Management's Discussion and Analysis

Management's Discussion and Analysis (MD&A) is provided to enable a reader to assess our results of operations and financial condition for the fiscal year ended October 31, 2008, compared with corresponding periods. This MD&A should be read in conjunction with our Consolidated Financial Statements and related notes and is dated December 4, 2008. 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).

Additional information about us, including our 2008 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.

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See our Glossary for definitions of terms used throughout this document.

Caution regarding forward-looking statements

From time to time, we make written or oral forward-looking statements within the meaning of certain securities laws, including the "safe harbour" provisions of the *United States Private Securities Litigation Reform Act of 1995* and any applicable Canadian securities legislation. We may make forward-looking statements in this document, in other filings with Canadian regulators or the SEC, in reports to shareholders and in other communications. Forward-looking statements include, but are not limited to, statements relating to our medium-term objectives, our strategic goals and priorities, and the economic and business outlook for us, for each of our business segments and for the Canadian, United States and international economies. The forward-looking information contained in this document is presented for the purpose of assisting our securityholders and financial analysts in understanding our financial position and results of operations as at and for the periods ended on the dates presented and our strategic priorities and objectives, and may not be appropriate for other purposes. Forward-looking statements are typically identified by words such as "believe," "expect," "forecast," "anticipate," "intend," "estimate," "goal," "plan" and "project" and similar expressions of future or conditional verbs such as "will," "may," "should," "could," or "would."

By their very nature, forward-looking statements require us to make assumptions and are subject to inherent risks and uncertainties, which give rise to the possibility that our predictions, forecasts, projections, expectations or conclusions will not prove to be accurate, that our assumptions may not be correct and that our objectives, strategic goals and priorities will not be achieved. We caution readers not to place undue reliance on these statements as a number of important factors could cause our actual results to differ materially from the expectations expressed in such forward-looking statements. These factors include credit, market, operational, liquidity and funding risks, and other risks discussed in our 2008 Management's Discussion and Analysis; the impact of the market environment, including the impact of the continuing volatility in the financial markets and lack of liquidity in credit markets, and our ability to effectively manage our liquidity and our capital ratios and implement effective risk management procedures; general business and economic conditions in Canada, the United States and other countries in which we conduct business; changes in accounting standards, policies and estimates, including changes in our estimates of provisions, allowances and valuations; the impact of the movement of the Canadian dollar relative to other currencies, particularly the U.S. dollar, British pound and Euro; the effects of changes in government fiscal, 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; our ability to successfully execute our strategies and to complete and integrate strategic acquisitions and joint ventures successfully; changes to our credit ratings; and development and integration of our distribution networks.

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

Additional information about these and other factors can be found in the Risk, capital and liquidity management, Overview of other risks and Additional factors that may affect future results sections.

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

Overview

About Royal Bank of Canada

Royal Bank of Canada (RY on TSX and NYSE) and its subsidiaries operate under the master brand name 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 (and among the largest banks in the world as measured by market capitalization). We provide personal and commercial banking, wealth and asset management services, insurance, corporate and investment banking and transaction processing services on a global basis. We employ more than 80,000 full- and part-time employees who serve more than 17 million personal, business, public sector and institutional clients through offices in Canada, the U.S. and 48 other countries.

Effective May 1, 2008, we created our Insurance business segment, formerly a business under Canadian Banking. Concurrent with the realignment, we renamed our U.S. & International Banking segment International Banking. Our five business segments are outlined below.

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

Wealth Management businesses serve affluent and high net worth clients around the world, and provide asset management and estate and trust services directly to clients and through our internal partners and third-party distributors.

Insurance offers a wide range of life, health, travel, home and auto insurance products and creditor insurance services to individual and business clients in Canada and the U.S. We also offer reinsurance for clients around the world.

International Banking comprises our banking businesses in the U.S. and Caribbean, and global custody and investor services, which we provide through our 50% ownership in RBC Dexia Investor Services (RBC Dexia IS).

Capital Markets comprises our global wholesale banking business, which provides a wide range of corporate and investment banking, sales and trading, and research and related products and services to corporate, public sector, institutional and retail 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 designed to ensure we remain ahead of our competition, while maintaining the safety and soundness of our operations. Our Global Functions team of professionals provides sound governance and advice in the areas of risk, compliance, law, finance, tax and communications. This team also manages our capital and liquidity and funding positions with the goal of meeting regulatory requirements, while maintaining effective funding management and allocation of capital. In addition, the Global Functions team co-ordinates relationships with external stakeholders, including investors, credit rating agencies and regulators, and supports strategic business decisions.

Royal Bank of Canada				
Canadian Banking	**Wealth Management**	**Insurance**	**International Banking**	**Capital Markets**
• Personal Financial Services • Business Financial Services • Cards and Payment Solutions	• Canadian Wealth Management • U.S. & International Wealth Management • Global Asset Management	• Reinsurance & Other • Canadian Life and Health • Property & Casualty • U.S. Life	• Banking • RBC Dexia IS	• Global Markets • Global Investment Banking and Equity Markets • Other

Corporate Support	
• Global Technology and Operations	• Global Functions

Vision and strategic goals

Our business strategies and actions are guided by our vision of "Always earning the right to be our clients' first choice." We believe that our client-focused approach is critical to achieving our strategic as well as our financial performance goals. Our Client First philosophy is exhibited in all of our activities, including how we deal with our clients, how we develop our products and services, and how we collaborate across businesses and functions. We maintain our focus on enhancing client satisfaction and loyalty by continually striving to understand and meet the evolving needs and expectations of our clients.

Our strategic goals are to remain focused on growing our Canadian franchise while continuing to expand internationally by leveraging our resources and expertise to build our portfolio of international businesses. Although we face ongoing challenging economic and market conditions in Canada, the U.S. and internationally in the near term, we expect to achieve these goals by maintaining our focus on meeting the needs of clients through ongoing innovation and by effectively collaborating across our many businesses and functions.

- In Canada, our goal is to be the undisputed leader in financial services. We continue to look to the Canadian market to provide us with opportunities for growth in both the retail and wholesale sectors. We are strengthening our brand by delivering a superior client experience, providing insightful advice and relevant solutions, and offering a comprehensive suite of quality financial products and services to help our clients achieve financial success. In banking, we continue to leverage our extensive distribution capabilities to grow market share across products and markets, while expanding and enhancing our distribution network to meet the needs of our clients. We are also developing innovative solutions, simplifying processes and enhancing systems for our clients to make it easier for them to do business with us. In Wealth Management, we intend to continue to extend our lead in wealth and asset management markets and to attract and retain experienced advisors. In Insurance, we intend to continue to pursue growth opportunities by leveraging our existing client relationships, distribution network and the strength of our brand. In Capital Markets, we continue to focus on maintaining our leadership position across most businesses and remain our wholesale clients' first choice for all financial products and services.
- In the U.S., our goal is to be a leading provider of banking, wealth management and capital markets services by building on and leveraging our considerable capabilities. The U.S., with its geographic proximity, cultural similarities and close trade relationships with Canada, will continue to be a focus of future growth as we build on our market positions in selected businesses. In banking, we continue to focus on meeting the broad needs of personal and business clients by offering a wide range of financial products and services that leverage our resources and expertise. We are focused on strengthening our position in key markets in the southeastern U.S. by integrating our recent acquisitions and growing market share by expanding our product offerings and client base. In Wealth Management, we continue to expand our business through organic growth and strategic acquisitions, while attracting and retaining experienced advisors and providing them with customized support for investment, advisory and wealth management practices by utilizing our global resources. We also intend to leverage our investment management capabilities in the institutional market, and in the individual market through sub-advisory and alliance opportunities. In Capital Markets, we intend to maintain our position as a top-tier leader in the U.S. mid-market and will remain committed to our businesses, such as fixed income, foreign exchange, infrastructure finance and structured products, while building our origination capabilities through strong, skilled teams.
- Outside North America, our goal is to be a premier provider of selected banking, wealth management and capital markets services where our strong foundation, key expertise and broad distribution network provide us with competitive advantages. In banking, we intend to continue to build on our position in the English Caribbean by leveraging our history in the region, focusing on the integration of our RBTT Financial Group (RBTT) acquisition and pursuing select growth opportunities in the Spanish Caribbean and Central and South America. In Wealth Management, we remain focused on expanding our high net worth client-focused business through organic growth and strategic acquisitions. In Insurance, we will focus on building our reinsurance business and leveraging our RBTT acquisition to grow our bank insurance activities in the Caribbean. In custody and investor services, our joint venture, RBC Dexia IS, is focused on attracting new clients and deepening existing relationships by leveraging its global scale and integrated suite of products. In Capital Markets, we will continue to build our global investment banking capabilities in energy and mining, while expanding our presence in London, England, and Sydney, Australia. We will also focus on extending our distribution capabilities in Asia and leveraging our global distribution network to increase product and service penetration and deepen relationships with our investing clients.

Guided by our Client First philosophy and strategic goals, our business segments continue to tailor their strategies to help clients create new possibilities and achieve financial success, while strengthening client relationships within their unique operating and competitive environments. We believe that the successful execution of our business strategies will enhance the quality and diversity of our earnings. These efforts should result in continued solid performance in our Canadian businesses as well as improved results in our U.S. and other international businesses.

Selected financial and other highlights — Table 1

(C$ millions, except per share, number of and percentage amounts)	2008	2007	2006	2008 vs. 2007 Increase (decrease)	
Total revenue	$ 21,582	$ 22,462	$ 20,637	$ (880)	(3.9)%
Provision for credit losses (PCL)	1,595	791	429	804	101.6%
Insurance policyholder benefits, claims and acquisition expense	1,631	2,173	2,509	(542)	(24.9)%
Non-interest expense	12,351	12,473	11,495	(122)	(1.0)%
Net income before income taxes and non-controlling interest in subsidiaries	6,005	7,025	6,204	(1,020)	(14.5)%
Net income from continuing operations	4,555	5,492	4,757	(937)	(17.1)%
Net loss from discontinued operations	–	–	(29)	–	n.m.
Net income	$ 4,555	$ 5,492	$ 4,728	$ (937)	(17.1)%
Segments – net income (loss)					
Canadian Banking	$ 2,662	$ 2,545	$ 2,124	$ 117	4.6%
Wealth Management	665	762	604	(97)	(12.7)%
Insurance	389	442	302	(53)	(12.0)%
International Banking	(153)	242	261	(395)	(163.2)%
Capital Markets	1,170	1,292	1,355	(122)	(9.4)%
Corporate Support	(178)	209	111	(387)	n.m.
Net income	$ 4,555	$ 5,492	$ 4,757	$ (937)	(17.1)%
Selected information					
Earnings per share (EPS) – basic	$ 3.41	$ 4.24	$ 3.65	$ (.83)	(19.6)%
Earnings per share (EPS) – diluted	$ 3.38	$ 4.19	$ 3.59	$ (.81)	(19.3)%
Return on common equity (ROE) (1)	18.0%	24.6%	23.5%	n.m.	(660)bps
Return on risk capital (RORC) (2)	29.6%	37.4%	36.7%	n.m.	(780)bps
Net interest margin (NIM) (3)	1.44%	1.33%	1.35%	n.m.	n.m.
Specific PCL to average net loans and acceptances	.53%	.33%	.23%	n.m.	20 bps
Gross impaired loans (GIL) as a % of loans and acceptances	.96%	.45%	.38%	n.m.	51 bps
Capital ratios and multiples (4)					
Tier 1 capital ratio	9.0%	9.4%	9.6%	n.m.	(40)bps
Total capital ratio	11.1%	11.5%	11.9%	n.m.	(40)bps
Assets-to-capital multiple	20.1X	19.9X	19.7X	.2X	n.m.
Selected balance sheet and other information					
Total assets	$ 723,859	$ 600,346	$ 536,780	$ 123,513	20.6%
Securities	171,134	178,255	184,869	(7,121)	(4.0)%
Retail loans (5)	195,455	169,462	151,050	25,993	15.3%
Wholesale loans (5)	96,300	69,967	58,889	26,333	37.6%
Deposits	438,575	365,205	343,523	73,370	20.1%
Average common equity (1)	24,750	22,000	19,900	2,750	12.5%
Average risk capital (2)	15,050	14,450	12,750	600	4.2%
Risk-adjusted assets (4)	278,579	247,635	223,709	30,944	12.5%
Assets under management (AUM)	226,900	161,500	143,100	65,400	40.5%
Assets under administration (AUA) – RBC (6)	623,300	615,100	582,300	8,200	1.3%
– RBC Dexia IS (7)	2,585,000	2,713,100	2,421,100	(128,100)	(4.7)%
Common share information					
Shares outstanding (000s) – average basic	1,305,706	1,273,185	1,279,956	32,521	2.6%
– average diluted	1,319,744	1,289,314	1,299,785	30,430	2.4%
– end of period	1,341,260	1,276,260	1,280,890	65,000	5.1%
Dividends declared per share	$ 2.00	$ 1.82	$ 1.44	$ .18	9.9%
Dividend yield	4.2%	3.3%	3.1%	n.m.	90 bps
Common share price (RY on TSX) – close, end of period	$ 46.84	$ 56.04	$ 49.80	$ (9.20)	(16.4)%
Market capitalization (TSX)	62,825	71,522	63,788	(8,697)	(12.2)%
Business information (number of)					
Employees (full-time equivalent) (8)	73,323	64,815	60,539	8,508	13.1%
Bank branches	1,741	1,541	1,443	200	13.0%
Automated teller machines (ATM)	4,964	4,419	4,232	545	12.3%
Period average US$ equivalent of C$1.00 (9)	$ .969	$ .915	$ .883	$ .054	5.9%
Period-end US$ equivalent of C$1.00	.830	1.059	.890	(.23)	(21.6)%

(1) Average common equity and ROE are calculated using month-end balances for the period.
(2) Average amounts are calculated using methods intended to approximate the average of the daily balances for the period. For further discussion on Average risk capital and RORC, refer to the Key performance and non-GAAP measures section.
(3) NIM is calculated as Net interest income divided by Average assets. Average assets are calculated using methods intended to approximate the average of the daily balances for the period.
(4) 2008 capital ratios and risk-adjusted assets are calculated using guidelines issued by the Office of the Superintendent of Financial Institutions Canada (OSFI) under the new Basel II framework. Comparative capital ratios and risk-adjusted assets are calculated using guidelines issued by OSFI under the Basel I framework. Basel I and Basell II are not directly comparable. For further discussion about Basel II, refer to the Capital management section.
(5) Retail and wholesale loans above do not include allowance for loan losses.
(6) AUA – RBC has been revised to include mutual funds sold through our Canadian branch network. Comparative amounts have been revised to reflect this change.
(7) AUA – RBC Dexia IS represents the total AUA of the joint venture as at September 30, of which we have a 50% ownership interest.
(8) Effective 2008, we have excluded statutory holiday pay for part-time employees from our full-time equivalent (FTE) calculation consistent with our management reporting framework. All comparative amounts reflect the change to the FTE calculation.
(9) Average amounts are calculated using month-end spot rates for the period.
n.m. not meaningful

We reported net income of $4,555 million for the year ended October 31, 2008, down $937 million, or 17%, from a year ago. Diluted earnings per share (EPS) were $3.38, down 19% compared to a year ago. Return on common equity (ROE) was 18.0%, compared to 24.6% a year ago. The Tier 1 capital ratio of 9.0% was down 40 basis points (bps) from 9.4% a year ago, while our Total capital ratio of 11.1% was down 40 bps from 11.5% a year ago.

Executing our initiatives

Despite challenging market conditions during the year, we continued to diversify our products and services, markets and geographical presence through organic growth and strategic acquisitions, making it easier for our clients to do business with us and positioning ourselves for future earnings growth.

In Canada, we continued to strengthen our leadership position in most major product categories by enhancing the quality and breadth of our products and services, balancing organic growth with strategic acquisitions, and expanding and upgrading our distribution network to better serve our clients.

- We completed our acquisition of Phillips, Hager & North Investment Management Ltd. (PH&N) in our Wealth Management business. With our existing asset management business, this created the largest fund company, as measured by assets under management, and one of the largest private sector asset managers in Canada, as measured by assets under management, with a significant presence in the institutional market for defined benefit and defined contribution pension plans, endowments and foundations. For 2008, our results include six months of PH&N results.
- We launched various new products, such as the U.S. dollar high-interest savings account, Visa Infinite Avion card and the Business Investment account, to help clients meet their expanding financial needs.
- We added 28 bank branches and 14 insurance branches, installed 240 ATMs and renovated 147 existing branches to make it easier for our clients to do business with us.

In the U.S., we continued to build our presence in banking, wealth management and capital markets through organic growth and a number of key acquisitions, while increasing the linkages between these businesses. We also moved to better establish our brand position in the country, as RBC Centura Bank and our retail brokerage, RBC Dain Rauscher, became known as RBC Bank and RBC Wealth Management, respectively.

- We completed our acquisition of Alabama National BanCorporation (ANB), expanding our bank branch network to 439 full-service banking centres and strengthening our position in several markets in the southeastern U.S., including Alabama, Florida, and Georgia. For 2008, our results include eight months of ANB results.
- We strengthened our wealth management capabilities in the eastern, midwestern and mid-Atlantic regions of the U.S. with the acquisition of Ferris, Baker Watts, Incorporated (FBW) in our wealth management business. This has added more than 300 experienced financial consultants, 42 branch offices and approximately US$19 billion in assets under administration to our network of more than 2,000 financial consultants operating in 204 retail branches across 42 states. For 2008, our results include four months of FBW results.
- We completed our acquisition of Richardson Barr & Co. (Richardson Barr), a leading Houston-based energy advisory firm specializing in acquisitions and divestitures in the exploration and production sector, in our capital markets business. For 2008, our results include three months of Richardson Barr results.

Outside North America, we continued to pursue growth opportunities in select markets, expanding our distribution network and making it easier for our clients to do business with us.

- We completed our acquisition of RBTT, creating one of the most extensive banking networks in the Caribbean, with a presence in 17 countries across the region. For 2008, our results include RBTT results from June 16 to September 30, as RBTT reports on a one-month lag.
- We opened a new representative wealth management office in Latin America to better serve our global client base. We also opened a representative office in India to provide wealth management services to high net worth individuals, correspondent banking and trade finance services to financial institutions in India and capital markets products and services to governments and corporations.
- We extended our platform of integrated global financial services, giving Canada-based small and commercial businesses and their foreign subsidiaries access to a full range of global treasury management solutions for day-to-day banking in Europe and Asia-Pacific region.

2008 Economic and market review (1)

The Canadian economy grew at an estimated rate of .6% to date in 2008, which was down from the 2.2% projected in November 2007. Although the pace of growth slowed through the year, the Canadian economy was generally supported by solid domestic demand, largely reflecting favourable terms of trade and relatively solid consumer fundamentals, including low unemployment. The economy contracted modestly in the final calendar quarter mainly due to deterioration in net exports given weaker U.S. and global growth, tightening credit conditions and the decline in commodity prices. The sharp drop in commodity prices late in the fiscal year contributed to the dramatic decline in the Canadian dollar relative to the U.S. dollar. Throughout the year, the Bank of Canada reduced the overnight rate by a total of 200 bps to 2.25%, taking into consideration the global economic slowdown, weaker market conditions and declining commodity prices.

The U.S. economy grew at an estimated rate of 1.3%, which was down from the 2.2% projected at the start of the year. While economic growth improved slightly in the early part of the year, largely as a result of the *Economic Stimulus Act* of 2008, the U.S. economy deteriorated in the second half of the year, largely due to tightening credit conditions, the persistent decline in the housing market, weak consumer and business spending and the rise in the unemployment rate. Credit quality also weakened, particularly in residential and commercial real estate-related loans. In an effort to lessen the extent of economic decline, restore stability and alleviate liquidity concerns, the Federal Reserve lowered the federal funds rate on a number of occasions throughout the year by 325 bps to 1%.

Global economies moderated in the early part of the year and deteriorated thereafter, particularly in the U.K. and the Eurozone. Emerging economies, led by China, recorded solid growth in the early part of the year, but weakened in the latter part of the year due to the deterioration in global financial markets.

The deterioration in the U.S. mortgage-backed securities markets that began in mid-2007 continued into 2008 and had significant unfavourable effects on broader credit markets. Generally, there has been widening of credit spreads, increased volatility in global equities and a general lack of liquidity across a wide range of products. In addition, challenging capital market conditions intensified in the last quarter of the year with the collapse of some global financial institutions, declining corporate profits and general fear of a global recession.

Over the course of October, governments around the globe stepped in to stabilize the markets and restore public confidence in financial institutions by injecting billions of dollars into the financial system globally. They announced measures that included coordinated interest rate reductions, funding programs, capital injections into financial institutions, guarantees and nationalization of financial institutions. In line with global governments, the Bank of Canada cut interest rates, injected liquidity into the Canadian market, introduced insurance on wholesale funding and extended its Canada Mortgage and Housing Corporation securitization program.

(1) Data as at December 4, 2008.

2008 Performance vs. objectives — Table 2

	2008 Objectives	2008 Performance
Diluted earnings per share (EPS) growth	7%–10%	(19)%
Defined operating leverage (1)	>3%	1.0%
Return on common equity (ROE)	20%+	18.0%
Tier 1 capital ratio (2)	8%+	9.0%
Dividend payout ratio	40%–50%	59%

(1) Our defined operating leverage is a non-GAAP measure and refers to the difference between our revenue growth rate (as adjusted) and non-interest expense growth rate (as adjusted). For further information, refer to the Key performance and non-GAAP measures section.
(2) Calculated using guidelines issued by OSFI under the new Basel II framework.

2008 Annual objectives

We established our 2008 objectives in November 2007 based on our economic and business outlooks for 2008 at that time. In 2008, market and economic conditions were significantly impacted, as credit markets deteriorated and financial markets experienced widespread illiquidity and elevated levels of volatility especially in the latter part of the year. While we acknowledged that early 2008 would be challenging, with continued market and accounting volatility and slower economic growth, we did not anticipate these conditions to persist for the duration of the year nor the impact to be as significant.

We acknowledged during the year that progress towards certain objectives had been affected largely by writedowns, higher provision for credit losses in our U.S. banking business and spread compression. As a result, except for our Tier 1 capital ratio, we did not meet our other annual objectives. Our capital position remained strong throughout 2008, with our Tier 1 capital ratio above our objective.

Our medium-term objective was to achieve top quartile total shareholder return (TSR) compared to our North American peers. (1) TSR is a concept used to compare the performance of our shares over a period of time, reflecting share price appreciation and dividends paid to shareholders. The absolute size of the TSR will vary depending on market conditions, but the relative position reflects the market's perception of a company's overall performance relative to its peers over a period of time.

Our three-year and five-year average annual TSR of 8% (2) and 12% (2), respectively, ranked us in the first quartile within our peer group for both periods. The three-year and five-year average annual TSR for our peer group was (9)% and (2)%, respectively (2).

