favourable and unfavourable specified items. In the first quarter of 2006 and the fourth quarter of 2005, our results were impacted by $61 million (before- and after-tax) and $203 million (before- and after-tax), respectively, of hurricane-related charges in our insurance business. In the fourth quarter of 2005, we recorded a $591 million ($326 million after-tax) provision for Enron litigation-related matters. A $50 million reversal of the general allowance was recorded in the first quarter of 2006 in light of the strengthening of our corporate loan portfolio reflecting continuing favourable credit conditions. Our results were also impacted by the acquisition and disposition of certain businesses. We recorded an additional $40 million business realignment charge for continuing operations in the fourth quarter of 2005. In addition, RBC Mortgage was classified as discontinued operations in the second quarter of 2005 and certain assets of RBC Mortgage were sold in the fourth quarter of 2005.

Consolidated results

Our consolidated net income from continuing operations throughout 2006 was consistently higher than the prior year. This 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 revenue and earnings as a result of the strengthening of the Canadian dollar over the period.

Non-interest expense increased over the period, largely reflecting increased variable compensation on strong business performance and higher costs in support of our growth initiatives, except for the fourth quarter of 2005, when we recorded a provision for Enron. The increase was partially offset by a reduction in the translated value of U.S. dollar-denominated expenses due to the strengthening of the Canadian dollar over the period.

Provision for credit losses fluctuated slightly over the period. The decrease in provisions in the first quarter of 2006 was primarily due to a $50 million reversal of the general allowance discussed earlier. The fourth quarter of 2006 was impacted by higher provisions for personal and small business loans along with lower corporate recoveries. Corporate and commercial recoveries had positively impacted our business results over the period.

Income taxes generally trended downward over the period, despite higher earnings before income taxes from continuing operations. This largely reflected higher earnings reported by our foreign subsidiaries operating in lower income tax jurisdictions, higher income from tax-advantaged sources (Canadian taxable corporate dividends) and the favourable resolution of an income tax audit in the first quarter of 2006. These factors contributed to a reduction in our effective income tax rate over the last eight quarters from 31.0% to 21.1%.

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

RBC Canadian Personal and Business net income generally increased over the last eight quarters. This reflected strong volume growth across most business lines and generally improved margins, despite strong market competition and a shift in client preferences towards lower spread products.

RBC U.S. and International Personal and Business results largely trended upward over the period. This was primarily driven by solid revenue growth, albeit partly restrained by the negative impact on the translated value of U.S. dollar-denominated earnings due to the stronger Canadian dollar.

RBC Capital Markets recorded a general improvement in earnings over the period, with the exception of the fourth quarter of 2005, which included the $591 million ($326 million after-tax) provision for Enron litigation-related matters. Our diverse business and product offerings, together with business expansions and growing global distribution capabilities, contributed to this positive trend. In addition, income taxes trended downward, despite increased earnings before tax, largely due to higher earnings reported by our international subsidiaries operating in lower tax jurisdictions. However, these factors were partially offset by the lower translated value of U.S. dollar- and GBP-denominated earnings resulting from the stronger Canadian dollar.

Fourth quarter 2006 performance

Fourth quarter net income of $1,262 million was up $740 million, or 142%, from a year ago. Diluted EPS were $.96, up 146%. ROE was 23.9%. The increase largely reflected the impact of the prior year provision of $591 million ($326 million after-tax) related to Enron litigation matters. Excluding the prior year Enron provision, net income increased $414 million, or 49%.

Continuing operations

Net income from continuing operations of $1,263 million increased $720 million, or 133%, compared to the prior year and diluted EPS were up $.55, or 134%. ROE was 23.6%. Excluding the prior year Enron provision, net income increased $394 million, or 45%, and diluted EPS were up $.30, or 45%. The increase was primarily due to stronger revenue growth in our wealth management and banking businesses reflecting our successful execution of growth initiatives, and stronger trading results in our capital markets businesses. The reduction in our effective income tax rate in the current year and the prior year charge related to estimated net claims for damages related to hurricanes also contributed to the improvement in our results. These factors were partially offset by higher variable compensation reflecting stronger business performance, higher costs related to our ongoing initiatives and investments to support growth and higher provision for credit losses.

Total revenue increased $553 million, or 12%, from a year ago, reflecting solid revenue growth in our wealth management and banking businesses and stronger trading results. Higher M&A activity and solid business growth in our European life reinsurance businesses also contributed to the increase. These factors were partly offset by the prior year gain on the sale of an Enron-related claim and lower debt and equity origination activity in the current period.

Non-interest expense decreased $355 million, or 11%, from a year ago, largely reflecting the prior year Enron provision. Excluding the Enron provision, non-interest expense was up $236 million, or 9%, largely reflecting higher variable compensation on stronger business performance. Higher staffing levels in our distribution network, as well as increased marketing and advertising costs in support of our business growth also contributed to the increase.

Provision for credit losses increased $56 million from a year ago, largely reflecting lower recoveries in our corporate and agriculture portfolios in the current quarter and increased provisions in our personal loan and small business portfolios.

Insurance policyholder benefits, claims and acquisition expense decreased $129 million, or 17%, over the prior year. The decrease largely reflected a charge of $203 million (before- and after-tax) related to estimated net claims for damages related to hurricanes Katrina, Rita and Wilma, which was partially offset by a net reduction in actuarial liabilities of $74 million, both of which were recorded in the prior period.

Discontinued operations

The net loss of $1 million in the fourth quarter of 2006 compared to a net loss of $21 million a year ago, which reflected an operating loss prior to the sale of certain assets of RBC Mortgage to Home123 Corporation on September 2, 2005, as well as charges related to the sale and wind-down of operations. As at October 31, 2006, we have substantially disposed of the assets and obligations related to RBC Mortgage that were not transferred to Home123 Corporation.

Business segment results from continuing operations

Results by business segment (1) — Table 16

(C$ millions)	2006 RBC Canadian Personal and Business	2006 RBC U.S. and International Personal and Business	2006 RBC Capital Markets (2)	2006 Corporate Support (2)	2006 Total	2005 Total	2004 Total
Net interest income	$ 5,941	$ 1,109	$ 201	$ (489)	$ 6,762	$ 6,770	$ 6,398
Non-interest income	7,440	1,763	4,492	180	13,875	12,414	11,404
Total revenue	$ 13,381	$ 2,872	$ 4,693	$ (309)	$ 20,637	$ 19,184	$ 17,802
Non-interest expense	6,140	2,260	3,058	37	11,495	11,357	10,833
Provision for (recovery of) credit losses	604	26	(115)	(86)	429	455	346
Insurance policyholder benefits, claims and acquisition expense	2,509	–	–	–	2,509	2,625	2,124
Business realignment charges	–	1	(1)	–	–	45	177
Net income before income taxes and non-controlling interest in net income of subsidiaries	$ 4,128	$ 585	$ 1,751	$ (260)	$ 6,204	$ 4,702	$ 4,322
Net income from continuing operations	$ 2,794	$ 444	$ 1,407	$ 112	$ 4,757	$ 3,437	$ 3,023
Return on equity (ROE) (3)	31.5%	13.6%	29.3%	3.0%	23.3%	18.1%	16.8%
Return on risk capital (RORC) (3)	43.1%	22.4%	37.7%	n.m.	37.0%	29.7%	26.5%
Average assets (4)	$ 200,700	$ 39,000	$ 267,800	$ (5,400)	$ 502,100	$ 445,300	$ 418,200

(1) Certain consolidated and segment-related amounts have been restated to conform to our current management reporting framework and changes made to our business segments during the year. Reported amounts include securitized residential mortgage and credit card loans. For further discussion, refer to the How we manage our business segments section.
(2) Net interest income, total revenue and net income before income taxes are presented in RBC 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 manage our business segments section.
(3) Average risk capital and the Return on risk capital are non-GAAP financial measures. For further discussion and reconciliation, refer to the Key financial measures (non-GAAP) section.
(4) Average amounts are calculated using methods intended to approximate the average of the daily balances for the period.
n.m. not meaningful

RBC Canadian Personal and Business

Net income of $2,794 million increased $490 million, or 21%, from a year ago. The increase largely reflected strong revenue growth in our banking and wealth management businesses and lower hurricane-related charges this year. The increase was partly offset by higher variable compensation on stronger business performance, increased costs in support of business growth and higher provision for credit losses partly due to loan growth and lower recoveries.

RBC U.S. and International Personal and Business

Net income of $444 million was up $57 million, or 15%, from the prior year, despite a $28 million reduction due to the negative impact of a stronger Canadian dollar on the translated value of U.S. dollar-denominated earnings. In U.S. dollars, net income was up US$73 million, or 23%, driven by strong revenue growth in *Wealth Management* and solid business growth and improved credit quality in *Banking*.

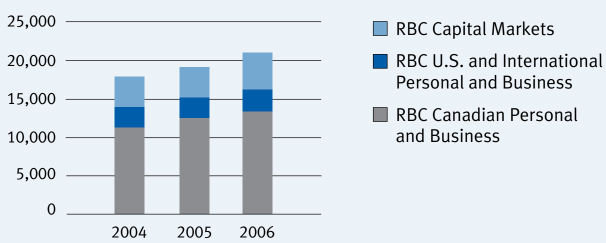
RBC Capital Markets

Net income was $1,407 million, up $647 million, or 85%, compared to a year ago, mostly reflecting the prior year Enron provision and record trading results in the current period. Excluding the prior year Enron provision, net income increased $321 million, or 30%, compared to a year ago largely reflecting 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, lower debt and equity origination activity and the negative impact of a stronger Canadian dollar on the translated value of our U.S. dollar- and GBP-denominated earnings.

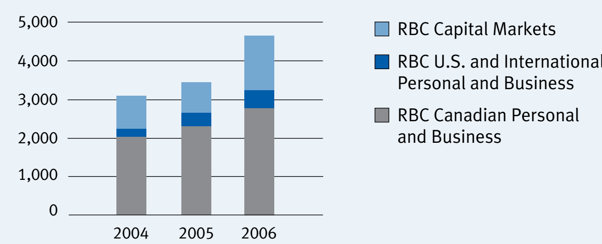
Corporate Support

Net income of $112 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 for lease obligations.

Revenue contribution from our business segments (C$ millions)



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



How we manage our business segments

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 the business segments are managed. This approach is intended to ensure that our business segment results reflect all relevant revenue and expenses associated with the conduct of their business and depicts how management views their results.

We use and report certain non-GAAP financial measures, consistent with our management framework. These measures do not have standardized meanings under GAAP and are not necessarily comparable with similar information reported by other financial institutions.

The following highlights how our segments are managed and reported:

- RBC Canadian Personal and Business reported results include securitized 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, 2006 were $17.8 billion and $3.7 billion, respectively.
- RBC U.S. and International Personal and Business reported results include additional disclosure in U.S. dollars as we largely review and manage the results of this segment on a U.S. dollar basis.
- RBC Capital Markets results are reported on a teb basis, which grosses up net interest income from certain tax-advantaged sources (Canadian taxable corporate dividends) to their effective tax equivalent value with a corresponding offset recorded in the provision for income taxes. This enhances the comparability of revenue and related ratios across our taxable and tax-advantaged sources of revenue.
- Corporate Support results include all enterprise level activities that are undertaken for the benefit of the organization which are not allocated to our three 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 RBC 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 that they remain valid.

Expense allocation

In order to ensure that our segments' results include expenses associated with the conduct of their business, we allocate costs incurred or services provided by our Global Technology and Operations and Global Functions groups, which were directly undertaken or provided on behalf of the segments. 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 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 consistently measures and aligns economic costs with the underlying benefits and risks associated with the activities of each business segment. The amount of capital assigned to each segment is referred to as Attributed equity. Unattributed equity and associated net charges are reported in Corporate Support.

The capital attribution methodologies, detailed in the Capital management section of this Annual Report, involve a number of assumptions and estimates that are revised periodically. Any changes to these factors directly impact other measures such as our business segments' return on average 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. This allocation considers the interest rate risk, liquidity risk and regulatory requirements of our business segments. Our 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 (in our case, Canadian taxable corporate dividends) on a taxable equivalent basis (teb). Under this approach, we gross up revenue from tax-advantaged sources, which currently includes only our Canadian taxable corporate dividends recorded in Net interest income, to their tax equivalent value with a corresponding offset recorded in the provision for income taxes. We record teb adjustments in RBC Capital Markets and record elimination adjustments in Corporate Support. We believe these adjustments are useful and reflect how RBC Capital Markets manages its business since it enhances the comparability of revenue and related ratios across our taxable and 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 adjustments for 2006 were $213 million (2005 – $109 million; 2004 – $55 million).

Changes made in 2006

The following highlights the key changes we made to our management reporting framework and business segments during the year. All segment historical comparatives have been restated for 2005 and 2004. These changes did not have an impact on our consolidated results or disclosure, unless otherwise noted.

- We enhanced our transfer pricing methodologies.
- We recorded the teb adjustments, which gross up tax-advantaged income, currently Canadian taxable corporate dividends, to their tax equivalent value, in RBC Capital Markets, and eliminated the teb adjustments in Corporate Support.
- We reported segment net interest margin (NIM) based on earning assets only. Previously, we reported segment NIM based on Total average assets. This change was made as NIM based on earning assets is viewed by management as a more meaningful measure, as it only includes those assets that give rise to our reported net interest income including deposits with other banks, certain securities and loans. In conjunction with this change, we added residential mortgages securitized balances and reclassified certain income amounts in RBC Canadian Personal and Business. The securitization of residential mortgage and credit card loans and related results are offset in our Corporate Support segment.
- We reclassified the mark-to-market changes in the fair value of derivative instruments designated as economic hedges for our stock-based compensation plan at RBC Dain Rauscher. This resulted in amounts being reclassified from Non-interest income to Non-interest expense – Stock-based compensation in order to more appropriately reflect the purpose of these instruments and our management of this compensation plan. The reclassification did not apply to other securities used to economically hedge RBC Dain Rauscher's stock-based compensation plan. Consolidated results have been restated to reflect this change.
- We transferred our housing tax credit syndication business from RBC U.S. and International Personal and Business to RBC Capital Markets.
- Certain client-owned assets reported as assets under administration (1) and as assets under management (2) were determined to be either incorrectly classified or qualified for classification under both terms. We reclassified certain portfolios to conform to our definitions. The segment and consolidated historic comparatives have been restated to reflect these changes.

(1) Assets under administration (AUA): Assets administered by us, which are beneficially owned by clients and are therefore not reported on the Consolidated Balance Sheets. 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.

(2) Assets under management (AUM): Assets managed by us, which are beneficially owned by clients and are therefore not reported on the Consolidated Balance Sheets. Services provided in respect of assets under management include the selection of investments and the provision of investment advice. Assets under management may also be administered by us.

Key financial measures (non-GAAP)

Performance and non-GAAP measures

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). While net income is in accordance with GAAP, the others are considered non-GAAP financial measures. The measures reported that are not defined by GAAP do not have standardized meanings and may not be comparable to similar measures used by other companies.

Return on equity and Return on risk capital

We use ROE and RORC, at both the consolidated and segment levels, as a measure of return on total capital invested in our businesses. 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 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). In the second quarter of 2005, goodwill was reallocated, in accordance with GAAP. For segment reporting purposes the unattributed capital is reported in Corporate Support.

GAAP does not prescribe a methodology for attributing capital or risk capital to business segments or for computing segment ROE or RORC, and there is no generally accepted methodology for doing so.

Such attributions involve the use of assumptions, judgments and methodologies that are regularly reviewed and revised as deemed 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.

(1) For internal allocation and measurement purposes, total attributed capital is deemed by management to be comprised of 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.

RORC is used at both the consolidated and business segment levels 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 for supporting investment and resource allocation decisions because they adjust for certain items that may affect comparability between business segments and certain competitors. Table 17 provides a reconciliation of the RORC calculations.

Return on equity and Return on risk capital reconciliation — Table 17

	2006					2005	2004
(C$ millions, except for percentage amounts) (1), (2)	RBC Canadian Personal and Business	RBC U.S. and International Personal and Business	RBC Capital Markets	Corporate Support	Total	Total	Total
Net income from continuing operations	$ 2,794	$ 444	$ 1,407	$ 112	$ 4,757	$ 3,437	$ 3,023
Net loss from discontinued operations	–	–	–	–	(29)	(50)	(220)
Net income	$ 2,794	$ 444	$ 1,407	$ 112	$ 4,728	$ 3,387	$ 2,803
less: Preferred dividends (3)	(22)	(8)	(12)	(18)	(60)	(38)	(31)
Net income available to common shareholders	$ 2,772	$ 436	$ 1,395	$ 94	$ 4,668	$ 3,349	$ 2,772
Average equity	$ 8,800	$ 3,200	$ 4,750	$ 3,150	$ 19,900	$ 18,600	$ 17,800
less: Unattributed capital	–	–	–	2,500	2,500	2,300	1,100
less: Goodwill and intangible capital	2,350	1,250	1,050	–	4,650	4,850	5,400
Average risk capital (4)	$ 6,450	$ 1,950	$ 3,700	$ 650	$ 12,750	$ 11,450	$ 11,300
Return on equity (ROE)	31.5%	13.6%	29.3%	3.0%	23.5%	18.0%	15.6%
Return on risk capital (RORC)	43.1%	22.4%	37.7%	n.m.	36.7%	29.3%	24.6%
Return on equity (ROE) from continuing operations					23.3%	18.1%	16.8%
Return on risk capital (RORC) from continuing operations					37.0%	29.7%	26.5%

(1) The average risk capital, goodwill and intangible capital, average attributed capital and average equity figures shown above and throughout this document represent rounded figures. These amounts are calculated using methods intended to approximate the average of the daily balances for the period. The ROE and RORC measures shown above and throughout this document are based on actual balances before rounding.
(2) Business segment ROE and RORC are calculated on a continuing operations basis only. Total (consolidated) return on common equity and RORC include continuing and discontinued operations.
(3) Preferred dividends include a net gain on redemption of preferred shares.
(4) Average risk capital includes credit, market (trading and non-trading), insurance, operational, business and fixed assets risk capital. For further details, refer to the Capital management section.
n.m. not meaningful

RBC Capital Markets total revenue (teb) excluding revenue related to Consolidated Variable Interest Entities (VIEs)

We consolidate certain entities in accordance with CICA AcG-15, *Consolidation of Variable Interest Entities* (VIEs). Consolidation of a VIE is based on our exposure to variability in the VIE's assets and not on whether we have voting control. Revenue and expenses from certain of these VIEs have been included in RBC Capital Markets results. However, the amounts that have been consolidated, which are attributable to other equity investors in these VIEs are offset in Non-controlling interest in net income of subsidiaries and have no impact on our reported net income. As the amounts attributable to other equity investors do not have an impact on our reported net income, management believes that adjusting for these items enhances the comparability of RBC Capital Markets results and related ratios and enables a more meaningful comparison of our financial performance with other financial institutions. As the expenses are not viewed as material, we have only adjusted for the revenue attributed to other equity investors.

The following table provides a reconciliation of total revenue (teb) excluding VIEs for RBC Capital Markets.

RBC Capital Markets total revenue (teb) excluding VIEs — Table 18

(C$ millions)	2006	2005	2004
Total revenue (teb) (1)	$ 4,693	$ 4,062	$ 3,933
Revenue related to VIEs offset in Non-controlling interest (2)	(7)	(24)	–
Total revenue (teb) excluding VIEs	$ 4,700	$ 4,086	$ 3,933

(1) Taxable equivalent basis. For further discussion, refer to the How we manage our business segments section.
(2) Represents revenue attributed to other equity investors of consolidated VIEs which is offset in Non-controlling interest in net income of subsidiaries.

Results excluding Enron provision

In the fourth quarter of 2005, we recorded a litigation charge of $591 million ($326 million after-tax) for Enron-related matters, including a securities class action lawsuit brought on behalf of Enron securities holders in a federal court in Texas. Table 19 provides a reconciliation of our RBC Capital Markets and consolidated GAAP results for 2005 to exclude the Enron provision. Management believes that adjusting this amount provides a meaningful measure for comparison to other periods.

2005 Results excluding Enron provision — **Table 19**

	RBC Capital Markets (1)			RBC Consolidated		
(C$ millions, except per share amounts)	Reported (2)	Enron litigation provision	Excluding Enron litigation provision	Reported (2)	Enron litigation provision	Excluding Enron litigation provision
Continuing operations						
Non-interest expense	$ 3,274	$ 591	$ 2,683	$ 11,357	$ 591	$ 10,766
Income taxes	137	265	402	1,278	265	1,543
Net income from continuing operations	$ 760	$ 326	$ 1,086	$ 3,437	$ 326	$ 3,763
Net income				$ 3,387	$ 326	$ 3,713
Earnings per share from continuing operations – diluted				$ 2.61	$ .25	$ 2.86
Earnings per share – diluted				$ 2.57	$ .25	$ 2.82

(1) Certain segment-related amounts have been restated to conform to our current management reporting framework and changes made to our business segments during the year. For further discussion, refer to the How we manage our business segments section.
(2) Income taxes for RBC Capital Markets are reported on a taxable equivalent basis. For further discussion, refer to the How we manage our business segments section.

2006 Adjusted operating leverage

Operating leverage is the difference between our revenue growth rate and the non-interest expense growth rate. Our 2006 operating leverage objective of greater than 3% excluded the 2005 Enron provision of $591 million from non-interest expense. While we performed well against our earnings measures, our operating leverage for 2006 of 1% did not meet our target. This was largely attributed to the impact of our business mix and certain factors, which contributed to earnings growth, but were not appropriately captured in this measure. These factors included the impact of tax-advantaged sources, consolidated VIEs and insurance-related revenue and expense.

During the year, we experienced higher than expected earnings growth from our wealth management and capital markets businesses, which included higher earnings from certain tax-advantaged sources (Canadian taxable corporate dividends), which are not appropriately reflected in our revenue growth, while the related expense was fully captured in expense growth. We also realized lower than expected insurance-related revenue, which in turn largely resulted in lower policyholder benefits, claims and acquisition expense. While the reduction in insurance-related revenue reduced the ratio, the related reduction in policyholder benefits claims and acquisition expense was not captured in our operating leverage calculation, as it was not reflected in expense growth. In addition, consolidated VIEs impacted our revenue, and consequently our operating leverage. However, as their earnings are attributed to other equity investors and offset in Non-controlling interest in income of subsidiaries, they have no impact on our reported net income.

We concluded that revenue growth should be based on a taxable equivalent basis, while the impact of consolidated VIEs should be excluded as they have no material impact on our earnings. We also concluded insurance-related revenue and expenses should not be included in the determination of the operating leverage ratio, as their impact cannot be appropriately recognized in the ratio. We have adjusted our 2007 operating leverage calculation to incorporate these factors in order to more appropriately reflect the performance of our businesses going forward. If this new approach was applied to our 2006 results, our adjusted operating leverage would have been 2.5%, which although still below our target, is a more meaningful measure and indicator of our performance.

The following table shows our 2006 operating leverage ratio based on our reported GAAP revenue and expense and the adjustments to our 2006 operating leverage to conform to our 2007 adjusted operating leverage ratio calculation.

2006 Adjusted operating leverage — **Table 20**

			2006 vs. 2005 Increase (decrease)		
(C$ millions, except percentage amounts)	2006	2005		Operating leverage	Adjusted operating leverage
Total revenue	$ 20,637	$ 19,184	$ 1,453	7.6%	
add: teb adjustment	213	109	104		
less: Revenue related to VIEs	(7)	(24)	17		
less: Gross insurance revenue	3,348	3,311	37		
Total revenue (adjusted)	$ 17,509	$ 16,006	$ 1,503		9.4%
Non-interest expense	$ 11,495	$ 11,357	$ 138		
less: 2005 Enron provision	–	591	(591)		
Non-interest expense excluding the Enron provision	$ 11,495	$ 10,766	$ 729	6.8%	
less: Insurance non-interest expense	517	501	16		
Non-interest expense (adjusted)	$ 10,978	$ 10,265	$ 713		6.9%
Operating leverage				0.8%	
Adjusted operating leverage					2.5%

RBC Canadian Personal and Business

- **Net income increased $490 million, or 21%, reflecting a broad-based increase across business lines.**
- **Strong revenue growth in wealth management and banking businesses of $845 million, or 9%.**
- **Solid volume growth in most of our business lines reflecting our successful execution of growth initiatives and continuing favourable economic conditions.**

RBC Canadian Personal and Business segment consists of our personal and business banking and wealth management businesses in Canada as well as our global insurance business. This segment is comprised of *Personal Banking*, *Business Financial Services*, *Cards and Payment Solutions*, *Wealth Management* and *Global Insurance*.

RBC Canadian Personal and Business provides a broad suite of financial products and services to over 13 million individual and business clients through our extensive branch, automated banking machine, online and telephone banking networks, as well as through a large number of proprietary sales professionals and investment advisors in addition to a wide-ranging third-party network of independent insurance distributors. We have 3.5 million online and 2.9 million telephone clients.

We have top rankings in most retail businesses and the leading full-service brokerage operation. We are also the top mutual fund provider among Canadian banks as well as the largest Canadian bank-owned insurer.

Business highlights

- RBC Asset Management led the Canadian mutual fund industry in long-term net sales for the third consecutive year, with net sales of $5.4 billion. It has over $68 billion in assets under management or an 11% market share, representing Canada's largest single fund family.
- During 2006, total personal loans grew 13%, and RBC moved to the number one Canadian market share position at 15%.
- RBC Homeline Plan portfolio grew 117% over last year, with the total balance outstanding in excess of $27 billion as of October 2006.
- 2006 was a year of continued and accelerated focus on our network distribution capability. In Canada, we opened fourteen banking branches and seven insurance branches.

Economic and market review

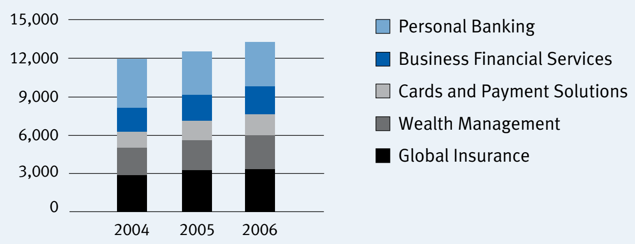
In 2006, Canadian economic growth was strong, underpinned by a relatively favourable interest rate environment, strong employment levels and higher wages, and a solid yet moderating housing market, which contributed to increased demand for consumer and business loans, as well as other financial products. Competition in the personal deposits business continued to increase from both traditional and niche financial institutions which offer high-interest savings products. The generally favourable capital market conditions during the year continued to support the growth of our wealth management business.

RBC Canadian Personal and Business financial highlights (1) — Table 21

(C$ millions, except percentage amounts)	2006	2005	2004
Net interest income	$ 5,941	$ 5,348	$ 4,876
Non-interest income	7,440	7,151	6,337
Total revenue	$ 13,381	$ 12,499	$ 11,213
Non-interest expense	6,140	5,872	5,630
Provision for credit losses (PCL)	604	542	410
Insurance policyholder benefits, claims and acquisition expense	2,509	2,625	2,124
Business realignment charges	–	7	63
Net income before income taxes and non-controlling interest in subsidiaries	$ 4,128	$ 3,453	$ 2,986
Net income	$ 2,794	$ 2,304	$ 2,043
Key ratios			
Return on equity (2)	31.5%	27.1%	24.7%
Return on risk capital (2)	43.1%	39.1%	37.6%
Net interest margin (3)	3.27%	3.26%	3.31%
Operating leverage (excluding Global Insurance) (4)	4.5%	5.5%	(.5)%
Selected average balance sheet and other information (5)			
Total assets (6)	$ 200,700	$ 182,400	$ 164,100
Total earning assets (6)	181,500	163,900	147,200
Loans and acceptances (6)	180,500	161,500	145,300
Deposits	145,700	138,800	133,700
Attributed capital (2)	8,800	8,450	8,200
Risk capital (2)	6,450	5,850	5,400
Assets under administration	213,200	180,300	157,300
Assets under management	89,700	72,100	58,700
Credit information			
Gross impaired loans as a % of average loans and acceptances	.33%	.31%	.44%
Specific PCL as a % of average loans and acceptances	.33%	.34%	.33%
Other information			
Number of employees (full-time equivalent)	28,271	27,045	27,366

(1) Certain segment-related amounts have been restated to conform to our current management reporting framework and changes made to our business segments during the year. Reported amounts include securitized residential mortgage and credit card loans. For further discussion, refer to the How we manage our business segments section.
(2) Average attributed capital and Return on equity are calculated using methods intended to approximate the average of the daily balances for the period. Segment Return on equity, Average risk capital and Return on risk capital are non-GAAP financial measures. For further discussion and reconciliation, refer to the Key financial measures (non-GAAP) section.
(3) Net interest margin (NIM) is calculated as Net interest income divided by Average earning assets. Average earning assets are calculated using methods intended to approximate the average earnings asset balances for the period.
(4) Defined as the difference between revenue growth rate and non-interest expense growth rate for the segment, excluding Global Insurance due to the nature of its business.
(5) Average amounts are calculated using methods intended to approximate the average of the daily balances for the period.
(6) Total assets, total earning assets, and loans and acceptances include average securitized residential mortgage and credit card loans for the year of $14.9 billion and $3.7 billion, respectively.

Revenue by business line (C$ millions)



Financial performance

2006 vs. 2005

Net income for the year of $2,794 million increased $490 million, or 21%, from a year ago. The increase largely reflected strong revenue growth in our wealth management and banking businesses, and lower hurricane-related charges this year. The increase was partly offset by higher variable compensation on stronger business performance, increased costs in support of business growth and higher provision for credit losses partly due to loan growth and lower recoveries.

Total revenue increased $882 million, or 7%, over the prior year, largely reflecting strong volume growth and improved deposit and investment spreads in our banking and wealth management businesses, which combined for an increase in revenue of $845 million, or 9%. These results continued to reflect our successful execution of growth initiatives and the continuing favourable economic conditions.

Net interest margin increased 1 bp over last year to 3.27%, primarily reflecting improved spreads on deposits and investment products.

Non-interest expense was up $268 million, or 5%, mainly as a result of higher variable compensation on stronger business performance, higher levels of sales personnel and infrastructure costs in our distribution network, and higher advertising and marketing costs in support of business growth.

Provision for credit losses increased $62 million, or 11%, largely reflecting higher provisions in our personal loan and small business portfolios and lower recoveries in our agriculture portfolio this year. The prior year included our 50% proportionate share of a provision booked at Moneris.

Insurance policyholder benefits, claims and acquisition expense decreased $116 million, or 4%, compared to the prior year. The decrease primarily reflected a $142 million (before- and after-tax) reduction in charges for estimated net claims for damages related to hurricanes, 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 this year.

Average assets increased $18 billion, or 10%, over the prior year, largely due to strong loan growth, underpinned by our successful execution of growth initiatives, solid business and household balance sheets, and strong labour market conditions. Deposits were up $7 billion, or 5%, from a year ago mainly due to growth in business deposits.

2005 vs. 2004

Net income increased $261 million, or 13%, from a year ago. The increase primarily reflected strong revenue growth across all business lines, which was partially offset by charges for hurricane-related estimated net claims, higher costs associated with increased sales and service personnel in our Canadian branch network, and higher provision for credit losses largely reflecting a $78 million reversal of the general allowance recorded in 2004.

Total revenue increased $1,286 million, or 11%, over the prior year, largely due to strong growth in our disability insurance business, which included UnumProvident since May 1, 2004, and higher volumes in lending and deposits. The increase also resulted from robust mutual fund sales, and increased brokerage and investment management fees related to higher client assets, transaction volumes and higher service fees.

Non-interest expense increased $242 million, or 4%, primarily due to increased sales and service personnel in our distribution network, higher variable compensation associated with strong business performance and higher benefit costs. Higher advertising and new program costs in support of our business growth also contributed to the increase.

Provision for credit losses increased $132 million, largely reflecting a $78 million reversal of the general allowance in 2004, as well as higher provisions commensurate with loan growth.

Insurance policyholder benefits, claims and acquisition expense increased $501 million, or 24%, over the prior year. The increase was largely due to higher business volumes in the disability insurance business, which included UnumProvident since May 1, 2004, and the impact of charges for estimated net claims related to hurricanes Katrina, Rita and Wilma.

2007 Outlook and priorities

The Canadian economic and business environment is expected to remain favourable for business growth. We expect continued strong performance from our wealth management, banking and insurance businesses, supported by generally favourable economic, labour and capital market conditions, and our successful implementation of growth initiatives. We will remain focused on new client acquisition and growth in high-value markets, augmenting our strengths in client insights and analytics, distribution capabilities and risk management, as well as product breadth and integration, with increased emphasis on our local competitiveness, and providing superior client service.

Key strategic priorities for 2007

- Enhance client service, improve problem resolution and offer high-quality products and services to achieve industry leading client loyalty, increase client retention and generate superior results.
- Expand and enhance our extensive distribution networks through increased contact points and improved integration to truly differentiate ourselves from the competition and extend our leadership position.
- Continue to streamline our processes and structures to make it easier for our clients to do business with us and to improve the ability of our employees to deliver cost-effective and efficient solutions.

Personal Banking

Personal Banking focuses on meeting the needs of our individual clients at every stage of their lives through a wide range of products and services, including home equity financing, lines of credit, core deposits, personal loans and automotive financing.

We have the largest retail banking network in Canada with over 1,100 branches and 3,800 automated banking machines. We also rank first or second in market share for most personal banking products, including 16% market share of residential mortgages and 14% of personal loans.

Financial performance

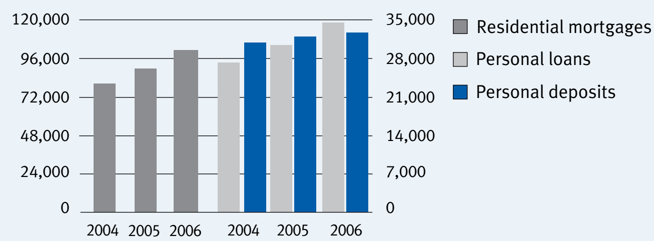
Revenue increased $226 million, or 7%, over the prior year, primarily reflecting strong loan growth particularly in home equity lending and improved spreads on deposits. Average personal loans increased 12% and average residential mortgage balances were up 12% over the prior year, underpinned by relatively low interest rates, a continued solid housing market and a firm labour market. Average personal deposit balances increased 2% from a year ago notwithstanding an increasingly competitive market.

Selected highlights (1) — **Table 22**

(C$ millions)	2006	2005	2004
Total revenue	$ 3,614	$ 3,388	$ 3,094
Other information (average) (2)			
Residential mortgages	100,800	89,700	79,900
Personal loans	34,400	30,600	27,000
Personal deposits	32,600	31,900	30,800
New accounts opened (thousands)	769	740	715

(1) Certain segment-related amounts have been restated to conform to our current management reporting framework and changes made to our business segments during the year. Reported amounts include securitized residential mortgages. For further discussion, refer to the How we manage our business segments section.
(2) Average amounts are calculated using methods intended to approximate the average of the daily balances for the period.

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



Business Financial Services

Business Financial Services offers a wide range of lending, leasing, deposit and transaction products and services to small and medium-sized businesses, and 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 96 business banking centres, and our strong commitment to our clients has resulted in top market share in business loans and deposits.

Financial performance

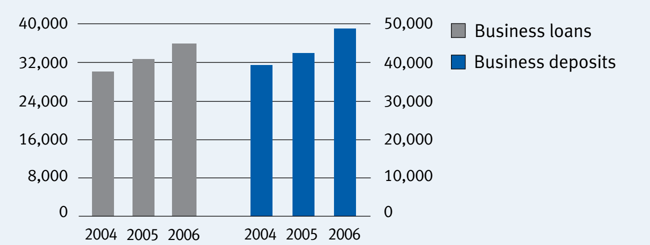
Revenue increased $130 million, or 6%, over the prior year largely as a result of strong growth in business loans and deposits. Average business loans grew by 10% on favourable economic conditions, while average business deposits increased 15% driven by high liquidity within Canadian businesses.

Selected highlights (1), (2) — **Table 23**

(C$ millions)	2006	2005	2004
Total revenue	$ 2,141	$ 2,011	$ 1,888
Other information (average) (2)			
Business loans	35,800	32,400	30,100
Business deposits	48,600	42,400	39,200

(1) Certain segment-related amounts have been restated to conform to our current management reporting framework and changes made to our business segments during the year. For further discussion, refer to the How we manage our business segments section.
(2) Average amounts are calculated using methods intended to approximate the average of the daily balances for the period.

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.

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

Financial performance

Revenue increased $91 million, or 6%, over the prior year, largely reflecting strong growth in new clients supported by ongoing marketing initiatives, higher client spending and balances and the receipt of a fee related to the termination of an agreement. These factors were partially offset by higher costs related to our customer loyalty reward program. Average card balances increased 13% and net purchase volume grew by 15%, reflecting strong labour market conditions and continued consumer confidence.

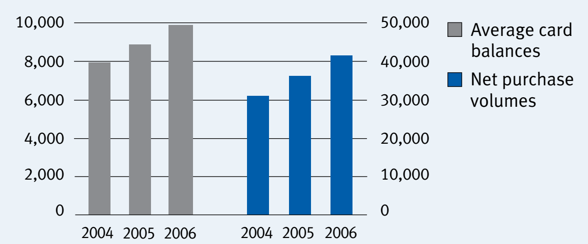
Selected highlights (1) — Table 24

(C$ millions)	2006	2005	2004
Total revenue	$ 1,586	$ 1,495	$ 1,341
Other information			
Average card balances (2)	9,900	8,800	7,900
Net purchase volumes	41,500	36,100	30,600

(1) Certain segment-related amounts have been restated to conform to our current management reporting framework and changes made to our business segments during the year. Reported amounts include securitized credit card loans. For further discussion, refer to the How we manage our business segments section.

(2) 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)



Wealth Management

Wealth Management provides investment and trust products and services through our branch network of licensed mutual fund salespeople, as well as through full-service and self-directed brokerage, asset management, trust services, investment counselling and private banking. *Wealth Management* includes RBC Dominion Securities, RBC Direct Investing and RBC Asset Management.

RBC Dominion Securities continues to be the market leader in full-service brokerage in Canada, with over 1,300 investment advisors and $145 billion of assets under administration. RBC Direct Investing is the second largest Canadian self-directed brokerage as measured by assets under administration. In 2006, RBC Direct Investing introduced market-leading pricing for active investors, and has significantly enhanced its online capabilities.

RBC Asset Management provides a broad range of investment services and products including mutual funds, pooled funds and separately managed portfolios marketed and distributed by our branch network of 9,700 licensed mutual fund salespeople, full-service and self-directed brokerage, as well as independent financial planners.

Financial performance

Revenue was up $398 million, or 17%, over the prior year. The increase reflected higher spreads on personal investment products and client balances, strong net sales and capital appreciation in mutual funds and continued growth in fee-based accounts. The strong investment performance of the RBC family of funds also contributed to a 25% increase in assets under management. The GIC portfolio remained relatively stable over the past three years, despite a higher portion of investment purchases being directed towards long-term mutual funds.

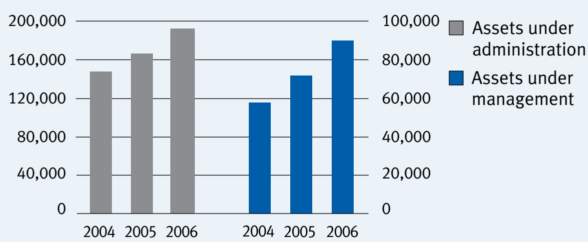
Selected highlights (1) — Table 25

(C$ millions)	2006	2005	2004
Total revenue	$ 2,692	$ 2,294	$ 2,015
Other information			
Long-term mutual fund net sales	5,450	5,982	3,883
Assets under administration	191,800	166,200	147,600
Assets under management	89,500	71,800	58,200
GICs (2)	57,000	57,200	56,700

(1) Certain segment-related amounts have been restated to conform to our current management reporting framework and changes made to our business segments during the year. For further discussion, refer to the How we manage our business segments section.

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

Assets under administration and management (C$ millions)



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, a proprietary sales force, Internet and retail insurance offices.

Our insurance products are distributed through more than 17,000 independent brokers in Canada and more than 650 career sales representatives in North America. Our Canadian insurance business holds lead positions in creditor, travel and individual health insurance products, and has a significant presence in life, home and auto insurance.

During 2006, we strategically reduced our exposure in property catastrophe reinsurance, as we have ceased underwriting new business and focused on managing the remaining claim liabilities related to previous commitments.

Financial performance

Net income before income taxes increased $136 million, or 73%, primarily reflecting the reduction in charges of $142 million (before- and after-tax) for the estimated net claims for damages related to hurricanes, as we recorded $203 million in 2005 related to hurricanes Katrina, Rita and Wilma and $61 million for additional net claims in 2006 predominantly related to Hurricane Wilma. 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 also contributed to the increase. These factors were partially offset by lower revenue from property catastrophe reinsurance reflecting our strategic reduction in exposure.

Total revenue increased $37 million, or 1%, over the prior year, primarily reflecting growth in our Canadian life business and European life reinsurance business. These factors were mainly offset by lower revenue in our U.S. life business largely due to lower annuity sales, the negative impact on the translated value of U.S. dollar-denominated revenue resulting from the stronger Canadian dollar, and policy lapses on discontinued and mature product lines. Lower revenue from property catastrophe reinsurance reflecting our strategic reduction in exposure and the gain on sale of Liberty Insurance Services in 2005 also offset the increase in revenue.

Non-interest expense was up $16 million, or 3%, compared to the previous year. This primarily reflected growth in our Canadian life business and increased marketing and system development costs, which were partially offset by the lower translated value of U.S. dollar-denominated expense.

Insurance policyholder benefits, claims and acquisition expense decreased $116 million, or 4%, compared to the prior year. The decrease primarily reflected a $142 million (before- and after-tax) reduction in hurricane-related charges for estimated net claims, 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. These factors were partially offset by higher benefit and claim costs associated with business growth and a reduced level of net favourable actuarial liability adjustments this year.

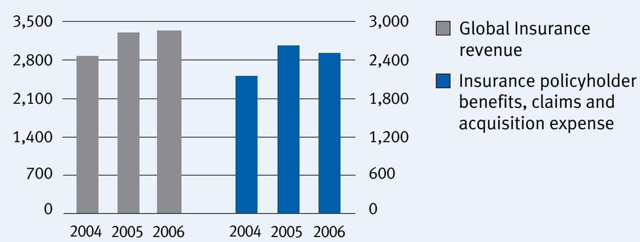
Insurance claims and policy benefit liabilities increased $220 million, or 3%, over the prior year, primarily reflecting business growth in our Canadian life business and European life reinsurance business. The increase was partially offset by our lower property catastrophe reinsurance liabilities, net payment of claims related to hurricanes, and a net decrease of $15 million of life and health insurance liabilities reflecting changes to various actuarial assumptions.

Selected highlights (1) — Table 26

(C$ millions)	2006	2005	2004
Total revenue	$ 3,348	$ 3,311	$ 2,875
Non-interest expense	517	501	501
Insurance policyholder benefits, claims and acquisition expense	2,509	2,625	2,124
Net income before income taxes	322	186	242
Insurance claims and policy benefit liabilities	7,337	7,117	6,488
Other selected information (in thousands)			
Canadian life and health policies in force and certificates (2)	2,295	2,245	2,203
U.S. life policies in force	1,374	1,860	1,976
Home and auto – personal lines policies in force	254	233	193
Travel coverages	2,843	2,323	2,121

(1) Certain segment-related amounts have been restated to conform to our current management reporting framework and changes made to our business segments during the year. For further discussion, refer to the How we manage our business segments section.
(2) Excludes accidental death and dismemberment which is no longer marketed.

Global Insurance revenue and insurance policyholder benefits, claims and acquisition expense (C$ millions)



RBC U.S. and International Personal and Business

- **Net income of $444 million increased 15% over the prior year. In U.S. dollars, net income was up 23%, driven by a strong improvement across all businesses.**
- **Wealth Management revenue rose 9%, or 17% in U.S. dollars, and assets under administration increased 38%, in U.S. dollars, resulting from our successful execution of growth initiatives, including the acquisition of Abacus.**
- **Banking revenue was down 1%, but increased 7% in U.S. dollars, with loans and deposits up 10% and 5%, respectively, in U.S. dollars.**

RBC U.S. and International Personal and Business consists of our personal and business banking and retail brokerage businesses in the U.S., banking in the Caribbean, and private banking internationally. This segment is comprised of *Wealth Management*, which includes Global Private Banking and certain activities of RBC Dain Rauscher, and *Banking*, which includes our RBC Centura and Caribbean banking operations.

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.

Business highlights

- RBC Dain Rauscher grew its assets under administration to a record level of US$132 billion, an increase of 14% over 2005, driven by solid equity market performance, recruiting experienced financial consultants and executing on its primary advisor strategy.
- RBC Centura increased its new personal account openings by 37% and new business account openings by 20% following the launch in the first quarter of 2006 of a new suite of personal and business chequing accounts with unique features to better meet client needs.
- Caribbean banking grew its loans and deposits by 17% and 8%, respectively, in U.S. dollars, by focusing on enhanced sales management and client satisfaction.
- Global Private Banking completed the acquisition of Abacus on November 30, 2005, expanding its presence in the U.K. and Channel Islands and increasing assets under administration by US$41 billion.
- Global Private Banking added a U.S. trust capability, with its acquisition of American Guaranty & Trust, which administers more than 1,000 personal trusts and holds more than US$1.3 billion in trust and investment accounts for its clients.

Economic and market review

The U.S. economy experienced solid growth throughout most of 2006, which continued to support business growth and the credit quality of our loan portfolio. However, rising interest rates and slowing housing markets in the U.S. did start to moderate the demand for loans. The U.S. and most international equity market indices increased over the year, which positively impacted revenue in our brokerage operations. Internationally, solid economic growth in many regions, including the Caribbean, supported business and revenue growth.

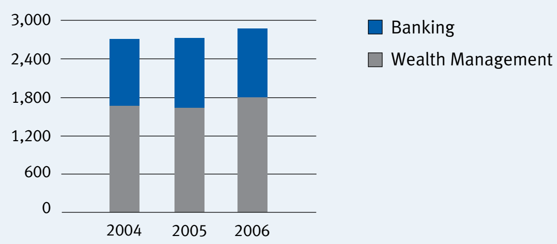
RBC U.S. and International Personal and Business financial highlights (1) — **Table 27**

(C$ millions, except number of and percentage amounts)	2006	2005	2004
Net interest income	$ 1,109	$ 1,108	$ 989
Non-interest income	1,763	1,620	1,713
Total revenue	$ 2,872	$ 2,728	$ 2,702
Non-interest expense	2,260	2,150	2,330
Provision for credit losses (PCL)	26	51	80
Business realignment charges	1	(2)	23
Net income before income taxes and non-controlling interest in subsidiaries	$ 585	$ 529	$ 269
Net income	$ 444	$ 387	$ 214
Key ratios			
Return on equity (ROE) (2)	13.6%	11.8%	5.4%
Return on risk capital (RORC) (2)	22.4%	19.6%	9.1%
Selected average balance sheet and other information (3)			
Total assets	$ 39,000	$ 37,700	$ 37,100
Loans and acceptances	20,700	20,500	18,800
Deposits	33,600	33,300	33,100
Attributed capital (2)	3,200	3,250	3,800
Risk capital (2)	1,950	1,950	2,250
Assets under administration	307,900	234,300	233,700
Assets under management	53,400	46,700	44,200
Credit information			
Gross impaired loans as a % of average loans and acceptances	.90%	.79%	1.17%
Other information			
Number of employees (full-time equivalent)	11,238	10,512	10,644

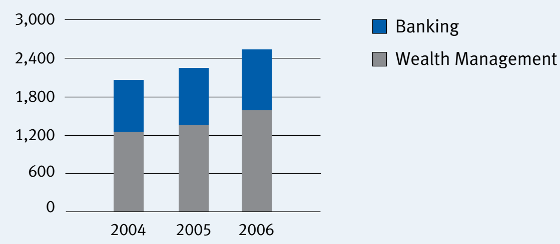
(US$ millions)	2006	2005	2004
Net interest income	$ 980	$ 912	$ 753
Non-interest income	1,557	1,336	1,304
Total revenue	$ 2,537	$ 2,248	$ 2,057
Non-interest expense	1,997	1,771	1,774
Provision for credit losses (PCL)	22	41	61
Business realignment charges	1	(2)	19
Net income before income taxes and non-controlling interest in subsidiaries	$ 517	$ 438	$ 203
Net income	$ 393	$ 320	$ 162

(1) Certain segment-related amounts have been restated to conform to our current management reporting framework and changes made to our business segments during the year. For further discussion, refer to the How we manage our business segments section.
(2) Average attributed capital and Return on equity are calculated using methods intended to approximate the average of the daily balances for the period. Segment Return on equity, Average risk capital and the Return on risk capital are non-GAAP financial measures. For a further discussion and reconciliation, refer to the Key financial measures (non-GAAP) section.
(3) Average amounts are calculated using methods intended to approximate the average of the daily balances for the period.