Our dividends paid over the three-year period have increased at an average annual compounded rate of 19%.

Our TSR objectives are measured relative to our North American peers and, as a result of the mergers and acquisitions that our peers were involved in during 2008, we are in the process of re-evaluating our peer group. We will disclose any revisions to our peer group once determined, and will continue to monitor and re-evaluate our peer group over the medium term based on events as they unfold.

(1) Our North American peers consist of seven large Canadian financial institutions (Manulife Financial Corporation, The Bank of Nova Scotia, The Toronto-Dominion Bank, Bank of Montreal, Sun Life Financial Inc., Canadian Imperial Bank of Commerce and National Bank of Canada) and 13 U.S. financial institutions (Bank of America Corporation, JP Morgan Chase & Co., Wells Fargo & Company, Wachovia Corporation, US Bancorp, Sun Trust Banks, Inc., The Bank of New York Mellon Corporation, BB&T Corporation, Fifth Third Bancorp, National City Corporation, The PNC Financial Services Group, KeyCorp and Northern Trust Corporation).
(2) The three-year average annual TSR is calculated based on share price appreciation plus reinvested dividend income for the period October 31, 2005 to October 31, 2008. The five-year average annual TSR is calculated based on the period October 31, 2003 to October 31, 2008 and is based on information as disclosed by Bloomberg.

Total shareholder return — Table 3

For the year ended October 31	2008	2007	2006	2005	2004	Five-year CAGR (1)
Common share price (RY on TSX) – close, end of period	$ 46.84	$ 56.04	$ 49.80	$ 41.67	$ 31.70	8.1%
Dividends paid per share	2.00	1.72	1.32	1.13	.98	19.2%
Increase (decrease) in share price	(16.4)%	12.5%	19.5%	31.4%	(.1)%	
Total shareholder return (2)	(12.8)%	16.2%	23.2%	35.4%	3.2%	

(1) Compound annual growth rate (CAGR).
(2) Total shareholder return assumes reinvestment of dividends and therefore does not equal the sum of dividends paid per share and share price increase (decrease) in the table.

Outlook and medium-term objectives

Economic and market outlook (1)

The Canadian economy likely slipped into a recession in the final quarter of 2008 and is expected to grow by only .3% in 2009 due to weaker domestic demand. Consumer spending is expected to slow, reflecting modest weakening in both the labour and housing markets. Inflation pressures are likely to dissipate as commodity prices stabilize at lower levels and economic growth remains slow. We forecast the Canadian dollar on average to be weaker relative to the U.S. dollar given lower commodity prices. We expect the Bank of Canada to decrease interest rates to 1.75% in late 2008 to mitigate some downward pressure on the economy and hold rates constant through most of 2009.

We project the U.S. economy will have negative growth of 1% in 2009. We anticipate that deteriorating economic conditions and financial market volatility will continue to dampen both consumer and business spending and will likely cause the U.S. recession to deepen as negative economic growth persists over the remainder of 2008 and in early 2009. We anticipate that the Federal Reserve will cut the federal funds rate to .5% in late December and hold it there through 2009.

Global economies, particularly those in the Eurozone, will likely weaken further in 2009, as overseas economies continue to contract due to weaker domestic demand, financial market volatility and reduced demand for exports from major trading partners. Emerging economies, led by China, are expected to grow at a very moderate pace in 2009 given uncertainty in global financial markets and recessionary conditions in some industrialized countries.

Financial markets continue to deal with the fallout of a crisis in credit markets and a deteriorating outlook for global economies. Volatile financial market conditions are likely to continue into 2009 as credit and liquidity concerns persist and global economies slow down. We anticipate that recent government and central bank measures such as interest rate cuts, financial market rescue packages and enhanced interbank lending guarantees will eventually work to improve market stability.

(1) Data as of December 4, 2008

Business outlook and priorities

A weak global economic outlook, continued financial market volatility and general uncertainty on the timing of a recovery is expected to create a challenging operating environment in the midterm.

In Canadian Banking, consumer lending is expected to slow in the coming year, largely driven by lower housing sales and prices and reduced consumer spending levels. Business spending is expected to moderate and is likely to cause slower growth in business lending. Our business lending clients remain healthy, with generally solid balance sheets and historically low levels of debt; however, business lending remains susceptible to the health of the overall economy.

Retail net interest margins will likely remain under pressure as the low interest rate environment persists and our portfolio continues to shift towards lower-spread secured home equity products. Competitive pricing will also remain a factor.

Credit quality during 2009 in Canada is expected to weaken moderately assuming a slower economic environment and a higher unemployment rate, and will likely impact consumer, business and corporate credit portfolios. We anticipate an increase in our provision for credit losses, primarily resulting from portfolio growth and modestly higher average delinquency rates. We will continue to remain focused on managing operating expenses in our domestic banking business.

In Wealth Management, we expect modest growth in fee-based client assets from currently depressed levels as financial markets stabilize in the medium term. We intend to continue to add experienced advisors across all our businesses and leverage the depth and breadth of our resources to serve our clients, which should support growth in fee-based client assets. Further, we anticipate modest growth in transaction revenue as a result of the expected financial market stability in the near term and steady growth in the medium term. We expect growth will be supported by stability in financial markets and an increased investor appetite for transparent wealth management products.

In Insurance, we expect investment returns to be impacted by market conditions in the near term and we believe our diversified product portfolio, coupled with the contribution of our infrastructure investments and retail branch expansion, should mitigate the impact to our results.

In International Banking, we expect that our U.S. banking operations will continue to be impacted by a weak U.S. economy and the decline in the U.S. housing market. U.S. consumer and business lending growth will also remain weak. We anticipate provision for credit losses to reflect higher impaired loans, primarily due to deterioration in residential builder finance, as well as in our commercial, retail and business banking portfolios. We will remain focused on systematically balancing growth and risk in our U.S. loan portfolio as we refine our U.S. banking operating model, improve efficiencies and reduce expenses. We continue to see opportunities for our Caribbean banking business in the current market environment as we continue with the ongoing integration of our RBTT acquisition.

We hold trading and certain other investment assets at fair value, with the value determined using market prices or valuation models that depend on assumptions regarding market conditions. As a result, the fair value of these assets and their impact on our financial results will depend on future market developments. Volatile financial market conditions, reflecting liquidity and pricing pressures, are expected to continue in the near term. Over time, we anticipate that recent government measures will improve stability in the financial markets.

In Capital Markets, we expect certain of our businesses will continue to be affected by the market uncertainty, including potential writedowns in certain fixed income businesses, although we expect there will be a slight improvement when global markets begin to stabilize. We will remain vigilant about managing our cost structure, efficiently using our balance sheet and focusing on risk management, while positioning our businesses to capitalize on market opportunities.

Medium-term objectives

We anticipate that the medium term will see more cyclical and structural changes for the financial services industry, including higher funding costs, higher capital levels, the impact of the de-leveraging of balance sheets and a move to above-average loan loss levels from recent historic lows. We have established medium-term (3 to 5 years) financial objectives in place of annual objectives. These objectives are aligned with our three strategic goals and we believe they better reflect the new realities of the business and economic environment as outlined in this section.

Medium-term objectives	Table 4
Diluted earnings per share (EPS) growth	7%+
Defined operating leverage (1)	>3%
Return on common equity (ROE)	18%+
Tier 1 capital ratio (2)	8.5%+
Dividend payout ratio	40%–50%

(1) Our defined operating leverage is a non-GAAP measure and refers to the difference between our revenue growth rate (as adjusted) and non-interest expense growth rate (as adjusted). For further information, refer to the Key performance and non-GAAP measures section.
(2) Calculated using guidelines issued by OSFI under the new Basel II framework.

Our objectives for diluted EPS growth, defined operating leverage, ROE, and dividend payout ratio over the medium term are summarized in the table above and continue to reflect our commitment to strong earnings growth, cost containment and return on investment in our businesses, as well as sound and effective risk and capital management. Maintaining a strong capital position is integral to our medium-term strategy, and we intend to keep our Tier 1 capital ratio above our 8.5%+ objective.

We intend to measure our financial performance using medium-term objectives for the foreseeable future until market and accounting volatility and economic uncertainty subside. We will continue to assess our progress on a quarterly and annual basis as we measure ourselves against these medium-term objectives. We will continue to benchmark our TSR with our North American peers and maintain our focus on maximizing shareholder value. As mentioned above, we are in the process of re-evaluating our North American peer group and will disclose any revisions once determined.

By focusing on the execution of medium-term objectives in our decision-making, we believe we will be positioned to provide sustainable earnings growth and returns to our shareholders.

Application of critical accounting policies and estimates

Our significant accounting policies are described 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 fair value of financial instruments, other-than-temporary impairment of available-for-sale (AFS) and held-to-maturity (HTM) securities, allowance for credit losses, variable interest entities, goodwill and other intangible assets, securitization, pensions and other post-employment benefits and income taxes. Our critical accounting policies and estimates have been reviewed and approved by our Audit Committee, in consultation with management, as part of their review and approval of our significant accounting policies and estimates.

Fair value of financial instruments

All financial instruments are required to be measured at fair value on initial recognition except for certain related party transactions. Measurement in subsequent periods depends on whether the financial instruments have been classified or designated as held-for-trading (HFT), available-for-sale, held-to-maturity, loans and receivables or other financial liabilities. A financial instrument can be designated as held-for-trading (the fair value option (FVO)) on its initial recognition, provided it meets certain criteria, even if it was not acquired or incurred principally for the purpose of selling or repurchasing in the near term.

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

As at October 31, 2008, approximately $340 billion, or 47%, of our financial assets and $252 billion, or 36%, of our financial liabilities were carried at fair value ($276 billion, or 46%, of financial assets and $205 billion, or 36%, of financial liabilities as at October 31, 2007). Note 2 to our Consolidated Financial Statements provides disclosure of the fair value of our financial instruments as at October 31, 2008.

Fair value is defined as the amount at which a financial instrument could be bought or sold in a current transaction, other than in a forced or liquidation sale, between knowledgeable and willing parties in an arm's-length transaction under no compulsion to act. The best evidence of fair value is quoted bid or ask price, as appropriate, in an active market. Where bid and ask prices are unavailable, we use the closing price of the most recent transaction of that instrument. 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 observable market-based inputs to estimate the fair value.

The determination of fair value for actively traded financial instruments that have quoted market prices or readily observable model input parameters requires minimal subjectivity. Management's judgment is required, however, when the observable market prices and parameters do not exist. In addition, management exercises judgment when establishing market valuation adjustments that would be required to determine the fair values. These include valuation adjustments for liquidity for financial instruments that are not quoted in an active market, when we believe that the amount realized on sale may be less than the estimated fair value due to insufficient liquidity over a short period of time. They also include valuation 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.

The majority of our financial instruments classified as held-for-trading, other than derivatives and financial assets classified as available-for-sale, comprise or relate to actively traded debt and equity securities, which are carried at fair value based on available quoted prices. As few derivatives and financial instruments designated as held-for-trading using the FVO are actively quoted, we rely primarily on internally developed pricing models and established industry standard pricing models, such as Black-Schöles, to determine their 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 significant 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.

To determine the fair value adjustments on RBC debt designated as held-for-trading, as discussed in the Financial overview section, we calculate the present value of the instruments based on the contractual cash flows over the term of the arrangement by using the RBC effective funding rates at the beginning and end of the period, with the unrealized change in the present value recorded in net income.

The following table summarizes our significant financial assets and liabilities carried at fair value, by valuation methodology as at October 31, 2008 and October 31, 2007. We have applied the general concepts contained in the accounting standards related to financial instruments under Canadian GAAP to determine the classification of assets and liabilities carried at fair value among the valuation methodology groupings below.

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

Financial Accounting Standards Board (FASB) Statement No. 157, *Fair Value Measurements* (FAS 157), includes measurement guidance and requires that all financial instruments measured at fair value be categorized in fair value hierarchy levels. We have not adopted these measurement and disclosure requirements as at October 31, 2008, for U.S. GAAP reconciliation disclosure purposes, and the information contained in the table below is not intended to correspond to those levels.

Assets and liabilities carried at fair value by valuation methodology — Table 5

(C$ millions, except percentage amounts)	2008 Fair value	2008 Based on: Quoted prices	2008 Based on: Pricing models with significant observable market parameters	2008 Based on: Pricing models with significant unobservable market parameters	2008 Total	2007 Fair value	2007 Based on: Quoted prices	2007 Based on: Pricing models with significant observable market parameters	2007 Based on: Pricing models with significant unobservable market parameters	2007 Total
Financial assets										
Required to be classified as held-for-trading other than derivatives	$ 104,414	72%	17%	11%	100%	$ 129,408	82%	18%	–	100%
Derivatives (1)	136,227	–	97%	3%	100%	65,568	–	100%	–	100%
Designated as held-for-trading (FVO)	52,185	31%	66%	3%	100%	52,580	36%	64%	–	100%
Classified as available-for-sale	47,039	59%	28%	13%	100%	28,811	70%	28%	2%	100%
	$ 339,865					$ 276,367				
Financial liabilities										
Required to be classified as held-for-trading other than derivatives	$ 27,507	96%	4%	–	100%	$ 46,328	89%	11%	–	100%
Derivatives (1)	128,705	–	99%	1%	100%	71,422	–	99%	1%	100%
Designated as held-for-trading (FVO)	95,359	–	100%	–	100%	87,433	–	100%	–	100%
	$ 251,571					$ 205,183				

(1) Market and credit valuation adjustments that are determined on an instrument-specific basis are included. For the remaining instruments, these adjustments are determined on a pooled basis and thus, have been excluded. Derivative assets exclude market and credit valuation adjustments of $(1,117) million (2007 – $nil) and margin requirements of $1,024 million (2007 – $1,017 million).

2008 vs. 2007

The market environment weakened significantly through 2008. As a result, there was a high degree of uncertainty and volatility which lead to reduced volume of trading activity in the financial markets. Many of the debt securities in our portfolio that were actively traded experienced limited trading volumes. As a result, market quotes were unavailable and indicative prices were not being provided by alternate sources such as brokers, dealers and pricing agencies. At year-end, we had to adopt alternate valuation methodologies to value many of our financial instruments.

As a result of the changes in our valuation methodologies, there were significant movements into the pricing models with significant unobservable market parameters category. The increase of 11% in financial assets classified as held-for-trading was primarily on account of certain short-term debt securities which did not have sufficient trading volumes in the market and indicative prices were also not available. The increase of 3% in derivative-related assets was due to higher fair values in our structured credit business and the migration of assets valued using pricing models with significant observable market parameters into this category. The increase of 3% in financial assets designated as held-for-trading was related to loans in our commercial mortgage business where there were limited observable market transactions on which to base our valuations. The increase of 11% in the available-for-sale category was related to the auction rate securities and securities in our Municipal GIC business that were reclassified from held-for-trading to the available-for-sale category and due to insufficient trading volumes in the market and no indicative prices being available.

The determination of fair value where quoted prices are not available and the identification of appropriate valuation adjustments require management judgment and are based on quantitative research and analysis. Group Risk Management 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. Group 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. Refer to the Risk management section for further details on the sensitivity of financial instruments used in trading and non-trading activities.

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

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

Allowance for credit losses

The allowance for credit losses represents management's estimate of identified credit-related losses in the portfolio, as well as losses that have been incurred but are not yet identifiable at the balance sheet date. The allowance is established to cover the lending portfolio including loans, acceptances, letters of credit and guarantees, and unfunded commitments. The allowance for credit losses comprises the specific allowance and the general allowance. The specific allowance is determined through management's identification and determination of losses related to impaired loans. The general allowance is established on a quarterly basis through management's assessment of probable losses in the remaining portfolio.

The process for determining the allowances involves quantitative and qualitative assessments using current and historical credit information. Our lending portfolio is reviewed on an ongoing basis to assess whether any borrowers should be classified as impaired and whether an allowance or write-off is required. The process inherently requires the use of certain assumptions and judgments including: (i) assessing the impaired status and risk ratings of loans; (ii) estimating cash flows and collateral values; (iii) developing default and loss rates based on historical and industry data; (iv) adjusting loss rates and risk parameters based on the relevance of historical data 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 allowance
Specific allowances are established to cover estimated losses on both retail and wholesale impaired loans. Loan impairment is recognized when, based on management's judgment, there is no longer reasonable assurance that all interest and principal payments will be made in accordance with the loan agreement.

For wholesale portfolios managed individually, which are continuously monitored, an account is classified as impaired based on our evaluation of the borrower's overall financial condition, its available resources and its propensity to pay amounts as they come due. A specific allowance is then established on individual accounts that are classified as impaired, using management's judgment relating to the timing of future cash flow amounts that can be reasonably expected from the borrower, financially responsible guarantors and the realization of collateral. The amounts expected to be recovered are reduced by estimated collection costs and discounted at the effective interest rate of the obligation.

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

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

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

For homogeneous portfolios (retail loans), including residential mortgages and credit cards, as well as personal and small business loans that are managed on a pooled basis, the determination of the general allowance is based on the application of historical loss rates. Historical loss rates are applied to current outstanding loans to determine a range of probable losses over an economic cycle.

In determining the general allowance level, management also considers the current portfolio credit quality trends, business and economic conditions, the impact of policy and process changes, and other supporting factors.

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

Total allowance for credit losses
Based on the procedures discussed above, management believes that the total allowance for credit losses of $2,299 million is adequate to absorb estimated credit losses incurred in the lending portfolio as at October 31, 2008. This amount includes $84 million classified in other liabilities, which relates to letters of credit and guarantees and unfunded commitments.

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

We use a variety of complex estimation processes involving both qualitative and quantitative factors to determine whether an entity is a VIE and, if required, to analyze and calculate the expected losses and the expected residual returns. These processes involve estimating the future cash flows and performance of the VIE, analyzing the variability in those cash flows, and allocating the cash flows 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.

Goodwill and other intangible assets
Under GAAP, goodwill is not amortized and is generally allocated to reporting units which are one level below our operating segments. Goodwill is tested for impairment on an annual basis or more frequently if an event occurs or circumstances change such that the fair value of a reporting unit may be reduced to less than its book value.

Testing goodwill begins with determining the fair value of each reporting unit and comparing it to its carrying amount, including goodwill. If the carrying value of a reporting unit exceeds its fair value, the fair value of the reporting unit's goodwill must be determined and compared to its carrying value. The fair value of the goodwill is imputed by determining the fair value of the assets and liabilities of the reporting unit. Goodwill is deemed to be impaired if its carrying value exceeds the fair value. That excess is the quantum of the impairment which must be charged to income in the period it is identified. Subsequent reversals of impairment are prohibited.

Management applies significant judgment in estimating the fair value of our reporting units which is accomplished primarily using an earnings-based approach which incorporates each reporting unit's internal forecasts of revenues and expenses. The use of this model and, more generally, our impairment assessment process require the use of estimates and assumptions, including discount rates, growth rates, and terminal growth rates. Changes in one or more of the estimates or assumptions could have an impact on the determination of the fair value of our reporting units and thus, the results of the impairment test. In addition to the earnings-based approach, where possible, we use a market-based approach to assess what the appropriate fair value of each reporting unit may be in the current market based on actual market events and comparable companies.

Other intangibles with a finite life are amortized on a straight-line basis over their estimated useful lives, generally not exceeding 20 years. These are also tested for impairment when an event occurs or a condition arises that indicates that the estimated future net cash flows from the asset may be insufficient to recover its carrying amount. The identification of such events or conditions may be subject to management's judgment. Estimating the fair value of a finite-life intangible for purposes of determining whether it is impaired also requires management to make estimates and assumptions, changes in which could have an impact on the determination of the fair value of the intangible and thus, the results of the impairment test. We do not have any intangibles with indefinite lives.

For further details, refer to Notes 1 and 10 to our Consolidated Financial Statements.

Securitization

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

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

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

Pensions and other post-employment benefits

We sponsor a number of defined benefit and defined contribution plans that provide 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, healthcare cost trend rates, projected salary increases, retirement age, and 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 temporary difference based on the future tax rates that are expected to be in effect and management's assumptions regarding the expected timing of the reversal of such temporary differences.

Changes in accounting policies

Significant changes in accounting policies and disclosures during 2008

Canadian GAAP

Financial Instruments – Presentation and Disclosures

On November 1, 2007, we adopted three new presentation and disclosure standards that were issued by the CICA: Handbook Section 1535, *Capital Disclosures* (Section 1535), Handbook Section 3862, *Financial Instruments – Disclosures* (Section 3862), and Handbook Section 3863, *Financial Instruments – Presentation* (Section 3863).

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

Sections 3862 and 3863 substantially replaced Handbook Section 3861, *Financial Instruments – Disclosure and Presentation* (Section 3861), revised and enhanced its disclosure requirements and continued its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

Reclassification of financial Instruments

In October 2008, the CICA issued amendments to Handbook Section 3855, *Financial Instruments – Recognition and Measurement*, Section 3861, and Section 3862, permitting, under certain circumstances, financial assets to be reclassified from held-for-trading to available-for-sale or from available-for-sale to loans and receivables. Financial assets that were classified as held-for-trading using the fair value option cannot be reclassified. These amendments were effective for us on August 1, 2008 and are referred to as the "CICA reclassification amendments" throughout this document.

Future changes in accounting policies and disclosure

Canadian GAAP

Goodwill and Intangible Assets

The CICA issued a new accounting standard, Handbook Section 3064, *Goodwill and Intangible Assets*, which clarifies that costs can be deferred only when they relate to an item that meets the definition of an asset, and as a result, start-up costs must be expensed as incurred. The new and amended standard is effective for us beginning November 1, 2008. The implementation of these standards is not expected to have a material impact on our consolidated financial position and results of operations.

Transition to International Financial Reporting Standards
The CICA has announced that Canadian GAAP for publicly accountable enterprises companies will be replaced with International Financial Reporting Standards (IFRS) over a transition period expected to end in 2011. We will begin reporting our financial statements in accordance with IFRS on November 1, 2011. We have begun planning our transition to IFRS but the impact on our consolidated financial position and results of operations has not yet been determined.

U.S. GAAP

Framework on fair value measurement
The FASB issued the following pronouncements regarding fair value measurement: (i) FAS 157 on September 15, 2006; (ii) Staff Position FAS 157-1, *Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13*, on February 14, 2008; (iii) Staff Position FAS 157-2, *Effective Date of FASB Statement No. 157*, on February 12, 2008; and (iv) Staff Position FAS 157-3, *Determining the fair value of a financial asset when the market for that asset is not active*, on October 10, 2008. FAS 157 establishes a framework for measuring fair value under U.S. GAAP and is applicable to other accounting pronouncements where fair value is considered to be the relevant measurement attribute. FAS 157 also expands disclosures about fair value measurements. FAS 157 will be effective for us on November 1, 2008, except for certain non-financial assets and non-financial liabilities which will be effective on November 1, 2009. The transition adjustment will be recognized in the opening balance of retained earnings reported under U.S. GAAP as at November 1, 2008 and is not material to our consolidated financial position.