Revenue by business line (C$ millions)



Revenue by business line (US$ millions)



Impact of U.S. vs. Canadian dollar

The translated value of this segment's U.S. dollar-denominated results is impacted by fluctuations in the U.S./Canadian dollar exchange rate. The table below depicts the impact of translating the specified year's U.S. dollar-denominated results at the average exchange rate in effect during that period in comparison to the prior year's average 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 change in the exchange rate over the comparable periods and the resulting impact on our results.

The Canadian dollar appreciated 7% on average relative to the U.S. dollar compared to a year ago. As well, in 2005, the Canadian dollar appreciated 8% on average relative to the U.S. dollar, compared to 2004.

Impact of USD translation on selected items (1) — Table 28

(C$ millions, except for percentage amounts)	2006 vs. 2005	2005 vs. 2004
Reduced total revenue	$ 161	$ 187
Reduced non-interest expense	123	141
Reduced net income	28	33
Percentage change in the average US$ equivalent of C$1.00 (2)	7%	8%

(1) Certain segment-related amounts have been restated to conform to our current management reporting framework and changes made to our business segments during the year. For further discussion, refer to the How we manage our business segments section.
(2) Average amounts are calculated using month-end spot rates for the period.

Financial performance

2006 vs. 2005

Net income increased $57 million, or 15%, from the prior year, despite a $28 million reduction due to the negative impact of a stronger Canadian dollar on the translated value of U.S. dollar-denominated earnings. In U.S. dollars, net income was up US$73 million, or 23%, driven by strong revenue growth in *Wealth Management* and solid business growth and improved credit quality in *Banking*.

Revenue increased $144 million, or 5%, over the prior year. In U.S. dollars, revenue was up US$289 million, or 13%.

Wealth Management revenue improved $151 million, or 9%. In U.S. dollars, *Wealth Management* revenue was up US$231 million, or 17%, mainly due to the inclusion of Abacus, higher securities brokerage commissions in Global Private Banking and growth in fee-based client assets at RBC Dain Rauscher.

Banking revenue decreased $7 million, or 1%, compared to the prior year. In U.S. dollars, *Banking* revenue increased US$58 million, or 7%, reflecting solid loan and deposit growth and higher fee-based activities.

Non-interest expense was up $110 million, or 5%, over the prior year. In U.S. dollars, non-interest expense increased US$226 million, or 13%, largely reflecting the inclusion of Abacus and increased variable compensation, primarily in *Wealth Management* on stronger revenue. The increase also reflected higher project-related spending and other costs in support of business growth.

Provision for credit losses was down $25 million, or 49%. In U.S. dollars, the decrease was US$19 million, reflecting continued strong credit quality in our loan portfolio at RBC Centura.

2005 vs. 2004

Net income increased $173 million, or 81%, from 2004, despite a $33 million reduction due to the negative impact of a stronger Canadian dollar on the translated value of U.S. dollar-denominated earnings. In U.S. dollars, net income improved US$158 million, or 98%, reflecting strong improvement in all businesses. 2004 also included $23 million ($14 million after-tax) of business realignment charges.

Revenue increased $26 million, or 1%. In U.S. dollars, revenue increased US$191 million, or 9%, over the prior year. This increase largely reflected solid loan and deposit growth in our Banking operations, higher fee-based client assets at RBC Dain Rauscher and higher net interest income and fee-based activity at Global Private Banking. These factors were partly offset by a gain from the sale of our merchant acquiring card portfolio to Moneris recorded in the prior year.

Non-interest expense declined $180 million, or 8%. In U.S. dollars, non-interest expense was down US$3 million, reflecting the valuation allowance recorded in 2004 relating to certain mortgage loans believed to have been fraudulently originated in 2001 and 2002. Cost-containment efforts also contributed to the decrease. These factors were largely offset by higher variable compensation on better performance of our businesses.

Provision for credit losses decreased $29 million, or 36%. In U.S. dollars, provision for credit losses was down US$20 million, reflecting improved credit quality of our loan portfolio.

2007 Outlook and priorities

We continue to see significant opportunity in the U.S. and globally to expand our *Banking* and *Wealth Management* businesses, both through organic growth and strategic acquisitions. We expect the U.S. economy to moderate in 2007 given the slowdown in the housing market and the softening of consumer spending and corporate profitability due to the lagged effect of previous interest rate increases. Competitive pricing is expected to continue to put pressure on our margins. In 2007, we expect the U.S. dollar to appreciate moderately relative to the Canadian dollar in response to weaker energy prices, negative interest rate spreads versus the U.S. market and the stabilization of the U.S. fiscal and trade deficits.

Key strategic priorities for 2007

- Continue to grow RBC Dain Rauscher through its primary advisor strategy and by partnering with RBC Centura, Global Private Banking and RBC Capital Markets to build on our credit and lending capabilities, trust services, and delivery of structured products and alternative investments.
- Expand Global Private Banking's market share among high net worth individuals by strengthening and building relationships with centres of influence, adding distribution and expanding product offerings.
- Continue to grow RBC Centura by focusing on meeting the needs of businesses, business owners and professionals, and expanding our network in key high-growth markets.
- Build on our current strong position in the Caribbean through organic growth and operational improvements.

Wealth Management

Wealth Management is comprised of RBC Dain Rauscher and our Global Private Banking operations. RBC Dain Rauscher offers investment, advisory and asset management services to individuals, and clearing and execution services to small and mid-sized independent broker-dealers and institutions in the U.S. RBC Dain Rauscher ranks as the 8th largest full-service securities firm in the U.S. with its network of 1,680 financial consultants across the country. Global Private Banking provides high net worth individuals, corporate and institutional clients internationally with private banking and credit, trust services, discretionary investment management, full-service brokerage and global custody and fund administration. Global Private Banking has an international network of 33 offices in 21 countries and is recognized as one of the top 20 private banks in the world (*Euromoney* magazine).

Financial performance

Revenue in 2006 was $1,802 million, up $151 million, or 9%, compared to the prior year. In U.S. dollars, revenue increased US$231 million, or 17%, with assets under administration and assets under management up 38% and 20%, respectively.

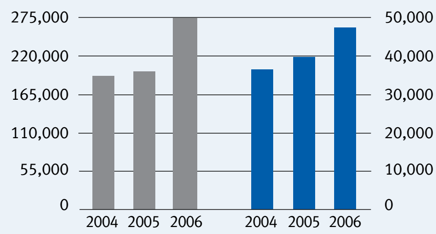
These results reflected the successful execution of our growth initiatives and solid U.S. and international equity market performance during the year. Global Private Banking generated strong revenue growth, largely driven by the inclusion of Abacus and higher securities brokerage commissions from new sales and business expansion. RBC Dain Rauscher had solid growth on higher fee-based client assets, reflecting recruiting of experienced financial consultants and progress on its primary advisor strategy.

Selected highlights (1) — **Table 29**

	2006	2005	2004
Total revenue (C$ millions)	$ 1,802	$ 1,651	$ 1,658
Other information (US$ millions)			
Total revenue	1,592	1,361	1,263
Assets under administration	274,200	198,400	191,800
Assets under management	47,500	39,500	36,300

(1) Certain segment-related amounts have been restated to conform to our current management reporting framework and changes made to our business segments during the year. For further discussion, refer to the How we manage our business segments section.

Assets under administration and management (US$ millions)



Banking

Banking consists of our RBC Centura and Caribbean banking operations. These businesses offer a broad range of banking products and services to personal and business clients in their respective markets. RBC Centura ranks 6th in deposit market share in North Carolina and among the top 15 in its Southeast U.S. banking footprint. It has a network of 282 branches and 314 ABMs. Caribbean banking ranks in the top three in deposit market share in most of its markets and has 43 branches and 71 ABMs.

Financial performance

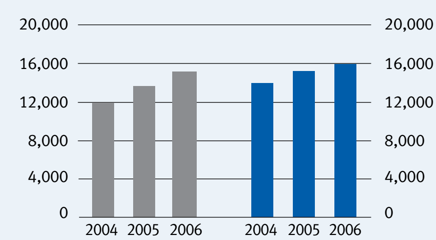
Banking revenue in 2006 was $1,070 million, a decrease of $7 million, or 1%, compared to the prior year, reflecting the negative impact of a stronger Canadian dollar on the translated value of U.S. dollar-denominated revenue. In U.S. dollars, revenue improved US$58 million, or 7%, driven by solid loan and deposit growth of 10% and 5%, respectively, and higher fee-based activities, both at RBC Centura and Caribbean banking. Business growth benefited from favourable economic conditions. However, rising interest rates and slowing housing markets in the U.S. did start to moderate demand for loans at RBC Centura. Banking's net interest margin at 3.73% in 2006 declined 5 bps from the prior year, reflecting changes to asset mix, the flatter U.S. yield curve and competitive pricing.

Selected highlights (1) — **Table 30**

	2006	2005	2004
Total revenue (C$ millions)	$ 1,070	$ 1,077	$ 1,044
Other information (US$ millions)			
Total revenue	945	887	794
Net interest margin (2)	3.73%	3.78%	3.59%
Average loans and acceptances (3), (4)	$ 15,100	$ 13,700	$ 11,900
Average deposits (3), (4)	15,900	15,100	13,900
Number of:			
Branches	325	315	317
Automated banking machines	385	371	372

(1) Certain segment-related amounts have been restated to conform to our current management reporting framework and changes made to our business segments during the year. For further discussion, refer to the How we manage our business segments section.
(2) Net interest margin (NIM) is calculated as Net interest income divided by Average earning assets. Average earning assets are calculated using methods intended to approximate the average of the daily balances for the period.
(3) Average amounts are calculated using methods intended to approximate the average of the daily balances for the period.
(4) Average loans and acceptances and Average deposits have been adjusted for 2004 and 2005 for netting of a large Caribbean government account effective fourth quarter 2005, which reduced loan and deposit balances by a similar amount.

Average loans and acceptances and average deposits (US$ millions)



RBC Capital Markets

- **Record net income of $1,407 million.**
- **Revenue (teb) up $631 million, or 16%, largely reflecting record trading results and very strong M&A activity.**
- **Continued to expand our municipal finance activities in the U.S. mid-market and our global infrastructure finance platform.**

RBC Capital Markets 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*, and our 50% ownership in *RBC Dexia IS*. 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 have an unwavering commitment to our businesses and rigorously 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.

Business highlights

- Record trading performance as we continue to expand our product offering and trading strategies.
- Advised on many of the largest announced M&A deals in Canada, including the acquisitions of Inco Limited and Dofasco Inc.
- Top-ranked debt new issue dealer for Canadian government and corporate bonds as well as Maple bonds; and top-ranked Senior Manager for U.S. Municipal bonds by the number of issues for the first three calendar quarters of 2006 *(Thompson Financial)*.
- Leveraged our U.K. infrastructure and project finance capabilities into other international and U.S. client relationships, such as advising one of the first Florida public/private partnerships, the Tampa Hillsborough County Expressway Authority and an advisory role on a €1.2 billion new rail bypass project in France.
- Continued to build on our strengths in Alternative Assets, launching the RBC Hedge 250 Index, which was designed to be an investable benchmark index of hedge fund performance.

Economic and market review

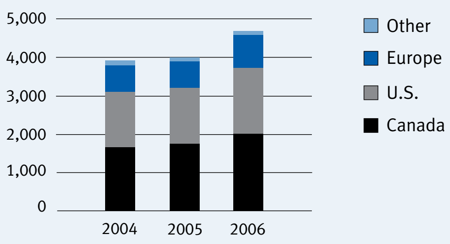
During the year, capital markets conditions were generally favourable, characterized by strong trading conditions, including higher equity market volatility and a low but rising interest rate environment, near record high M&A activity and solid cash equities business which benefited from healthy foreign demand for Canadian natural resource-based equities. Equity origination activity started the year slowly and remained below expectations mainly reflecting uncertainty in equity markets outside the resource sector. Debt origination activity was also lower in the U.S. and Europe, largely due to the rising interest rate environment. The stronger Canadian dollar negatively impacted the translated value of our U.S. dollar- and GBP-denominated earnings.

RBC Capital Markets financial highlights (1) — Table 31

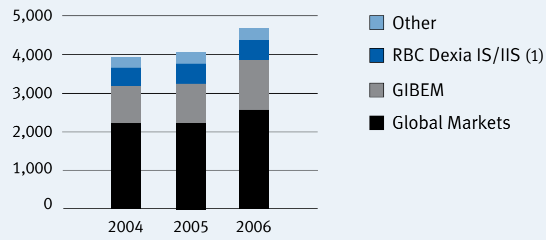
(C$ millions, except percentage amounts)	2006	2005	2004
Net interest income (teb) (2)	$ 201	$ 607	$ 847
Non-interest income	4,492	3,455	3,086
Total revenue (teb) (2)	$ 4,693	$ 4,062	$ 3,933
Non-interest expense	3,058	3,274	2,845
Provision for (recovery of) credit losses (PCL)	(115)	(91)	(108)
Business realignment charges	(1)	1	27
Net income before income taxes (teb) and non-controlling interest in subsidiaries (2)	$ 1,751	$ 878	$ 1,169
Net income	$ 1,407	$ 760	$ 827
Key ratios			
Return on equity (ROE) (3)	29.3%	18.1%	19.5%
Return on risk capital (RORC) (3)	37.7%	23.8%	26.3%
Selected average balance sheet and other information (4)			
Total assets	$ 267,800	$ 229,300	$ 219,300
Trading securities	132,300	109,600	91,100
Loans and acceptances	23,500	17,600	18,600
Deposits	118,800	98,900	88,400
Attributed capital (2)	4,750	4,100	4,200
Risk capital (2)	3,700	3,150	3,150
Assets under administration – RBC	4,700	1,363,600	1,202,900
Assets under administration – RBC Dexia (5)	1,893,000	–	–
Credit information			
Gross impaired loans as a % of average loans and acceptances	.26%	.67%	2.18%
Specific PCL as a % of average loans and acceptances	(.28)%	(.52)%	(.05)%
Other selected balances			
Number of employees (full-time equivalent)	2,938	4,670	4,640

(1) Certain segment-related amounts have been restated to conform to our current management reporting framework and changes made to our business segments during the year. For further discussion, refer to the How we manage our business segments section.
(2) Taxable equivalent basis. For further discussion, refer to the How we manage our business segments section.
(3) Average attributed capital and Return on equity are calculated using methods intended to approximate the average of the daily balances for the period. Segment return on equity, Average risk capital and the Return on risk capital are non-GAAP financial measures. For a further discussion and reconciliation, refer to the Key financial measures (non-GAAP) section.
(4) Average amounts are calculated using methods intended to approximate the average of the daily balances for the period.
(5) Assets under administration – RBC Dexia IS represents the total AUA of RBC Dexia IS, of which we have a 50% ownership interest. As RBC Dexia IS reports on a one-month lag, AUA – RBC Dexia IS is as at September 30, 2006.

Revenue (teb) by geography (C$ millions)



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



(1) 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. Also included is our proportionate share of RBC Dexia IS revenue for the nine months ended September 30, 2006, due to the one-month reporting lag. Revenue presented for 2005 and 2004 represents revenue from our IIS business only.

Impact of US$ and British pound (GBP) vs. Canadian dollar

The translated value of this segment's U.S. dollar- and GBP-denominated results are impacted by fluctuations in the respective exchange rates to the Canadian dollar. The table below depicts the effect of translating the specified year's U.S. dollar- and GBP-denominated results at the average exchange rates in effect during that period in comparison to the prior year's average exchange rates. We believe this provides the reader with the ability to assess underlying results on a more comparable basis, particularly given the magnitude of the change in the exchange rates over the comparable periods and the resulting impact on our results.

The Canadian dollar appreciated 7% on average and 9% on average relative to the U.S. dollar and GBP, respectively, compared to a year ago. Also, the Canadian dollar appreciated 8% on average relative to the U.S. dollar and 6% on average relative to the GBP in 2005 compared to 2004.

Impact of US$ and GBP translation on selected items (1) Table 32

(C$ millions, except for percentage amounts)	2006 vs. 2005	2005 vs. 2004
Reduced total revenue (teb) (2)	$ 218	$ 172
Reduced non-interest expense	120	118
Reduced net income	67	31
Percentage change in average US$ equivalent of C$1.00 (3)	7%	8%
Percentage change in average GBP equivalent of C$1.00 (3)	9%	6%

(1) Certain segment-related amounts have been restated to conform to our current management reporting framework and changes made to our business segments during the year. For further discussion, refer to the How we manage our business segments section.
(2) Taxable equivalent basis. For further discussion, refer to the How we manage our business segments section.
(3) Average amounts are calculated using month-end spot rates for the period.

Financial performance

2006 vs. 2005

Net income increased $647 million, or 85%, compared to a year ago. Excluding the prior year Enron litigation-related provision of $591 million ($326 million after-tax), net income increased $321 million, or 30%, compared to a year ago largely reflecting 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, lower debt and equity origination activity and the negative impact of a stronger Canadian dollar on the translated value of our U.S. dollar- and GBP-denominated earnings. Results excluding the Enron provision are a non-GAAP measure. For a reconciliation and further discussion, refer to the Key financial measures (non-GAAP) section.

Total revenue (teb) increased $631 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. Net interest income (teb) declined $406 million, or 67%, primarily due to higher funding costs in support of growth in certain equity trading strategies. Non-interest income increased $1,037 million, or 30%, mainly due to higher equity trading revenue, higher M&A fees mainly in Canada, increased distributions from private equity investments and higher credit fees. These factors were partially offset by lower debt and equity origination activity. Total revenue (teb) excluding VIEs was $4,700 million, up $614 million, or 15%, from a year ago. For further discussion and reconciliation of total revenue (teb) excluding VIEs, refer to the Key financial measures (non-GAAP) section.

Non-interest expense decreased $216 million, or 7%. Excluding the prior year Enron provision, non-interest expense increased $375 million, or 14%, compared to the prior year primarily reflecting higher variable compensation on stronger business performance. Higher professional fees primarily related to business integration, and certain accounting adjustments to expenses, which increased both reported revenue and expenses, related to our 50 per cent ownership of RBC Dexia IS and higher spending in support of business growth initiatives also contributed to the increase. These factors were partially offset by the $120 million reduction in the translated value of U.S. dollar- and GBP-denominated expenses due to the stronger Canadian dollar and the prior year settlement of the Enron MegaClaims bankruptcy lawsuit.

Recovery of credit losses of $115 million was comprised of $65 million of recoveries of previously impaired corporate loans and the $50 million reversal of the general allowance. This compared to the $91 million recovery of credit losses realized in the prior year related to previously impaired corporate accounts.

Income taxes increased $227 million from a year ago. Excluding the negative impact of the prior year Enron provision, income taxes decreased $38 million mainly due to higher earnings from international subsidiaries operating in lower income tax jurisdictions.

Average assets continued to grow, up $39 billion, or 17%, primarily due to increased trading securities primarily resulting from growth in certain trading strategies. Loans and acceptances increased $6 billion, or 34%, primarily related to stronger investment banking activity and lending activity of RBC Dexia IS. Deposits increased $20 billion, or 20%, primarily due to increased funding requirements of our trading businesses. Credit quality remained strong, as gross impaired loans decreased $57 million, or 48%, from last year.

2005 vs. 2004

Net income decreased $67 million, or 8%, over the same period a year ago, primarily due to the Enron provision. This decrease was partly offset by moderate revenue growth, a lower effective tax rate, lower compensation costs and the Rabobank settlement charges incurred in 2004.

Total revenue (teb) increased $129 million, or 3%. The increase was primarily due to higher origination activity in Canada and gains from the sale of an Enron-related claim. Partially offsetting the increase was lower trading revenue across all product categories due to challenging market conditions in 2005. Net interest income (teb) declined compared to 2004 primarily due to higher funding costs related to certain equity trading strategies and spread compression and reduced volumes in our lending portfolios. Non-interest income increased compared to 2004 primarily due to increased origination activity and gains on the sale of an Enron-related claim. Total revenue (teb) excluding VIEs was $4,086 million, up $153 million, or 4%, compared to 2004.

Non-interest expense increased $429 million, or 15%, largely reflecting the Enron provision and the Enron MegaClaims bankruptcy settlement costs, partly offset by lower compensation costs, and the Rabobank settlement charges and business realignment charges incurred in 2004.

Recovery of credit losses of $91 million in 2005, related to previously impaired corporate accounts, compared to recoveries of $108 million in 2004, which were largely comprised of a $99 million reversal of the general allowance.

2007 Outlook and priorities

The outlook for capital markets globally is expected to remain relatively favourable with stable interest rates and improving equity markets. We expect to continue to expand our trading strategies and expect a modest rebound in origination activity, which will be partially offset by a weakening in M&A activity from a near historical high in 2006. Equity origination activity is expected to increase from a relatively slow 2006 as markets outside the resource and income trust sectors improve, while debt origination is expected to benefit from Municipal banking activity in new sectors and growth in U.S. dollar distribution. Also, core lending results are expected to increase as spread compression abates, while term extends. We also expect further growth in our infrastructure and project finance business as we continue to expand our capabilities from the U.K. to other international and U.S. markets, and growth from the expansion of structured and fixed income products into Asian markets. The Canadian dollar is expected to depreciate moderately relative to the U.S. and other foreign currencies as commodity and energy prices begin to ease. Our deal pipeline should remain healthy and is expected to continue to grow. Credit market conditions are expected to remain relatively favourable though the level of loan loss recovery opportunities is expected to continue to decline, commensurate with a lower level of problem loans.

Key strategic priorities for 2007

- Maintain our leadership position in Canada and deepen our penetration in the Canadian mid-market client segment.
- Continue to grow our Municipal Products business, expand our banking activities geographically and develop new product segments in the U.S.
- Successfully integrate new acquisitions and new businesses.
- 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.

Business line review

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

Revenue (teb) increased $323 million, or 14%, from a year ago. The increase was primarily due to stronger trading results across all product categories. Higher private equity investment gains were mostly offset by lower debt origination fees, mainly in the U.S.

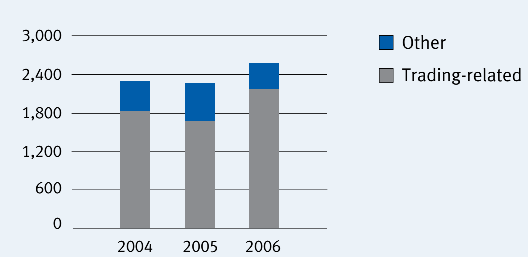
Trading-related revenue was up 26% on improved market conditions and growth in several trading strategies. Other revenue was down 23% mainly due to lower debt origination fees, lower results from our housing tax credit syndication business and further weakening of the U.S. dollar during the year. During 2006, we led or jointly led 615 debt issues, up from 543 deals a year ago, with a total value of approximately $130 billion, and in Municipal Finance, we were involved in 642 issues with a total value of US$45 billion through the first three calendar quarters of 2006.

Selected highlights (1) — **Table 33**

(C$ millions)	2006	2005	2004
Total revenue (teb) (2)	$ 2,579	$ 2,256	$ 2,268
Other information			
Trading-related	2,154	1,706	1,853
Other	425	550	415

(1) Certain segment-related amounts have been restated to conform to our current management reporting framework and changes made to our business segments during the year. For further discussion, refer to the How we manage our business segments section.
(2) Taxable equivalent basis. For further discussion, refer to the How we manage our business segments section.

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.

Financial performance

Global Investment Banking and Equity Markets revenue increased $271 million, or 28%, compared to the prior year. This increase largely reflected higher M&A activity, increased credit fees related to our investment banking activity, higher private equity distributions and the net gain realized on the exchange of our NYSE seats for NYX shares. These factors were partially offset by lower equity origination activity due to market uncertainty outside the resource and income trust sectors.

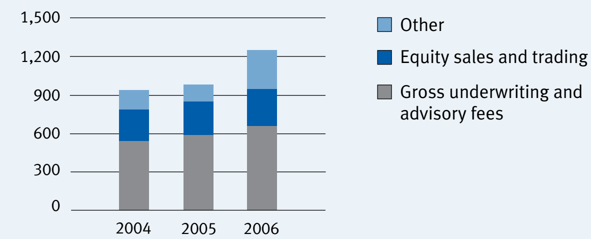
Gross underwriting and advisory revenue was up 11%, in large part due to near historical highs for M&A fees reflecting stronger activity in the Canadian resource sector. This was partially offset by lower equity originations reflecting less robust income trust activity and softer market conditions outside the resource sector. In 2006, we advised on 86 M&A deals with a total value of US$67 billion. This was up from 66 deals in the prior year. The increase largely reflected a robust Canadian M&A environment and solid growth in the U.S. market. In 2006, we led or co-led 82 equity and equity-related new issues with a total market value of $13 billion, up from 75 in the prior year. Increased volumes from the prior year was more than offset by reduced deal values, reflecting uncertainty in the markets outside the resource sector and a drop in income trust origination.

Selected highlights (1) — Table 34

(C$ millions)	2006	2005	2004
Total revenue (teb) (2)	$ 1,250	$ 979	$ 941
Other information			
Gross underwriting and advisory fees	665	598	546
Equity sales and trading	283	252	247
Other (3)	302	129	148

(1) Certain segment-related amounts have been restated to conform to our current management reporting framework and changes made to our business segments during the year. For further discussion, refer to the How we manage our business segments section.
(2) Taxable equivalent basis. For further discussion, refer to the How we manage our business segments section.
(3) Other includes the gain on our NYSE shares, increases in private equity distributions and growth in revenue associated with our core lending book and syndicated finance.

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



RBC Dexia Investor Services

RBC Dexia IS was created on January 2, 2006 when we combined our Institutional & Investor Services (IIS) business with Dexia Funds Services in return for a 50% joint venture interest in *RBC Dexia IS*. *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.

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 nine months ended September 30, 2006, as RBC Dexia IS reports on a one-month lag.

Financial performance

Revenue was $558 million in 2006, primarily reflecting high deposit volumes and strong foreign exchange revenue resulting from strong market activity.

Since its creation on January 2, 2006, assets under administration have increased 9% reflecting strong market activity.

Selected highlights (1) — Table 35

(C$ millions)	2006	2005	2004
Total revenue (teb) (2), (3)	$ 558	$ 500	$ 455
Other information			
Assets under administration –			
RBC (4)	–	1,361,100	1,202,900
RBC Dexia IS (5)	1,893,000	–	–

(1) Certain segment-related amounts have been restated to conform to our current management reporting framework and changes made to our business segments during the year. For further discussion, refer to the How we manage our business segments section.
(2) Taxable equivalent basis. For further discussion, refer to the How we manage our business segments section.
(3) Comparative amounts for 2005 and 2004 only represent revenue for IIS.
(4) Assets under administration – RBC represents total AUA of our IIS business. RBC IIS AUA of $1,400 billion was contributed to RBC Dexia IS in exchange for our 50% ownership interest.
(5) Assets under administration – RBC Dexia IS represents the total AUA of RBC Dexia IS. As RBC Dexia IS reports on a one-month lag basis, AUA – RBC Dexia IS is reported as at September 30, 2006.

Other

Other consists of our other businesses including National Clients, which manages our client relationships with mid-market clients in Canada. It also includes our Global Credit business, which oversees the management of our core lending portfolios and manages our non-strategic lending portfolio. Global Credit also manages 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 $306 million, a decline of $21 million, or 6%, over the prior year. The decrease mainly reflected the gain recorded in the prior year related to the sale of an Enron-related claim. This factor was partially offset by 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 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 such as the elimination of the teb adjustments recorded in RBC Capital Markets related to the gross-up of income from Canadian taxable corporate dividends to their tax 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 period over period trend analysis is not relevant. The following identifies the material items affecting the reported results in each period.

Corporate Support financial highlights (1) **Table 36**

(C$ millions)	2006	2005	2004
Net interest income (teb) (2)	$ (489)	$ (293)	$ (314)
Non-interest income	180	188	268
Total revenue (teb) (2)	$ (309)	$ (105)	$ (46)
Non-interest expense	37	61	28
Recovery of credit losses	(86)	(47)	(36)
Business realignment charges	–	39	64
Net income before income taxes and non-controlling interest in subsidiaries (teb) (2)	$ (260)	$ (158)	$ (102)
Net income (loss)	$ 112	$ (14)	$ (61)
Selected average balance sheet and other information (3)			
Total assets	$ (5,400)	$ (4,100)	$ (2,300)
Attributed capital (4)	3,150	2,800	1,600
Securitization			
Total securitizations sold and outstanding (5)	17,781	12,661	7,883
New securitizations activity in the period (6)	7,529	4,952	3,074

(1) Certain segment-related amounts have been restated to conform to our current management reporting framework and changes made to our business segments during the year. For further discussion, refer to the How we manage our business segments section.
(2) Taxable equivalent basis. For further discussion, refer to the How we manage our business segments section. These amounts included the elimination of the adjustment related to the gross-up of income from Canadian corporate dividends of $213 million in 2006 recorded in RBC Capital Markets (2005 – $109 million; 2004 – $55 million).
(3) Average amounts are calculated using methods intended to approximate the average of the daily balances for the period.
(4) Average attributed capital is a non-GAAP financial measure. For further discussion, refer to the Key financial measures (non-GAAP) section.
(5) Total securitizations sold and outstanding are comprised of Credit card loans and Residential mortgages.
(6) New securitization activity is comprised of Residential mortgages and Credit card loans securitized and sold in the year. For further details, refer to Note 5 to our Consolidated Financial Statements.

2006

Net income of $112 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 sub-lease 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.

2004

Net loss of $61 million primarily reflected the $64 million in business realignment charges, a $42 million charge for losses on equity investments, a $68 million charge for consolidation adjustments to eliminate inter-company items such as underwriting fees, the $26 million writedown of an investment in AOL Canada and $19 million of costs relating to a processing disruption. These factors were partially offset by mark-to-market gains on derivatives related to certain economic hedges.

Balance sheet data and analysis — Table 37

(C$ millions)	As at October 31 2006	2005
Interest-bearing deposits with banks	$ 10,502	$ 5,237
Securities		
Trading account	$ 147,237	$ 125,760
Investment account and loan substitutes	37,632	34,735
Total securities	$ 184,869	$ 160,495
Assets purchased under reverse repurchase agreements and securities borrowed	$ 59,378	$ 42,973
Loans		
Residential mortgages	$ 96,675	$ 91,043
Personal loans	44,902	41,045
Credit cards	7,155	6,200
Business and government loans	61,207	53,626
Total loans	$ 209,939	$ 191,914
Other assets	$ 69,100	$ 65,399
Total assets	$ 536,780	$ 469,521
Deposits	$ 343,523	$ 306,860
Other liabilities	$ 160,575	$ 131,003
Non-controlling interest in subsidiaries	$ 1,775	$ 1,944
Shareholders' equity	$ 22,123	$ 19,847

2006 vs. 2005

Total assets increased $67 billion, or 14%, from a year ago. The increase was largely attributable to higher *Total securities* and *Assets purchased under reverse repurchase agreements and securities borrowed* in support of our increased level of trading activities, and growth in *Total loans* reflecting strong loan demand driven by favourable economic conditions.

Interest-bearing deposits with banks increased $5 billion from a year ago, mainly due to the consolidation of our 50% proportionate share in RBC Dexia IS.

Total securities increased $24 billion, or 15%, from a year ago, mainly reflecting a higher level of trading securities in support of growth in our trading businesses.

Assets purchased under reverse repurchase agreements and securities borrowed increased $16 billion, or 38%, from a year ago generally in support of equity and debt trading strategies and business expansion.

Total loans increased $18 billion, or 9%, from a year ago as a result of increases across all categories, reflecting strong loan demand driven by favourable economic conditions.

Residential mortgages increased $6 billion, or 6%, despite the offsetting effect of $13.6 billion of net securitization during the year. The increase continued to be driven by a relatively solid housing market, relatively low interest rates, strong labour market conditions, as well as continued consumer confidence. Our sales efforts also contributed to the increase.

Personal loans increased $4 billion, or 9%, reflecting continued growth in both secured and unsecured credit lines, supported by strong consumer demand and favourable credit conditions.

Credit cards increased $1 billion, or 15%, despite the offsetting effect of $550 million of net securitization during the year. The increase largely reflected successful sales efforts and strong growth in client spending and balances. The net securitization of $550 million was comprised of $1.2 billion securitized in 2006 and $650 million of previously securitized amounts which matured in 2006, resulting in the loans being recorded back on our Consolidated Balance Sheets.

Business and government loans were up $7 billion, or 13%, reflecting solid business loan demand and the consolidation of our 50% proportionate share in RBC Dexia IS.

Other assets increased $4 billion, or 6%, from the prior year, primarily due to increased business activity in customers' liability under acceptances and receivables from brokers and dealers.

Deposits increased $37 billion, or 12%, from a year ago, largely driven by growth in business and government deposits in support of increased business activities as well as increased funding requirements of our trading businesses.

Other liabilities increased $30 billion, or 23%, compared to the prior year, mainly due to increased business activities related to repurchase agreements, securities lending and securities sold short.

Shareholders' equity was up $2 billion, or 11%, over the prior year on strong earnings growth, net of dividends. Details on our common and preferred share balances in our Shareholders' equity and Preferred share liabilities are provided in Table 38. For further discussion, refer to Note 18 to our Consolidated Financial Statements.

Share data and dividends

Table 38

(C$ millions, except number of shares and per share amounts)	2006 Number of shares (000s)	2006 Amount	2006 Dividends per share	2005 Number of shares (000s)	2005 Amount	2005 Dividends per share	2004 Number of shares (000s)	2004 Amount	2004 Dividends per share
First Preferred									
Non-cumulative Series N (1)	12,000	$ 300	$ 1.18	12,000	$ 300	$ 1.18	12,000	$ 300	$ 1.18
Non-cumulative Series O (1)	6,000	150	1.38	6,000	150	1.38	6,000	150	1.38
US$ Non-cumulative Series P	–	–	–	–	–	US 1.26	4,000	132	US 1.44
Non-cumulative Series S	–	–	1.33	10,000	250	1.53	10,000	250	1.53
Non-cumulative Series W (1)	12,000	300	1.23	12,000	300	.99	–	–	–
Non-cumulative Series AA (2)	12,000	300	.71	–	–	–	–	–	–
Non-cumulative Series AB (3)	12,000	300	.41	–	–	–	–	–	–
Total First Preferred		$ 1,350			$ 1,000			$ 832	
Common shares outstanding (4)	1,280,890	$ 7,196	$ 1.44	1,293,502	$ 7,170	$ 1.18	1,289,496	$ 6,988	$ 1.01
Treasury shares – preferred	(94)	(2)		(91)	(2)		–	–	
Treasury shares – common (4)	(5,486)	(180)		(7,053)	(216)		(9,726)	(294)	
Stock options (4)									
Outstanding	32,243			36,481			44,744		
Exercisable	26,918			28,863			32,801		

(1) As at October 31, 2006, the aggregate number of common shares issuable on the conversion of the First Preferred Shares Series N and O was approximately 6,463,000 and 3,264,000, respectively. As at October 31, 2006, the First Preferred Shares Series W was not yet convertible. On November 24, 2006, we redeemed all the issued and outstanding Non-cumulative First Preferred Shares Series O.

(2) On April 4, 2006, we issued 12 million First Preferred Shares Series AA. These preferred shares do not have a conversion option.

(3) On July 20, 2006, we issued 12 million First Preferred Shares Series AB. These preferred shares do not have a conversion option.

(4) On April 6, 2006, we paid a stock dividend of one common share on each of our issued and outstanding common shares. The effect is the same as a two-for-one split of our common shares. All common shares, treasury shares and stock option numbers have been retroactively adjusted to reflect the stock dividend.

As at November 24, 2006, the number of outstanding common shares and stock options were 1,279,524,000 and 31,754,000 respectively. The number of other securities disclosed in the table above are unchanged. For further information, refer to Notes 18 and 21 to our Consolidated Financial Statements.

On November 1, 2006, we issued 8 million First Preferred Shares Series AC. The net proceeds of this transaction will be used for general business purposes. Subject to regulatory approval, we may redeem these preferred shares in whole or in part at a declining premium on or after November 24, 2011.

Capital management

Capital management framework

We actively manage our capital to balance the desire to maintain strong capital ratios and high ratings with the desire to provide 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 serves to define, measure, raise and invest all forms of capital in a co-ordinated and consistent manner. We manage and monitor our capital from three perspectives: (i) regulatory capital, (ii) economic capital and (iii) subsidiary capital. This co-ordinated approach to capital management serves an important business function, optimizing our capital usage and structure. It provides more efficient support for our business segments and clients and better returns to 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, including all capital transactions, in conjunction with our operating plan. The Audit Committee is responsible for the governance of capital management, which includes the review and ongoing monitoring of internal controls and the control environment as well as establishing and approving policies for their compliance with regulatory standards and internal objectives.

The Asset and 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. In addition, the OSFI meets with our Audit Committee and the Conduct Review and Risk Policy Committee to discuss our policies and procedures regarding capital management.

Capital Management is responsible for the design and implementation of policies for regulatory, economic and subsidiary capital management. Other key responsibilities include the monitoring and reporting of our capital position along with recommending and co-ordinating the execution of capital transactions.

Risk-adjusted assets

Risk-adjusted assets are determined by applying the OSFI prescribed rules to on-balance sheet and off-balance sheet exposures. They also include an amount for the market risk exposure associated with our trading portfolios.

Over the last year, risk-adjusted assets increased by $27 billion to $224 billion, largely due to strong growth in loans, investment securities and residential mortgages. Strong growth in off-balance sheet credit instruments as well as the impact of RBC Dexia IS also contributed to the increase. Risk-adjusted assets for market risk declined from the previous year.

Risk-adjusted assets (1) **Table 39**

(C$ millions, except percentage amounts)	Balance sheet amount	Weighted average of risk weights (2)	Risk-adjusted balance 2006	Risk-adjusted balance 2005
Balance sheet assets				
Cash and deposits with banks	$ 15,392	15%	$ 2,322	$ 1,830
Securities				
Issued or guaranteed by Canadian or other OECD (3) governments	25,120	–	42	48
Other	159,749	5%	7,811	5,278
Residential mortgages (4)				
Insured	29,666	1%	363	385
Conventional	66,996	42%	27,921	25,592
Other loans and acceptances (4)				
Issued or guaranteed by Canadian or other OECD (3) governments	20,501	19%	3,848	2,991
Other	159,730	67%	107,336	95,639
Other assets	59,623	18%	10,609	7,014
	$ 536,777		$ 160,252	$ 138,777
	Credit equivalent amount			
Off-balance sheet financial instruments				
Credit instruments				
Guarantees and standby letters of credit	$ 19,428	73%	$ 14,092	$ 12,154
Documentary and commercial letters of credit	143	45%	65	56
Securities lending	38,185	8%	3,022	2,299
Commitments to extend credit	19,666	85%	16,666	14,968
Liquidity facilities	4,413	100%	4,413	3,513
Note issuance/revolving underwriting facilities	4	100%	4	3
	$ 81,839		$ 38,262	$ 32,993
Derivatives (5)	43,498	24%	10,432	9,696
Total off-balance sheet financial instruments	$ 125,337		$ 48,694	$ 42,689
Total specific and general risk			14,763	15,538
Total risk-adjusted assets			$ 223,709	$ 197,004

(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) Includes 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 of International Settlements. Regulatory capital is allocated into two tiers, with Tier 1 capital comprising the more permanent components of capital. Tier 1 capital consists primarily of common shareholders' equity, non-cumulative preferred shares, and the eligible amount of innovative capital instruments less a deduction for goodwill. Tier 2 capital consists mainly of subordinated debentures, 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.

Regulatory capital ratios are calculated by dividing Tier 1 and Total capital by risk-adjusted assets based on GAAP financial information. In 1999, the OSFI 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%. In addition to the Tier 1 and Total capital ratios, Canadian banks need to operate within a leverage constraint and ensure that their assets-to-capital multiple, which is calculated by dividing gross adjusted assets by Total capital, does not exceed the level prescribed by regulators.

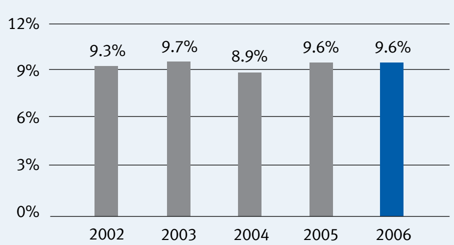
The components of regulatory capital and our regulatory capital ratios are shown in Table 40.

Regulatory capital and capital ratios (1) — Table 40

(C$ millions, except percentage amounts)	2006	2005
Tier 1 capital		
Common equity (2)	$ 21,065	$ 19,115
Non-cumulative preferred shares	1,345	997
Innovative capital instruments	3,222	2,835
Other non-controlling interest in subsidiaries	28	28
Goodwill	(4,182)	(4,074)
	21,478	18,901
Tier 2 capital		
Permanent subordinated debentures (3)	839	874
Non-permanent subordinated debentures (3)	6,313	7,234
Innovative capital instruments	249	567
General allowances	1,223	1,286
	8,624	9,961
Other deductions from capital		
Investment in insurance subsidiaries	(2,795)	(2,642)
Other	(643)	(407)
Total capital	$ 26,664	$ 25,813
Capital ratios		
Tier 1 capital to risk-adjusted assets	9.6%	9.6%
Total capital to risk-adjusted assets	11.9%	13.1%
Assets-to-capital multiple	19.7X	17.6 X

(1) As defined in the guidelines issued by the OSFI.
(2) This amount is shareholders' equity less preferred shares of $1,050 million and other items of $8 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.

Tier 1 capital ratio



Tier 1 capital rose to $21.5 billion, an increase of $2.6 billion over last year. The increase was primarily due to strong internal capital generation, the reclassification of innovative capital from Tier 2 and the net issuance of preferred shares as outlined in the capital management activity section below. These increases were partially offset by common share repurchases and cumulative unrealized foreign currency translation losses as a result of a stronger Canadian dollar.

Tier 2 capital decreased $1.3 billion in 2006. The decrease was mainly a result of redemptions of subordinated debentures as outlined in the capital management activity section below and the reclassification of innovative capital to Tier 1.

Total capital increased $.9 billion as the net increase in Tier 1 and Tier 2 capital was partially reduced by an increase in regulatory deductions.

As at October 31, 2006, the Tier 1 capital ratio of 9.6% was unchanged from a year ago as strong internal capital generation, the reclassification of innovative capital from Tier 2 and the net issuance of preferred shares were offset by share repurchases and strong balance sheet growth. The Total capital ratio of 11.9% was down 120 bps from the previous year largely reflecting our redemption of subordinated debentures in 2006. Throughout fiscal 2006, we maintained a Tier 1 capital ratio that exceeded our 2006 annual objective of greater than 8%.

As at October 31, 2006, our assets-to-capital multiple was 19.7 times, which remained below the maximum permitted by the OSFI, compared to 17.6 times as at October 31, 2005.

Selected capital management activity		Table 41
(C$ millions)	2006	2005
Dividends		
Common	$ 1,847	$ 1,512
Preferred	60	42
Preferred shares issued	600	300
Preferred shares redeemed	(250)	(132)
Treasury shares net sales – common	36	132
Repurchase of common shares – normal course issuer bid (1)	(844)	(226)
Repurchase and redemption of debentures (2)	(955)	(786)
Issuance of Trust Capital Securities (3)	–	1,200

(1) For further details, refer to Note 18 to our Consolidated Financial Statements.
(2) For further details, refer to Note 16 to our Consolidated Financial Statements.
(3) For further details, refer to Note 17 to our Consolidated Financial Statements.

In 2006, we undertook several initiatives to effectively manage our capital.

Tier 1

In 2006, we repurchased 13.8 million common shares for $844 million, of which 6.6 million shares were repurchased for $311 million under our normal course issuer bid (NCIB) that expired on October 31, 2006; and 7.2 million shares were repurchased for $533 million under our NCIB that expired on June 23, 2006. Effective November 1, 2006, we renewed our NCIB to repurchase up to 40 million common shares, or 3%, of our outstanding common shares. This NCIB will expire on October 31, 2007.

On October 6, 2006, we redeemed all of the issued and outstanding $250 Non-cumulative First Preferred Shares Series S.

On July 20, 2006, we issued $300 million of Non-cumulative First Preferred Shares Series AB at $25 per share.

On April 6, 2006, we paid a stock dividend of one common share for each issued and outstanding common share, which has the same effect as a two-for-one split of our common shares.

On April 4, 2006, we issued $300 million of Non-cumulative First Preferred Shares Series AA at $25 per share.

Subsequent to October 31, 2006, we completed the following capital-related activities:

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

Tier 2

During the year, we purchased $22 million of the outstanding $250 million floating-rate debentures maturing in 2083 and US$19 million of the outstanding US$300 million floating-rate debentures maturing in 2085.

On October 24, 2006, we redeemed all of our US$300 million of outstanding 6.75% subordinated debentures due October 24, 2011, for 100% of their principal amount plus accrued interest.

On September 12, 2006, we redeemed all of our $350 million of outstanding 6.50% subordinated debentures due September 12, 2011, for 100% of their principal amount plus accrued interest.

Starting in the third quarter of 2006, we included in our Tier 2B capital US$120 million junior subordinated debentures issued by RBC Centura prior to acquisition in 2001 based on the OSFI's approval. The ongoing inclusion of these instruments in our Tier 2B capital and any redemption or repurchase is subject to certain regulatory conditions.

On April 26, 2006, we redeemed all of our $100 million of outstanding 8.20% subordinated debentures due April 26, 2011, for 100% of their principal amount plus accrued interest.

On February 13, 2006, we redeemed all of our $125 million of outstanding 5.50% subordinated debentures due February 13, 2011, for 100% of their principal amount plus accrued interest.

Subsequent to October 31, 2006, we completed the following capital-related activity:

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 2006 was 40–50%. In 2006, the dividend payout ratio was 40%, down from 45% in 2005. Common share dividends during the year were $1.8 billion, up 22% from a year ago.

Hedging foreign currency-denominated operations

Rising U.S. dollar-denominated assets and deductions from regulatory capital have prompted the development of a policy regarding hedging our foreign exchange exposure with respect to our foreign operations. The objectives of our hedging policy are: (i) immunization of our consolidated regulatory capital ratios from currency fluctuations and (ii) mitigation of potential earnings volatility that might result at disposition of these investments. When the Canadian dollar strengthens/weakens against other currencies, the losses/gains on net foreign investments reduce/increase our capital, as well as the risk-adjusted assets and goodwill of the foreign currency-denominated operations. By selecting an appropriate level of hedging of our investment in foreign operations, our regulatory capital ratios are not materially impacted by currency fluctuations due to the offsetting impact of the proportionate movement in the assets and capital.

The outcome of hedging operations denominated in foreign currencies is to promote orderly and efficient capital management. It enables us to comply with regulatory requirements on an ongoing basis and 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 an AA debt rating. Economic capital is attributed to each business segment in proportion to the risks inherent in their respective business and drives the optimization of returns in terms of risk and reward. It allows for direct comparable performance measurements through Return on equity (ROE) and Return on risk capital (RORC) which are described in detail in the Key financial measures (non-GAAP) 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.