Fair value option for financial assets and liabilities
On February 15, 2007, the FASB issued Statement No. 159, *The Fair Value Option for Financial Assets and Liabilities* (FAS 159). FAS 159 provides an entity the option to report selected financial assets and liabilities at fair value and establishes new disclosure requirements for assets and liabilities to which the fair value option is applied. FAS 159 will be effective for us on November 1, 2008. The transition adjustment will be recognized in the opening balance of retained earnings reported under U.S. GAAP as at November 1, 2008 and is not material to our consolidated financial position.

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 in reports filed or submitted under Canadian and U.S. securities laws is recorded, processed, summarized and reported within the time periods specified under those laws and include controls and procedures that are designed to ensure that information is accumulated and communicated to management, including the President and Chief Executive Officer, and Chief Financial Officer, to allow timely decisions regarding required disclosure.

As of October 31, 2008, management evaluated, under the supervision of and with the participation of the President and Chief Executive Officer and Chief Financial Officer, the effectiveness of our disclosure controls and procedures as defined under rules adopted by the Canadian securities regulatory authorities and the United States Securities and Exchange Commission. Based on that evaluation, the President and Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of October 31, 2008.

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. As of October 31, 2008, management assessed the effectiveness of our internal control over financial reporting and, based on that assessment, concluded that our internal control over financial reporting was effective and that there were no material weaknesses in our internal control over financial reporting. See Management's report on internal control over financial reporting and the Report of Independent Registered Chartered Accountants.

No changes were made in our internal control over financial reporting during the year ended October 31, 2008, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Financial performance

Overview

2008 vs. 2007

We reported net income of $4,555 million for the year ended October 31, 2008, down 17% from $5,492 million a year ago. Diluted EPS were $3.38, down 19% compared to a year ago. ROE was 18%, compared to 24.6% a year ago. Our results were primarily impacted by significantly higher writedowns of $2,091 million in Capital Markets compared to $393 million last year, additional market environment related writedowns of $397 million in Corporate Support and $297 million in International Banking. The impact of these writedowns was partially offset by gains of $533 million on the change in the fair value of deposit liabilities and subordinated debentures designated as held-for-trading, largely as a result of the widening of our credit spreads (fair value adjustments on RBC debt designated as held-for-trading), as well as a related $608 million reduction of income taxes and $499 million of compensation adjustments. For further details, refer to the Impact of the market environment section.

Higher provision for credit losses, primarily in our U.S. banking business, weaker equity origination activity and higher costs in support of business growth also contributed to the decrease. Our prior year results were also favourably impacted by a gain related to the Visa Inc. restructuring. These factors were partly offset by the reduction of the Enron Corp.-related litigation provision, solid volume growth in our banking-related and wealth management businesses partly reflecting our acquisitions, the impact of which was partially offset by spread compression in our banking-related businesses. Higher trading revenue in certain of our fixed income and foreign exchange businesses also partially offset the decrease in net income. Our Tier 1 capital ratio of 9.0% was down 40 bps from 9.4% a year ago.

There were several important developments during 2008 which we believe, individually and in aggregate, affect the analysis of our potential Enron-related litigation provision. As a result of our continuous evaluation of these developments as they occurred, our latest assessment of them has led us to reduce our litigation provision from $591 million (US$500 million), which we established in 2005, to $60 million (US$50 million) or $33 million after-tax (US$27 million). Refer to Note 25 to our Consolidated Financial Statements for more information.

Impact of the market environment

The weak market environment continued throughout 2008, resulting in writedowns of $2,785 million ($1,418 million after-tax and related compensation adjustments). The writedowns included losses within certain HFT portfolios and losses on our AFS securities. Of this, $2,091 million ($920 million after-tax and related compensation adjustments) related to Capital Markets, $397 million ($297 million after-tax) related to Corporate Support, which includes treasury activities, and $297 million ($201 million after-tax) related to International Banking. The impact of the writedowns was partially offset by $533 million ($273 million after-tax and compensation adjustments) on the gain related to fair value adjustments on RBC debt designated as held-for-trading. Of this, $343 million ($144 million after-tax and compensation adjustments) related to Capital Markets and $190 million ($129 million after-tax) related to Corporate Support.

It is expected that most gains resulting from the widening of our credit spreads in the current period will reverse in future periods as the fair value of these liabilities increase through the combination of the passage of time to maturity, or our effective funding rates decline.

The writedowns within Capital Markets related primarily to U.S. subprime and collateralized debt obligations (CDOs) of asset-backed securities (ABS), residential mortgage-backed securities (RMBS) and other, losses on auction rate securities (ARS), the investment portfolio of our municipal GIC business, U.S. commercial mortgage-backed securities (CMBS) and on bank-owned life insurance (BOLI) contracts in our U.S. Insurance and Pension solutions business.

The writedowns and losses in Corporate Support and International Banking were primarily related to U.S. MBS and other securities in our HFT and AFS portfolios, which are held in support of treasury related activities and investment objectives. The writedowns were on securities deemed to be other-than-temporarily impaired and losses on the sale of other securities. The deterioration of the fair value of these securities reflected various factors including increased market spreads resulting from higher credit risk and liquidity premiums and in some cases the weakening of underlying collateral.

Reclassification of Held-for-trading to Available-for-sale

Upon acquiring securities, we classify them either as HFT or AFS. For HFT securities, we reflect changes in fair value in Non-interest income – Trading Revenue. For AFS securities, we reflect unrealized changes in fair value for the current period in OCI. If realized or considered to be other- than-temporarily impaired in value, we reflect changes in fair value in non-interest income – net (loss) gain on available-for-sale securities. Refer to the Unrealized gains and losses on AFS securities section for more details on our AFS portfolio and valuation assessments.

Effective August 1, 2008, we adopted the CICA reclassification amendments. We reclassified $6,868 million (1) from the HFT category to the AFS category during the quarter ended October 31, 2008 and recognized $478 million ($270 million after-tax) in OCI that otherwise would have been recognized as a loss in our income statement. We have transferred certain student loan auction rate securities and certain securities within U.S. municipal GICs and other trading portfolios out of the HFT category to the AFS category during the quarter ended October 31, 2008. The unrealized losses on these securities largely reflected liquidity concerns in the current market. Management has determined that the unrealized losses on these securities are temporary in nature and intends to hold the remaining securities until maturity or their value recovers.

For further information, refer to Note 3 to our Consolidated Financial Statements for more information.

(1) Represents the fair value as at October 31, 2008.

Summary of market environment impact – gains (losses) — Table 6

(C$ millions)	2008	2007
Writedowns		
Capital Markets – Held-for-trading		
U.S. subprime		
Hedged with MBIA	$ (704)	$ (5)
CDOs of ABS, RMBS, and other	(597)	(352)
U.S. auction rate securities (ARS)	(243)	–
U.S. Municipal guaranteed investment contracts (GIC) and other U.S. MBS	(268)	–
U.S. Insurance and Pension solutions	(162)	–
U.S. commercial mortgage-backed securities (CMBS)	(117)	(36)
	(2,091)	(393)
Corporate Support		
Held-for-trading – U.S. RMBS	(129)	–
AFS – U.S. MBS and other securities	(268)	–
	(397)	–
International Banking		
AFS – U.S. MBS and other securities	(297)	–
Total pre-tax and related compensation adjustments	$ (2,785)	$ (393)
Compensation adjustments	613	131
Income tax recoveries	754	89
Total (writedowns) after-tax and compensation adjustments	$ (1,418)	$ (173)
Fair value adjustments on RBC debt held-for-trading		
Capital Markets	$ 343	$ 59
Corporate Support	190	29
Total pre-tax and related compensation adjustments	533	88
Compensation adjustments	(114)	(20)
Income tax recoveries	(146)	(25)
Total gains after-tax and compensation adjustments	$ 273	$ 43
Total net income impact	$ (1,145)	$ (130)

U.S. subprime – hedged with MBIA — Table 7

(C$ millions)	As at October 31, 2008: Underlying exposure: Principal/notional	Fair value	Credit protection through CDS: Cash collateralized	MBIA insured (1)	Fair value of MBIA protection after writedowns (2)	Writedowns: 2008	2007
Subprime RMBS	$ 1,303	$ 473					
Subprime CDOs of ABS	1,221	15					
Non-subprime (CDOs of corporate names)	3,253	2,357					
Total	$ 5,777	$ 2,845	$ 689	$ 5,217	$ 1,519	$ 704	$ 5

(1) The counterparty is a subsidiary of MBIA Inc., a monoline insurance provider with a financial strength rating of Baa1 by Moody's Investors Service (Moody's) as at November 7, 2008 and AA (Negative Outlook) by Standard & Poor's (S&P) as at August 14, 2008.
(2) The fair value is included in Other – Derivatives.

Capital Markets writedowns of $704 million during the year resulted from declines in fair value of credit default swaps (CDS) with monoline insurer MBIA Inc. that represent credit protection purchased to hedge our credit risk exposure to super-senior tranches of structured credit transactions, taking into account market credit default spreads, expected recovery rates on the underlying exposures and other parameter inputs. As noted in Table 7, the credit protection with MBIA covers both subprime- and non-subprime-related assets. For information on monoline insurance for non-subprime assets, refer to the Financial Stability Forum disclosures section.

U.S. subprime – CDOs of ABS, RMBS, and other — Table 8

(C$ millions)	As at October 31, 2008: Principal/notional	Fair value (1)	Writedowns: 2008	2007
CDOs of ABS	$ 862	$ 93	$ 421	$ 264
Other subprime RMBS, and other	(57)	46	176	88
Total	$ 805	$ 139	$ 597	$ 352

(1) Net on-balance sheet amount of trading-related securities.

Capital Markets writedowns of $597 million during the year related to declines in fair value of subprime CDOs of ABS, RMBS and CDO positions. These holdings include $540 million notional value of predominantly senior tranches of RBC-sponsored CDOs previously hedged by monoline insurer ACA Capital Holdings Inc. (ACA) and other unhedged positions. The Other subprime RMBS principal/notional amount represents a net short exposure (liability).

U.S. ARS — Table 9

(C$ millions)	As at October 31, 2008: Principal	Fair value (1)	Writedowns: 2008	2007
Student loan ARS	$ 4,177	$ 3,651	$ 202	$ –
Closed-end funds and municipal ARS	154	153	1	–
Total	$ 4,331	$ 3,804	$ 203	$ –
Other (net change due to consolidation of VIEs and realized losses)	–	–	40	–
Total	$ 4,331	$ 3,804	$ 243	$ –

(1) The fair value is included in Securities – Available-for-sale except for Closed-end funds and municipal ARS that continue to be included in Securities – Held-for-trading.

Capital Markets writedowns of $203 million during the year resulted from declines in fair value of our trading positions of ARS, based on market prices and a models-based approach to valuations that includes the impact of liquidity.

U.S. ARS are issued through variable interest entity (VIE) trusts in the U.S. financial markets. The VIEs hold long-term assets and fund them with long-term debt that trades at short-term debt prices, with an interest rate reset every week to 35 days. These securities are issued by municipalities, student loan authorities and other sponsors through bank-managed auctions. We participate as a remarketing agent in the ARS market.

As at October 31, 2008, the fair value of the auction rate securities we hold on our balance sheet is $3.8 billion, of which $3.7 billion is backed by student loan collateral. The average yield on our holdings is above our funding costs. Approximately 89% of our inventory is rated AAA. In terms of student loan auction rate securities that we hold, approximately 97% of the supporting student loan collateral is guaranteed under the U.S. government Federal Family Education Loan Program.

In addition to amounts shown in the table above, during the second and third quarters of 2008, we sold $1.5 billion of the ARS in our trading inventory into off-balance sheet special purpose entities to which we provide liquidity facilities. Of this amount, $465 million was sold during the third quarter and the purchase of the ARS by the SPE was financed by a loan from us and the loan is secured by various assets of the SPE. These transactions are reflected at fair value and are not included in the amounts shown in the table above. For further details on VIEs, refer to the Structured finance VIEs in the Off-balance sheet arrangements section and Note 6 to our Consolidated Financial Statements.

We have reclassified U.S. ARS of $3,651 million (fair value as at October 31, 2008) out of the HFT category to the AFS category during the quarter ended October 31, 2008.

In addition to ARS described above, as disclosed in our press release on October 8, 2008, as part of a settlement with the SEC New York Attorney General's office, and the North American Administrators Association we will offer to purchase, at par, ARS held by our U.S. retail brokerage clients, as well as charities with accounts at RBC of US$25 million or less and small institutions and businesses with accounts at RBC of US$10 million or less. The repurchase offer represents approximately US$850 million as at October 31, 2008. For further details, refer to the Fourth quarter 2008 performance section.

U.S. Municipal GICs and other U.S. MBS — Table 10

(C$ millions)	As at October 31, 2008 Principal	Fair value (1)	Writedowns 2008	2007
U.S. Municipal GIC business				
Agency MBS (2)	$ 2,486	$ 2,299	$ 103	$ –
Agency discount notes and bonds	941	941	(1)	–
Non-Agency MBS (AAA or Alt-A)	9	5	60	–
Federal, municipal and corporate bonds	402	338	31	–
	$ 3,838	$ 3,583	$ 193	$ –
GIC liability and hedge gains and losses	–	–	80	–
	$ 3,838	$ 3,583	$ 273	$ –
Other U.S. non-Agency MBS	935	594	(5)	–
	$ 4,773	$ 4,177	$ 268	–

(1) The fair value is included in Securities – Held-for-trading or Available-for-sale.
(2) Includes Federal Home Loan Mortgage Corporation (Freddie Mac) and Federal National Mortgage Association (Fannie Mae).

In our U.S. Municipal GIC business, we issue GICs for cash received from municipalities, generally in situations where a municipality has issued debt and does not have immediate needs for the proceeds. The GIC liabilities are of various durations averaging approximately 18 months and the payments are swapped to floating rate. We then invest the cash received from the municipalities primarily in MBS, both agency and non-Agency (refer to table above).

Capital Markets writedowns of $273 million during the year resulted from declines in fair value of our investment portfolio supporting our U.S.Municipal GIC business along with losses related to our GIC liabilities and related hedge positions.

We have reclassified securities of $3,217 million (fair value as at October 31, 2008) within the U.S. Municipal GICs and other trading portfolios from HFT to AFS during the quarter ended October 31, 2008.

U.S. Insurance and Pension solutions — Table 11

(C$ millions)	As at October 31, 2008 Notional (1)	Fair value (1)	Writedowns 2008	2007
BOLI stable value contracts	$ 9,451	$ 7,392	$ 162	$ –

(1) Notional value represents the total amount of investment value protected under stable value contracts and is reported under stable value products in Note 25 of our Consolidated Financial Statements. Fair value represents the current estimate of fair value of the investments referenced under the stable value contracts.

Our U.S. Insurance and Pension solutions business in Capital Markets provides stable value contracts on BOLI policies purchased by banks on groups of eligible employees. The BOLI purchaser pays premiums to the insurance company, and the premiums are then invested in a portfolio of eligible assets. While the insurance is in place, the purchaser receives tax-exempt earnings linked to the performance of the underlying assets and also receives death benefits as they arise.

The stable value wraps provided by our U.S. Insurance and Pension solutions business reduce the volatility of the tax-free earnings stream received by purchasers of BOLI on the assets in their policy. If a purchaser were to surrender (terminate early) its BOLI policy, the terms of the stable value contract generally require us to make up the difference between the notional and fair value of the assets inside the policy. The purchaser would receive a payment for this difference in value, but also would be taxed on the surrender value, forfeit the tax-exempt income stream, and may be exposed to unhedged long-term tax-deferred liabilities.

As at October 31, 2008, the difference between the notional value and fair value of our BOLI contracts was $2,059 million ($433 million as at October 31, 2007). This represents the loss that would be recognized if all insurance contracts were surrendered on that date. Capital Markets recognized writedowns of $162 million during the year, reflecting both the value of the assets underlying the investment portfolios of the policies and our estimated probability of the policyholders surrendering their policies.

U.S. CMBS — Table 12

(C$ millions)	As at October 31, 2008 Principal	Fair value (1)	Writedowns 2008	2007
Corporate loans and CMBS	$ 923	$ 796	$ 117	$ 36

(1) Includes held-for-trading loans and CMBS principal amount of $747 million with a fair value of $605 million recorded in Loans – Wholesale and whole loans with a principal amount of $176 million recorded in Loans – Wholesale.

In our U.S. CMBS business, we previously originated commercial mortgages in the U.S. market and warehoused them until such time as there was an opportunity to securitize them for a fee through issuance of CMBS or to sell them in the whole loan market. Loans previously originated to be securitized are classified as HFT while those to be sold in the whole loan market are classified as loans and receivables and carried at amortized cost. We have discontinued new business and we will continue to wind down this business in an orderly fashion.

Capital Markets recognized a loss of $117 million during the year due to credit deterioration, reduced liquidity in the CMBS issuance market and the impact of derivative hedges of interest-rate risk within the portfolio. As at October 31, 2008, the fair value of our inventory was $796 million.

Corporate Support

Operations included in the Corporate Support segment hold various securities in HFT and AFS portfolios in support of their respective treasury-related activities and investment objectives. The majority of their holdings are Canadian government and Agency-related securities that have experienced gains during the year, primarily due to the decrease in interest rates. However, investments in MBS and certain ABS and Corporate debt securities held in Corporate Support have been adversely impacted by the market environment, lack of liquidity and, in some cases, deterioration in the underlying collateral. The portfolios that have been impacted by these events and their related writedowns and losses are detailed below. Refer to the Unrealized gains and losses on AFS securities section and Note 3 to our Consolidated Financial Statements for further details on the assessment of impairment on AFS securities and total writedowns due to other-than-temporary impairment.

U.S. MBS and other securities — Table 13

	As at October 31, 2008			Writedowns and realized losses	
(C$ millions)	Amortized cost	Fair value	Net unrealized losses	2008	2007
Held-for-trading					
Mortgage-backed securities (MBS)	$ 387	$ 387	$ –	$ 129	$ –
Available-for-sale					
Mortgage-backed securities (MBS)	1,355	1,083	272	215	–
Asset-backed securities (ABS)	613	477	136	23	–
Corporate debt and other debt	753	642	111	30	–
Total	$ 3,108	$ 2,589	$ 519	$ 397	$ –

Corporate Support recognized $397 million of writedowns and realized losses in 2008 related to the market environment. The writedowns included a loss of $129 million related to a held-for-trading portfolio of U.S. MBS and $268 million of writedowns on AFS securities that were determined to be other-than-temporarily impaired.

Held-for-trading

The HFT portfolio consists of high-quality super-senior tranches of U.S. Alt-A and other Non-Agency MBS. The deterioration of the market value of these securities mainly reflected increased market spreads resulting from higher market risk and liquidity premiums. These premiums are significantly higher than historically experienced, resulting in little differentiation in the market between higher and lower quality tranches of MBS securities. These factors gave rise to the deterioration in prices resulting in a recognized loss in the trading portfolio of $129 million for the year.

Available-for-sale

MBS in AFS are similar to those in the HFT portfolio, but also includes fair value of $143 million fair value of subprime securities largely comprised of super-senior tranches. These securities experienced significant declines in fair value due to the ongoing widening of spreads and, to varying degrees, the weakening of underlying collateral. In 2008, the assessment of these securities for other-than-temporary impairment resulted in writedowns of $215 million, mainly related to Alt-A and subprime MBS.

ABS in the AFS portfolio included collateralized loan obligations (CLO) and U.S. uninsured student loans. The majority of these instruments are rated AAA with significant credit support. Based on management's assessment of these securities, certain lower quality CLOs were determined to be other-than-temporarily impaired and written down by $23 million to their fair value.

Corporate and other debt mainly includes various securities with exposure to European financial institutions. The $30 million loss largely reflects writedowns on securities we intend to sell in order to manage our exposure to certain names.

International Banking

Operations in International Banking hold various AFS securities in support of their respective treasury-related activities and investment objectives. The majority of the securities they hold are U.S. government and Agency-related securities that have experienced fair value declines primarily due to liquidity concerns. Investments in MBS and certain ABS and corporate debt securities held in this segment have been adversely impacted by the dislocation in the market, lack of liquidity, and in some cases, deterioration in the underlying collateral. The portfolios that have been impacted by these events and their related writedowns and losses are detailed below. Refer to the Unrealized gains and losses on AFS securities section and Note 3 to our Consolidated Financial Statements for further details on the assessment of impairment on AFS securities and total writedowns due to other-than-temporary impairment.

U.S. MBS and other securities — Table 14

	As at October 31, 2008			Writedowns and realized losses	
(C$ millions)	Amortized cost	Fair value	Net unrealized losses	2008	2007
Available-for-sale					
Mortgage-backed securities (MBS)	$ 2,249	$ 1,869	$ 380	$ 136	$ –
Asset-backed securities (ABS)	366	341	25	–	–
Corporate debt and other debt	1,866	1,689	177	91	–
Agency preferred stock	–	–	–	70	–
Total	$ 4,481	$ 3,899	$ 582	$ 297	$ –

International Banking recognized $297 million of writedowns and realized losses in 2008 related to the market environment. The writedowns included $184 million on AFS securities that were determined to be other-than-temporarily impaired and $113 million of realized losses related to the sale of Agency preferred stock and certain AFS debt securities.

MBS in AFS are largely comprised of super-senior tranches of non-Agency and Alt-A MBS. Also included is $63 million fair value of subprime MBS. These securities have experienced significant declines in fair value due to the ongoing widening of spreads and, to varying degrees, the weakening of underlying collateral. In 2008, the assessment of these securities for other-than-temporary impairment resulted in writedowns of $136 million, mainly related to Alt-A and other non-Agency MBS.

ABS in the AFS portfolio included structured notes and auction rate securities. The majority of these instruments have significant credit support and have experienced moderate price declines over the year, primarily related to liquidity. Based on management's assessment of these securities for other-than-temporary impairment, no securities were deemed by management to be other-than-temporarily impaired.

Corporate and other debt mainly includes various securities with exposure to non-Organization for Economic Co-operation and Development (OECD) governments, predominately Caribbean countries where we operate, and U.S. and European financial institutions. The $91 million loss largely reflected realized losses on the sale of certain securities and writedowns on securities we intended to sell in order to effectively manage our exposures to certain names and reposition a number of portfolios. $33 million of the loss related to securities that were deemed to be other-than-temporarily impaired.

During the year, we realized a $70 million loss on the sale of our U.S. Agency preferred stock.