The identified risks for which we calculate Economic capital are credit, market (trading and non-trading), operational, business, fixed asset and insurance risk.

- Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations.
- Market risk is the risk of loss that results from changes in interest and foreign exchange rates, equity and commodity prices and credit spreads.
- Operational risk is defined as 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 actuarial assumptions made in insurance product design and pricing activities differ from actual experience.

In addition, goodwill and intangibles are underpinned by Economic capital. For further discussion of credit, market, operational and insurance risk, refer to the Risk management section.

Economic capital is a non-GAAP measure and its calculation and attribution 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 — Table 42

(C$ millions average balances)	2006	2005
Credit risk	$ 5,800	$ 5,100
Market risk (trading and non-trading)	2,500	2,200
Operational risk	2,450	2,350
Business and fixed asset risk	1,800	1,600
Insurance risk	200	200
Risk capital	$ 12,750	$ 11,450
Goodwill and intangibles	4,650	4,850
Attributed capital (Economic capital)	$ 17,400	$ 16,300
Unattributed capital	2,500	2,300
Common equity	$ 19,900	$ 18,600

Attributed Economic capital increased $1.1 billion from the same period a year ago largely due to increases in Credit risk and Market risk capital partially offset by a decrease in Goodwill and intangibles. The increase in Credit risk capital was primarily due to business growth along with the impact of RBC Dexia IS, which was established on January 2, 2006. Market risk capital increased largely in our non-trading portfolios. Goodwill and intangibles decreased as a result of the impact of a stronger Canadian dollar on the translated value of U.S. dollar-denominated assets and was partially offset by the impact of RBC Dexia IS and Abacus.

We remain well capitalized with current levels of qualified equity exceeding the Economic capital required to underpin all of our risks.

Subsidiary capital

Structured management of consolidated capital has become a key strategic objective as the amount of capital deployed in subsidiaries to build their businesses has grown in order to maximize profits and returns to 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. To meet these new regulatory requirements and facilitate the co-ordinated generation and allocation of capital across the organization, we have put in place a comprehensive subsidiary capital framework. This framework sets guidelines for defining capital investments in our subsidiaries and establishes minimum targets in relation to our 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, the Capital Management Group is mandated to provide centralized oversight and consolidated capital base management across various entities.

Future developments

We closely monitor changes in the accounting framework and their potential impact on our capitalization levels through ongoing dialogue with our external auditors, other financial institutions, the Canadian Bankers Association and the OSFI. Several changes in accounting principles have either been introduced or are being proposed in the areas of financial instruments (as described in the Critical accounting policies and estimates section and Note 1 to the Consolidated Financial Statements), and requirements for contracts that can be settled in cash or shares to be settled in shares for the calculation of diluted EPS. These changes could affect our capital requirements and activities.

Basel II

The implementation of the capital adequacy requirements for Basel II will begin with a parallel run in fiscal 2007 with full compliance expected at the beginning of fiscal 2008. We are actively preparing for the implementation of the Basel II framework as detailed in the Risk management section.

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 derivative financial instruments, transactions with special purpose entities and issuance of guarantees. These transactions give rise to, among other risks, varying degrees of market, credit and liquidity risk, which are discussed in the Risk management section.

Derivative financial instruments

Derivative financial instruments are primarily used in sales and trading activities to enable our clients to transfer, modify or reduce current or expected risks. These trading derivatives are fully recognized at their fair values on our Consolidated Balance Sheets.

We also use derivatives to manage our exposures to interest, currency, credit and other market risks. We may choose to 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 (economic hedges). These economic hedges are also carried at fair value on our Consolidated Balance Sheets.

Certain derivatives that are used to manage our risks are specifically designated and qualify for hedge accounting (accounting hedges). We apply hedge accounting to minimize significant unplanned fluctuations in earnings caused by changes in interest rates or exchange rates. These hedging derivatives represent off-balance sheet items, as they are not carried at fair value.

Notes 1 and 7 to our Consolidated Financial Statements provide more detail on our accounting for, and types of, derivatives. The following are the net fair values of the derivatives by category:

Derivatives — Table 43

(C$ millions)	2006	2005
On-balance sheet		
Trading derivatives	$ (4,222)	$ (3,628)
Economic hedges	(498)	(452)
Off-balance sheet		
Accounting hedges	294	386
Total net fair value	$ (4,426)	$ (3,694)

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 the Canadian Institute of Chartered Accountants (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 the 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 and commercial mortgage loans primarily to diversify our funding sources and enhance our liquidity position. Gains and losses on securitizations are included in Non-interest income.

Credit card receivables

We securitize a portion of our credit card receivables through an SPE on a revolving basis. The SPE is funded through the issuance of senior and subordinated notes collateralized by the underlying credit card receivables. 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 Investment account 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 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 mortgages underlying these MBS. The retained portion of these MBS is recorded in Investment account securities on our Consolidated Balance Sheets.

Commercial mortgage loans

We securitize commercial mortgages by selling them in collateral pools, which meet certain diversification, leverage and debt coverage criteria, to an SPE. The SPE finances the purchase of these pools by issuing certificates that carry varying degrees of subordination. These certificates range from AAA to B- when rated, and the most subordinated are unrated. The certificates represent undivided interests in the collateral pool, and the SPE, having sold all undivided interests available in the pool, retains none of the risk of the collateral pools. As part of the SPE pooling and servicing agreement, we continue to be the primary servicer of the loans under contract with a master servicer for the SPE.

Our financial asset securitizations Table 44

(C$ millions)	2006	2005
Outstanding securitized assets		
Residential mortgages	$ 14,131	$ 9,561
Credit cards	3,650	3,100
Commercial mortgages	1,914	1,237
Total	$ 19,695	$ 13,898
Retained interests		
Residential mortgages		
Mortgage-backed securities retained	$ 5,591	$ 2,654
Retained rights to future excess interest	206	172
Credit cards		
Asset-backed securities purchased	1,390	596
Retained rights to future excess interest	26	21
Subordinated loan receivables	6	6
Total	$ 7,219	$ 3,449

2006 vs. 2005

During the year, we securitized $13.6 billion of residential mortgages, of which $6.3 billion were sold and the remaining $7.3 billion were retained as Investment account securities. We also securitized $.7 billion of commercial mortgages and $1.2 billion in credit card loans. During the year, $650 million of previously securitized credit card loans matured which resulted in the loans being recorded back on our Consolidated Balance Sheets. For further details, refer to Note 5 to our Consolidated Financial Statements.

Capital trusts

We issue innovative capital instruments, RBC Trust Capital Securities (TruCS), through two SPEs: RBC Capital Trust (Trust) and RBC Capital Trust II (Trust II). We consolidated Trust but did not consolidate Trust II. As at October 31, 2006, we held the residual interest of $1 million (2005 – $1 million) in Trust II, had a loan receivable from Trust II of $42 million (2005 – $44 million), and reported the senior deposit note of $900 million (2005 – $900 million) we issued to Trust II in our deposit liabilities. Under certain circumstances, TruCS of Trust II will be automatically exchanged for our preferred shares. 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 note issued to Trust II amounted to $52 million (2005 – $52 million; 2004 – $52 million) during the year. For further details on the capital trusts and the terms of the TruCS 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 six multi-seller asset-backed commercial paper conduit programs (multi-seller conduits) – 3 in Canada and 3 in the United States. We are involved in the multi-seller conduit markets because our clients value these transactions, they offer 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.

During 2006, the multi-seller conduits also financed assets that were in the form of either securities or instruments that closely resemble securities such as credit-linked notes. The credit quality of these transactions was 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. 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 $60 million during the year (2005 – $58 million; 2004 – $70 million).

At fiscal years ended October 31, total commitments and amounts outstanding under liquidity and credit enhancement facilities for the multi-seller conduits, which are also included in our discussion in the Guarantees section, are shown below:

Liquidity and credit facilities Table 45

	2006		2005	
(C$ millions)	Committed (1)	Outstanding	Committed (1)	Outstanding
Liquidity facilities	$ 34,880	$ –	$ 29,442	$ –
Credit facilities	3,404	–	2,832	–

(1) Our maximum exposure to loss under these facilities is $35.1 billion for 2006 and $29.4 billion for 2005. The increase in liquidity facilities is due to the increase in the multi-seller conduits' activities during the year.

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 the year, these six multi-seller conduits have financial assets totalling $24.8 billion as at October 31, 2006 (2005 – $20.2 billion). The maximum assets that may have to be purchased by the conduits under purchase commitments outstanding as at October 31, 2006 were $34.3 billion (2005 – $29.3 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 on occasion act as market maker. We do not, however, provide any SPE with any guarantees or other similar support commitments; rather, 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-related assets and liabilities. The assets in these SPEs amounted to $3.8 billion as at October 31, 2006 (2005 – $3.3 billion), of which $.7 billion were consolidated as at October 31, 2006 (2005 – $.7 billion).

Asset management

Collateralized Debt Obligation (CDO) SPEs raise capital by issuing debt and equity securities and invest their capital proceeds in portfolios of debt securities. Any net income or loss is shared by the CDO's equity and debt investors. In 2005, we sold our CDO management business to a third party, and in 2006, we sold our investments in the CDO's first-loss tranche. The interest income from investments in the CDO's first-loss tranche totalled nil in 2006 (2005 – $9 million; 2004 – $10 million).

Structured finance

We occasionally make loan substitute and equity investments in off-balance sheet entities 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. The unconsolidated entities in which we have significant investments or loans had total assets of $6.9 billion as at October 31, 2006 (2005 – $6.5 billion). As at October 31, 2006, our total investments in and loans to these entities were $2.9 billion (2005 – $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 $3.6 billion (2005 – $6.7 billion) as at October 31, 2006. As at October 31, 2006, our total exposure to these funds was $319 million (2005 – $908 million). The total assets held in the funds where we have significant exposure declined as we have sold some of our investments in these funds.

Trusts, mutual and pooled funds

Our joint venture RBC Dexia IS provides trusteeship and/or custodian services for a number of personal and institutional trusts and 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. We include 50% of these fees in our revenue, representing our share of interest in RBC Dexia IS.

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.

Our maximum potential amount of future payments in relation to our guarantee products as at October 31, 2006, amounted to $125 billion (2005 – $121 billion). In addition, as of October 31, 2006, RBC Dexia IS securities lending indemnifications totalled $45.6 billion (2005 – nil); we are exposed to 50% of this amount. The maximum potential amount of future payments represents the maximum risk of loss if there were a total default by the guaranteed parties, without consideration of possible recoveries under recourse provisions, insurance policies or from collateral held or pledged.

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.

In addition to guarantees, we 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. The following is a summary of our off-balance sheet commercial commitments.

Commercial commitments (1) — **Table 46**

(C$ millions)	Within 1 year	1 to 3 years	Over 3 to 5 years	Over 5 years	Total
Documentary and commercial letters of credit	$ 693	$ 20	$ –	$ –	$ 713
Commitments to extend credit and liquidity facilities	45,171	29,736	20,279	4,190	99,376
Uncommitted amounts (2)	45,498	–	–	–	45,498
	$ 91,362	$ 29,756	$ 20,279	$ 4,190	$ 145,587

(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.

Our business activities expose us to a wide variety of risks, which are inherent in virtually all aspects of our operations. Our goal in managing these risks is to protect the enterprise from an unacceptable level of earnings volatility while supporting and enabling business opportunities. We do this by ensuring that the risks arising from 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 an effective risk management framework. The cornerstone of our risk management framework 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 with our risk appetite.

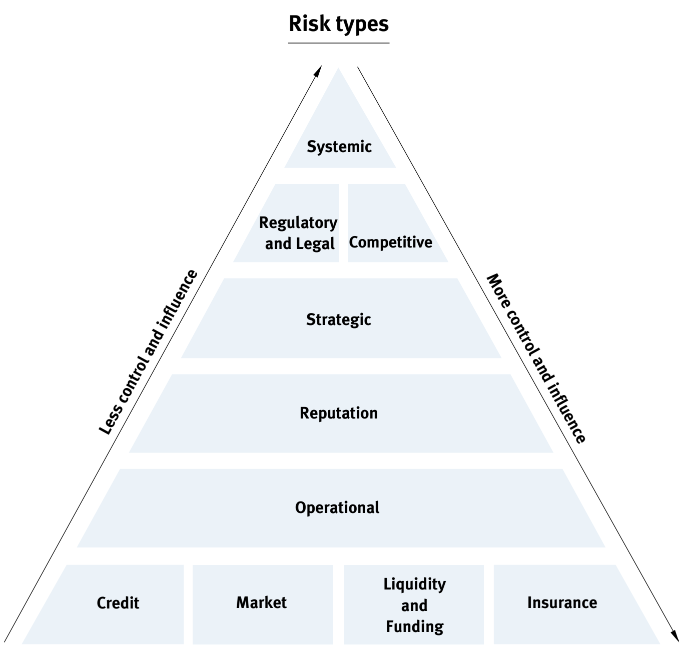
Risk management principles

We apply the following overarching principles in the identification, monitoring and management of risk throughout the organization:

- Business management is accountable for all risks assumed in their operations.
- Independent oversight is necessary to provide an objective assessment of our exposure to risk.
- The optimum balance of risk and return is achieved through the alignment of business strategy and risk appetite on an enterprise-wide basis.
- Extreme positions are avoided to mitigate the likelihood of unacceptable earnings volatility.

Risk types

We have the greatest level of direct control and influence over credit, market, liquidity and funding, insurance and operational risks. Effective management of these risks reduces our exposure to other risks that we have less control and influence over.



Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations.

Market risk is the risk of loss that results from changes in interest and foreign exchange rates, equity and commodity prices, and credit spreads.

Liquidity and funding risk is the risk that an institution is unable to generate sufficient cash or its equivalent in a timely and cost-effective manner to meet its commitments as they come due.

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.

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

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.

Strategic risk is the risk that the enterprise or a particular business area will make inappropriate strategic choices, or is unable to successfully implement selected strategies or related plans and decisions.

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 adhere to or comply with regulations, law, industry codes or rules, regulatory expectations or ethical standards.

Competitive risk is the risk associated with the inability to build or maintain sustainable competitive advantage in a given market or markets.

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.

Environmental risk is the risk of loss to financial, operational or reputation value resulting from the impact of environmental issues. Environmental risk is often embedded within other risks such as credit and operational risk.

Governance

The following graphic illustrates our overall risk governance structure.

The responsibilities of the various stakeholders of risk management are as follows:

Board and its committees

Board of Directors

The Board of Directors provides oversight and carries out its mandate with respect to risk management through the Conduct Review and Risk Policy Committee (CR&RPC) and the Audit Committee.

Conduct Review and Risk Policy Committee (CR&RPC)

This committee is designed to ensure that we have risk policies, processes and controls in place to manage the significant risks to which we are exposed and that we comply with the *Bank Act* (Canada) and other relevant laws and regulations. Key responsibilities are to (i) shape and influence our risk culture, (ii) identify risks, (iii) determine the appropriate organizational structure for Group Risk Management (GRM), (iv) review and approve significant policies and limits for controlling risk, (v) review and monitor the major risks we assume or face and provide direction as required, and (vi) ensure we have sufficient and appropriate risk management resources.

Audit Committee

The committee mandate includes (i) providing oversight over the integrity of the financial statements, (ii) ensuring policies related to liquidity and funding management and capital management are in place, and (iii) obtaining reasonable assurance that applicable policies are being adhered to. The committee reviews the adequacy and effectiveness of internal controls and regularly reviews regulatory and legal risks, and litigation matters that could significantly affect the financial statements. The committee, along with the CR&RPC, regularly reviews significant risks facing the organization and regulatory compliance matters.

Key risk committees

Group Risk Committee (GRC)

The GRC executes management's oversight role regarding risk management. This committee is designed to ensure that the appropriate authorities, resources, responsibilities and reporting are in place to support an effective risk management program. The GRC is chaired by the President and Chief Executive Officer, and includes the other members of the Group Executive, the Chief Risk Officer and the Chief Financial Officer. The GRC is responsible for ensuring that (i) our overall risk profile is consistent with strategic objectives, and (ii) there are ongoing, appropriate and effective risk management processes to identify, measure and manage risks on an aggregate basis. GRC recommends risk limits and controls including aggregate exposure limits for credit, market and insurance risks to CR&RPC for approval. In addition, it recommends the liquidity and funding management framework, liquidity contingency plan, and liquidity and funding risk limits to the Audit Committee for approval.

We also have five primary management risk committees, which report to the GRC and ensure appropriate governance and compliance is maintained. The risk committee structure and mandates are reviewed regularly to ensure ongoing alignment with organizational roles and responsibilities and regulatory developments as necessary. The committees are as follows:

USA Corporate Governance Committee is responsible for oversight, monitoring and reporting on all corporate governance matters including all material risks, affecting our U.S. operations.

Structured Transactions Oversight Committee provides risk oversight of structured transactions and complex credits to ensure that all potentially significant reputation, regulatory and legal, accounting or tax risks are adequately identified and effectively managed or mitigated.

Policy Review Committee is responsible for the approval of (i) our risk management and policy framework, (ii) enterprise-wide risk policies relating to risk identification and approval, measurement, controls, limits and reporting, (iii) new or changed products, services and initiatives with significant risk implications, and (iv) risk measurement approaches and methodologies.

Ethics and Compliance Committee directly supports our management of regulatory, compliance and reputation risk through approval of our ethics and compliance program, which includes our Code of Conduct and Enterprise Compliance Management Framework, as well as specific policies and procedures in areas such as anti-money laundering and anti-terrorist financing, privacy and information protection, conflicts of interest, and insider trading. It serves as the senior management focal point in initiating response to and action on new and changing regulatory and compliance risks. It informs and advises GRC and the Board of Directors on significant compliance and regulatory issues and appropriate remedial measures.

Asset and Liability Committee (ALCO) based on its delegated authority reviews, recommends or approves broad policy frameworks pertaining to economic and regulatory capital management, interest rate risk related to traditional non-trading banking activities, funds transfer pricing, liquidity and funding, as well as subsidiary governance. The committee also provides regular oversight and strategic direction in light of expected returns and the impact of competitive and regulatory environments.

Key risk management groups

Group Risk Management (GRM)

GRM works in full partnership with our businesses to identify, assess, mitigate and monitor all forms of risk. The CRO has overall responsibility for all aspects of the group risk management function. The CRO and GRM have been delegated responsibility by the Board of Directors for developing and maintaining (i) a comprehensive risk identification and approval process, (ii) appropriate methodologies for risk measurement, (iii) risk controls and limits to ensure appropriate risk diversification and optimization of risk/return on both a portfolio and transactional basis, and (iv) comprehensive and timely reporting to senior management and the Board on major risks being assumed by or facing the organization.

Corporate Treasury

The Corporate Treasury function has responsibility for the management, oversight and reporting of our capital position, structural interest rate risk, and liquidity and funding risks. Their responsibilities also include the management and reporting of regulatory, economic and subsidiary capital, while ensuring compliance with regulatory and internal constraints. One of their goals is to optimize returns to shareholders by minimizing the cost of capital, within the above constraints. Corporate Treasury also recommends related policies and authorities to ALCO and GRC, who recommend to the Audit Committee for approval.

Business segments and corporate support groups

The business segments, Global Technology and Operations (GTO) and Global Functions also have responsibility for the management of risk. These responsibilities include (i) accountability of their risks, (ii) alignment of business strategy with corporate risk culture and risk appetite, and (iii) identification, control and management of their risks.

Risk measurement

The 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 may only apply to a single risk type. While quantitative risk measurement is important, we also place reliance on qualitative factors. For each risk, where appropriate, controls are in place to ensure both quantifiable and unquantifiable risks are identified, assessed and reported.

In most cases we are able to develop a quantifiable measure of expected loss and unexpected loss, as well as to conduct stress scenarios. These measurement models and techniques are continually subject to independent assessment for appropriateness and reliability. The implementation of Basel II will enhance our ability to measure risks. 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 they are within our risk tolerance.

Expected loss

Expected loss represents those losses that are statistically expected to occur as a result of conducting business. They largely arise in the form of credit and fraud losses due to lending activities.

Unexpected loss

Unexpected loss is a statistical estimate of the amount by which actual losses can exceed expected loss over a specified time horizon, measured to a specified level of confidence. On an enterprise-wide basis, we use economic capital to quantify the unexpected loss associated with our business activities. Economic capital is computed and assigned by the various risk categories to the business activities. This enables the application of a common and consistent quantifiable metric to ensure that returns throughout the organization are commensurate with the associated risks. This represents best practice as it measures risk in terms of economic realities rather than regulatory or accounting rules. The use of economic capital as a risk metric enables us to assess performance on a more comparable risk-adjusted basis at the transaction and portfolio level. Economic capital is embedded in the management culture of the organization through risk-adjusted performance measures such as Return on equity and Return on risk capital.

Stress scenario loss

Stress testing helps determine the effects of potentially extreme market movements. Stress scenarios are conservatively based on unlikely but possible adverse market events and economy-wide developments. Through stress testing, we can assess the level of our potential risk exposure under extreme conditions. This type of testing is intended to alert senior management to our exposure to potential economic, political or other disruptive events in order to assess overall capital adequacy and the necessary action required.

Model validation

To ensure robustness of our measurement techniques, validation is carried out by risk professionals independent of those responsible for the development and usage of the models and assumptions.

Risk control

A comprehensive set of risk controls supports our enterprise-wide risk management approach. 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 transactional basis.

Policies

Our Risk Policy Management Framework outlines the roles and responsibilities of GRM, the business segments and corporate support groups in the effective creation, approval, maintenance and communication of both enterprise-wide risk policies as well as business-specific risk policies. This risk policy management framework is supplemented with the policy approval authorities matrix which sets out who can approve policies, procedures, standards and guidelines.

Risk policies that cover risk identification, measurement, management and reporting are set by GRM and are considered minimum requirements for the businesses, GTO and other Global Functions. These policies communicate our risk appetite, limits and parameters within which business groups and employees can operate. Businesses also have specific policies and procedures in place to manage the risks within their business. All risk policies are subject to a rigorous approval process, which depending on the type and significance of the policy can involve the Policy Review Committee, Ethics and Compliance Committee, Group Risk Committee or the Conduct Review and Risk Policy Committee.

Risk review and approval

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.

Requirements for the review and monitoring of risks are set out in a number of enterprise level policies and procedures. This includes but is not limited to the following: Credit Principles, Rules and Guidelines, Market Risk Principles and Rules, Operational Risk Policies as part of the Operational Risk Management Framework and compliance policies as part of the Enterprise Compliance Management Program Framework.

The risk review and approval of new products and services is a key responsibility of GRM, with enterprise-wide requirements set out in the Policy and Procedures for the Approval of New or Amended Products and Services. This policy has 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.

Authorities and limits

The Board of Directors, through the CR&RPC, delegates credit, market and insurance risk exposures to the President and Chief Executive Officer (CEO), Chief Operating Officer (COO) and Chief Risk Officer (CRO). The 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 authorities are reviewed and approved annually by the Board.

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.

The establishment and maintenance of a sound risk limits system is fundamental to the overall management of risks inherent in our business activities. The size of our limits reflects our risk appetite given market and credit conditions and our business strategies.

Our policy on risk limits primarily covers and prevents the concentration of risk in the following areas:

- Single name risk (credit and transactional)
- Geographic and industry sector risk
- Product and portfolio risk
- Underwriting risk
- Market risk.

These identified limits apply consistently across all businesses, portfolios, transactions and products. Activities must be conducted within these limits. Those activities that exceed the specified limits are required to abide by the exception process as outlined within the policy. 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 funding and liquidity risk. These limits form part of our liquidity management framework as set out by Corporate Treasury. Liquidity risk limits are 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. Any liquidity risk exposures exceeding policy limits must be approved by the Executive Vice-President Corporate Treasury or his delegate, with notice provided to the COO.

Reporting

GRM provides timely and comprehensive risk reporting to senior management and the Board of Directors on major risks being assumed by or facing the organization, enabling appropriate management and oversight. This reporting includes, but is not limited to (i) all large exposure exceptions to credit policy, (ii) large counterparty exposures, (iii) significant counterparty downgrades and (iv) information on capital adequacy.