Unrealized gains and losses on AFS securities

As at October 31, 2008, all AFS securities that had unrealized losses were assessed for other-than-temporary impairment. This included the change in fair value including, where applicable, foreign exchange. For those securities that, based on management's judgment, it was not probable that all principal and interest would be recovered, the securities were deemed to be other-than-temporarily impaired and were written down to their fair value. In addition, securities for which management could not attest to holding until maturity or where in management's opinion the value of the security would not recover prior to its disposition were also deemed to be other-than-temporarily impaired and were written down to their fair value. Management has determined that the unrealized losses on the remaining securities were temporary in nature and intends to hold the remaining securities until their value recovers.

Reclassification of Held-for-trading to Available-for-sale

During the quarter ending October 31, 2008, we reclassified certain financial assets from the HFT category to the AFS category in accordance with the CICA reclassification amendments. Refer to Note 3 to our Consolidated Financial Statements for further details on the reclassification and additional details regarding AFS securities. Refer to our Consolidated Financial Statements of Comprehensive Income and to our Consolidated Financial Statements of Changes in Shareholders' Equity for details regarding the impact on OCI and AOCI, respectively.

Total RBC available-for-sale portfolio — Table 15

	2008							2007
(C$ millions)	Amortized cost	Fair value	Fair value as a % of total	Gross unrealized gains	Gross unrealized losses	Net unrealized gains (losses)	Net gains (losses) recognized in income	Net gains (losses) recognized in income
Government and agency	$ 24,294	$ 24,382	50%	$ 447	$ (359)	$ 88	$ 7	(55)
Mortgage-backed securities	4,278	3,548	7%	4	(734)	(730)	(363)	–
Asset-backed securities	5,192	4,796	10%	11	(407)	(396)	(25)	(6)
Corporate debt and other debt	13,102	12,785	27%	136	(453)	(317)	(162)	(20)
Equities	3,057	2,683	6%	4	(378)	(374)	(88)	161
Loan substitute securities	256	227	–%	–	(29)	(29)	(1)	–
Total (1)	$ 50,179	$ 48,421	100%	$ 602	$ (2,360)	$ (1,758)	$ (632)	80

(1) Excludes held-to-maturity of $205 million that is grouped with AFS on the balance sheet.

Government and agency

Government and agency securities constitute 50% of the AFS securities we hold and are largely comprised of Canadian federally issued instruments and mortgages insured by Canadian agencies, as well as $4,069 million of U.S. Agency MBS and $1,734 million of ARS.

The net unrealized gains of $88 million include unrealized gains of $447 million largely attributable to Canada-based instruments resulting from the recent decrease in interest rates and unrealized losses of $359 million mainly related to U.S. Agency MBS and U.S. ARS. The unrealized losses on these securities largely reflected liquidity concerns in the current market.

Mortgage-backed securities

Mortgage-backed securities represent 7% of the total AFS portfolio. The portfolio largely consists of high-quality super-senior tranches of U.S. Alt-A and other U.S. non-Agency MBS as well as $189 million of U.S. subprime. The net unrealized loss of $730 million reflects the impact of increased market spreads related to higher risk and liquidity premiums, with little differentiation in the market between higher and lower quality tranches.

As at October 31, 2008, all U.S. MBS were assessed for other-than-temporary impairment using a cash flow projection model and management consideration of other market and security-specific factors. The cash flow model incorporated actual cash flows on the MBS through the current period and then projected the remaining cash flows on the underlying mortgages, using a number of assumptions and inputs that were based on the security-specific collateral. The assumptions included default, prepayment and recovery rates, the latter being largely dependent upon forecasted house prices. The model then distributed those cash flows to each tranche of the security based on the transaction structure, subordination and credit enhancements. The inputs and assumptions used were based on updated market data for defaults, prepayment and house price appreciation at the municipal level provided by a third-party vendor. Management made adjustments for historical data and model limitations and specific adjustments to slow prepayments to reflect the expected impact of the current market environment on obligor behaviour. If the model predicted that it was probable that a security will not recover all principal and interest due, a further review of the security was undertaken to determine if, in management's judgment, a loss would ultimately be realized. Where management concluded based on this analysis that the loss was other-than-temporary, the security was written down to its fair value. Almost all of the $363 million in losses recognized in 2008 were as a result of writedowns due to other-than-temporary impairment. In most cases, the securities' fair value is lower than the amount we ultimately expect to recover.

Asset-backed securities

Asset-backed securities constitute 10% of the total AFS portfolio and mainly comprise insured student loans, including U.S. ARS that were transferred to AFS on August 1, 2008. CLOs, U.S. uninsured student loans and commercial mortgage-backed securities are also included. The majority of these instruments are highly rated with significant credit support and have experienced moderate price declines over the year resulting in $396 million in net unrealized losses or 8% of the portfolio value.

As at October 31, 2008, all securities were assessed for other-than-temporary impairment. Impairment testing methods included the use of cash flow projection models and management's consideration of other market and security-specific factors. Based on this assessment, certain lower quality CLOs were deemed other-than-temporarily impaired and written down by $23 million to their fair value.

Corporate and other debt

Corporate and other debt mainly includes corporate bonds, non-OECD government bonds and structured notes securities. The Corporate bonds are well diversified across a number of names and sectors, with U.S. and Global financial institutions being the largest concentration. The non-OECD government securities are primarily related to Caribbean countries where we have ongoing operations. The structured notes are predominately supported by Canadian credit cards. The net unrealized losses mainly reflected widening spreads on certain U.S. and Global financial institutional securities.

Each security was assessed for other-than-temporary impairment based on management's consideration of internal and external ratings, subordination and other market and security-specific factors. Complex instruments were also assessed using a cash flow projection model. The $162 million loss recognized in income largely reflected realized losses on the sale of certain securities and writedowns on securities we intend to sell in order to effectively manage our exposures to certain names and reposition certain portfolios. $33 million of the loss related to securities that were deemed to be impaired.

Equity

Equity holdings represent 6% of the portfolio. These investments are largely comprised of publicly traded equity and preferred shares of Canadian financial institutions. To a lesser extent, we also hold investments in other public, private and venture companies.

A substantial portion of the unrealized losses related to publicly traded Canadian bank shares we hold to economically hedge certain stock-based compensation programs. While their share prices are under pressure due to current market conditions, these banks are well capitalized, continue to generate strong earnings and continue to pay dividends, and we do not consider these securities to be other-than-temporarily impaired. Other equity holdings that we viewed as other-than-temporarily impaired were written down to their fair value. The net losses largely reflected a realized loss of $70 million on the sale of U.S. Agency preferred shares of Fannie Mae and Freddie Mac and writedowns due to impairments identified in our private equity portfolio.

Summary of 2007 and 2006

In 2007, we achieved net income of $5,492 million, up $764 million, or 16%, from 2006. Our strong results were largely attributable to profitable volume and balance growth in our banking and wealth management businesses, strong insurance results, and increased equity and foreign exchange trading results and strong equity origination activity in our capital markets businesses. These results reflected the ongoing successful execution of our growth initiatives as well as generally favourable economic and market conditions for most of the year. A $326 million ($269 million after-tax) gain related to the Visa Inc. restructuring and the exchange of our membership interest in Visa Canada Association for shares of Visa Inc. also contributed to the increase.

In 2007, the Canadian economy grew at an estimated rate of 2.6%, with domestic demand remaining the key driver of economic growth. Robust economic growth in the early part of the year, largely reflecting strong consumer spending, solid business investment, favourable terms of trade and solid housing market activities, weakened slightly in the latter part of the year. This was mainly attributable to slowing U.S. demand and tightening credit conditions as a result of the U.S. mortgage market concerns. The U.S. economy grew at an estimated rate of 2%. Solid economic growth in the middle of the year, primarily supported by continued non-residential investment, strong export growth and consumer spending, slowed in the latter part of the year. The weaker economic growth was largely a result of slowing residential investment amid the ongoing housing market correction, tightening credit conditions and increased funding costs arising from the U.S. mortgage market concerns, as well as a general repricing of risk in numerous markets.

During 2007, we had a charge of $393 million before tax and compensation adjustments in Capital Markets, consisting of the writedowns on the valuation of U.S. RMBS and CDOs of ABS, reflecting the deterioration in credit markets since July 2007, higher provision for credit losses, reflecting portfolio growth, higher impaired loans in our U.S. residential builder finance business, and higher credit card customer loyalty reward program costs. We also had higher costs in support of business growth and the negative impact of a stronger Canadian dollar on the translation of our U.S. dollar-denominated earnings.

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

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

During 2006, strong consumer lending was supported by favourable labour market conditions and a relatively low interest rate environment. Business lending remained solid, albeit in part offset by surpluses of internally generated funds available for capital and inventory investment. Capital market conditions were generally favourable, characterized by buoyant mergers and acquisitions (M&A) activity in Canada and strong performance of natural resource-based equities.

During 2006, a number of specified items were identified, which had minimal impacts on our overall results as their effects largely offset each other. We realized a favourable resolution of an income tax audit related to prior years, resulting in a $70 million reduction in income tax expense. We received $51 million related to the termination of an agreement. We reversed $50 million of general allowance related to our corporate loan portfolio. We also recorded a net gain of $40 million on the exchange of New York Stock Exchange (NYSE) seats for shares in the NYSE Group (NYX).

Impact of U.S. vs. Canadian dollar

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

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

Impact of U.S. dollar vs. Canadian dollar — Table 16

(C$ millions, except per share amounts)	2008 vs. 2007	2007 vs. 2006
Canadian/U.S. dollar exchange rate (average)		
2008	$ .969	
2007	.915	$ .915
2006		.883
Percentage change in average US$ equivalent of C$1.00 (1)	6%	4%
Increased (decreased) total revenue	$ (340)	$ (230)
Increased (decreased) non-interest expense	(210)	(139)
Increased (decreased) net income	(90)	(47)
Increased (decreased) basic EPS	$ (.07)	$ (.04)
Increased (decreased) diluted EPS	$ (.07)	$ (.04)

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

In 2008, the Canadian dollar appreciated 6% on average relative to the U.S. dollar from a year ago, resulting in a $90 million decrease in the translated value of our U.S. dollar-denominated net income and a decrease of $.07 in our current year's diluted EPS.

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at rates prevailing at the balance sheet date. Non-monetary assets and liabilities are translated into Canadian dollars at historical rates. Assets and liabilities of our self-sustaining operations with functional currencies other than Canadian dollars are translated into Canadian dollars at rates prevailing at the balance sheet date.

For further information on the impact of foreign currency translation on our balance sheet, refer to the Financial condition section.

Total revenue — Table 17

(C$ millions)	2008	2007	2006
Interest income	$ 25,344	$ 26,547	$ 22,204
Interest expense	15,984	18,845	15,408
Net interest income	$ 9,360	$ 7,702	$ 6,796
Investments (1)	$ 4,697	$ 4,405	$ 3,786
Insurance (2)	2,609	3,152	3,348
Trading	(408)	1,999	2,574
Banking (3)	3,076	2,620	2,391
Underwriting and other advisory	875	1,217	1,024
Other (4)	1,373	1,367	718
Non-interest income	$ 12,222	$ 14,760	$ 13,841
Total revenue	$ 21,582	$ 22,462	$ 20,637
Additional information			
Total trading revenue (5)			
Net interest income – related to trading activities	$ 998	$ (220)	$ (539)
Non-interest income – trading revenue	(408)	1,999	2,574
Total	$ 590	$ 1,779	$ 2,035
Total trading revenue by product (5)			
Interest rate and credit	$ (259)	$ 640	$ 1,174
Equities	265	784	561
Foreign exchange and commodities	584	355	300
Total	$ 590	$ 1,779	$ 2,035

(1) Includes securities brokerage commissions, investment management and custodial fees, and mutual funds.
(2) Includes premiums, investment and fee income. Investment income includes the change in fair value of investments backing policyholder liabilities and is largely offset in insurance policyholder benefits, claims and acquisition expense.
(3) Includes service charges, foreign exchange revenue other than trading, card service revenue and credit fees.
(4) Includes other non-interest income, net gain (loss) on AFS securities (other-than-temporary impairment and realized gain/loss), fair value adjustments on RBC debt designated as held-for-trading, the change in fair value of certain derivatives related to economic hedges and securitization revenue.
(5) Total trading revenue comprises trading-related revenue recorded in Net interest income and Non-interest income. Total trading revenue includes revenue from cash and related derivatives.

2008 vs. 2007

Total revenue decreased $880 million, or 4%, from a year ago. The decrease was largely due to writedowns resulting from the impact of the current market environment. Lower insurance-related revenue, largely related to the change in fair value of investments backing our life and health policyholder liabilities and largely offset in policyholder benefits and claims, weaker equity origination activity and the negative impact of the strong appreciation of the Canadian dollar throughout most of the year on the translation of our U.S. dollar-denominated revenue also contributed to the decrease. These factors were partially offset by solid volume growth in our banking-related and wealth management businesses, which was driven by the successful execution of our growth initiatives and continued expansion activities, including acquisitions, higher trading results in certain capital markets businesses and the gain on fair value adjustments on RBC debt designated as held-for-trading. Our prior year revenue was favourably impacted by a gain related to the Visa Inc. restructuring.

Net interest income increased $1,658 million, or 22%, largely driven by lower funding costs and solid growth on certain trading positions, and solid loan and deposit growth in Canada, partially offset by retail spread compression. Net interest margin of 1.44% was up 11 bps compared to the prior year.

Investments-related revenue increased $292 million, or 7%, primarily due to increased fee-based and transaction revenue as a result of our acquisitions. Also contributing to the increase was solid growth in fee-based client assets, reflecting higher net sales and the addition of more experienced advisors. Higher U.S. cash equities revenue and higher custody fees and securities lending revenue also contributed to the increase. These factors were partially offset by lower transaction volumes in our full-service brokerages, amid the uncertainty in global financial markets.

Insurance-related revenue decreased $543 million, or 17%, mainly reflecting the change in fair value of investments backing our life and health policyholder liabilities, largely offset in policyholder benefits and claims. Investment losses on disposals and impairments, as well as impacts from equity market movements and lower U.S. annuity sales also contributed to the decrease. These factors were partially offset by solid growth in our reinsurance and Canadian businesses during the year.

Trading revenue decreased by $2,407 million. Total trading revenue was $590 million, down $1,189 million, or 67%, from a year ago largely due to writedowns resulting from the current market environment. The decrease was partly offset by stronger trading results in certain fixed income and foreign exchange businesses. For a detailed discussion regarding our writedowns, refer to the Impact of the market environment in the Financial performance section.

Banking revenue was up $456 million, or 17%, mainly due to a credit card customer loyalty reward program liability charge in the prior year and improved results in our syndicated finance business, higher foreign exchange revenue due to increased transaction volumes and increased service fees in the current year.

Underwriting and other advisory revenue decreased $342 million, or 28%, from a year ago, mainly due to weak equity origination and lower M&A activities.

Other revenue was flat compared to the prior year. The gain on fair value adjustments on RBC debt designated as held-for-trading, as well as higher gains on credit derivative contracts recorded at fair value used to economically hedge our corporate lending portfolio and higher gains on the change in fair value of certain derivatives related to economic hedges contributed to an increase in revenue. These factors were offset by writedowns in Corporate Support and International Banking, the change in fair value of certain securities held to economically hedge the stock-based compensation plan in our U.S. brokerage business (which was partially offset by lower stock-based compensation expenses in non-interest expense) and lower equity distributions. Also offsetting the increase in Other revenue were certain favourable items recorded in prior year including a gain related to the Visa Inc. restructuring and a favourable adjustment related to the reallocation of certain foreign investment capital from our international insurance operations.

2007 vs. 2006

Total revenue increased $1,825 million, or 9%, from 2006. The increase was largely due to continued strong balance and volume growth in our banking and wealth management businesses and a gain related to the Visa Inc. restructuring. The strong growth largely reflected the successful execution of our strategy, including acquisitions, as well as generally favourable market conditions for most of 2007. These factors were partially offset by writedowns related to U.S. subprime RMBS and CDOs of ABS, the negative impact of a stronger Canadian dollar on the translation of our U.S. dollar-denominated revenue and higher credit card customer loyalty reward program costs.

Net interest income increased $906 million, or 13%, largely driven by strong loan and deposit growth. Net interest margin of 1.33% was down 2 bps compared to 2006.

Investments-related revenue increased $619 million, or 16%, primarily due to continued growth in fee-based client assets, capital appreciation and the recruitment and retention of more experienced advisors.

Insurance-related revenue decreased $196 million, or 6%, largely reflecting the change in fair value of investments backing our life and health policyholder liabilities, which was largely offset in policyholder benefits and claims, lower U.S. annuity sales and lower revenue from our property catastrophe reinsurance business, which we exited completely in 2007.

Trading revenue decreased $575 million, or 22%, with Total trading revenue of $1,779 million down $256 million, or 13%, from 2006 on writedowns related to U.S. subprime RMBS and CDOs of ABS.

Banking revenue was up $229 million, or 10%, mainly due to higher transaction volumes and client balances, as well as increased loan syndication activity.

Underwriting and other advisory revenue increased $193 million, or 19%, due to strong equity origination activity and improved M&A results, mainly in the U.S.

Other revenue increased $649 million, or 90%, largely due to the Visa Inc. restructuring gain.

Net interest income and margin — **Table 18**

(C$ millions, except percentage amounts)	2008	2007	2006
Net interest income	$ 9,360	$ 7,702	$ 6,796
Average assets (1)	650,300	581,000	502,100
Net interest margin (2)	1.44%	1.33%	1.35%

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

Change in net interest income (1) — Table 19

(C$ millions)	2008 vs. 2007 Increase (decrease) due to changes in Average volume (2)	2008 vs. 2007 Average rate (2)	Net change	2007 vs. 2006 Increase (decrease) due to changes in Average volume (2)	2007 vs. 2006 Average rate (2)	Net change
Assets						
Deposits with other banks						
Canada	$ 7	$ (5)	$ 2	$ 11	$ (9)	$ 2
United States	60	(99)	(39)	71	(50)	21
Other International	114	(117)	(3)	31	4	35
Securities						
Trading	(534)	(568)	(1,102)	1,142	423	1,565
Available-for-sale	289	122	411	(230)	141	(89)
Asset purchased under reverse repurchase agreements and securities borrowed	(165)	(566)	(731)	815	(22)	793
Loans						
Canada						
Retail	1,017	(1,504)	(487)	1,025	194	1,219
Wholesale	207	(260)	(53)	–	(217)	(217)
United States	684	(763)	(79)	348	(218)	130
Other International	375	503	878	778	106	884
Total interest income	$ 2,054	$ (3,257)	$ (1,203)	$ 3,991	$ 352	$ 4,343
Liabilities						
Deposits						
Canada	$ 244	$ (1,490)	$ (1,246)	$ (1)	$ 646	$ 645
United States	115	(920)	(805)	264	281	545
Other International	1,654	(1,215)	439	1,344	528	1,872
Obligations related to securities sold short	(54)	(418)	(472)	386	(460)	(74)
Obligations related to assets sold under repurchase agreements and securities loaned	(303)	(448)	(751)	542	(60)	482
Subordinated debentures	24	(8)	16	(66)	(15)	(81)
Other interest-bearing liabilities	37	(79)	(42)	89	(41)	48
Total interest expense	$ 1,717	$ (4,578)	$ (2,861)	$ 2,558	$ 879	$ 3,437
Net interest income	$ 337	$ 1,321	$ 1,658	$ 1,433	$ (527)	$ 906

(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.

2008 vs. 2007

Net interest margin increased 11 bps, largely reflecting lower funding costs and solid growth on certain trading positions, and solid volume growth on our Canadian-related banking businesses, muted by spread compression. These factors were offset by higher growth in lower-yielding and non-interest-earning assets, largely reflecting an increase in derivative assets as a result of increased market volatility, which generated non-interest income. For further details, refer to Table 82 in the Additional financial information section.

2007 vs. 2006

Net interest margin decreased 2 bps, reflecting the impact of changes in product mix, an increase in lower-yielding and non-interest-earning assets and competitive pressures on our U.S. deposit business.

Provision for credit losses — Table 20

(C$ millions)	2008	2007	2006
Provision for credit losses	$ 1,595	$ 791	$ 429

2008 vs. 2007

Total provision for credit losses (PCL) of $1,595 million compares to $791 million in the prior year. The increase was largely attributable to higher impaired loans in our U.S. banking business, mainly in our residential builder finance, commercial and business banking loan portfolios, reflecting the continued housing downturn and deteriorating economic conditions, and an increase in the general provision, commensurate with volume growth and weaker credit quality in the Canadian retail portfolio and weakness in U.S. banking portfolios. For a detailed discussion regarding our PCL, refer to the Credit risk section.

2007 vs. 2006

Total PCL increased $362 million, compared to 2006, which had been at a cyclically low level. The increase reflected higher provisions for our wholesale and retail loan portfolios, primarily reflecting portfolio growth and higher impaired loans in our U.S. residential builder finance business triggered by the downturn in the U.S. housing market.

Insurance policyholder benefits, claims and acquisition expense — Table 21

(C$ millions)	2008	2007	2006
Insurance policyholder benefits and claims	$ 1,029	$ 1,588	$ 1,939
Insurance policyholder acquisition expense	602	585	570
Insurance policyholder benefits, claims and acquisition expense	$ 1,631	$ 2,173	$ 2,509

2008 vs. 2007

Insurance policyholder benefits, claims and acquisition expense (PBCAE) decreased $542 million, or 25%, from last year, which primarily reflected the change in fair value of investments backing our life and health policyholder liabilities, largely offset in revenue. For a detailed discussion regarding our current and prior year PBCAE, refer to the Insurance segment section.

2007 vs. 2006

Insurance PBCAE decreased $336 million, or 13%, from 2006. The decrease primarily reflected the change in fair value of investments backing our life and health policyholder liabilities, which was largely offset in revenue.

Non-interest expense — Table 22

(C$ millions)	2008	2007	2006
Salaries	$ 3,845	$ 3,541	$ 3,192
Variable compensation	2,689	2,975	2,827
Benefits and retention compensation	1,168	1,150	1,080
Stock-based compensation	77	194	169
Human resources	$ 7,779	$ 7,860	$ 7,268
Equipment	1,155	1,009	957
Occupancy	926	839	792
Communications	749	723	687
Professional and other external services	903	838	844
Other expenses	839	1,204	947
Non-interest expense	$ 12,351	$ 12,473	$ 11,495

2008 vs. 2007

Non-interest expense decreased $122 million, or 1%, compared to the prior year, largely reflecting the reduction of the Enron-related litigation provision. The decrease was also due to lower variable compensation commensurate with weaker results, primarily impacted by writedowns, the favourable impact of a stronger Canadian dollar on the translation of our U.S. dollar-denominated expenses and lower stock-based compensation expense in our U.S. brokerage businesses due to the decline in fair value of our earned compensation liability. These factors were partially offset by additional costs in support of our growth initiatives, including our acquisitions, infrastructure investments and increased sales and services expenses in our banking branch network.