Basel II

Basel II is a new international capital adequacy framework that will more closely align regulatory capital requirements with the underlying economic risks. The official implementation date in Canada is November 1, 2007, following a one-year parallel run with current capital requirements.

Basel II represents a major change in bank regulation, in that it allows management to select from a menu of approaches for the calculation of the minimum capital required to support the credit and operational risk undertaken by banks.

Credit risk

The OSFI expects each major bank in Canada to adopt the Advanced Internal Ratings Based Approach (AIRB) for all of its material portfolios, although some flexibility is permitted regarding the timing of adoption. AIRB, which is the most sophisticated of the three approaches, involves an extensive and rigorous supervisory approval process to ensure that the bank complies with a comprehensive set of minimum standards. Once approved, the bank is permitted to assess the credit risk of its exposures using its internal rating systems, and to employ the risk measurements produced by those ratings systems in the calculation of required regulatory capital. Both wholesale and retail portfolios will employ estimates for probability of default (PD), loss given default (LGD) and exposure at default (EAD) based on internal data.

We are diligently working toward adoption of the AIRB approach for all material portfolios, and have submitted to the OSFI a phased AIRB adoption plan that will satisfy that objective.

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.

On an industry basis, we believe current model-based measurement methodologies remain unproven as a credible and robust means of calculating capital for the purposes of underpinning operational risk. RBC's approach brings the benefits of sounder operational risk management and governance, positioning it 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. We continue to work closely with the OSFI and key host supervisors to ensure that our approach to operational risk management and Basel II compliance is clearly understood and consistent with regulatory expectations.

Basel program integration office

We established a Basel program integration office in 2004 to direct and manage the enterprise-wide implementation effort, which has the full and active support of senior management. The Basel Program is co-sponsored by the COO and the Chief Information Officer and is governed by a steering committee comprised of senior executives of the functional areas that will be most impacted by the implementation including Group Risk Management, Corporate Treasury and Global Technology and Operations. We have dedicated significant resources and management attention to the Basel II implementation effort, and senior management is satisfied with the bank's progress towards compliance.

Credit risk

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. We incur credit risk in our business segments through the extension of credit and other transactions with various counterparties, including on- and off-balance sheet items such as loans, acceptances, letters of credit and guarantees.

Responsibilities

Oversight of credit risk is provided by the Board of Directors through the Conduct Review and Risk Policy Committee (CR&RPC). Credit risk approval authorities are established by the Board of Directors upon recommendation of the CR&RPC, and delegated to senior management. Any transactions exceeding management's authorities must be approved by the CR&RPC.

Group Risk Management (GRM) sets out the enterprise-wide requirements for the identification, assessment, monitoring and reporting of credit risk. Business segments are accountable for the credit risks within their businesses, working in partnership with GRM on the proper alignment between risk appetite and business strategies.

Risk measurement

Credit risk is measured on an ongoing basis at the borrower and portfolio levels in order to ensure management is aware of changes in our risk profile. Our portfolio is segmented into wholesale, and consumer and small business, and each employs its own risk measurement and assessment processes.

Wholesale portfolio

The key parameters used in measuring and monitoring our exposure to expected loss and calculating credit risk economic capital are the probability of default (PD), loss given default (LGD) and exposure at default (EAD). Using these risk parameters, we can measure and monitor our credit risk to ensure it remains within established limits and our risk tolerance levels.

These risk parameters are determined based on historical experience, supplemented by benchmarking and are updated on a regular basis. The estimation of PD, LGD and EAD rates are either established or approved by GRM ensuring independence and consistency.

Validation procedures related to these parameters are currently in place and continue to be enhanced in order to meet the requirements of the Basel II Accord. The aim of the validation procedures is to ensure we (i) identify factors that differentiate risk, (ii) produce measures that appropriately quantify risk and (iii) produce measures of risk that respond to changes in the macroeconomic and credit environments.

Probability of default

Probability of default (PD) measures the probability that a given borrower will default within a 1-year time horizon. In order to determine the PD of any given borrower, the borrower is assigned a Borrower Risk Rating (BRR) using a 22-point scale. The BRR, which is largely consistent with external rating agencies, is underpinned by methodologies developed by industry specific experts in GRM. The assessment used to assign a BRR is based on a detailed review of industry sector trends, market competitiveness, overall company strategy, financial strength, access to funds and the financial management of the borrower.
Each BRR differentiates the riskiness of the borrower from a default perspective and corresponds to the statistical probability of default by a borrower within the next year.

Loss given default

Loss given default (LGD) represents the amount expected to be lost when a counterparty or borrower defaults. The level of LGD depends on the type of collateral, the seniority of debt, and the industry in which the counterparty operates. The LGD is based on historical experience, supplemented by benchmarking and is updated on a regular basis.

Exposure at default

Exposure at default (EAD) represents the expected level of usage of the credit facility when default occurs. At default the borrower may have drawn the loan fully or have repaid some of the principal. The estimate is also based on historical experience, supplemented by benchmarking and is updated on a regular basis.

Consumer and small business portfolio

For Consumer and small business credit portfolios, customized credit scoring models are used for risk measurement.

Application 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 sources of data that are accessible are used and include internal data and external information from credit bureaus.

Behavioural scoring is used in the ongoing management of consumer and small business accounts. 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. Combined with risk indicators from external sources, this tool has proven to be a leading indicator of risk for our existing accounts, and has identified significant opportunities for improving the risk/return tradeoffs.

Economic capital

Credit risk is the largest contributor to overall economic capital. In addition to the quantification of unexpected loss, Economic capital is used in setting Single Name and Industry limits in order to manage concentration in the wholesale portfolio. In the consumer and small business portfolio, Economic capital is used in the risk-based pricing decisions and profitability measurement to ensure an appropriate risk/return balance.

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 consumer and small business portfolios. To this end, sensitivity tests are run using different assumptions to examine the impact on key portfolio metrics. In addition to sensitivity testing, stress tests are used to assess client and portfolio vulnerability to the impacts of unlikely but possible extreme events such as a significant market disruption or a significant downturn in a particular industry.

Risk control

We manage our credit risk in the organization through policy requirements, established authorities and limits, mitigation activities and reporting.

Policies

Risk review and approval processes are established by GRM based on the nature, size and complexity of the risk involved. Requirements for the review and monitoring of credit risks are set out in a number of enterprise level policies including:

- Delegated risk approval authorities by the Board of Directors
- Policy on risk limits
- Enterprise-wide credit risk policies
- Credit principles, rules and guidelines.

Authorities and limits

Limits are used to ensure our portfolio is well diversified and within our risk appetite as approved by the Board of Directors. We have notional and economic capital limits for single name and sector exposures. Country exposure is managed by a set of notional limits. Finally, product limits ensure we are not overexposed to any one structure.

Credit risk mitigation

In addition to limits, credit risk is mitigated through credit structuring, credit derivatives and loan sales. Proper structuring of a credit facility is key in mitigating risk at the transaction level. This includes guarantees, collateral and covenants. We also mitigate risk through credit derivatives that serve to transfer the risk to a third party. Procedures are in place to ensure that these hedges are efficient and effective. Decisions on loan sales are made based on an assessment of the market price, our view of the underlying borrower risk as well as the impact on our overall portfolio.

Reporting

Enterprise level credit risk reports are provided by GRM to senior management and the Board of Directors on a quarterly basis to ensure any shifts or negative trends in credit profile are highlighted.

For the wholesale portfolio, an analysis is provided to management for monitoring purposes which includes reporting on significant shifts in exposures, expected loss, economic capital, risk ratings and loan classifications. In addition, large exposure credit policy exceptions, large counterparty exposures, and significant counterparty downgrades are reported. Analysis is provided on a portfolio basis and an industry sector basis and includes the results of stress testing and sensitivity analysis.

A monthly report for consumer and small business loan portfolios is used to assess and monitor shifts in portfolio quality. Each portfolio is assigned one of the following portfolio quality trend indicators – declining, stable or improving – based on specific performance indicators. Other key information in the report includes items such as loss rates and delinquency formations.

Credit portfolio analysis

2006 vs. 2005

During 2006, our credit portfolio remained well diversified and continued to show strong growth. Total loans and acceptances increased $20 billion, or 10%, compared to the prior year. The increase reflected strong growth in both our consumer and our business and government portfolios, driven by strong loan demand against the backdrop of generally favourable North American economic conditions.

Our overall credit quality remained solid. Consumer credit quality remained well supported by continuing favourable credit conditions and solid debt-servicing capacity of households. As well, strong corporate earnings and healthy balance sheets continued to support our business credit quality.

Loans and acceptances outstanding by credit portfolio and geography (1) — Table 47

(C$ millions, except percentage amounts)	2006	2005	2006 vs. 2005 Increase (decrease)	
Residential mortgages	$ 96,675	$ 91,043	$ 5,632	6%
Personal	44,902	41,045	3,857	9
Credit cards	7,155	6,200	955	15
Consumer	$ 148,732	$ 138,288	$ 10,444	8%
Business and government	70,315	60,700	9,615	16
Total loans and acceptances	$ 219,047	$ 198,988	$ 20,059	10%
Canada	$ 188,439	$ 173,747	$ 14,692	8%
United States	21,499	20,058	1,441	7
Other International	9,109	5,183	3,926	76
Total loans and acceptances	$ 219,047	$ 198,988	$ 20,059	10%
Total allowance for loan losses	(1,409)	(1,498)	89	6
Total loans and acceptances, net of allowance for loan losses	$ 217,638	$ 197,490	$ 20,148	10%

(1) Geographic information is based on residence of borrower.

Consumer loans increased $10 billion, or 8%, from a year ago largely due to domestic growth across all categories.

Residential mortgages were up $6 billion, or 6%, despite the offsetting effect of $13.6 billion of net securitization during the year. This growth was supported by a strong housing market, low but rising interest rates, strong labour market conditions, as well as continued consumer confidence. Our sales efforts also contributed to the increase.

Personal loans grew $4 billion, or 9%, reflecting continued growth in credit lines in Canada driven by strong consumer spending in a relatively low interest rate environment.

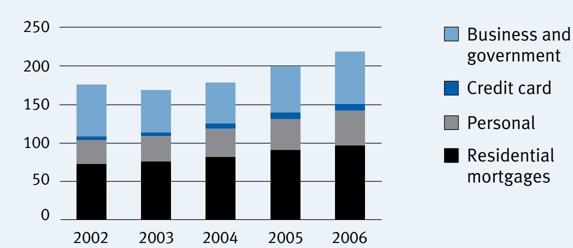
Credit cards increased $1 billion, or 15%, despite the offsetting effect of $550 million of net securitization during the year. The increase reflected successful sales efforts and continued consumer spending.

Business and government loans and acceptances rose $10 billion, or 16%, largely reflecting solid loan demand due to business spending on inventories, machinery and equipment and the consolidation of our 50% proportionate share in RBC Dexia IS. The increase occurred across all sectors, with the largest increase realized in financial services and real estate-related sectors. Financial services increased $3 billion largely reflecting lending activity related to RBC Dexia IS and higher lending to U.S. financial institutions. Real estate-related exposure was up $2 billion, largely due to lending to Canadian real estate developers reflecting a relatively strong housing market. For further details, refer to Table 58 of the Additional financial information section.

Our portfolio remained well diversified and the overall mix did not change significantly from the prior year, with residential mortgages comprising 44%, business and government of 32%, personal loans of 21% and credit cards of 3%.

The portfolio grew across all geographic regions, supported by solid global economic conditions. The largest increase was in Canada, with broad-based growth across both our consumer and business and government portfolios. Growth in business lending accounted for most of the increase in the United States and Other International. For further details, refer to Table 59 of 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 largely trended upward. Compared to 2002, our portfolio increased $43 billion, or 25%, primarily reflecting the increase in our consumer portfolio.

Consumer loans grew $40 billion, or 37%, since 2002, largely due to strong growth in Canada across all categories, notwithstanding mortgage and credit card securitizations. This growth was driven by generally favourable economic conditions and increased focus on growing our consumer portfolio.

Our business and government portfolio grew $3 billion, or 4%, since 2002. The largest growth sectors were real estate-related, government and automotive. Real estate-related exposure increased $5 billion due to broad-based growth in the United States and Canada, driven by generally favourable economic conditions and relatively solid housing markets in North America over the last three years. Government exposure increased $1 billion due to additional lending to provincial governments in Canada, and municipal governments in the United States driven by the expansion of our U.S. operations. The increase in the automotive sector of $1 billion is mainly due to domestic exposure to dealers, and rental and leasing companies. Our efforts, which largely took place in 2002, to reduce credit exposure to risk-sensitive sectors resulted in decreases in the technology and media, and transportation and environment sectors.

Compared to 2002, our portfolio mix shifted, reflecting our efforts to move towards a lower-risk profile. Consumer loans increased from 62% of total loans and acceptances in 2002 to 68% in 2006, while business and government loans decreased correspondingly over the period. For further details, refer to Tables 58 and 59 of the Additional financial information section.

Our portfolio continued to grow in Canada since 2002, reflecting strong loan demand and favourable economic conditions. Our exposure in the U.S. and Other International trended downward except for recent years, partly reflecting our strategic reduction in exposure to risk-sensitive sectors, a reduction in single-name concentrations and our exit of non-core client relationships. With our successful strategic adjustment in these areas, our exposure in the U.S. and Other International increased in 2005 and 2006, respectively, largely reflecting organic growth as well as our expansion initiatives.

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 48

(C$ millions, except percentage amounts)	2006	2005	2006 vs. 2005 Increase (decrease)	
Gross impaired loans, beginning of year				
Consumer	$ 305	$ 335	$ (30)	(9)%
Business and government	469	924	(455)	(49)
	$ 774	$ 1,259	$ (485)	(39)%
New impaired loans				
Consumer	$ 746	$ 912	$ (166)	(18)%
Business and government	335	291	44	15
	$ 1,081	$ 1,203	$ (122)	(10)%
Repayment, return to performing status, sold and other				
Consumer	$ (124)	$ (352)	$ 228	65%
Business and government	(184)	(566)	382	67
	$ (308)	$ (918)	$ 610	66%
Net impaired loan formations				
Consumer	$ 622	$ 560	$ 62	11%
Business and government	151	(275)	426	155
	$ 773	$ 285	$ 488	171%
Write-offs				
Consumer	$ (583)	$ (590)	$ 7	1%
Business and government	(130)	(180)	50	28
	$ (713)	$ (770)	$ 57	7%
Gross impaired loans, end of year				
Consumer	$ 344	$ 305	$ 39	13%
Business and government	490	469	21	4
Total gross impaired loans	$ 834	$ 774	$ 60	8%
Key ratios				
Gross impaired loans as a % of gross loans and acceptances	.38%	.39%	(1)bps	n.m.
Total net write-offs as a % of average loans and acceptances	.25%	.32%	(7)bps	n.m.

Allowance for credit losses continuity — Table 49

(C$ millions, except percentage amounts)	2006	2005	2006 vs. 2005 Increase (decrease)	
Specific allowance				
Balance, beginning of year	$ 282	$ 487	$ (205)	(42)%
Provision for credit losses	482	389	93	24
Write-offs	(713)	(770)	57	7
Recoveries	205	174	31	18
Adjustments	7	2	5	250
Specific allowance for credit losses, end of year	$ 263	$ 282	$ (19)	(7)%
General allowance				
Balance, beginning of year	$ 1,286	$ 1,227	$ 59	5%
Provision for credit losses	(53)	66	(119)	(180)
Adjustments	(10)	(7)	(3)	(43)
General allowance for credit losses, end of year	$ 1,223	$ 1,286	$ (63)	(5)%
Allowance for credit losses	$ 1,486	$ 1,568	$ (82)	(5)%
Allowance for credit losses as a % of gross impaired loans	178%	203%	n.m.	n.m.

n.m. not meaningful

2006 vs. 2005

Gross impaired loans

Gross impaired loans increased $60 million, or 8%, compared to the prior year, largely reflecting loan growth. Both our consumer and business and government portfolios recorded higher impairment this year.

Consumer gross impaired loans increased $39 million, or 13%, from a year ago, with increases in both residential mortgages and personal loans. Gross impaired residential mortgages increased $18 million, or 13%, which was primarily due to portfolio growth and higher impairment in domestic residential mortgages. The increase in impairment in personal loans was largely related to domestic credit line products in part reflecting the overall portfolio growth.

Business and government gross impaired loans increased $21 million, or 4%, compared to the prior year. While the increase was across a number of sectors, the small business and government sectors recorded the largest increases in impairment. The increase was partially offset by a reduction in impairment in the energy sector primarily resulting from the favourable resolution of a previously impaired U.S. borrower.

Gross impaired loans as a percentage of loans and acceptances remained relatively stable at .38%, compared to .39% in the prior year, as the increase in gross impaired loans was commensurate with the growth in the overall portfolio. For further details, refer to Table 60 of the Additional financial information section.

Allowance for credit losses

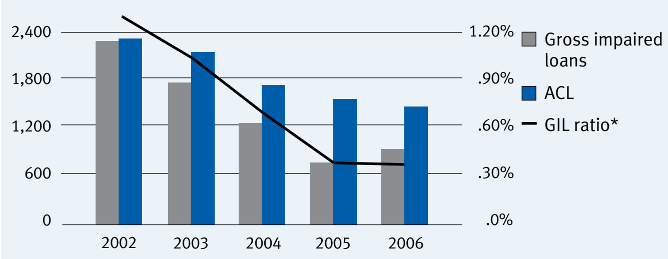
Total allowance for credit losses decreased $82 million, or 5%, from a year ago. The decrease was largely due to a $50 million reversal of the general allowance in 2006 reflecting the strengthening credit quality of our corporate loan portfolio, and a reduction in the specific allowance for both our consumer and business and government portfolios.

The specific allowance decreased $19 million, or 7%, from the prior year. The reduction was mainly in our domestic personal loan and U.S. corporate portfolios.

The general allowance decreased $63 million, or 5%, compared to the prior year, largely reflecting a $50 million reversal of general allowance in light of the strengthening credit quality of the corporate loan portfolio reflecting continuing favourable credit conditions.

Total allowance for credit losses as a percentage of gross impaired loans decreased to 178% compared to 203% a year ago, primarily reflecting the reduction in the general allowance. For further details, refer to Table 62 of the Additional financial information section.

Gross impaired loans (GIL) and allowance for credit losses (ACL)
(C$ millions)



* GIL ratio: GIL as a percentage of total gross loans and acceptances.

Five-year trend

Gross impaired loans

Over the past five years, gross impaired loans largely trended downward, decreasing $1,454 million, or 64%, from 2002, primarily due to lower impairment in our corporate loan portfolio. The reduction was largely attributable to the favourable resolution of a number of previously impaired corporate loans that arose in 2001 and 2002.

In 2006, consumer gross impaired loans decreased $93 million, or 21%, compared to 2002, largely due to lower impairment in personal loans in Canada and the U.S.

In 2006, business and government gross impaired loans declined $1,361 million, or 74%, compared to 2002. The decline was across all geographic regions and most industry sectors, with the largest decrease in the energy, forest products, transportation and environment, and technology and media sectors. The decrease reflected our proactive management of problem accounts and improvement in credit conditions over the period.

The ratio of gross impaired loans as a percentage of loans and acceptances declined significantly to .38% in 2006, compared to 1.30% in 2002, reflecting the factors above.

Allowance for credit losses

Over the past five years, total allowance for credit losses of $1,486 million in 2006, decreased $828 million, or 36%, from 2002. The decrease was largely due to a reduction in specific allowance, reflecting lower corporate impairment due to improved credit conditions.

The specific allowance of $263 million in 2006 was down $631 million, or 71%, compared to 2002. The decrease was broad-based across all portfolios, industry sectors and geographic regions. The business and government portfolio recorded the largest reduction in specific allowance, in line with the significant decline of impairment over the period.

The general allowance of $1,223 million in 2006, decreased $197 million, or 14%, compared to 2002. The decrease was due to a $175 million reversal of the general allowance in 2004, and a $50 million reversal of the general allowance in 2006, largely reflecting improved credit quality and economic conditions.

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 credit losses by credit portfolio and geography (1) — Table 50

(C$ millions, except percentage amounts)	2006	2005	2006 vs. 2005 Increase (decrease)	
Residential mortgages	$ 6	$ 2	$ 4	200%
Personal	306	259	47	18
Credit cards	163	194	(31)	(16)
Consumer	$ 475	$ 455	$ 20	4%
Business and government	7	(66)	73	111
Total specific provision for loan losses	$ 482	$ 389	$ 93	24%
Canada	$ 507	$ 435	$ 72	17%
United States	(26)	(45)	19	42
Other International	1	(1)	2	200
Total specific provision for loan losses	$ 482	$ 389	$ 93	24%
Total general provision	$ (53)	$ 66	$ (119)	(180)%
Total provision for credit losses	$ 429	$ 455	$ (26)	(6)%
Specific provision as a % of average loans and acceptances	.23%	.21%	2 bps	n.m.

(1) Geographic information is based on residence of borrower.
n.m. not meaningful

2006 vs. 2005

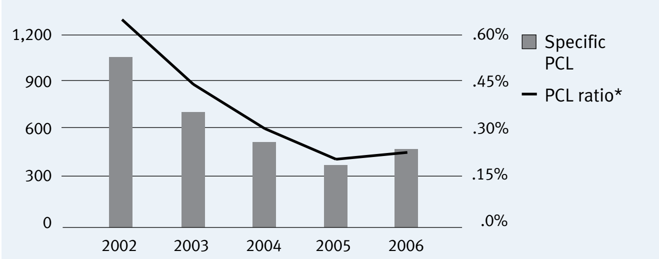
Total provision for credit losses decreased $26 million, or 6%, from a year ago largely reflecting the continued strong credit quality of our portfolio and favourable credit conditions. The specific provision as a percentage of average loans and acceptances in 2006 was .23% compared to .21% in 2005, largely reflecting an increase in specific provisions over the prior year.

Specific provision for credit losses for consumer loans was up $20 million, or 4%, compared to the prior year. The increase was largely due to higher provisions in Canadian personal loans in part reflecting portfolio growth, which was partly offset by the favourable impact of the higher level of securitized credit cards.

Business and government provision for credit losses increased $73 million over the prior year. The increase primarily reflected the transfer of $52 million from the specific allowance to the general allowance in the prior year as a result of the alignment of our enterprise-wide accounting treatment of credit losses, lower recoveries in our corporate and agriculture portfolios, and higher provisions in small business loans. These factors were partially offset by a lower provision in our U.S. business portfolio reflecting continued strong credit quality. The prior year included a provision related to our 50% proportionate share of a provision booked at Moneris.

The general provision decreased $119 million from a year ago. The decrease was largely due to a $50 million reversal of the general allowance this year in light of the strengthening of our corporate loan portfolio reflecting continuing favourable credit conditions and the transfer of $52 million from the specific allowance to the general allowance in the prior year.

Specific provision for credit losses (C$ millions)



* PCL ratio: Specific PCL as a percentage of average loans and acceptances.

Five-year trend

Over the last five years, specific provision for credit losses decreased significantly, despite a 25% increase in total loans and acceptances. The decrease was largely due to a reduction in provisions for our corporate loan portfolio, which recorded a high level of provision in 2002 and significant recoveries in 2005 and 2006. These factors were partially offset by an increase in consumer specific provisions in the last couple of years, primarily driven by significant portfolio growth of credit card and personal loans. The specific provision as a percentage of average loans and acceptances declined to .23% in 2006, compared to .62% in 2002, largely reflecting the significant reduction in provisions related to corporate loans over the period. For further details, refer to Table 61 of the Additional financial information section.

Market risk is the risk of loss that results from changes in interest and foreign exchange rates, equity and 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) repricing risk – arising from differences in the maturity of timing of repricing of the assets, liabilities and off-balance sheet instruments, (ii) directional risk – arising from parallel shifts in the yield curve, (iii) yield curve risk – arising from non-uniform rate changes across a spectrum of maturities, (iv) basis risk – resulting from an imperfect hedge of one instrument type by another instrument type whose changes in price are not perfectly correlated, and (v) option risks – arising from changes in the value of embedded options due to changes in interest 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 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.
- Credit spread risk is the potential adverse impact on our earnings and economic value due to changes in the credit spreads associated with our holdings of credit-risky instruments.