2007 vs. 2006

Non-interest expense increased $978 million, or 9%, compared to 2006, primarily reflecting higher costs due to increased business levels, including additional sales and service personnel and higher variable compensation in Wealth Management. Increased sundry losses, higher processing and system development costs, and additional costs in support of our growth initiatives, including our acquisitions, *de novo* branch expansion and branch upgrade programs, also contributed to the increase. These factors were partially offset by the favourable impact of a stronger Canadian dollar on the translation of our U.S. dollar-denominated expenses and lower variable compensation in Capital Markets commensurate with weaker results.

Taxes — Table 23

(C$ millions, except percentage amounts)	2008	2007	2006
Income taxes	$ 1,369	$ 1,392	$ 1,403
Other taxes			
Goods and services and sales taxes	$ 204	$ 208	$ 218
Payroll taxes	242	227	217
Capital taxes	104	117	107
Property taxes (1)	103	97	92
Insurance premium taxes	42	41	39
Business taxes	16	8	7
	711	698	680
Total income and other taxes	$ 2,080	$ 2,090	$ 2,083
Net income before income taxes	$ 6,005	$ 7,025	$ 6,204
Effective income tax rate (2)	22.8%	19.8%	22.6%
Effective total tax rate (3)	31.0%	27.1%	30.3%

(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.

2008 vs. 2007

Income tax expense decreased $23 million, or 2%, from a year ago due to lower earnings before income taxes in 2008. The effective tax rate of 22.8% increased 3% from 19.8% a year ago. The higher effective tax rate was largely due to lower earnings reported by our subsidiaries operating in jurisdictions with lower income tax rates and a higher tax rate on the reduction of the Enron-related litigation provision. These factors were partially offset by a lower statutory Canadian corporate income tax rate in 2008 and a higher level of income from tax-advantaged sources (Canadian taxable corporate dividends) in 2008.

Other taxes increased by $13 million from 2007, largely due to higher payroll, business and property taxes, reflecting higher staffing levels and a greater number of branches, respectively. These factors were partially offset by lower capital taxes due to a lower Canadian capital tax base and lower goods and services taxes (GST) due to a decrease in the GST rate.

In addition to the income and other taxes reported in our Consolidated Statements of Income, we recorded a recovery of income taxes of $2,225 million in 2008 (2007 – $946 million income tax expense) in shareholders' equity, a decrease of $3,171 million, primarily reflecting decreased unrealized foreign currency translation gains, net of hedging, and unrealized losses in our AFS portfolio and derivatives designated as cash flow hedges.

2007 vs. 2006

Income tax expense decreased $11 million, or 1%, from 2006, despite higher earnings before income taxes. The lower effective tax rate in 2007 was largely due to writedowns in our subsidiaries operating in jurisdictions with higher income tax rates, the gain related to the Visa Inc. restructuring, and a higher level of income from tax-advantaged sources (Canadian taxable corporate dividends).

Other taxes increased by $18 million from 2006, largely due to increased payroll taxes, reflecting higher staffing levels, and higher capital taxes due to an increased Canadian capital tax base and increased property taxes, reflecting a greater number of branches. These factors were partially offset by lower GST due to a decrease in the GST rate.

In addition to the income and other taxes reported in our Consolidated Statements of Income, we recorded income taxes of $946 million in 2007 in shareholders' equity, an increase of $810 million over 2006, primarily reflecting an increase in unrealized foreign currency translation gains.

Pension obligations

A number of defined benefit and defined contribution plans are offered to our employees, which provide pension and post-employment benefits to eligible employees. Our defined benefit pension plans provide benefits based on years of service, contributions and average earnings at retirement. Our other post-employment benefits include health, dental, disability and life insurance coverage.

We fund our registered defined benefit pension plans in accordance with actuarially determined amounts required to satisfy employee benefit obligations under current pension regulations. We continue to fund our pension plans in accordance with federal and provincial regulations. The performance of our pension plan assets was negatively impacted by the current economic environment and we expect to contribute higher amounts to our pension plans during 2009 to manage our funded status as described in Note 20 to our Consolidated Financial Statements.

We measured our benefit obligations and pension plan assets as at September 30, 2008. Bond yields have increased in response to the uncertainty and volatility in the global financial markets thereby impacting the selection of the discount rate used to measure our benefit obligations and pension plan assets. This has resulted in an actuarial gain of $932 million in our benefit obligation, which offset our pension plan asset losses of $877 million and reduced our overall pension liability. Gains and losses on our pension plan assets are amortized over the estimated average remaining service life of the plan, which decreases the volatility to our expenses recognized every year. The weakening of the Canadian dollar at year-end also resulted in an increase of our pension liability for our U.S. and international plans.

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 27 to our Consolidated Financial Statements.

Results by geographic segment (1) — Table 24

	2008				2007				2006			
(C$ millions)	Canada	United States	Other International	Total	Canada	United States	Other International	Total	Canada	United States	Other International	Total
Net interest income	$ 6,929	$ 1,132	$ 1,299	$ 9,360	$ 6,402	$ 412	$ 888	$ 7,702	$ 6,045	$ 108	$ 643	$ 6,796
Non-interest income	8,220	2,521	1,481	12,222	8,638	4,322	1,800	14,760	7,518	4,397	1,926	13,841
Total revenue	15,149	3,653	2,780	21,582	15,040	4,734	2,688	22,462	13,563	4,505	2,569	20,637
Provision for (recovery of) credit losses	924	643	28	1,595	696	90	5	791	456	(28)	1	429
Insurance policyholder benefits, claims and acquisition expense	922	30	679	1,631	1,230	474	469	2,173	1,379	683	447	2,509
Non-interest expense	7,490	2,991	1,870	12,351	7,409	3,405	1,659	12,473	7,056	3,038	1,401	11,495
Income taxes and non-controlling interest	1,826	(163)	(213)	1,450	1,788	(13)	(242)	1,533	1,495	13	(61)	1,447
Net income from continuing operations	$ 3,987	$ 152	$ 416	$ 4,555	$ 3,917	$ 778	$ 797	$ 5,492	$ 3,177	$ 799	$ 781	$ 4,757
Net loss from discontinued operations	–	–	–	–	–	–	–	–	–	(29)	–	(29)
Net income	$ 3,987	$ 152	$ 416	$ 4,555	$ 3,917	$ 778	$ 797	$ 5,492	$ 3,177	$ 770	$ 781	$ 4,728

(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 to the location of the legal entity through which the business is conducted and the location of our clients. Transactions are recorded in the local currency and are subject to foreign exchange rate fluctuations with respect to the movement in the Canadian dollar.

2008 vs. 2007

Net income in Canada was $3,987 million, up $70 million, or 2%, compared to the prior year. This increase was primarily due to higher gains on credit derivative contracts recorded at fair value used to economically hedge our corporate lending portfolio in our capital markets businesses, solid volume growth and effective cost management efforts in our banking business and higher trading results in certain of our fixed income and foreign exchange businesses. These factors were partially offset by the prior year gain related to the Visa Inc. restructuring, weak equity origination activity, and lower M&A and debt origination activities.

U.S. net income of $152 million was down $626 million, or 80%, compared to the prior year, largely reflecting significantly higher writedowns and provision for credit losses and lower equity and debt origination activities. The unfavourable impact of the stronger Canadian dollar on the translation of our U.S. dollar-denominated earnings also contributed to the decrease. These factors were partially offset by the reduction of the Enron-related litigation provision, lower variable compensation commensurate with weaker results and higher trading revenue in certain of our fixed income and foreign exchange businesses and the gain on fair value adjustments on RBC debt designated as held-for-trading.

Other International net income was $416 million, down $381 million from the prior year, mainly reflecting writedowns in our capital markets businesses. These were partially offset by higher trading revenue in certain of our fixed income and foreign exchange businesses, the gain on fair value adjustments on RBC debt designated as held-for-trading, increased earnings from our RBTT acquisition reflecting loan and deposit growth, and business growth at RBC Dexia IS.

2007 vs. 2006

Net income in Canada was $3,917 million, up $740 million, or 23%, compared to 2006, largely reflecting strong volume and balance growth in our domestic banking and wealth management businesses and a gain related to the Visa Inc. restructuring. The increase was partially offset by higher costs due to increased business levels and growth initiatives, as well as higher provision for credit losses and higher credit card customer loyalty reward program costs.

U.S. net income of $778 million was up $8 million, or 1%, from 2006, primarily reflecting solid revenue growth from our acquisitions and improved equity origination and M&A activities. This was offset mostly by the negative impact of a stronger Canadian dollar on the translation of our U.S. dollar-denominated earnings, increased costs in support of business growth and higher provision for credit losses.

Other International net income of $797 million was up $16 million, or 2%, from 2006, partly due to stronger Insurance results and growth at RBC Dexia IS, largely offset by lower trading results due to writedowns.

Quarterly financial information

Results and trend analysis

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

Quarterly results — Table 25

	2008				2007			
(C$ millions, except per share amounts)	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Net interest income	$ 2,709	$ 2,301	$ 2,209	$ 2,141	$ 1,998	$ 1,965	$ 1,889	$ 1,850
Non-interest income	2,360	3,611	2,745	3,506	3,617	3,515	3,780	3,848
Total revenue	$ 5,069	$ 5,912	$ 4,954	$ 5,647	$ 5,615	$ 5,480	$ 5,669	$ 5,698
Provision for credit losses	619	334	349	293	263	178	188	162
Insurance policyholder benefits, claims and acquisition expense	(86)	553	548	616	637	343	677	516
Non-interest expense	2,989	3,272	2,970	3,120	3,093	3,165	3,148	3,067
Net income before income taxes and non-controlling interest in subsidiaries	$ 1,547	$ 1,753	$ 1,087	$ 1,618	$ 1,622	$ 1,794	$ 1,656	$ 1,953
Income taxes	428	442	156	343	255	349	353	435
Non-controlling interest in net income of subsidiaries	(1)	49	3	30	43	50	24	24
Net income	$ 1,120	$ 1,262	$ 928	$ 1,245	$ 1,324	$ 1,395	$ 1,279	$ 1,494
Earnings per share – basic	$ .82	$ .93	$ .70	$ .96	$ 1.02	$ 1.07	$ .99	$ 1.16
– diluted	$ .81	$ .92	$ .70	$ .95	$ 1.01	$ 1.06	$ .98	$ 1.14
Segment net income (loss)								
Canadian Banking	$ 676	$ 709	$ 604	$ 673	$ 797	$ 596	$ 566	$ 586
Wealth Management	116	186	182	181	180	177	194	211
Insurance	59	137	104	89	102	103	52	185
International Banking	(206)	(16)	38	31	21	87	67	67
Capital Markets	584	269	13	304	186	360	350	396
Corporate Support	(109)	(23)	(13)	(33)	38	72	50	49
Net income	$ 1,120	$ 1,262	$ 928	$ 1,245	$ 1,324	$ 1,395	$ 1,279	$ 1,494
Period average US$ equivalent of C$1.00 (1)	$ .901	$ .988	$ .994	$ 1.002	$ 1.001	$ .937	$ .874	$ .861
Period-end US$ equivalent of C$1.00	.830	.977	.993	.996	1.059	.937	.901	.850

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

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

Impact of economic and market conditions
In general, as economic conditions have deteriorated since the fourth quarter of 2007, our businesses have been unfavourably impacted. The decline in economic conditions is primarily attributable to volatility and uncertainty in global financial markets. For a further discussion, refer to the Overview of 2008 section.

The Canadian dollar generally strengthened over the last eight quarters, resulting in a lower translated value of our U.S. dollar-denominated earnings, primarily in our wholesale banking business and U.S. retail operations. This was partially offset by a sharp depreciation of the Canadian dollar since the second quarter of 2008.

Overview and consolidated results
Over the last eight quarters, our results were affected by a number of favourable and unfavourable items or events.

- Our last five quarters were adversely impacted by writedowns of $3,178 million due to the market environment, partly offset by the $672 million reduction to income taxes, $610 million in compensation adjustments and the gain on fair value adjustments on RBC debt designated as held-for-trading.
- In the fourth quarter of 2008, we recorded a reduction of the $542 million Enron-related litigation provision and an increase to the general allowance of $145 million.
- Our fourth quarter of 2007 results included a positive gain related to the Visa Inc. restructuring ($326 million) and a charge related to our credit card customer loyalty reward program ($121 million).
- The first quarter of 2007 included a favourable adjustment related to the reallocation of foreign investment capital.
- Our results over the last eight quarters were impacted by the acquisition of certain businesses.

Our consolidated net income generally exceeded $1 billion over the last eight quarters, reflecting sustained performance across most of our businesses, despite the impact of writedowns in the past five quarters and the lower translated value of our U.S. dollar-denominated earnings.

Provision for credit losses trended higher over the past eight quarters from the cyclically low level in early 2007, which primarily reflected a generally benign credit environment. Portfolio growth and higher impairments, due primarily to the U.S. housing market and corporate loan portfolios, have driven the upward trend. The significant increase in the fourth quarter of 2008 included an increase in the specific provision, primarily reflecting deterioration in U.S. portfolios and the foreign exchange impact of the depreciation of the Canadian dollar compared to the U.S. dollar. An increase in the general allowance in the fourth quarter of 2008, reflecting portfolio volume growth and weaker credit quality, also contributed to the increase.

Non-interest expense generally increased over the period, primarily reflecting recent acquisitions and higher spending in support of our growth initiatives. The decrease in the fourth quarter of 2008 was largely due to the reduction of the Enron-related litigation provision. The second quarter of 2008 and fourth quarter of 2007 decreases were primarily due to lower variable compensation, in line with lower earnings resulting from writedowns. The increase over the period was partially offset by a reduction in the translation of our U.S. dollar-denominated expenses during most of the period.

PBCAE fluctuated considerably over the period. Although underlying business growth has generally increased PBCAE, there can be significant quarterly volatility resulting from the change in fair value of investments backing our life and health policyholder liabilities, claims experience and actuarial liability adjustments. The impact of the financial instruments accounting standards implemented in the first quarter of 2007 introduced additional volatility to this line. Other than claims experience and actuarial liability adjustments, these items are predominantly offset in insurance-related revenue.

Our effective income tax rate generally trended downward over the period, other than the third and fourth quarters of 2008, which reflected a higher tax rate on the reduction of the Enron-related litigation provision in the fourth quarter and a lower portion of income in jurisdictions with lower income tax rates. The decrease in our effective tax rate was largely due to a higher level of income from tax-advantaged sources (Canadian taxable corporate dividends) and a reduction in the statutory Canadian corporate income tax rate in 2008 versus 2007. The last five quarters were also impacted by writedowns, which were recorded in jurisdictions with higher income tax rates. The Visa Inc. restructuring gain in the fourth quarter of 2007 which was taxed at the capital gains tax rate also contributed to the decrease in rates in 2007.

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

Business segment results

Canadian Banking net income generally trended higher over the last eight quarters, reflecting solid volume growth across most businesses and effective cost management efforts, partially offset by spread compression. Our results in the second quarter of 2008 were unfavourably impacted by the loss on the redemption of our shares in connection with the Visa Inc. initial public offering (IPO) of $35 million. The fourth quarter of 2007 included the Visa Inc. restructuring gain and the credit card customer loyalty reward program charge.

Wealth Management net income generally remained stable over the last eight quarters driven largely by growth in fee-based client assets and increased fee-based revenue from our PH&N acquisition. The decrease in the fourth quarter of 2008 was largely due to lower transaction volumes in our full-service brokerage business and lower fees amid the uncertainty in global financial markets.

Insurance results fluctuated over the last eight quarters. The decrease in earnings in the fourth quarter of 2008 was mainly due to investment losses on disposals and impairments as well as impacts from equity market movements. The decrease in earnings in the second quarter of 2007 was primarily due to higher disability claims experience. The first quarter of 2007 was favourably impacted by an adjustment related to the reallocation of foreign investment capital and net actuarial liability adjustments.

International Banking net income fluctuated over the period. The past several quarters were impacted by reported writedowns and losses and higher provision for credit losses, primarily in our U.S. banking business. The fourth quarter of 2008 was most significantly impacted by these factors.

Capital Markets results fluctuated over the period, impacted by the writedowns due to ongoing weakness in the market environment since the fourth quarter of 2007. However, given the diversification of our business, certain of our trading products benefited from the market volatility and lower interest rate environment. The fourth quarter of 2008 was positively impacted by the reduction of the Enron-related litigation provision.

Fourth quarter 2008 performance

Fourth quarter net income of $1,120 million was down $204 million, or 15%, from a year ago. Our results were primarily impacted by higher writedowns of $1,003 million as compared to $393 million in the prior year, which reduced net income by $532 million after tax and related compensation adjustments, compared to $173 million a year ago, resulting from continued deterioration in the financial markets, weaker results in our equity trading businesses and higher provision for credit losses. These factors were partly offset by the reduction of the Enron-related litigation provision, revenue growth in certain of our fixed income and foreign exchange businesses, the gain on fair value adjustments on RBC debt designated as held-for-trading, and volume growth in our banking-related and wealth management businesses. Our prior year results were also impacted by a gain related to the Visa Inc. restructuring.

Total revenue decreased $546 million, or 10%, from a year ago, primarily due to lower insurance-related revenue, higher writedowns of $1,003 million compared to $393 million a year ago, and weaker results in our equity trading businesses. Our prior year results were also impacted by a gain related to the Visa Inc. restructuring. These factors were partially offset by revenue growth in certain of our fixed income and foreign exchange businesses, loan and deposit growth, partly reflecting our acquisitions and the gain on fair value adjustments on RBC debt designated as held-for-trading.

Provision for credit losses was $619 million as compared to a provision of $263 million a year ago. The provision includes an increase to the general allowance of $145 million ($98 million after-tax) commensurate with volume growth in the Canadian retail portfolio and continued weakness in the U.S. retail and commercial portfolios, and higher impaired loans related to our U.S. residential builder finance and commercial and retail portfolios. Higher provisions and lower recoveries in our corporate lending portfolio also contributed to the increase.

Insurance policyholder benefits, claims and acquisition expense decreased $723 million, or 114%, from the prior year, due to the change in fair value of investments backing our life and health policyholder liabilities, largely offset in revenue. Additionally, there was a higher level of favourable net actuarial adjustments related to management actions and assumption changes in the current quarter. These factors were partially offset by costs commensurate with business growth.

Non-interest expense decreased $104 million, or 3%, compared to the prior year, primarily reflecting the reduction of the Enron-related litigation provision and lower stock-based compensation expense in our U.S. brokerage businesses in Wealth Management due to the favourable decline in fair value of our earned compensation liability. These factors were partially offset by additional costs in support of our growth initiatives, including our acquisitions of RBTT, ANB, FBW, PH&N and J.B. Hanauer, and the unfavourable impact of the weaker Canadian dollar on the translation of our U.S. dollar-denominated expenses. In addition, we incurred a total charge of $42 million ($30 million after-tax) related to our auction rate securities settlement with U.S. regulators, of which $25 million ($19 million after-tax) was recorded in Wealth Management, with the remainder charged to Capital Markets, which is comprised of the estimated difference between par value and current valuations, and a penalty. The actual financial impact of the repurchase offer will depend on the number of clients who accept the repurchase offer, and market conditions at the time of acceptance. Further, a provision for $37 million ($22 million after-tax) to support clients of FBW invested in the Reserve Primary Fund (a U.S. money market fund) that was managed by a third-party provider and writedowns related to the cancellation of the Canadian industry-wide payments initiatives also offset the decrease in non-interest expense.

Business segment results

Results by business segment — Table 26

(C$ millions)	2008 Canadian Banking	Wealth Management	Insurance	International Banking	Capital Markets (1)	Corporate Support (1)	Total	2007 Total	2006 Total
Net interest income	$ 6,718	$ 468	$ –	$ 1,330	$ 1,839	$ (995)	$ 9,360	$ 7,702	$ 6,796
Non-interest income	2,868	3,519	2,610	771	2,096	358	12,222	14,760	13,841
Total revenue	$ 9,586	$ 3,987	$ 2,610	$ 2,101	$ 3,935	$ (637)	$ 21,582	$ 22,462	$ 20,637
Provision for (recovery of) credit losses	867	1	–	497	183	47	1,595	791	429
Insurance policyholder benefits, claims and acquisition expense	–	–	1,631	–	–	–	1,631	2,173	2,509
Non-interest expense	4,758	3,038	576	1,876	2,121	(18)	12,351	12,473	11,495
Net income before income taxes and non-controlling interest in net income of subsidiaries	$ 3,961	$ 948	$ 403	$ (272)	$ 1,631	$ (666)	$ 6,005	$ 7,025	$ 6,204
Net income	$ 2,662	$ 665	$ 389	$ (153)	$ 1,170	$ (178)	$ 4,555	$ 5,492	$ 4,757
Return on equity (ROE) (2)	38.1%	23.3%	32.8%	(3.4)%	20.5%	(6.2)%	18.0%	24.6%	23.5%
Return on risk capital (RORC) (2)	52.2%	64.9%	37.1%	(8.1)%	24.5%	n.m.	29.6%	37.4%	36.7%
Average assets (3)	$ 232,300	$ 16,900	$ 12,600	$ 51,300	$ 340,300	$ (3,100)	$ 650,300	$ 581,000	$ 502,300

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

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

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

- Canadian Banking reported results include securitized Canadian residential mortgage and credit card loans and related amounts for income and provision for credit losses. The average securitized residential mortgage and credit card loans included as at October 31, 2008 were $22 billion and $4 billion, respectively.
- Wealth Management reported results include additional disclosures in U.S. dollars for its U.S. & International Wealth Management business, as we review and manage the results of this business largely in U.S. dollars.
- Insurance reported results include the change in fair value of the investments backing our policyholder liabilities recorded as revenue. This impact is largely offset in policyholder benefits, claims and acquisition expense.
- International Banking reported results include additional disclosure in U.S. dollars for its banking business, as we review and manage the results of this business largely in U.S. dollars.
- Capital Markets results are reported on a taxable equivalent basis (teb), which grosses up net interest income from certain tax-advantaged sources (Canadian taxable corporate dividends) to their effective taxable equivalent value with a corresponding offset recorded in the provision for income taxes. This increases comparability between taxable and tax-advantaged sources of revenue.
- Corporate Support results include all enterprise-level activities that are undertaken for the benefit of the organization that are not allocated to our five business segments, such as enterprise funding, securitizations and net charges associated with unattributed capital. The reported results of the Corporate Support segment also reflect consolidation adjustments, including the elimination of the teb adjustments recorded in Capital Markets. We record teb adjustments in Capital Markets and record elimination adjustments in Corporate Support. We believe these adjustments are useful and reflect how Capital Markets manages its business since it increases the comparability of revenue and related ratios across taxable and our principal tax-advantaged source of revenue. The use of teb adjustments and measures may not be comparable to similar GAAP measures or similarly adjusted amounts disclosed by other financial institutions. The teb adjustment for 2008 was $410 million (2007 – $332 million, 2006 – $213 million).

Key methodologies

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

The expenses in each business segment may include costs or services directly incurred or provided on their behalf at the enterprise level. For other costs not directly attributable to one of our business segments, we use a management reporting framework that uses assumptions, estimates and methodologies for allocating overhead costs and indirect expenses to our business segments and that assists in the attribution of capital and the transfer pricing of funds to our business segments in a manner that fairly and consistently measures and aligns the economic costs with the underlying benefits and risks of that specific business segment. Activities and business conducted between our business segments are generally at market rates. All other enterprise-level activities that are not allocated to our five business segments are reported under Corporate Support.

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

Expense allocation

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

Capital attribution

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

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

Funds transfer pricing

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

Changes made in 2008

The following highlights the key changes we made to our management reporting framework and business segments during the year. Unless specifically stated, comparative amounts have been revised and did not have an impact on our consolidated results. We have summarized changes made in 2008 below.

- In the fourth quarter of 2008, our segment results for Corporate Support included changes in the Allowance for credit losses – General allowance. Group Risk Management effectively controls the general allowance through its monitoring and oversight of various portfolios of loans throughout the enterprise and reviews the general allowance by product type on a quarterly basis. Prior to the fourth quarter of 2008, changes in the Allowance for credit losses – General Allowance were included in Canadian Banking, International Banking and Capital Markets. We have reflected this management change prospectively as of the fourth quarter of 2008. Comparative segment results were not restated to reflect this management change given the insignificance of its impact on comparative periods. This change does not impact our previously reported consolidated financial information. For further information regarding the changes to the general allowance during 2008, refer to our Corporate Support segment discussion.
- We created our Insurance segment, formerly a business under Canadian Banking, and renamed our U.S. & International Banking segment International Banking. The historical comparative segment financial information was restated to reflect the realignment of our business segments. The restated historical segment financial information for Canadian Banking and Insurance did not impact our previously reported consolidated financial information.
- We revised our gross insurance premiums and deposits balances in Insurance to include our segregated funds deposits, consistent with insurance industry practices.
- We transferred management oversight of our Wealth Management U.S. subprime and CDO AFS portfolio to Corporate Support, where we have greater expertise in managing these types of investments, particularly during current market conditions. Comparative segment results were not revised to reflect this management change given the insignificance of its impact on comparative periods.
- We revised the calculation for assets under administration for Canadian Banking to reflect the inclusion of mutual funds sold through our Canadian branch network.
- We enhanced our Economic Capital methodologies and parameters, which mainly resulted in a decrease of capital for non-trading market risk allocated to our business segments and to an increase of capital for credit risk allocated to Capital Markets.

Impact of foreign exchange rates on our business segments

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

In 2008, the Canadian dollar exchange rate appreciated 6% and 10% on average relative to the U.S. dollar and British pound, respectively, and depreciated 4% on average relative to the Euro compared to a year ago. Our revenue was unfavourably impacted by the lower translated value of foreign currency-denominated revenue as a result of the strong appreciation of the Canadian dollar during most of the period, with the effects being more pronounced in the first half of 2008. As a result of the impact of the changes in the respective exchange rates from last year, Wealth Management net income was down $24 million, International Banking net loss increased $40 million, while Capital Markets net income was up $12 million. For further discussion, refer to the applicable business segment results section.

Key performance and non-GAAP measures

Key performance measures

Return on equity and Return on risk capital

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

Our consolidated ROE calculation is based on net income available to common shareholders divided by total average common equity for the period. Business segment ROE calculations are based on net income available to common shareholders divided by average attributed capital for the period. For each segment, average attributed capital, or Economic Capital, includes attributed risk capital required to underpin various risks as described in the Capital Management section and amounts invested in goodwill and intangibles (1).

RORC is used to measure returns on capital required to support the risks related to ongoing operations. Our RORC calculations are based on net income available to common shareholders divided by attributed risk capital (which excludes goodwill and intangibles and unattributed capital).

The attribution of capital and risk capital involves the use of assumptions, judgments and methodologies that are regularly reviewed and revised by management as necessary. 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.

The following table provides a summary of the ROE and RORC calculations.

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

Calculation of Return on equity and Return on risk capital									Table 27
	2008							2007	2006
(C$ millions, except for percentage amounts) (1), (2)	Canadian Banking	Wealth Management	Insurance	International Banking	Capital Markets	Corporate Support	Total	Total	Total
Net income available to common shareholders	$ 2,634	$ 653	$ 385	$ (174)	$ 1,147	$ (191)	$ 4,454	$ 5,404	$ 4,668
Average risk capital (2)	$ 5,050	$ 1,000	$ 1,050	$ 2,150	$ 4,700	$ 1,100	$ 15,050	$ 14,450	$ 12,750
Add: Unattributed capital	–	–		–	–	2,000	2,000	2,000	2,550
Goodwill and intangible capital	1,850	1,800	100	3,050	900	–	7,700	5,550	4,600
Average equity (3)	$ 6,900	$ 2,800	$ 1,150	$ 5,200	$ 5,600	$ 3,100	$ 24,750	$ 22,000	$ 19,900
Return on equity (ROE)	38.1%	23.3%	32.8%	(3.4)%	20.5%	(6.2)%	18.0%	24.6%	23.5%
Return on risk capital (RORC)	52.2%	64.9%	37.1%	(8.1)%	24.5%	n.m.	29.6%	37.4%	36.7%

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

Non-GAAP measures

2008 Defined operating leverage

We use and report defined operating leverage consistent with our management framework. Defined operating leverage does not have a standardized meaning under GAAP and is not necessarily comparable with similar information reported by other financial institutions.

Our defined operating leverage refers to the difference between our revenue growth rate (as adjusted) and non-interest expense growth rate (as adjusted). Revenue is presented on a taxable equivalent basis, while the impact of consolidated VIEs is excluded as they have no material impact on our earnings. Insurance results are excluded as certain changes in revenue can be largely offset in Insurance policyholder benefits, claims and acquisition expense, which is not captured in our defined operating leverage calculation.

The following table shows the defined operating leverage ratio calculation.

2008 Defined operating leverage			Table 28
(C$ millions, except percentage amounts)	2008	2007 (1)	Change
Total revenue	$ 21,582	$ 22,462	
Add: teb adjustment	410	332	
Less: Revenue related to VIEs	(48)	31	
Less: Insurance revenue	2,610	3,192	
Less: Impact of the financial instruments accounting standards	–	83	
Total revenue (adjusted)	$ 19,430	$ 19,488	(.3)%
Non-interest expense	$ 12,351	$ 12,473	
Less: Insurance-related non-interest expense	576	537	
Non-interest expense (adjusted)	$ 11,775	$ 11,936	(1.3)%
Defined operating leverage			1.0%

(1) Our revenue in 2007 excluded accounting adjustments related to the financial instruments accounting standards.

Canadian Banking

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

Canadian Banking provides a broad suite of financial products and services to over 10 million individual and business clients through our extensive branch, ATM, online and telephone banking networks, as well as through a large number of proprietary sales professionals. We have top rankings in market share for most retail product categories.

Highlights

- We expanded our network by opening 28 new branches and adding 214 ATMs. Our various sales forces were provided with specific training to enhance their capabilities to deliver insightful, relevant financial advice and tailored banking solutions to our clients.
- We enhanced our online capabilities by providing options for eStatements, a secure message centre and various self-serve tools such as Creditor Selector, making it easier for our clients to do business with us.
- Various new products, such as the U.S. dollar high-interest savings account, Visa Infinite Avion card and the Business Investment Account were launched to help clients meet their expanding financial needs.
- We completed the acquisition of ABN AMRO N.V.'s Canadian commercial leasing division which enhances our ability to provide clients with a comprehensive range of financial services and specialized products through a broader sales distribution network.

Economic and market review

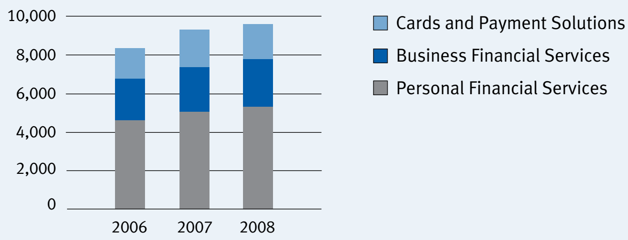
As discussed in the 2008 Economic and market review in the Overview of 2008 section, the reduction in the overnight rate from 4.25% to 2.25% helped maintain solid, but moderating demand for our mortgage and consumer credit. However, this reduction has also reduced spreads on personal deposits and business loans. Employment levels remained relatively high in Canada during 2008, which helped maintain solid consumer spending and sales in our deposit and investment products. Competition for guaranteed investment certificates (GIC) and other deposit products intensified, with tighter credit conditions and increased consumer demand for fixed income investments given the sharp declines in equity investments, capital markets and volatility in financial and equity markets.

Canadian Banking financial highlights — Table 29

(C$ millions, except number of and percentage amounts)	2008	2007	2006
Net interest income	$ 6,718	$ 6,353	$ 5,816
Non-interest income	2,868	2,976	2,532
Total revenue	$ 9,586	$ 9,329	$ 8,348
Provision for credit losses	867	788	604
Non-interest expense	4,758	4,748	4,510
Net income before income taxes and non-controlling interest in subsidiaries	$ 3,961	$ 3,793	$ 3,234
Net income	$ 2,662	$ 2,545	$ 2,124
Key ratios			
Return on equity (1)	38.1%	34.9%	32.2%
Return on risk capital (1)	52.2%	48.1%	44.6%
Net interest margin (2)	2.98%	3.17%	3.22%
Operating leverage (3)	2.6%	6.5%	4.4%
Selected average balance sheet information (4)			
Total assets (5)	$ 232,300	$ 207,500	$ 187,600
Total earning assets (5)	225,200	200,400	180,500
Loans and acceptances (5)	225,000	199,200	179,000
Deposits	155,000	147,100	139,200
Attributed capital (1)	6,900	7,200	6,500
Risk capital (1)	5,050	5,250	4,700
Other information			
Assets under administration (6)	$ 109,500	$ 120,200	$ 101,100
Number of employees (full-time equivalent)	24,222	23,930	23,001
Credit information			
Gross impaired loans as a percentage of average net loans and acceptances	.36%	.35%	.33%
Specific PCL as a percentage of average net loans and acceptances	.39%	.39%	.34%

(1) Segment Return on equity, Average risk capital and Return on risk capital are key performance measures. Average attributed capital and Return on equity are calculated using methods intended to approximate the average of the daily balances for the period. For further discussion, refer to the Key performance and non-GAAP measures section.
(2) NIM is calculated as Net interest income divided by Average total earning assets. Average total earning assets are calculated using methods intended to approximate the average earning asset balances for the period.
(3) Defined as the difference between revenue growth rate and non-interest expense growth rate.
(4) Average amounts are calculated using methods intended to approximate the average of the daily balances for the period.
(5) Total assets, Total earning assets, and Loans and acceptances include average securitized residential mortgage and credit card loans for the year of $22 billion and $4 billion, respectively (2007 – $19 billion and $4 billion; 2006 – $15 billion and $4 billion).
(6) In 2008, AUA was revised to include mutual funds sold through our Canadian branch network. Comparative amounts have been revised to reflect this change.

Revenue by business line (C$ millions)



Financial performance

2008 vs. 2007

Net income increased $117 million, or 5%, compared to the prior year, reflecting solid volume growth across all businesses and effective cost management efforts, which were partially offset by spread compression and increased provisions for credit losses. Our prior year results reflected the $326 million ($269 million after-tax) gain related to the Visa Inc. restructuring, partially offset by a charge related to our credit card customer loyalty reward program of $121 million ($79 million after-tax).

Total revenue increased $257 million, or 3%, over the prior year. This increase reflected continued solid volume growth across all businesses and higher foreign exchange revenue, service fees and mutual fund distribution fees, which were partially offset by spread compression. Our prior year results included the gain related to the Visa Inc. restructuring, partially offset by the points liability cost, as noted above.

Net interest margin decreased 19 bps from a year ago, largely reflecting the impact of changes in our retail product mix attributable to growth in our home equity lending and high-interest savings account products, the lower interest rate environment and continued competitive pressures.

Provision for credit losses increased $79 million, or 10%, reflecting portfolio growth and higher loss rates in our credit cards and personal loan portfolios.

Non-interest expense of $4,758 million was essentially flat, as higher sales and service expenses in our banking branch network in support of business growth and project spending were largely offset by lower operational support and infrastructure costs.

Average assets increased $25 billion, or 12%. The increase was largely due to solid loan growth, mainly in our home equity products, underpinned by our successful execution of growth initiatives and a solid housing market. Average deposits were up $8 billion, or 5%, from a year ago, largely due to volume growth in business and personal deposits, including our high-interest savings account products.

2007 vs. 2006

Net income was up $421 million, or 20%, compared to 2006, primarily due to solid growth across all businesses and a gain related to the Visa Inc. restructuring. This was partially offset by higher costs in support of business growth, increased provision for credit losses, the receipt of a fee related to the termination of an agreement in 2006 and higher credit card customer loyalty reward program costs in 2007.

Total revenue was up $981 million, or 12%, over 2006. The increase was largely attributable to strong volume growth across all businesses and the gain related to the Visa Inc. restructuring. These factors were partly offset by the receipt of a fee related to the termination of an agreement in 2006 and higher credit card customer loyalty reward program costs.

Net interest margin decreased 5 bps from 2006, primarily reflecting the impact of changes in our product mix.

Provision for credit losses increased $184 million, or 30%, from 2006, which had been at a cyclically low level. The increase was mainly attributable to higher provisions in our business, credit card and personal loan portfolios, reflecting higher loss rates and portfolio growth.

Non-interest expense increased $238 million, or 5%, compared to 2006. The increase was largely attributable to higher costs in support of business growth, including a 4% increase in sales and service personnel, as well as higher costs from system development, professional fees and, sundry losses.

Outlook and priorities

As discussed in the Outlook and medium-term objectives section, early signs of moderating housing and labour demand have tempered the outlook for growth and may have an unfavourable impact on our loan and deposit business. The lack of liquidity in credit markets will likely continue into next year and keep the cost of funding at elevated levels, resulting in continued spread compression. Expanding our distribution network and introducing new products and services will augment steady growth in our different businesses. We anticipate some deterioration in the quality of our credit portfolio and expect loss rates to be manageable, given the diversification and quality of our portfolios. We expect that various government interventions, supported by the lagged effects of monetary policy actions, should improve the credit markets in the near term. While still sensitive to the macro environment, we expect our business to grow at a moderate pace.

Key strategic priorities for 2009

- Continue to make it easier for clients to do business with us through innovative products and services, improved processes and increased accessibility.
- Continue to deliver a superior client experience.
- Deliver insightful, relevant financial advice and solutions to retain and attract clients in specific markets, geographies and life stages.
- Align our infrastructure, products and services, sales and retail capabilities to drive future growth, efficiencies and client value.

Personal Financial Services

Personal Financial Services focuses on meeting the needs of our individual clients at every stage of their lives through a wide range of financing and investment products and services, including home equity financing, personal lending, deposit accounts, mutual funds and self-directed brokerage accounts, GICs and Canadian private banking. We rank first or second in market share for most personal banking products and our retail banking network is the largest in Canada with 1,174 branches and 4,149 ATMs.

Financial performance

Total revenue increased $233 million, or 5%, over the prior year, largely due to solid volume growth in residential mortgages, personal loans and deposits, offset partially by some spread compression. Fee-based revenue grew on higher foreign exchange volumes and certain pricing changes. Mutual fund distribution fees also increased this year due to higher average mutual fund balances, despite a significant decline in balances in the fourth quarter of 2008.

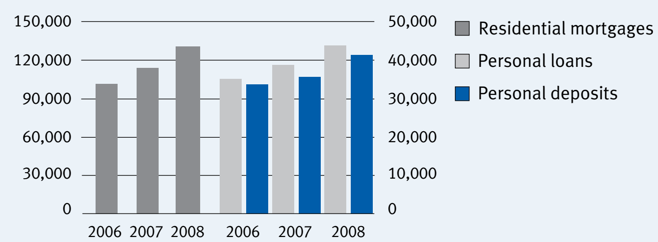
Average residential mortgage balances and personal loans were up by 15% and 13%, respectively, over last year, supported by relatively low interest rates, a solid housing market and growth in our market share for mortgages. Average personal deposit balances grew 16% from a year ago, driven by the success of our key savings products, including our high-interest savings account products.

Selected highlights — Table 30

(C$ millions)	2008	2007	2006
Total revenue	$ 5,315	$ 5,082	$ 4,621
Other information			
Residential mortgages (1)	129,800	113,200	100,800
Personal loans (1)	43,700	38,700	34,600
Personal deposits (1)	41,200	35,500	33,600
Personal GICs (1)	55,600	57,900	57,000
Branch mutual fund balances (2)	58,000	66,900	56,500
AUA – Self-directed brokerage (2)	26,500	28,300	23,200
New deposit accounts opened (thousands) (3)	1,129	1,066	769
Number of:			
Branches	1,174	1,146	1,117
Automated teller machines	4,149	3,946	3,847

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

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



Business Financial Services

Business Financial Services offers a wide range of lending, leasing, deposit, investment, foreign exchange, cash management and trade products and services to small and medium-sized businesses and commercial, agriculture and agribusiness clients across Canada. Our extensive business banking network includes over 100 business banking centres and over 2,000 business account managers. Our strong commitment to our clients has resulted in leading market share in business loans and deposits.

Financial performance

Total revenue increased $140 million, or 6%, over the prior year, largely attributable to solid volume growth in business loans and deposits, partially offset by lower spreads on deposits due to an overall decline in interest rates.

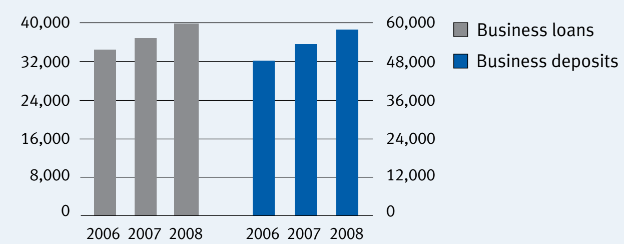
Average business loans and deposits increased 8%, primarily driven by continued solid business spending and on the successful introduction of new deposit accounts.

Selected highlights — Table 31

(C$ millions)	2008	2007	2006
Total revenue	$ 2,441	$ 2,301	$ 2,141
Other information (average) (1)			
Business loans (2)	39,900	36,900	34,400
Business deposits (3)	58,000	53,700	48,600

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

Average business loans and deposits (C$ millions)



Cards and Payment Solutions provides a wide array of convenient and customized credit cards and related payment products and solutions.

In addition, this business line includes our 50% interest in Moneris Solutions, Inc., our merchant card processing joint venture with the Bank of Montreal. We have over 5 million credit card accounts and have an approximately 20% market share of Canada's credit card purchase volume.

Financial performance

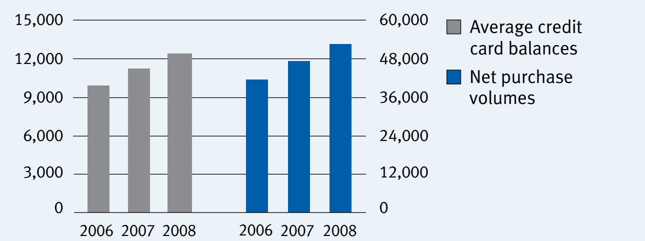
Total revenue decreased $116 million, or 6%, from 2007, largely due to the Visa Inc. restructuring gain in the prior year and the loss on the mandatory redemption of our Visa Inc. shares in connection with Visa's IPO in 2008. Spread compression in the current year also contributed to the decrease. Partially offsetting the decrease in revenue was strong growth in credit card loan balances and transaction volume growth of 11% and 11%, respectively, and the points liability cost in the prior year.

Selected highlights Table 32

(C$ millions)	2008	2007	2006
Total revenue	$ 1,830	$ 1,946	$ 1,586
Other information			
Average credit card balances (1)	12,400	11,200	9,900
Net purchase volumes	52,600	47,200	41,500

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

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



Wealth Management

Wealth Management businesses serve affluent and high net worth clients around the world, and provide asset management and estate and trust services directly to clients and through our internal partners and third-party distributors. This segment comprises Canadian Wealth Management, U.S. & International Wealth Management and Global Asset Management.

Highlights

- We grew to more than 4,000 client-facing advisors through acquisitions, competitive hiring and recruiting programs.
- In acquiring PH&N, we supported both Canadian Wealth Management and Global Asset Management by adding almost $68 billion of assets under management and an experienced team of wealth management professionals.
- We extended the reach of U.S. & International Wealth Management by acquiring FBW, a full-service U.S. broker-dealer with 42 branch offices, approximately US$19 billion in assets under administration and more than 300 experienced financial consultants. We also opened a new office in Latin America, and, in co-operation with Capital Markets, in India.
- Global Asset Management continued its sales leadership in Canada, with $8.8 billion in total mutual fund net sales in fiscal 2008.

Economic and market review

As discussed in the 2008 Economic and market review in the Overview of 2008 section, the challenging capital market and economic conditions persisted throughout the year and significantly impacted the results of our business. This led to a decline in the value of client assets, as well as lower transaction volumes in our brokerage businesses in Canada and in the U.S., and contributed to a modest decline in the value of client assets internationally. In addition, the stronger Canadian dollar negatively impacted the translation of our U.S. dollar-denominated earnings.

Our U.S. brokerage business maintains a stock-based compensation plan that allows eligible employees to allocate deferred earnings to purchase our common shares or various mutual funds which we economically hedge. The impact of accounting volatility as a result of the current market environment has unfavourably affected our earnings during the current year due to a decline in the fair value of certain securities used to economically hedge the compensation plan, which was partially offset by gains from the decline in the fair value of the earned compensation liability.