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 and 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 – 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 the market risks within their businesses, 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.

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 $15 million held over one day would have a one in one hundred chance of suffering a loss greater than $15 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. Furthermore, the use of a 10-day VAR for risk measurement implies that positions could be unwound or hedged within 10 days. 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 actual market rates movements over the next day 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 on a periodic basis to further ensure accuracy and reliability. In 2006, there were no occurrences of a back-test exceeding VAR.

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.

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 RBC 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 RBC Capital Markets.

The following table shows our global VAR for total trading activities by major risk category and the diversification effect. During the year, we included our credit default swap business in the interest rate and credit specific VAR using the models approach to VAR measurement.

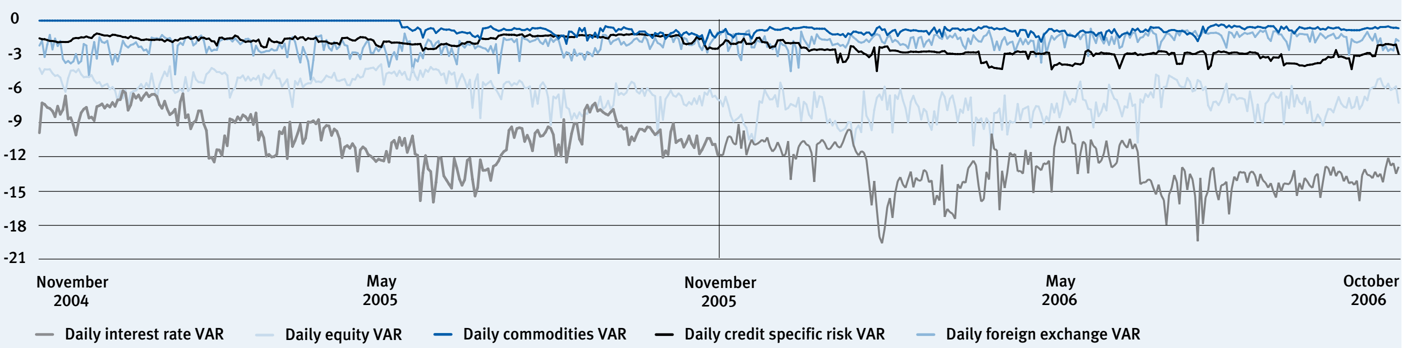
Global VAR by major risk category — Table 51

	2006				2005			
	As at Oct. 31	For the year ended October 31			As at Oct. 31	For the year ended October 31		
(C$ millions)	year-end	High	Average	Low	year-end	High	Average	Low
Equity	$ 7	$ 11	$ 7	$ 5	$ 7	$ 10	$ 6	$ 4
Foreign exchange	2	4	2	1	1	5	2	1
Commodities (1)	1	2	1	–	1	2	1	–
Interest rate	13	20	13	9	12	16	10	6
Credit specific	3	4	3	2	2	3	2	1
Diversification	(9)	n.m.	(8)	n.m.	(8)	n.m.	(9)	n.m.
Global VAR	$ 17	$ 25	$ 18	$ 13	$ 15	$ 17	$ 12	$ 8

(1) Commodities reflect market risk for energy-related trading activities such as crude, heating oil and natural gas. Effective May 2005, these activities have been included in our models and reported alongside other Market risk trading activities. Prior to May 2006 these activities had been subject to the standardized approach for capital allocation.

n.m. not meaningful

Global VAR by major risk category (C$ millions)



Global VAR

2006 vs. 2005

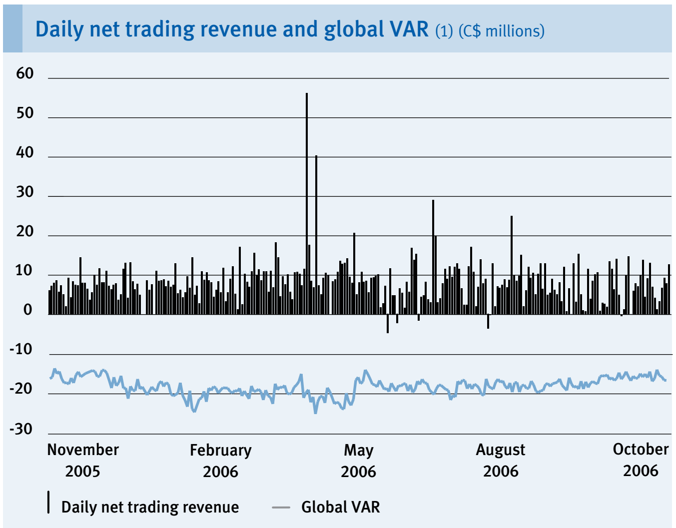
Average global VAR for the year of $18 million was up compared to $12 million a year ago largely due to an increase in interest rate global VAR. This increase in VAR for interest rates is due to increased trading activity and an increase in correlation between the interest rate businesses in the current year. Overall diversification benefit, which is calculated as the difference between the global VAR and the sum of the separate risk factor VARs, was reduced to 31% compared to 43% a year ago.

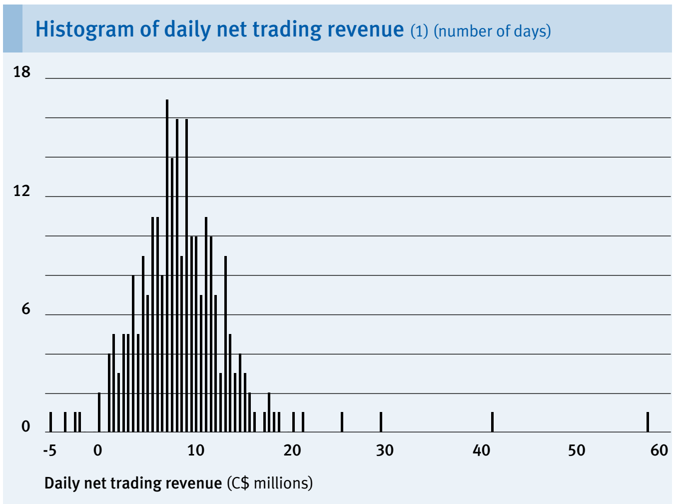
Trading revenue

2006 vs. 2005

During the year, we experienced six days of net trading losses. The largest loss of $4.87 million did not exceed the Global VAR estimates for that day. The breadth of our trading activities is designed to diversify market risk to any particular strategy, and to reduce trading revenue volatility.

The low volatility and the consistent growth of our trading revenue is a reflection of our broad product and geographic diversity.





(1) Trading revenue on a taxable equivalent basis excluding revenue related to consolidated VIEs.

Non-trading market risk (asset and 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. We continually monitor the effectiveness of our interest rate risk mitigation activity within Corporate Treasury on a value and earnings basis.

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 Liability Committee (ALCO) provides oversight to Corporate Treasury. ALCO 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 client rates 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 an immediate and sustained ± 200 basis point parallel shift of the yield curve. The limit for net interest income risk is 6% of projected net interest income and the limit for economic value of equity risk is 12% of projected common equity. Interest rate risk policies and limits are reviewed annually.

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 established policy to Corporate Treasury and seek approval of the corrective actions.

An enterprise interest rate risk report is reviewed monthly by ALCO and quarterly by the Group Risk Committee and by the Board of Directors.

Market risk measures – Non-trading banking activities

Table 52

(C$ millions)	2006 Economic value of equity risk	2006 Net interest income risk	2005 Economic value of equity risk	2005 Net interest income risk	2004 Economic value of equity risk	2004 Net interest income risk
Before-tax impact of: 100bp increase in rates	$ (496)	$ 87	$ (435)	$ 106	$ (412)	$ 70
100bp decrease in rates	375	(153)	291	(181)	215	(150)
Before-tax impact of: 200bp increase in rates	(1,044)	147	(920)	162	(882)	107
200bp decrease in rates	658	(319)	461	(365)	405	(314)

2006 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 2006, 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 lead to failure in the management of other risks such as credit risk, market risk or regulatory risk.

Our operational risk management framework sets out a common language for operational risk and the principles and practices by which we manage operational risk, including risk identification, measurement, mitigation and monitoring.

Under this framework, we consider operational risk from three perspectives: causes, events and impacts. Detailed categories and definitions for each of these are included in the framework to support the consistent identification and assessment of risks.

Responsibilities

As with all significant risks, the Board of Directors is responsible for providing management oversight and ensuring that appropriate policies have been implemented to manage operational risk. The Chief Risk Officer and Group Risk Management are responsible for developing and implementing the operational risk management framework on an enterprise-wide basis, as well as for directing and approving significant business-specific operational risk policies. Within Group Risk Management, a dedicated team has been established to design and support operational risk policies, programs and initiatives and to monitor implementation progress and ongoing execution. The Business Segments are responsible for managing operational risk within their operations in accordance with the operational risk management framework. Where appropriate, execution of certain operational risk management programs is conducted by Global Technology and Operations on behalf of the businesses.

Risk measurement

Since exposure to operational risk is often implicit or not taken on intentionally, complete and precise measurement is difficult. Current measurement methodologies and tools continue to evolve in the industry. Nonetheless, we use several approaches concurrently to gauge our operational risk exposure.

Risk assessment

During 2006, assessments of operational risks were carried out through enterprise-wide programs that evaluated individual key risks such as financial reporting risk (*Sarbanes-Oxley Act of 2002*), privacy, outsourcing, fraud and money laundering.

To improve efficiency and effectiveness, several of these programs were brought together into a single, integrated operational risk and control assessment program launched November 1, 2006. The integrated program provides consistent identification and assessment of operational risks and the controls used to manage these risks.

Risk indicators

A broad range of risk indicators are used by the Business Segments to manage their day-to-day operations and by Group Risk Management to monitor operational risk at the enterprise level. These indicators provide insight into potential changes in our operational risk exposure and assist with proactive management of this risk.

Loss event data collection and analysis

We have established comprehensive standards requiring that operational risk events be identified and reported in the enterprise Loss Event Database when they occur. Required information includes the amount of the loss, any recoveries, relevant dates, root causes and risk drivers affecting the loss. Collection of internal operational loss data helps us to understand where and how our risks are manifesting themselves, provides a historical perspective of our operational loss experience, and establishes a basis for measuring our operational risk exposure and the capital needed to underpin this.

Industry loss analysis

We review and analyze published information on operational losses that have occurred at other financial institutions. This provides insight into the size and nature of potential exposures, and allows us to monitor emerging developments or trends that affect the financial industry as a whole.

Risk control

Complementing our infrastructure, controls, systems and people are our activities under the operational risk management framework and those of several central enterprise-wide groups which focus on aspects such as control effectiveness, management of specific operational risks, and transfer of risk. These groups include (i) fraud management, which focuses on prevention, detection and intervention regarding both internal and external fraud; (ii) the compliance group, which ensures a complete view of our regulatory demands and provides a co-ordinated, effective response to these; (iii) the business continuity management group, which co-ordinates planning, preparation and response for business disruption and crisis situations which may affect our ability to provide quality and timely services to our clients; (iv) the corporate insurance group, through which we 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; and (v) the internal audit group, which provides independent assessment of risk management practices, internal controls and corporate governance processes.

Risk mitigation
Our corporate insurance program quantifies our appetite for particular segments of operational risk and works with businesses and functional partners to strategically manage the related risks.

Reporting
Group Risk Management provides quarterly enterprise level reporting to senior management and the Board of Directors which includes an overview of our operational risk profile. Details are provided on large operational events, areas of heightened risk, insurance coverage, potential emerging risks, fraud management activities, status of business continuity preparedness, and regulatory or compliance issues. This reporting is supplemented with more detailed specific reporting by groups such as compliance, audit and legal.

Liquidity and funding risk

Liquidity and funding risk is the risk that an institution is unable to generate 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 reliable and cost-effective sources of cash or its equivalents are 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
- 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.

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, pledging framework and liquidity contingency plan, and the Board of Directors is informed on a periodic basis about our current and prospective liquidity condition.
- The GRC and the Asset and Liability Committee 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 GRM.
- 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 estimates 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 the cash capital methodology to assist in the evaluation of balance sheet liquidity and determination of the appropriate term structure of our debt financing. It also allows us to measure and monitor the relationship between illiquid assets and core funding, including our exposure to a protracted loss of unsecured wholesale deposits.

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, which are subject to an enterprise-wide framework that assigns risk-adjusted limits to all transaction types. Pledged assets include a pool of eligible assets that are reserved exclusively to support our participation in Canadian payment and settlement systems.

Contingent liquidity risk
Contingent liquidity risk management addresses the risk of and our intended responses to general market disruptions, adverse political/economic developments and a series of progressively more severe RBC credit rating downgrades. The liquidity contingency plan identifies comprehensive action plans that would be implemented depending on the duration and severity of the variety of stressful events listed above. Corporate Treasury maintains and administers the liquidity contingency plan. The Liquidity Crisis Team meets regularly to engage in stress and scenario test exercises and to modify the liquidity contingency plan in light of lessons learned.

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 (e.g., 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 manage our liquidity position on a consolidated basis and consider legal, regulatory, tax, operational and any other restrictions when analyzing our ability to lend or borrow funds between our legal entities.

Policies
Our principal liquidity and funding policies are reviewed and approved annually by the senior management committees and the Board of Directors. These broad policies 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.

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 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. 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 53

As at November 29, 2006	Short-term debt	Senior long-term debt	Outlook
Moody's Investor Services	P-1	Aa2	stable
Standard & Poor's	A-1+	AA-	stable
Fitch Ratings	F1+	AA	stable
Dominion Bond Rating Service	R-1(high)	AA	stable

Our strong credit ratings support our ability to competitively access unsecured funding markets. At the end of 2006, all our ratings have returned to stable outlook upon the resolution of Standard & Poor's negative outlook earlier this year with no rating implications. Near the end of the year, Dominion Bond Rating Service implemented a methodology change applicable to banks which led to a one-notch increase of our ratings and those of our peers. As a result, our short-term debt rating was increased to R-1(high) from R-1(middle) and our senior long-term debt rating was increased from AA(low) to AA.

All of our ratings are amongst the highest categories assigned by the respective agencies to a Canadian bank (our current ratings are at par with, or at a one-notch premium to, our major Canadian banking peers). In 2006, we were once again named as the safest Canadian bank and the 4th safest North American bank by *Global Finance* magazine.

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.

Deposit profile

The composition of our global deposit liabilities is summarized in Note 13 to our Consolidated Financial Statements. In 2006, personal deposits remained the prime 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 prospective 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. As at October 31, 2006, our core deposits, which include our statistical estimates of the stable portions of our personal and commercial/institutional transactional balances, expected renewal rates for personal fixed term deposits under one year and personal and wholesale funds maturing beyond one year, represented about 54% of our total deposits. Year-over-year, this ratio declined about 1% due to growth in short-term, unsecured deposits used to fund liquid assets. 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 54

(C$ millions)	2006	2005	2004
Long-term funding outstanding	$ 33,361	$ 24,004	$ 18,831
Total mortgage-backed securities sold	12,186	8,487	5,983
Commercial mortgage-backed securities sold	1,914	1,237	603
Credit card receivables financed through notes issued by a securitization special purpose entity	2,250	2,500	1,900

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. and Europe. Diversification into new markets and untapped investor segments is also constantly evaluated against relative issuance costs.

During 2006, we continued to expand our long-term funding base by issuing, either directly or through our subsidiaries, $18.5 billion of senior deposit notes in various currencies and markets. Total long-term funding outstanding increased $9.4 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 $3.7 billion. Our credit card receivables, which are financed through notes issued by a securitization special purposes entity, decreased year over year by $250 million. For further details, refer to the Off-balance sheet section and Note 5 to our Consolidated Financial Statements.

Our liquidity and funding position remains sound and adequate to execute our strategy. There are no known trends, demands, commitments, events or uncertainties that are presently viewed as likely to materially change this position.

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 55

	2006					2005	2004
(C$ millions) (1)	Within 1 year	1 to 3 years	3 to 5 years	Over 5 years	Total	Total	Total
Unsecured long-term funding	$ 9,545	$ 11,177	$ 9,471	$ 3,168	$ 33,361	$ 24,004	$ 18,831
Subordinated debentures	–	140	–	6,963	7,103	8,167	8,116
Obligations under leases (2)	419	704	495	868	2,486	2,508	2,418
	$ 9,964	$ 12,021	$ 9,966	$ 10,999	$ 42,950	$ 34,679	$ 29,365

(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 the organization. Failure to effectively manage reputation risk can result in reduced market capitalization, loss of client loyalty and the inability to expand.

The following principles 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.
- No transaction or action is worth jeopardizing our reputation.

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, USA Corporate Governance Committee and Structured Transactions Oversight Committee.

Risk control

Policies

Policies and procedures support the management of reputation risk both directly and indirectly across the organization. Business segments have specific policies in place to manage the risks within their business, including reputation risk. This includes requirements to identify and mitigate reputation risk when considering new business initiatives, products and services. A comprehensive set of policy requirements apply to the identification and assessment of reputation risks, 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 mandatory requirements for managing conflicts of interest.

Reporting

The responsibility for monitoring and reporting on reputation risk issues is primarily within Group Risk Management. Regular comprehensive reporting relevant to the management of reputation risk 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 adhere to or comply with regulations, law, industry codes or rules, regulatory expectations or ethical standards.

GRM Compliance has developed a comprehensive enterprise compliance management (ECM) framework that is consistent with regulatory guidance from the OSFI and other regulators. The framework is risk-based and designed to promote the proactive management of regulatory risk. It applies to all of our businesses and operations, legal entities and employees globally and outlines our accountabilities in order to ensure we maintain robust and effective programs for managing regulatory risk. The framework covers nine elements of compliance management: liaison with regulators, risk assessment, control design and oversight, training and education, compliance execution, monitoring, issue tracking, reporting, and new initiative management.

Responsibilities

Group Risk Management (GRM) sets out the enterprise-wide requirements for the identification, assessment, control, monitoring and reporting of regulatory and legal risk across RBC. Oversight is provided by the Board of Directors through the Conduct Review and Risk Policy Committee (CR&RPC). The Ethics and Compliance Committee supports our management of regulatory risk. It informs and advises GRC and the CR&RPC on significant regulatory issues and remedial measures.

GRM Compliance is directly responsible for supporting the management of regulatory and legal risk. It reports to management and the Board of Directors on the overall status of compliance performance and ensures appropriate action plans are executed on a timely basis. The management of regulatory and legal risks is ultimately the responsibility of senior management and the businesses.

The Chief Compliance Officer and GRM Compliance work closely with business partners to ensure the overall effectiveness of compliance across the enterprise through the enterprise compliance management program (ECMP), which includes compliance strategy and 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.

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 have begun to use such metrics to identify issues and trends and to track changes in regulatory risk between businesses and over time.

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, from the CEO down, must reconfirm their understanding of and commitment to comply with the code at least every two years, and employees in high-risk roles must do so annually. We administer enterprise-wide delivery of online Code of Conduct training, testing and monitoring through our training technology, eCampus.

We also provide training in compliance and regulatory risk related matters for relevant employees through other online tools (for example, in the area of anti-money laundering compliance), 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 Chief Compliance Officer and GRM Compliance report compliance matters to senior management, management committees and the Board of Directors and its operating subsidiaries. In addition, the Chief Compliance Officer provides an annual report on overall compliance, and on specific topics, such as related party transactions, conflicts of interest, compliance with Canadian consumer protection requirements and anti-money laundering compliance. Similarly, senior compliance officers of our operating subsidiaries provide relevant annual and quarterly reports to their senior management and Board of Directors.

Environmental risk

Environmental risk is the risk of loss to financial, operational or reputation value resulting from the impact of environmental issues. These impacts may be direct, such as financial loss sustained from credit provided to owners of contaminated properties, or indirect, such as damage to our reputation resulting from the activities of our clients.

We undertake independent and collaborative research, engage stakeholders, measure performance, and carry out benchmarking in order to identify and address the material environmental issues we face. Issues include climate change, sustainable forestry, biodiversity and the rights of indigenous peoples.

In relation to climate change, for example, we undertook a high-level carbon risk profile of our lending portfolio in order to assess potential credit risk impacts. While the aggregated carbon risk exposure of our portfolio was not considered significant, we continue to monitor this risk as scientific and economic analysis, regulatory actions and our own portfolios evolve.

Responsibilities

Our environmental risk activities are managed by the Environmental Risk Management Group (ERMG) and its partners in the businesses and corporate support groups. Oversight of all risks is provided by the Chief Risk Officer and ultimately by the Conduct Review and Risk Policy Committee of our Board of Directors.

Operational activities relating to the environment are managed co-operatively by the ERMG, Corporate Real Estate, Strategic Sourcing and Corporate Communications. These groups have expertise in credit, emerging environmental issues, operations and reporting. Collectively, they develop, integrate and manage environmental policy, programs and practices.

Risk measurement

Some environmental risks associated with our business and operational activities can be easily quantified. These include the costs of rectifying environmental contamination of properties used as security for loans. Other risks are newer, more complex and more difficult to quantify, requiring expert judgment on an ongoing basis to identify environmental issues and estimate impacts. As risk measurement methodologies mature (relative to carbon risk), we will incorporate those considered useful into our processes.

Risk control

Our Corporate Environmental Policy supplements the environment section of our Code of Conduct. The policy's primary focus is to guide our lending practices and operational activities. It is currently under review, and a revised and updated policy addressing emerging environmental issues will be released in 2007.

Our environmental credit risk management policies provide a means to proactively identify and manage environmental risks in our lending activities. These policies are regularly reviewed to ensure compliance with our legal and operational commitments, and to take into account evolving business activities.

Our commitment to the Equator Principles is an integral part of our environmental risk management approach. The Equator Principles are a voluntary set of guidelines that help financial institutions address the environmental and social risks associated with project finance. We have developed an internal policy governing project finance activities in line with these principles.

The ERMG continues to communicate with business segments to ensure that existing and emerging environmental risks are appropriately managed and controlled. Enhancements, including further policy development and transaction screening tools, are under consideration.

Reporting

The Board of Directors and senior management committees are provided with reports and analysis on environmental issues (for example, climate change and the Kyoto Accord, and the Equator Principles), as appropriate. Our annual Corporate Responsibility Report (CRR) provides information to our stakeholders about our areas of focus and progress, including environmental policy, 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 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 mis-estimation 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.

Insurance risk arises from our life and health, home and auto, travel insurance and reinsurance businesses.

We have established an insurance risk management framework which comprises five primary risk management activities: risk oversight and monitoring, risk reviews and approvals, risk event escalation, risk policies and risk reporting.

Responsibilities

Group Risk Management – Insurance monitors insurance risk via the insurance risk management framework.

The collaborative process between risk management and business segments facilitates the identification and prioritization of risks and ensures the appropriate risk mitigants are implemented in order to align with the organization's risk appetite.

Group Risk Management participation in key business activities and processes and in risk-based reviews enables the monitoring of business activities and risks, and the establishment of limits such as underwriting limits. Additional oversight is achieved through periodic compliance assessments, internal audits and other review mechanisms.

Risk measurement

Insurance risks are measured using in-house models (developed by our Corporate Actuarial Group) and industry models, each of which complies with GRM Model Risk Policy. These risk measurements are used for economic capital attribution, for valuation of liability reserves, and for ensuring that our regulatory capital meets the OSFI guidelines for insurance companies. The models are also used for asset-liability management (ALM) purposes.

Our allocation of insurance risk is measured by economic capital. We have a diversified portfolio of insurance risks with the largest single category being less than 30% of our allocated economic capital.

Risk control

Policies

Risk policies articulate our strategies for identifying, prioritizing and managing risk. Policies communicate a consistent message about risk tolerance and ensure accountability through clear roles and responsibilities. Enterprise-wide policies on insurance risk are centrally managed within Group Risk Management.

Risk review and approval

Product design and pricing risk arising from product initiatives is monitored through a structured risk analysis and approval process. Initiatives are reviewed and assigned a risk rating to identify the appropriate level of approval authority within the organization.

Risk mitigation

Reinsurance (as a risk mitigation technique) is used for reducing our exposure to insurance risks that may not fit within our desired risk profile.

Reporting

Group Risk Management – Insurance evaluates and reports on insurance risk related items to management at the business unit level and at the enterprise level on a regular basis. The reports facilitate the analysis and communication of information and contribute to the overall understanding of insurance risk. Reporting includes an assessment of risks facing the various businesses and covers trends related to claims and loss ratios. The reports also enable an assessment of the risk/return profile of insurance products and impart a view of potential risks on the horizon.

Additional risks that may affect future results

By their very nature, forward-looking statements, including those made in this document, involve numerous factors and assumptions, and are subject to inherent risks and uncertainties, both general and specific, which may cause our future results to differ materially from our expectations expressed in our forward-looking statements. Factors that might cause future financial performance to vary from that described in those forward-looking statements include credit, market, operational and other risks identified and discussed in detail in the Risk management section. In addition, the following discussion sets forth other factors we believe could cause future results to differ materially from expected results.

Industry factors

General business and economic conditions in Canada, the U.S. and other countries in which we conduct business

Interest rates, foreign exchange rates, 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, assets under management and assets under administration, resulting in lower fee, commission and other revenue.

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 on account of 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 three years has had a significant effect on our results. We are also exposed to the British pound on account of our level of operations in the U.K. and activity conducted internationally in this currency. Further appreciation of the Canadian dollar relative to the U.S. dollar or British pound would reduce the translated value of U.S. dollar- and GBP-denominated revenue, expenses and earnings, respectively.

Government monetary and other policies

Our businesses and earnings are affected by the monetary policies that are adopted by the Bank of Canada, 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 U.S. and internationally, which may increase the risk of default by such clients and counterparties. Our businesses and earnings are also affected by the fiscal or other policies that are adopted by various regulatory authorities in Canada, the U.S. 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 disintermediation could also reduce fee revenue and adversely affect our earnings.

Changes in laws and regulations

Regulations are in place to protect the financial and other interests of our clients, investors and the public interest. Changes to laws, regulations or regulatory policies (including tax laws) and 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 businesses, there is no assurance that we will 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 and 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 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 revision, and changes to them may materially adversely affect our results of operations and financial condition. Significant accounting policies and estimates are described in Note 1 to our Consolidated Financial Statements.

As detailed in the Accounting and control matters 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.

Other factors

Other factors that may affect future results include changes in government trade policy, the timely and successful development of new products and services, technological changes, 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 that may affect future results is not exhaustive. 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. 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.

Net interest income on average assets and liabilities from continuing operations (1) — Table 56

(C$ millions, except percentage amounts)	Average balances (2) 2006	2005	2004	Interest (3) 2006	2005	2004	Average rate 2006	2005	2004
Assets									
Deposits with other banks									
Canada	$ 1,218	$ 915	$ 629	$ 41	$ 31	$ 8	3.37%	3.39%	1.27%
United States	1,856	1,587	1,093	155	55	7	8.35	3.47	.64
Other International	4,913	4,068	3,897	284	145	88	5.78	3.56	2.26
	7,987	6,570	5,619	480	231	103	6.01	3.52	1.83
Securities									
Trading account	134,166	110,356	94,178	5,056	3,711	2,718	3.77	3.36	2.89
Investments	38,127	37,198	43,146	1,068	839	837	2.80	2.26	1.94
Loan substitute	665	678	358	31	33	17	4.66	4.87	4.75
	172,958	148,232	137,682	6,155	4,583	3,572	3.56	3.09	2.59
Assets purchased under reverse repurchase agreements and securities borrowed	55,615	44,420	43,920	2,827	1,354	656	5.08	3.05	1.49
Loans (4)									
Canada									
Residential mortgages	90,624	82,960	75,722	4,539	4,090	3,903	5.01	4.93	5.15
Personal	36,840	32,864	28,857	2,701	2,055	1,813	7.33	6.25	6.28
Credit cards	6,233	6,238	5,656	761	753	674	12.21	12.07	11.92
Business and government	33,694	30,026	27,616	1,420	1,401	1,342	4.21	4.67	4.86
	167,391	152,088	137,851	9,421	8,299	7,732	5.63	5.46	5.61
United States	21,871	20,572	21,329	2,110	1,626	1,134	9.65	7.90	5.32
Other International	8,286	6,993	6,586	1,177	865	669	14.20	12.37	10.16
	197,548	179,653	165,766	12,708	10,790	9,535	6.43	6.01	5.75
Total interest-earning assets	434,108	378,875	352,987	22,170	16,958	13,866	5.11	4.48	3.93
Non-interest-bearing deposits with other banks	2,806	2,567	2,758	–	–	–	–	–	–
Customers' liability under acceptances	8,748	6,411	6,047	–	–	–	–	–	–
Other assets	56,438	57,447	56,408	–	–	–	–	–	–
Total assets	$ 502,100	$ 445,300	$ 418,200	$ 22,170	$ 16,958	$ 13,866	4.42%	3.81%	3.32%
Liabilities and shareholders' equity									
Deposits (5)									
Canada	$ 167,015	$ 161,866	$ 147,956	$ 5,024	$ 3,724	$ 3,186	3.01%	2.30%	2.15%
United States	47,913	40,004	38,402	2,018	1,047	510	4.21	2.62	1.33
Other International	91,334	70,168	67,680	3,666	2,175	1,446	4.01	3.10	2.14
	306,262	272,038	254,038	10,708	6,946	5,142	3.50	2.55	2.02
Obligations related to securities sold short	38,630	34,169	27,013	2,071	1,381	978	5.36	4.04	3.62
Obligations related to assets sold under repurchase agreements and securities loaned	32,786	25,912	29,159	1,882	1,120	677	5.74	4.32	2.32
Subordinated debentures	8,013	8,359	8,000	419	442	429	5.23	5.29	5.36
Other interest-bearing liabilities	2,759	4,041	3,458	328	299	242	11.89	7.40	7.00
Total interest-bearing liabilities	388,450	344,519	321,668	15,408	10,188	7,468	3.97	2.96	2.32
Non-interest-bearing deposits	17,037	16,159	14,164	–	–	–	–	–	–
Acceptances	8,882	6,414	6,049	–	–	–	–	–	–
Other liabilities	66,755	58,757	57,697	–	–	–	–	–	–
Total liabilities	$ 481,124	$ 425,849	$ 399,578	$ 15,408	$ 10,188	$ 7,468	3.20%	2.39%	1.87%
Shareholders' equity									
Preferred	$ 1,022	$ 811	$ 832	–	–	–	–	–	–
Common	19,954	18,640	17,790	–	–	–	–	–	–
Total liabilities and shareholders' equity	$ 502,100	$ 445,300	$ 418,200	$ 15,408	$ 10,188	$ 7,468	3.07%	2.29%	1.79%
Net interest income and margin	$ 502,100	$ 445,300	$ 418,200	$ 6,762	$ 6,770	$ 6,398	1.35%	1.52%	1.53%
Net interest income and margin									
Canada	$ 257,319	$ 229,184	$ 212,562	$ 6,068	$ 5,379	$ 4,870	2.36%	2.35%	2.29%
United States	90,684	74,842	61,716	136	774	922	.15	1.03	1.49
International	86,105	74,849	78,709	558	617	606	.65	.82	.77
Total	$ 434,108	$ 378,875	$ 352,987	$ 6,762	$ 6,770	$ 6,398	1.56%	1.79%	1.81%

(1) Geographic classification for selected assets and liabilities is based on the domicile of the booking point of the subject assets and liabilities.
(2) Average amounts are calculated using methods intended to approximate the average of the daily balances for the period.
(3) Interest income includes loan fees of $348 million (2005 – $343 million; 2004 – $336 million).
(4) Average balances include impaired loans.
(5) Deposits include savings deposits with average balances of $46 billion (2005 – $46 billion; 2004 – $45 billion), interest expense of $.4 billion (2005 – $.3 billion; 2004 – $.2 billion) and average rates of .8% (2005 – .6%; 2004 – .5%). Deposits also include term deposits with average balances of $206 billion (2005 – $181 billion; 2004 – $169 billion), interest expense of $8.3 billion (2005 – $5.3 billion; 2004 – $4.0 billion) and average rates of 4.02% (2005 – 2.95%; 2004 – 2.34%).

Change in net interest income (1) — Table 57

(C$ millions)	2006 vs. 2005 Increase (decrease) due to changes in: Average volume (2)	2006 vs. 2005 Increase (decrease) due to changes in: Average rate (2)	2006 vs. 2005 Net change	2005 vs. 2004 Increase (decrease) due to changes in: Average volume (2)	2005 vs. 2004 Increase (decrease) due to changes in: Average rate (2)	2005 vs. 2004 Net change
Assets						
Deposits with other banks						
Canada	$ 10	$ –	$ 10	$ 5	$ 18	$ 23
United States	11	89	100	4	44	48
Other International	35	104	139	4	53	57
Securities						
Trading account	863	482	1,345	506	487	993
Investments	21	208	229	(125)	127	2
Loan substitute	(1)	(1)	(2)	16	–	16
Assets purchased under reverse repurchase agreements and securities borrowed	404	1.069	1,473	8	690	698
Loans						
Canada						
Residential mortgages	383	66	449	362	(175)	187
Personal	266	380	646	251	(9)	242
Credit cards	(1)	9	8	70	9	79
Business and government	162	(143)	19	114	(55)	59
United States	108	376	484	(42)	534	492
Other International	173	139	312	43	153	196
Total interest income	$ 2,434	$ 2,778	$ 5,212	$ 1,216	$ 1,876	$ 3,092
Liabilities						
Deposits						
Canada	$ 122	$ 1,178	$ 1,300	$ 311	$ 227	$ 538
United States	238	733	971	22	515	537
International	754	737	1,491	55	674	729
Obligations related to securities sold short	197	493	690	280	123	403
Obligations related to assets sold under repurchase agreements and securities loaned	341	421	762	(83)	526	443
Subordinated debentures	(18)	(5)	(23)	19	(6)	13
Other interest-bearing liabilities	(115)	144	29	42	15	57
Total interest expense	$ 1,519	$ 3,701	$ 5,220	$ 646	$ 2,074	$ 2,720
Net interest income	$ 915	$ (923)	$ (8)	$ 570	$ (198)	$ 372

(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.

Diversification by credit portfolio — Table 58

(C$ millions)	2006	2005	2004	2003	2002
Residential mortgages	$ 96,675	$ 91,043	$ 81,998	$ 75,790	$ 72,840
Personal	44,902	41,045	36,848	32,186	30,588
Credit card	7,155	6,200	6,456	4,816	4,914
Consumer	$ 148,732	$ 138,288	$ 125,302	$ 112,792	$ 108,342
Agriculture	$ 5,708	$ 5,509	$ 5,207	$ 4,955	$ 5,039
Automotive (1)	3,053	2,637	2,451	2,427	2,164
Consumer goods	4,864	4,731	4,821	5,180	5,246
Energy	6,064	5,648	3,493	3,711	6,775
Financial services	5,756	2,661	1,609	2,315	5,518
Forest products	1,166	1,249	1,181	1,554	1,670
Government	2,719	2,444	2,319	2,096	1,323
Industrial products	3,733	3,229	2,887	3,012	3,728
Mining and metals	1,161	553	671	1,056	1,630
Real estate and related	16,421	13,977	12,420	12,463	11,673
Technology and media	2,395	2,310	2,192	2,782	4,630
Transportation and environment (1)	2,581	2,062	2,749	3,290	4,518
Other	14,694	13,690	11,442	10,759	13,568
Business and government (2)	$ 70,315	$ 60,700	$ 53,442	$ 55,600	$ 67,482
Total loans and acceptances	$ 219,047	$ 198,988	$ 178,744	$ 168,392	$ 175,824
Total allowance for loan losses	(1,409)	(1,498)	(1,644)	(2,055)	(2,203)
Total loans and acceptances, net of allowance for loan losses	$ 217,638	$ 197,490	$ 177,100	$ 166,337	$ 173,621

(1) Commencing in 2002, certain amounts were reclassified from the transportation and environment sector grouping to the automotive group.
(2) Includes small business loans of $12,817 million in 2006 (2005 – $10,757 million; 2004 – $10,137 million; 2003 – $9,705 million; 2002 – $9,470 million). For further details, see Table 64.

Diversification by geographical area (1) — Table 59

(C$ millions)	2006	2005	2004	2003	2002
Canada					
Residential mortgages	$ 94,272	$ 88,808	$ 80,168	$ 73,978	$ 67,700
Personal	37,946	33,986	30,415	26,445	24,550
Credit cards	6,966	6,024	6,298	4,663	4,740
Business and government	49,255	44,929	37,783	36,576	41,585
	$ 188,439	$ 173,747	$ 154,664	$ 141,662	$ 138,575
United States					
Residential mortgages	$ 1,518	$ 1,375	$ 1,053	$ 1,067	$ 4,351
Personal	6,011	6,248	5,849	5,015	5,269
Credit cards	123	118	108	107	125
Business and government	13,847	12,317	11,698	13,213	16,537
	$ 21,499	$ 20,058	$ 18,708	$ 19,402	$ 26,282
Other International					
Residential mortgages	$ 885	$ 860	$ 777	$ 745	$ 789
Personal	945	811	584	726	769
Credit cards	66	58	50	46	49
Business and government	7,213	3,454	3,961	5,811	9,360
	$ 9,109	$ 5,183	$ 5,372	$ 7,328	$ 10,967
Total loans and acceptances	$ 219,047	$ 198,988	$ 178,744	$ 168,392	$ 175,824
Total allowance for loan losses	(1,409)	(1,498)	(1,644)	(2,055)	(2,203)
Total loans and acceptances, net of allowance for loan losses	$ 217,638	$ 197,490	$ 177,100	$ 166,337	$ 173,621

(1) Geographic information is based on residence of borrower.

Impaired loans by credit portfolio and geography (1) — Table 60

(C$ millions, except percentage amounts)	2006	2005	2004	2003	2002
Residential mortgages	$ 154	$ 136	$ 146	$ 131	$ 131
Personal	190	169	189	235	306
Consumer	$ 344	$ 305	$ 335	$ 366	$ 437
Agriculture	$ 45	$ 48	$ 89	$ 146	$ 159
Automotive	5	2	4	7	39
Consumer goods	59	53	36	48	57
Energy	6	46	162	240	243
Financial services	15	16	14	45	77
Forest products	1	10	151	169	199
Government	21	–	–	–	–
Industrial products	4	2	38	25	53
Mining and metals	3	3	8	57	128
Real estate and related	64	54	84	97	115
Small business (2)	129	108	142	169	205
Technology and media	42	48	86	122	225
Transportation and environment	14	8	12	136	206
Other	82	71	98	118	145
Business and government	$ 490	$ 469	$ 924	$ 1,379	$ 1,851
Total impaired loans (3), (4)	$ 834	$ 774	$ 1,259	$ 1,745	$ 2,288
Canada					
Residential mortgages	$ 127	$ 106	$ 96	$ 110	$ 102
Personal	183	161	178	213	275
Business and government	279	236	509	741	895
	$ 589	$ 503	$ 783	$ 1,064	$ 1,272
United States					
Consumer	$ 15	$ 16	$ 44	$ 29	$ 47
Business and government	151	173	332	332	537
	$ 166	$ 189	$ 376	$ 361	$ 584
Other International					
Consumer	$ 19	$ 22	$ 17	$ 14	$ 13
Business and government	60	60	83	306	419
	$ 79	$ 82	$ 100	$ 320	$ 432
Total impaired loans	$ 834	$ 774	$ 1,259	$ 1,745	$ 2,288
Specific allowance for credit losses	(263)	(282)	(487)	(757)	(894)
Net impaired loans	$ 571	$ 492	$ 772	$ 988	$ 1,394
Gross impaired loans as a % of loans and acceptances					
Residential mortgages	.16%	.15%	.18%	.17%	.18%
Personal	.42%	.36%	.51%	.73%	1.00%
Credit cards	0%	0%	0%	0%	0%
Consumer	.23%	.22%	.27%	.32%	.40%
Business and government	.70%	.77%	1.73%	2.48%	2.74%
Total	.38%	.39%	.70%	1.04%	1.30%
Specific allowance for credit losses as a % of gross impaired loans	31.53%	36.43%	38.68%	43.38%	39.07%

(1) Geographic information is based on residence of borrower.
(2) Includes government guaranteed portions of impaired loans of $25 million in small business in 2006 (2005 – $18 million; 2004 – $24 million; 2003 – $39 million; 2002 – $64 million) and $8 million in agriculture (2005 – $5 million; 2004 – $9 million; 2003 – $9 million; 2002 – $10 million).
(3) Includes foreclosed assets of $9 million in 2006 (2005 – $17 million; 2004 – $27 million; 2003 – $34 million; 2002 – $32 million).
(4) Past due loans greater than 90 days not included in impaired loans were $305 million in 2006 (2005 – $304 million; 2004 – $219 million; 2003 – $222 million; 2002 – $217 million).

Provision for credit losses by credit portfolio and geography (1) — Table 61

(C$ millions, except percentage amounts)	2006	2005	2004	2003	2002
Residential mortgages	$ 6	$ 2	$ 7	$ 8	$ 2
Personal	306	259	222	254	289
Credit card	163	194	167	155	140
Consumer	$ 475	$ 455	$ 396	$ 417	$ 431
Agriculture	$ (1)	$ (12)	$ 7	$ –	$ 22
Automotive	3	–	1	(1)	1
Consumer goods	–	21	(19)	10	17
Energy	(53)	(20)	50	78	145
Financial services	4	10	–	(1)	(6)
Forest products	(2)	(53)	3	13	4
Industrial products	(1)	(9)	5	1	(2)
Mining and metals	–	(1)	(4)	5	27
Real estate and related	(4)	(15)	(7)	(12)	(16)
Small business	54	44	75	77	110
Technology and media	(6)	(7)	1	30	298
Transportation and environment	(2)	7	(35)	77	2
Other	15	(31)	48	27	32
Business and government	$ 7	$ (66)	$ 125	$ 304	$ 634
Total specific provision for loan losses	$ 482	$ 389	$ 521	$ 721	$ 1,065
Canada					
Residential mortgages	$ 6	$ 1	$ 6	$ 4	$ 2
Personal	296	247	211	230	267
Credit cards	161	192	166	152	135
Business and government	44	(5)	30	141	125
	$ 507	$ 435	$ 413	$ 527	$ 529
United States					
Consumer	$ 12	$ 15	$ 13	$ 30	$ 27
Business and government	(38)	(60)	106	78	413
	$ (26)	$ (45)	$ 119	$ 108	$ 440
Other International					
Consumer	$ –	$ –	$ –	$ 1	$ –
Business and government	1	(1)	(11)	85	96
	$ 1	$ (1)	$ (11)	$ 86	$ 96
Total specific provision for loan losses	$ 482	$ 389	$ 521	$ 721	$ 1,065
Total general provision	$ (53)	$ 66	$ (175)	$ –	$ –
Total provision for credit losses	$ 429	$ 455	$ 346	$ 721	$ 1,065
Specific provision as a % of average loans and acceptances	.23%	.21%	.30%	.43%	.62%

(1) Geographic information is based on residence of borrower.

Allowance for credit losses by credit portfolio and geography (1)						Table 62
(C$ millions, except percentage amounts)		2006	2005	2004	2003	2002
Allowance at beginning of year		$ 1,568	$ 1,714	$ 2,164	$ 2,314	$ 2,392
Provision for credit losses		429	455	346	721	1,065
Write-offs by portfolio						
Residential mortgages		(5)	(5)	(7)	(10)	(12)
Personal		(374)	(347)	(325)	(373)	(398)
Credit card		(204)	(237)	(207)	(192)	(178)
Consumer		$ (583)	$ (589)	$ (539)	$ (575)	$ (588)
Business and government		(130)	(181)	(462)	(407)	(836)
LDC exposures		–	–	–	–	(33)
Total write-offs by portfolio		$ (713)	$ (770)	$ (1,001)	$ (982)	$ (1,457)
Recoveries by portfolio						
Personal		$ 64	$ 69	$ 68	$ 68	$ 70
Credit card		41	43	39	37	38
Consumer		$ 105	$ 112	$ 107	$ 105	$ 108
Business and government		100	62	109	65	90
Total recoveries by portfolio		$ 205	$ 174	$ 216	$ 170	$ 198
Net write-offs		$ (508)	$ (596)	$ (785)	$ (812)	$ (1,259)
Adjustments (2)		(3)	(5)	(11)	(59)	116
Total allowance for credit losses at end of year		$ 1,486	$ 1,568	$ 1,714	$ 2,164	$ 2,314
Canada						
Residential mortgages		$ 11	$ 9	$ 11	$ 12	$ 14
Personal		88	101	108	129	163
Business and government		121	120	208	297	329
		$ 220	$ 230	$ 327	$ 438	$ 506
United States						
Consumer		$ 3	$ 3	$ 5	$ 11	$ 17
Business and government		12	18	118	131	212
		$ 15	$ 21	$ 123	$ 142	$ 229
Other International						
Consumer		$ 1	$ –	$ –	$ –	$ –
Business and government		27	31	37	177	159
		$ 28	$ 31	$ 37	$ 177	$ 159
Total specific allowance for loan losses		$ 263	$ 282	$ 487	$ 757	$ 894
General allowance		1,223	1,286	1,227	1,407	1,420
Total allowance for credit losses		$ 1,486	$ 1,568	$ 1,714	$ 2,164	$ 2,314
Key ratios						
Allowance for credit losses as a % of loans and acceptances		.68%	.79%	.97%	1.30%	1.33%
Allowance for credit losses as a % of impaired loans (coverage ratio)		178%	203%	136%	124%	101%
Net write-offs as a % of average loans and acceptances		.25%	.32%	.46%	.49%	.74%

(1) Geographic information is based on residence of borrower.
(2) Other adjustments include primarily foreign exchange translations on non-Canadian dollar denominated allowance for credit losses and acquisition adjustments for Provident Financial Group Inc. $6 million in the first quarter 2004; Admiralty Bancorp, Inc. $8 million.

Credit quality information by province (1) — Table 63

(C$ millions)	2006	2005	2004	2003	2002
Loans and acceptances					
Atlantic provinces (2)	$ 10,256	$ 10,255	$ 9,598	$ 9,191	$ 8,828
Quebec	32,723	26,646	23,670	22,564	21,695
Ontario	83,839	78,283	70,896	64,351	63,233
Prairie provinces (3)	32,598	31,190	26,701	24,084	24,215
B.C. and territories (4)	29,023	27,373	23,799	21,472	20,604
Total loans and acceptances in Canada	$ 188,439	$ 173,747	$ 154,664	$ 141,662	$ 138,575
Impaired loans					
Atlantic provinces (2)	$ 53	$ 47	$ 60	$ 81	$ 107
Quebec	68	44	131	155	90
Ontario	286	269	254	348	471
Prairie provinces (3)	107	78	93	140	177
B.C. and territories (4)	75	65	245	340	427
Total impaired loans in Canada	$ 589	$ 503	$ 783	$ 1,064	$ 1,272
Provision for credit losses					
Atlantic provinces (2)	$ 33	$ 30	$ 34	$ 46	$ 59
Quebec	47	7	(1)	77	(5)
Ontario	344	368	318	309	330
Prairie provinces (3)	38	44	31	55	86
B.C. and territories (4)	45	(14)	31	40	59
Total provision for credit losses in Canada	$ 507	$ 435	$ 413	$ 527	$ 529

(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 by sector — Table 64

(C$ millions)	2006	2005	2004	2003	2002
Agriculture	$ 248	$ 715	$ 519	$ 70	$ 67
Automotive	601	490	463	462	377
Consumer goods	2,043	1,728	1,764	1,777	1,583
Energy	284	182	150	137	125
Financial services	73	78	51	97	93
Forest products	366	311	276	298	278
Government	177	182	156	161	187
Industrial products	1,377	1,057	999	952	887
Mining and metals	88	57	62	65	69
Real estate and related	2,565	1,982	1,821	1,777	1,737
Technology and media	300	243	232	242	204
Transportation and environment	774	549	502	503	552
Other	3,921	3,183	3,142	3,164	3,311
Total small business loans	$ 12,817	$ 10,757	$ 10,137	$ 9,705	$ 9,470