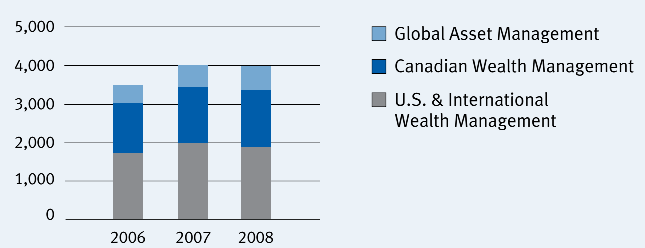
Wealth Management financial highlights — Table 33

(C$ millions, except number of and percentage amounts)	2008	2007	2006
Net interest income	$ 468	$ 427	$ 397
Non-interest income			
Fee-based revenue	2,276	2,109	1,745
Transactional and other revenue	1,243	1,456	1,345
Total revenue	$ 3,987	$ 3,992	$ 3,487
Provision for credit losses	1	1	1
Non-interest expense	3,038	2,902	2,613
Net income before income taxes and non-controlling interest in subsidiaries	$ 948	$ 1,089	$ 872
Net income	$ 665	$ 762	$ 604
Key ratios			
Return on equity (1)	23.3%	32.4%	27.8%
Return on risk capital	64.9%	65.1%	59.3%
Pre-tax margin (2)	23.8%	27.3%	25.0%
Selected average balance sheet information (3)			
Total assets	$ 16,900	$ 16,600	$ 15,100
Loans and acceptances	5,200	4,600	4,400
Deposits	26,900	24,900	22,100
Attributed capital (1)	2,800	2,300	2,150
Risk capital (1)	1,000	1,150	1,050
Other information			
Revenue per advisor (000s) (4)	$ 731	$ 787	$ 702
Assets under administration	495,100	488,500	476,500
Assets under management	222,600	161,200	142,800
Number of employees (full-time equivalent)	10,954	9,621	9,666
Number of advisors (4)	3,578	3,118	3,001

Impact of US$ translation on selected items	2008 vs. 2007
Increased (decreased) total revenue	$ (91)
Increased (decreased) non-interest expense	(60)
Increased (decreased) net income	(24)
Percentage change in average US$ equivalent of C$1.00 (5)	6%

(1) Segment Return on equity, Return on risk capital and risk capital are key performance measures. Average attributed capital and Return on equity are calculated using methods intended to approximate the average of the daily balances for the period. For further discussion, refer to the Key performance and non-GAAP measures section.
(2) Pre-tax margin is defined as net income before income taxes and non-controlling interest in subsidiaries dividend by total revenue.
(3) Average amounts are calculated using methods intended to approximate the average of the daily balances for the period.
(4) Includes investment advisors and financial consultants of our Canadian and U.S. full-service brokerage businesses.
(5) Average amounts are calculated using month-end spot rates for the year.

Revenue by business line (C$ millions)



Financial performance

2008 vs. 2007

Net income for the year of $665 million decreased $97 million, or 13%, from a year ago, mainly due to lower transaction activity amid continued uncertainty in global capital markets, the unfavourable impact of the stock-based compensation plan, the stronger Canadian dollar on the translation of our U.S. dollar-denominated earnings and items related to the Reserve Primary Fund and auction rate securities as noted below. The favourable impact of the foreign exchange translation gain on certain deposits related to the implementation of the financial instruments accounting standards in the prior year also reduced net income. These factors were partially offset by increased earnings and fee-based revenue from our PH&N acquisition and solid growth in fee-based client assets throughout most of the year.

Total revenue was flat compared to the prior year and included increased fee-based revenue driven by higher fee-based client assets, reflecting higher net sales and the addition of more experienced advisors, and the contribution of PH&N's private counsel and asset management businesses. Increased fee-based client assets were impacted by significant capital depreciation in the latter part of the year due to the general decline in asset valuations amid continued uncertainty in global capital markets. Increased transaction revenue resulting from our J.B. Hanauer and FBW acquisitions, higher spreads and solid volume growth from deposit and loan balances in our international wealth management business also contributed to revenue. The increase in revenue was offset by lower transaction revenue due to lower transaction volumes in our full-service brokerage business, the decline in fair value of securities held in our stock-based compensation plan, and the unfavourable impact of the stronger Canadian dollar on the translation of our U.S. dollar-denominated revenue.

Non-interest expense was up $136 million, or 5%, mainly as a result of increased costs in support of business growth, including our acquisition-related staff and occupancy costs. This increase also reflected the provision related to our support agreement for clients of FBW invested in the Reserve Primary Fund (a U.S. money market fund managed by a third-party provider) of $37 million ($22 million after-tax) and Wealth Management's share of the settlement with U.S. regulators for $25 million ($19 million after-tax) relating to auction rate securities. These factors were partially offset by the favourable impact of the stronger Canadian dollar on our U.S. dollar-denominated expenses, lower expenses due to the favourable decline in fair value of our earned compensation liability related to our stock-based compensation plan and lower variable compensation commensurate with lower commission-based revenue.

Return on equity was down 910 bps from the prior year, reflecting increased goodwill and intangibles related to the acquisitions of PH&N and FBW, which contributed to average equity, as well as lower earnings in the current year.

Assets under administration increased by $7 billion, or 1%, from last year, reflecting the favourable impact of the stronger U.S. dollar on the translation of our U.S. dollar-denominated assets under administration as at October 31, 2008. Assets under administration also increased, reflecting the acquisition of FBW, partially offset by lower client assets due to uncertainty in global financial markets.

Assets under management increased $61 billion, or 38%, from last year, reflecting the acquisition of PH&N and strong mutual fund sales for most of the year.

2007 vs. 2006

Net income for 2007 of $762 million increased $158 million, or 26%, from 2006. The increase was largely due to strong earnings growth across all our business lines reflecting the ongoing successful execution of our growth initiatives and generally favourable capital market conditions. We recorded a $35 million ($28 million after-tax) foreign exchange translation gain on certain deposits in 2007 related to the implementation of the new financial instruments accounting standards.

Total revenue increased $505 million, or 14%, over 2006, largely due to strong growth in fee-based client assets across all business lines, reflecting new sales, capital appreciation and the recruitment and retention of experienced advisors. A foreign exchange translation gain on certain deposits, the inclusion of our J.B. Hanauer acquisition, solid loan and deposit growth in our international wealth management business, and higher transaction volumes in our brokerage businesses, reflecting generally favourable capital market conditions throughout most of the year, also contributed to the increase. These factors were partially offset by the negative impact of the stronger Canadian dollar on the translated value of U.S. dollar-denominated revenue.

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

Outlook and priorities

As discussed in the Outlook and medium-term objectives section, we expect global capital markets will remain significantly volatile in the short-term, and as asset valuations are expected to remain depressed this will continue to affect our results in the near term. We expect modest growth in fee-based client assets as financial markets stabilize in the medium term. Adding experienced advisors across all our businesses and providing client solutions, products and advice that leverage the depth and breadth of our resources should also support steady growth in fee-based client assets over the medium term. Further, we anticipate modest growth in transaction revenue as a result of the potential for a modest recovery and steady growth in the medium term. We expect growth will be supported by stability in financial markets and an increased investor appetite for transparent wealth management products.

Key strategic priorities for 2009

- Continue extending our lead in the Canadian wealth and asset management markets with client-focused products, services and strategies.
- Improve operating performance, and expand our U.S. Wealth Management business through organic growth.
- Expand our high net worth International Wealth Management business through organic growth and bolt-on acquisitions.
- Expand asset management globally by leveraging our management capabilities in the institutional market and in the individual market through sub-advisory and alliance opportunities.
- Continue attracting and retaining experienced advisors and other professionals across all our businesses, and provide them with best-in-class support in serving their clients' needs.

Business line review

Canadian Wealth Management

Canadian Wealth Management includes our full-service retail brokerage in Canada, which is the market leader as measured by assets under administration, with more than 1,400 investment advisors providing advice-based, wide-ranging comprehensive financial solutions to affluent and high net worth clients. Additionally, we provide discretionary investment management and estate and trust services to our domestic clients through more than 60 investment counsellors and more than 125 trust professionals in locations across the country.

Financial performance

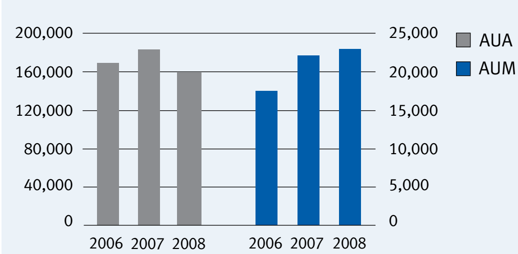
Revenue increased $14 million, or 1%, over the prior year, mostly due to the growth in fee-based revenue driven by the increase in fee-based client assets, reflecting higher net sales and the addition of more experienced advisors, and the contribution of PH&N's private counsel business. This increase was partially offset by lower fee-based client assets resulting from significant capital depreciation in the last quarter of the year and lower transaction revenue due to lower transaction volumes in our full-service brokerage business, driven by depressed asset valuations amid the uncertainty in global capital markets.

Assets under administration decreased 12% from a year ago, mainly due to capital depreciation amid the uncertainty in global capital markets.

Selected highlights — Table 34

(C$ millions)	2008	2007	2006
Total revenue	$ 1,474	$ 1,460	$ 1,290
Other information			
Assets under administration	160,700	183,000	168,600
Assets under management	23,000	22,200	17,500
Total assets under fee-based programs	78,800	83,300	70,200

Average assets under administration and management (C$ millions)



U.S. & International Wealth Management

U.S. & International Wealth Management includes one of the largest full-service retail brokerage firms in the U.S., with more than 2,000 financial consultants. We also operate a clearing and execution services business that serves small to mid-sized independent broker-dealers and institutions. Internationally, we provide customized banking, credit, investment and trust solutions to high net worth private clients through 2,500 employees across a network of 35 offices located in 22 countries around the world.

Financial performance

Revenue decreased $119 million, or 6%, from the prior year. In U.S. dollars, revenue decreased $14 million, or 1%, largely due to the decline in fair value of securities held in our stock-based compensation plan and lower transaction revenue due to lower transaction volumes in our full-service brokerage business due to the uncertainty in global capital markets. We also recorded a US$31 million foreign exchange translation gain on certain deposits in 2007 related to the implementation of the financial instruments accounting standards which also contributed to the decrease. These factors were partially offset by additional transaction revenue from our J.B. Hanauer and FBW acquisitions, and solid volume growth and higher spreads in our international wealth management business.

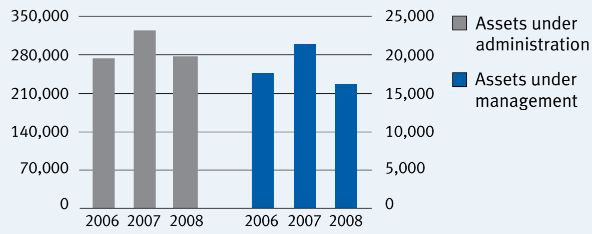
Assets under administration decreased 14% from a year ago, mainly due to capital depreciation amid the uncertainty in global capital markets.

Selected highlights — Table 35

	2008	2007	2006
Total revenue (C$ millions)	$ 1,869	$ 1,988	$ 1,732
Other information (US$ millions)			
Total revenue	1,812	1,826	1,533
Total loans, guarantees and letters of credit (1), (2)	5,200	5,100	4,000
Total deposits (1), (2)	18,500	16,500	13,300
Assets under administration	277,600	323,300	274,200
Assets under management	16,200	21,400	17,600
Total assets under fee-based programs (3)	21,300	28,100	23,500

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

Average assets under administration and management (US$ millions)



Global Asset Management

Global Asset Management is responsible for our proprietary asset management business. In Canada, we provide a broad range of investment management services in all client segments through mutual funds, pooled funds and separately managed portfolios. We distribute our investment solutions to individuals through a broad network of our bank branches, our discount and full-service brokerage business, independent advisors and directly to consumers. We also provide investment solutions directly to institutional clients, including defined benefit and defined contribution pension plans, as well as endowments and foundations. We are the largest fund company and one of the largest money managers in Canada. In the U.S., we provide investment services to both retail and institutional clients through mutual funds, fee-based accounts and separately managed portfolios.

Financial performance

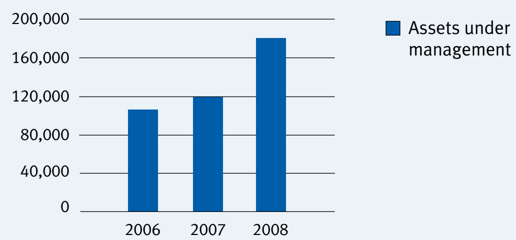
Revenue increased $100 million, or 18%, over the prior year, mainly reflecting growth in fee-based revenue driven by growth in assets under management due to the contribution of PH&N's asset management business and strong net mutual fund sales for most of the year. This growth was negatively impacted by net mutual fund redemptions and significant capital depreciation in the last quarter of the year amid the uncertainty in global capital markets.

Assets under management increased 52% from a year ago, mainly due to the contribution of PH&N's asset management business, and net mutual fund sales, which were partially offset by net mutual fund redemptions and capital depreciation in the last quarter of 2008, amid the uncertainty in global capital markets.

Selected highlights — Table 36

(C$ millions)	2008	2007	2006
Total revenue	$ 644	$ 544	$ 465
Other information			
Canadian net long-term mutual fund sales	600	6,200	5,400
Canadian net money market mutual fund sales	8,200	1,300	400
Assets under management	180,100	118,800	105,600

Average assets under management (C$ millions)



Insurance

Insurance offers a wide range of life, health, travel, home and auto insurance products and creditor insurance services to individual and business clients in Canada and the U.S. We also offer reinsurance for clients around the world. These products and services are offered through a wide variety of distribution channels, including telephone, independent life insurance advisors, travel agents, career sales forces, Internet and retail insurance branches.

We are the largest Canadian bank-owned group of insurers, with products distributed through more than 17,000 independent brokers and almost 600 career sales advisors in North America. Our Canadian insurance business holds a lead position in travel insurance products and has a significant presence in individual living benefits, life, home and auto insurance. In the U.S. we are a provider of protection, asset accumulation, retirement solutions and travel insurance.

Highlights

- We completed a major technology transformation within our Canadian Life and Health insurance business this year, which resulted in an integrated business and technology platform that will provide a solid foundation to support the future growth of our life and health business.
- We expanded and diversified our international footprint during the year through strong business growth and our entry into the U.K. annuity reinsurance market.
- We expanded our Canadian retail insurance network to 35 branches in 2008, from 21 branches in 2007, giving our clients more convenient access to insurance services and advice.
- Through new sales, strong client retention and international market expansion, our premiums and deposits reached $1 billion per quarter during the year.

Economic and market review

As discussed in the 2008 Economic and market review in the Overview of 2008 section, Canadian economic growth remained moderate in 2008, which coupled with infrastructure investment, supported business initiatives and our retail branch expansion, contributing to increased business growth, particularly in our reinsurance and Canadian businesses. Our insurance businesses were impacted by weakness in the global equity and credit markets, particularly in the fourth quarter, where we incurred investment losses on disposals and impairments, as well as impacts from equity market movements.

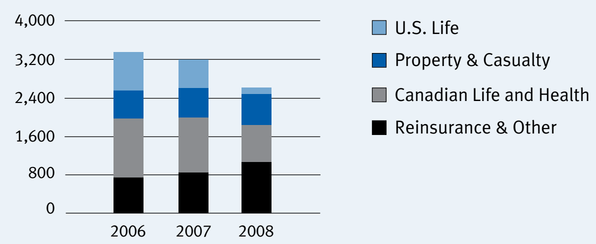
Since the adoption of accounting standards related to financial instruments in 2007, financial assets backing our life and health policyholder liabilities are largely designated as held-for-trading and the changes in fair value are recorded in net investment income. The impact of the current market environment has resulted in significant volatility in revenue. This volatility has been largely offset in policyholder benefits and claims, so that the overall impact on net income is largely minimal.

Insurance financial highlights — Table 37

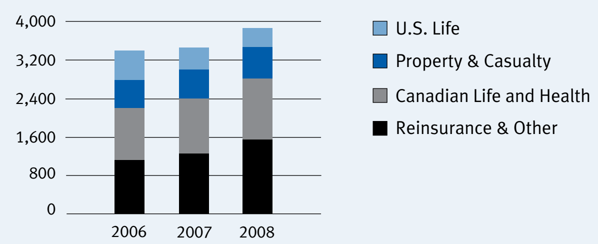
(C$ millions, except number of and percentage amounts)	2008	2007	2006
Non-interest income			
Net earned premiums	$ 2,864	$ 2,593	$ 2,595
Investment income	(458)	402	535
Fee income	204	197	218
Total revenue	$ 2,610	$ 3,192	$ 3,348
Insurance policyholder benefits, claims and acquisition expense	1,631	2,173	2,509
Non-interest expense	576	537	517
Net income before income taxes and non-controlling interest in subsidiaries	$ 403	$ 482	$ 322
Net income	$ 389	$ 442	$ 302
Key ratios			
Return on equity (1)	32.8%	31.2%	20.5%
Return on risk capital (1)	37.1%	34.7%	22.8%
Selected average balance sheet information (2)			
Total assets	$ 12,600	$ 12,500	$ 11,600
Attributed capital (1)	1,150	1,400	1,450
Risk capital (1)	1,050	1,250	1,350
Other information			
Premiums and deposits (3)	$ 3,861	$ 3,460	$ 3,406
Insurance claims and policy benefit liabilities	7,385	7,283	7,337
Fair value changes on investments backing policyholder liabilities (4)	(870)	(108)	61
Assets under management	400	300	300
Number of employees (full-time equivalent)	1,722	1,575	1,568

(1) Segment Return on equity, Return on risk capital and risk capital are key performance measures. Average attributed capital and Return on equity are calculated using methods intended to approximate the average of the daily balances for the period. For further discussion, refer to the Key performance and non-GAAP measures section.
(2) Average amounts are calculated using methods intended to approximate the average of the daily balances for the period.
(3) Premiums and deposits include premiums on risk-based insurance and annuity products, and deposits on individual and group segregated fund deposits, consistent with insurance industry practices.
(4) Includes revenue impact of the change in fair value of investments backing policyholder liabilities is reflected in Investment income and largely offset in insurance policyholder benefits claims and acquisition expense.

Revenue by business line (C$ millions)



Premiums and deposits by business line (C$ millions)



Financial performance

2008 vs. 2007

Net income decreased by $53 million, or 12%, over last year, mainly due to $110 million ($80 million after-taxes) of investment losses on disposals and impairments, as well as impacts from equity market movements. Our prior year included a $40 million (before- and after-tax) gain related to the reallocation of certain foreign investment capital which had supported our property catastrophe reinsurance business, exited in 2007. These factors were partially offset by a higher level of favourable net actuarial adjustments, reflecting the impact of management actions and assumption changes, and solid business growth in our reinsurance and Canadian businesses.

Total revenue decreased $582 million, or 18%, over last year. This decrease was mainly due to the change in fair value of investments backing our life and health policyholder liabilities, largely offset in policyholder benefits, claims and acquisition expense. Investment losses on disposals and impairments, as well as impacts from equity market movements, lower U.S. annuity sales and the appreciation of the Canadian dollar on the translation of our U.S. dollar-denominated revenue also contributed to this decrease. These factors were partially offset by solid growth in our reinsurance and Canadian businesses during the year.

Insurance PBCAE decreased $542 million, or 25%, over last year, primarily reflecting the change in fair value of investments, as noted above, largely offset in revenue and a higher level of favourable net actuarial adjustments this year, reflecting management actions and assumption changes. The appreciation of the Canadian dollar on the translation of our U.S. dollar-denominated liabilities and the impact of lower U.S. annuity sales also contributed to this decrease. These factors were partially offset by higher costs commensurate with the growth in our reinsurance and Canadian businesses.

Non-interest expense was up $39 million, or 7%, from a year ago, primarily reflecting increased infrastructure costs, costs in support of business growth and continued strategic investments to support business initiatives including our retail branch expansion.

Premiums and deposits were up $401 million, or 12%, from a year ago, reflecting new sales growth, a new U.K. annuity reinsurance agreement and continued strong client retention. These factors were partially offset by the impact of the appreciation of the Canadian dollar on the translation of our U.S. dollar-denominated premiums and deposits and lower U.S. annuity deposits.

2007 vs. 2006

Insurance net income increased $140 million, or 46%, compared to 2006. The increase was primarily related to our property catastrophe reinsurance business, reflecting the hurricane-related charges in 2006 and a favourable adjustment related to the reallocation of certain foreign investment capital in 2007. These factors were partially offset by lower income from our property catastrophe reinsurance business, which we exited completely in 2007. A higher level of favourable net actuarial liability adjustments and solid growth in our European life reinsurance business also contributed to the increase.

Total revenue was down $156 million, or 5%, from 2006. The decrease reflected the change in fair value of investments backing our life and health policyholder liabilities, which is largely offset in policyholder benefits and claims. These factors were partially offset by the growth in our European life reinsurance and Canadian businesses, and a favourable adjustment related to the reallocation of certain foreign investment capital in 2007. Lower annuity sales and lower revenue from our property catastrophe reinsurance business also contributed to the decrease.

Insurance PBCAE decreased $336 million, or 13%, from 2006. The decrease primarily reflected the change in fair value of investments, as noted above, which was largely offset in revenue. The impact of lower U.S. annuity sales and management actions and assumption changes that resulted in a higher level of favourable net actuarial liability adjustments in 2007 also contributed to the decrease. These factors were partially offset by increased costs commensurate with growth in our European life reinsurance and Canadian businesses.

Non-interest expense was up $20 million, or 4%, from 2006, primarily reflecting higher infrastructure investments and costs in support of business growth.

Premiums and deposits were up $54 million, or 2%, from 2006, primarily reflecting new sales growth and stronger client retention, partially offset by a decline in U.S. annuity sales.

Outlook and priorities

As discussed in the Outlook and medium-term objectives section, the deterioration in financial markets is expected to adversely affect the global economy, with a general uncertainty on the timing of the recovery. In the current economic and market conditions, the insurance industry outlook is potentially more turbulent and volatile than it has been in the past few years. Continued weakness in the global equity and credit markets may impact investment returns. However, the overall quality of our investment portfolio remains very good. As a result of our diversified product portfolio, coupled with the contribution of our infrastructure investments and retail branch expansion, we anticipate the slowing economic growth should not have a significant impact on our business growth.

Key strategic priorities for 2009

- Strengthen distribution economics by increasing sales through low-cost distribution channels and by strengthening our position in profitable third-party distribution channels.
- Deepen client relationships by enhancing the client experience by providing customers with a comprehensive suite of products and services based on their needs.
- Simplify the way we do business by enhancing and streamlining all business processes to ensure that clients find it easy and simple to do business with us.
- Pursue selected international niche opportunities with the aim to grow our reinsurance business by executing on a higher volume of profitable transactions that fit within our overall risk framework.

Reinsurance & Other

Reinsurance insures risks of other insurance and reinsurance companies. We offer life and accident and sickness products. In 2008, we expanded into the life annuity reinsurance market, which increases the scale of our reinsurance operations and provides the benefits of increased geographic and product diversification.

Financial performance

Total revenue increased $205 million, or 24%, over the prior year, primarily due to growth in our European life and other life retrocession businesses, as well as from the impact of our new U.K. annuity reinsurance business. This increase more than offset a favourable adjustment related to the reallocation of foreign capital investment due to exiting our property catastrophe reinsurance business in the prior year.

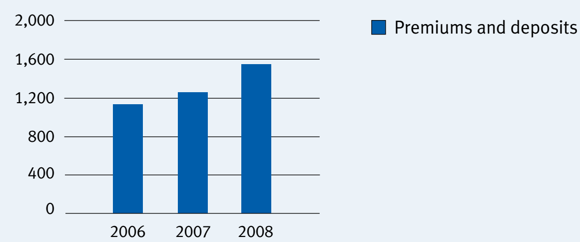
Premiums and deposits of $1,551 million increased 24% due to business growth in European life and other life retrocession business as well as entry into the U.K. annuity reinsurance market.

Selected highlights — Table 38

(C$ millions)	2008	2007	2006
Total revenue	$ 1,064	$ 859	$ 744
Other information			
Premiums and deposits (1)	1,551	1,251	1,132

(1) Premiums and deposits include premiums on risk-based insurance and annuity products, and deposits on individual and group segregated fund deposits, consistent with insurance industry practices.

Premiums and deposits (C$ millions)



Canadian Life and Health

Canadian Life and Health offers life and health insurance, as well as wealth accumulation solutions, to individual and group clients across Canada. We offer term and universal life, critical illness, disability, long-term care insurance and segregated funds, as well as group benefits.

Financial performance

Total revenue decreased $357 million, or 31%, from the prior year, mainly due to declines in the fair value of investments backing our policyholder liabilities, largely offset in policyholder benefits and claims. Losses attributable to the impact from equity market movements, also contributed to the decrease. The decrease was partially offset by increases in universal life deposits and new sales.

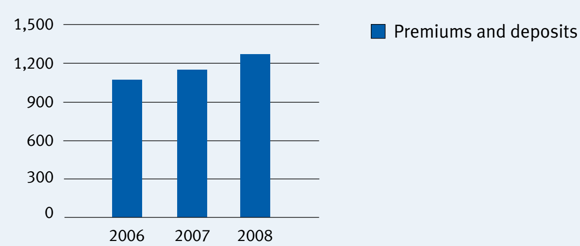
Premiums and deposits increased $126 million, or 11%, from the prior year, largely due to growth in universal life products.

Selected highlights — Table 39

(C$ millions)	2008	2007	2006
Total revenue	$ 779	$ 1,136	$ 1,227
Other information			
Premiums and deposits (1)	1,272	1,146	1,069
Fair value changes on investments backing policyholder liabilities (2)	(522)	(93)	48

(1) Premiums and deposits include premiums on risk-based insurance and annuity products, and deposits on individual and group segregated fund deposits, consistent with insurance industry practices.
(2) Includes revenue impact of the change in fair value of investments backing our policyholder liabilities, which was largely offset in PBCAE.

Premiums and deposits (C$ millions)



Property & Casualty

Property & Casualty is comprised of personal home and auto insurance and travel insurance. Our group insurance program provides employers and affinity groups the ability to offer insurance benefits to their employees and members. We also offer commercial insurance through our partnership with Aon Reed Stenhouse Inc. We are the leading provider of travel insurance, providing a wide range of products and services, including trip cancellation and interruption coverage.

Financial performance

Total revenue increased $26 million, or 4%, compared to the prior year. The increase reflected home and auto sales growth as well as strong retention on home and auto policy renewals. Travel insurance revenue remained stable despite a slowdown in the overall travel industry. These factors were partially offset by investment losses on disposals and impairments.

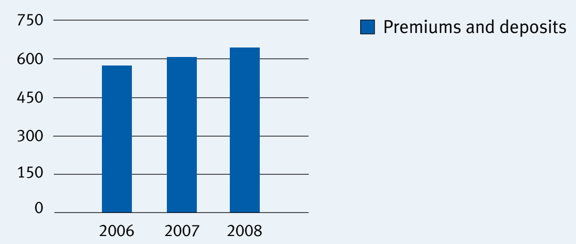
Premiums and deposits increased $43 million, or 7%, over the prior year, reflecting a 13% growth in the number of home and auto policies inforce. Travel coverages decreased, but changes in the business mix and products kept premiums relatively stable for the year.

Selected highlights — Table 40

(C$ millions)	2008	2007	2006
Total revenue	$ 627	$ 601	$ 576
Other information			
Premiums and deposits (1)	647	604	573
Home and auto policies inforce (thousands)	335	297	254
Travel insurance coverages (thousands)	2,689	2,888	2,843

(1) Premiums and deposits include premiums on risk-based insurance and annuity products, and deposits on individual and group segregated fund deposits, consistent with insurance industry practices.

Premiums and deposits (C$ millions)



U.S. Life

U.S. Life is strategically positioned to deliver value-added products and services to consumers in the middle-income and mass-affluent markets in the U.S. Our products include protection (term, traditional and indexed universal life, whole life, critical illness and accidental death) and asset accumulation (fixed annuities, fixed-indexed annuities, variable insurance products) vehicles, with a focus on targeted solutions for specific market segments.

Financial performance

Total revenue decreased $456 million, or 77%, compared to the prior year due to the change in fair value of investments backing our policyholder liabilities, largely offset in policyholder benefits and claims. Investment losses on disposals and impairments, the appreciation of the Canadian dollar on the translation of our U.S. dollar-denominated revenue and lower annuity deposits also contributed to this decrease.

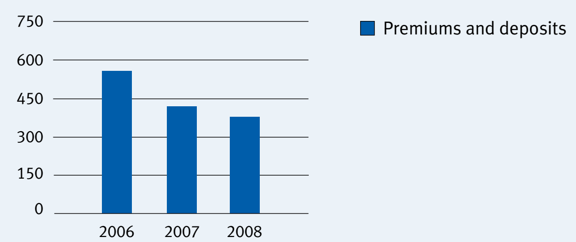
Premiums and deposits decreased $68 million, or 15%, over the prior year due to the appreciation of the Canadian dollar on the translation of our U.S. dollar-denominated premiums and deposits, and lower annuity deposits.

Selected highlights — Table 41

	2008	2007	2006
Total revenue (C$ millions)	$ 140	$ 596	$ 801
Fair value changes on investments backing policyholder liabilities	(346)	(18)	13
Other information (US$ millions)			
Total revenue	159	548	707
Premiums and deposits (1)	378	418	558
Fair value changes on investments backing policyholder liabilities (2)	(313)	(13)	11

(1) Premiums and deposits include premiums on risk-based insurance and annuity products, and deposits on individual and group segregated fund deposits, consistent with insurance industry practices.
(2) Includes the revenue impact of the change in fair value of investments backing our policyholder liabilities, which was largely offset in PBCAE.

Premiums and deposits (C$ millions)



International Banking

International Banking comprises our banking businesses in the U.S. and Caribbean, and global custody and investor services, which we provide through our 50% ownership in RBC Dexia IS.

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

Highlights

- We completed our acquisition of RBTT, creating one of the most extensive banking networks in the Caribbean, with 127 branches and business centres and a presence in 17 countries across the region. RBTT also added approximately $4 billion in loans and $6 billion in deposits at acquisition.
- We completed our acquisition of ANB, which expanded our network to 439 full-service banking centres in the southeastern U.S. and added approximately $6 billion in loans and $6 billion in deposits at acquisition. ANB has also strengthened our presence in Alabama, opened important new markets in Florida and increased our presence in Georgia.

Economic and market review

As discussed in the 2008 Economic and market review in the Overview of 2008 section, the continued downturn in the U.S. housing market, volatile financial markets and weak consumer and business spending in the U.S. led to higher provision for credit losses in our U.S. residential builder finance business and in our U.S. commercial and retail loan portfolios.

In the Caribbean, the economy remained stable, with loans and deposits increasing primarily due to our RBTT acquisition.

In the Eurozone, slowing economic growth and volatile financial markets resulted in lower assets under administration and lower transaction volumes at RBC Dexia IS.

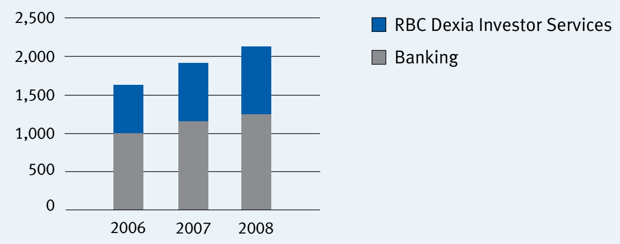
International Banking financial highlights — Table 42

(C$ millions, except number of and percentage amounts)	2008	2007	2006
Net interest income	$ 1,330	$ 1,031	$ 940
Non-interest income	771	884	688
Total revenue	$ 2,101	$ 1,915	$ 1,628
Provision for credit losses	497	109	25
Non-interest expense	1,876	1,481	1,216
Net (loss) income before income taxes and non-controlling interest in subsidiaries	$ (272)	$ 325	$ 387
Net (loss) income	$ (153)	$ 242	$ 261
Key ratios			
Return on equity (1)	(3.4)%	6.9%	10.6%
Return on risk capital (1)	(8.1)%	11.7%	16.1%
Selected average balance sheet and other information (2)			
Total assets	$ 51,300	$ 39,700	$ 32,600
Loans and acceptances	27,000	22,300	18,500
Deposits	42,500	34,200	28,700
Attributed capital (1)	5,200	3,350	2,400
Risk capital (1)	2,150	1,950	1,600
Other information			
Assets under administration – RBC (3)	$ 11,200	$ –	$ –
– RBC Dexia IS (4)	2,585,000	2,713,100	2,421,100
Assets under management – RBC (3)	3,900	–	–
Number of employees (full-time equivalent)	12,335	6,001	5,034
Credit information			
Gross impaired loans as a percentage of average net loans and acceptances	5.97%	1.91%	1.01%
PCL as a percentage of average net loans and acceptances	1.84%	.49%	.14%

Impact of US$ and Euro translation on selected items	2008 vs. 2007
Increased (decreased) total revenue	$ (72)
Increased (decreased) non-interest expense	(19)
Increased (decreased) net income	(40)
Percentage change in average US$ equivalent of C$1.00 (5)	6%
Percentage change in average Euro equivalent of C$1.00 (5)	(4)%

(1) Segment Return on equity, risk capital and Return on risk capital are key performance measures. Average attributed capital and Return on equity are calculated using methods intended to approximate the average of the daily balances for the period. For further discussion, refer to the Key performance and non-GAAP measures section.
(2) Average amounts are calculated using methods intended to approximate the average of the daily balances for the period.
(3) AUA – RBC and AUM – RBC represent the AUA and AUM, respectively, of RBTT as at September 30. RBTT results are reported on a one-month lag.
(4) AUA – RBC Dexia IS represents the total AUA of the joint venture as at September 30, of which we have a 50% ownership interest. RBC Dexia IS results are reported on a one-month lag. We have revised the 2006 amount to reflect the amount reported by RBC Dexia IS, as we had previously disclosed only the assets under custody amount related to our joint venture.
(5) Average amounts are calculated using month-end spot rates for the year.

Revenue by business line (C$ millions)



Financial performance

2008 vs. 2007

Net loss was $153 million compared to net income of $242 million a year ago. The decrease in earnings, predominantly in our U.S. banking business, was mainly attributable to higher provision for credit losses and writedowns and losses of $297 million ($201 million after-tax) on our investment portfolios. These factors were partially offset by our RBTT and ANB acquisitions, reflecting loan and deposit growth, and business growth at RBC Dexia IS. For a detailed discussion regarding our writedowns, refer to the Impact of the market environment in the Financial performance section.

Total revenue increased $186 million, or 10%, over the prior year. The increase was primarily due to our ANB and RBTT acquisitions, reflecting loan and deposit growth. Business growth at RBC Dexia IS and the favourable impact of the appreciation of the Euro against the Canadian dollar also contributed to the increase. These factors were partially offset by the writedowns and losses on our investment portfolios and the unfavourable impact of a stronger Canadian dollar on our U.S. dollar-denominated revenue.

Provision for credit losses of $497 million increased $388 million from a year ago, primarily in U.S. banking, reflecting higher impaired loans in our U.S. residential builder finance business and in our U.S. commercial and retail loan portfolios due to the continued housing market downturn and deteriorating economic conditions in the U.S. For further details on our provision for credit losses, refer to the Credit risk section.

Non-interest expense increased $395 million, or 27%, from a year ago, mainly due to higher costs in support of business growth, largely reflecting the inclusion of our ANB and RBTT acquisitions and related integration costs, and increased business volume at RBC Dexia IS. These factors were partially offset by the favourable impact of a stronger Canadian dollar on the translation of our U.S. dollar-denominated expenses.

2007 vs. 2006

Net income decreased $19 million, or 7%, from 2006, largely due to increased provision for credit losses, primarily reflecting higher impaired loans in our U.S. residential builder finance business. This was partially offset by strong business growth at RBC Dexia IS, higher loan and deposit growth in the U.S., reflecting acquisitions noted below, *de novo* branch openings and business expansion.

Total revenue increased $287 million, or 18%, from 2006, primarily attributable to RBC Dexia IS, reflecting strong market activity, an additional month of results and business growth. Banking revenue also increased, largely due to loan and deposit growth from our acquisitions of Flag Financial Corporation (Flag) and the AmSouth branches, despite the negative impact of a stronger Canadian dollar on the translation of our U.S. dollar-denominated revenue. These factors were partially offset by a loss on the restructuring of our U.S. banking investment portfolio in 2007.

Provision for credit losses was up $84 million from 2006, largely due to higher impaired loans in our U.S. residential builder finance business, reflecting the downturn in the U.S. housing market in the latter part of 2007.

Non-interest expense was up $265 million, or 22%, over 2006, largely reflecting higher costs in support of business growth related to RBC Dexia IS, our acquisitions and integration of Flag and the AmSouth branches, and *de novo* branch openings in the U.S.

Outlook and priorities

As discussed in the Outlook and medium-term objectives section, global economies are expected to weaken further in the near term. Consequently, we anticipate that interest rates may continue to decline, accompanied by fluctuations in foreign exchange rates and continued volatility in financial markets. These factors may impact our spreads, as well as the translation of our foreign currency-denominated earnings. In the U.S., we anticipate that the current financial market volatility and housing market downturn will persist into next year, along with reduced consumer and business spending and negative economic growth. We expect these conditions to have an unfavourable impact on our loan and deposit business in U.S. banking, as well as increase our provision for credit losses. The Caribbean economy is also expected to be affected by the global economic slowdown, with reduced exports, tourism and foreign direct investment. Despite this, we continue to see opportunities for our Caribbean banking business with the ongoing integration of our RBTT acquisition and continued strength in our loan and deposit portfolios. In the Eurozone, financial market volatility will likely continue as many economies face recession, which may impact business volumes at RBC Dexia IS.

Key strategic priorities for 2009

- Refine our operating model to improve efficiencies and enhance our competitiveness in our southeastern U.S. footprint, while developing a robust retail strategy to provide our clients with an integrated experience and a full product suite to serve their needs.
- Continue to build on our strong position in the Caribbean through the efficient integration of RBTT and by leveraging the strength of our combined operations, providing the base for further expansion in potential high-growth markets, including the Spanish Caribbean and Central and South America.
- Strive to significantly grow our international credit card business by leveraging our size, scale and expertise in Canada.
- Pursue growth strategies with RBC Dexia IS that include strengthening our global client franchise, building new value-added products and expanding our presence in high-potential markets.

Banking

Banking consists of our banking operations in the U.S. and Caribbean. Our banking businesses offer a broad range of products and services and financial advice to individuals, business clients and public institutions in their respective markets. Our U.S. banking business is now among the top five deposit holders in North Carolina and ranks seventh overall as measured by deposits in our southeastern U.S. footprint (1), where we have a network of 439 full-service banking centres and over 500 ATMs. As a result of our RBTT acquisition, our Caribbean banking business is now the second largest bank, by assets, in the English Caribbean, and our presence has increased to 127 branches in 17 countries across the region.

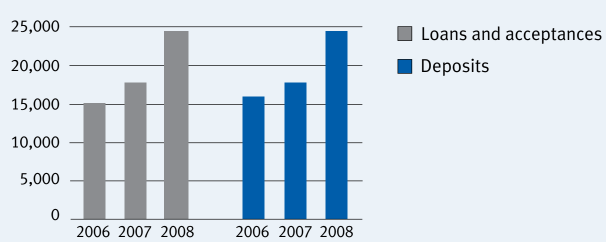
Financial performance

Total revenue increased $90 million, or 8%, compared to the prior year. In U.S. dollars, Banking revenue increased $162 million, or 15%, primarily driven by our ANB and RBTT acquisitions, reflecting loan and deposit growth. These factors were partially offset by the writedowns and losses on our investment portfolios, predominantly in our U.S. banking business. Net interest margin was up 6 bps, mainly due to our ANB and RBTT acquisitions.

In U.S. dollars, average loans and acceptances, and average deposits increased $6 billion and $6 billion, or 35% and 36%, respectively, from the prior year. The increase was primarily attributable to growth in loans and acceptances of 32%, and deposits of 32% in our U.S. banking business, largely reflecting our ANB acquisition. In our Caribbean banking business, growth in loans and acceptances, and deposits of 54% and 52%, respectively, largely reflected our RBTT acquisition.

(1) Our southeastern U.S. banking footprint comprises North Carolina, South Carolina, Virginia, Alabama, Florida and Georgia.

Average loans and deposits (US$ millions)

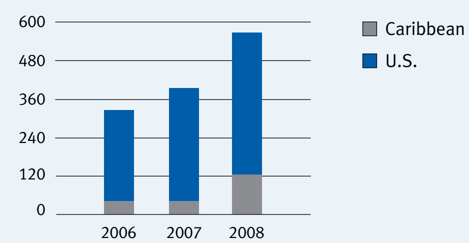


Selected highlights Table 43

	2008	2007	2006
Total revenue (C$ millions)	$ 1,246	$ 1,156	$ 1,070
Other information (US$ millions)			
Total revenue	$ 1,221	$ 1,059	$ 945
Net interest margin (1)	3.62%	3.56%	3.73%
Average loans and acceptances (2)	$ 24,100	$ 17,800	$ 15,100
Average deposits (2)	24,100	17,700	15,900
Assets under administration (3)	9,300	–	–
Assets under management (3)	3,300	–	–
Number of:			
Branches	566	394	325
Automated teller machines	815	473	385

(1) NIM is calculated as net interest income divided by average total earning assets. Average total earning assets are calculated using methods intended to approximate the average of the daily balances for the period.
(2) Average amounts are calculated using methods intended to approximate the average of the daily balances for the period.
(3) AUA and AUM represent the total AUA and AUM, respectively, of RBTT as at September 30. RBTT results are reported on a one-month lag.

Number of branches in U.S. and Caribbean



RBC Dexia IS

Our joint venture, RBC Dexia IS, offers a complete range of investor services to institutions worldwide, including global custody, fund and pension administration, shareholder services, distribution support, securities lending and borrowing, reconciliation services, compliance monitoring and reporting, investment analytics and treasury services.

Financial performance

Total revenue increased $96 million, or 13%, compared to the prior year, primarily due to business growth reflecting higher custody fees and increased foreign exchange and securities lending revenue. The positive impact of the appreciation of the Euro against the Canadian dollar also contributed to the increase.

Assets under administration decreased 5% from a year ago, mainly due to capital depreciation as a result of volatility in global financial markets.

On September 30, 2008, the Dexia Group, our joint venture partner in RBC Dexia IS, was recapitalized and the governments of France, Belgium, and Luxembourg guaranteed new interbank and institutional deposits and new bond issuances until October 31, 2009. We have assessed our exposure and, as at December 4, 2008, have determined these developments have not impacted the operations of RBC Dexia IS.

Selected highlights Table 44

(C$ millions)	2008	2007	2006
Total revenue	$ 855	$ 759	$ 558
Other information			
Asset under administration – RBC Dexia IS (1)	2,585,000	2,713,100	2,421,100

(1) AUA – RBC Dexia IS represents the total AUA of the joint venture as at September 30. RBC Dexia IS results are reported on a one-month lag. We have revised the 2006 amount to reflect the amount reported by RBC Dexia IS, as we had previously disclosed only the assets under custody amount.

Capital Markets

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

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

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

Highlights

- We continue to be Canada's leading global investment bank and were named Dealmaker of the Year in Canada for five of the last six years (*Financial Post*); Best Investment Bank in Canada (*Euromoney*); number one in Canadian M&A, equity underwriting and corporate debt financing (*Bloomberg*, 2007) and Global Bond Arranger of the Year (*Project Finance* magazine, 2007).
- We continued to attract top talent and build teams in our U.S. and European operations to further expand and strengthen key businesses.
- RBC Capital Markets Corp. and RBC Dain Rauscher Inc., our two principal U.S. broker-dealers, merged into one legal entity, with a common technology platform. The consolidation of the back offices is designed to provide the foundation for efficiency and future growth. RBC Dain Rauscher's broker-dealer was renamed RBC Capital Markets Corporation.
- We completed the acquisition of Richardson Barr, a leading Houston-based energy advisory firm specializing in acquisitions and divestitures in the exploration and production sector.

Economic and market review

As discussed in the 2008 Economic and market review in the Overview of 2008 section, the severe disruption in financial markets resulted in substantial writedowns in MBS assets and related derivatives by U.S. and most major banks globally. Concerns of a global recession, combined with the negative effects on broader credit markets, resulted in significant writedowns in certain of our credit-related businesses. These challenging markets and uncertain economic conditions also impacted traditional investment banking activities, as a number of deals were postponed. However, given the diversification of our business, certain of our trading products benefited from the market volatility and lower interest rate environment.

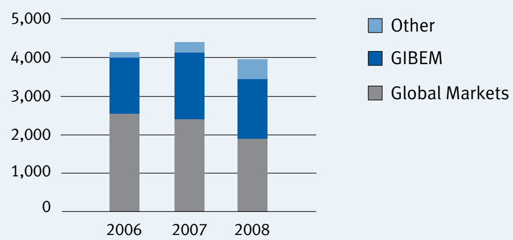
Capital Markets financial highlights — Table 45

(C$ millions, except number of and percentage amounts)	2008	2007	2006
Net interest income (1)	$ 1,839	$ 623	$ 131
Non-interest income	2,096	3,766	4,005
Total revenue (1)	$ 3,935	$ 4,389	$ 4,136
Provision for (recovery of) credit losses	183	(22)	(115)
Non-interest expense	2,121	2,769	2,603
Net income before income taxes and non-controlling interest in subsidiaries (1)	$ 1,631	$ 1,642	$ 1,649
Net income	$ 1,170	$ 1,292	$ 1,355
Key ratios			
Return on equity (2)	20.5%	26.6%	31.5%
Return on risk capital (2)	24.5%	32.5%	38.7%
Selected average balance sheet information (3)			
Total assets	$ 340,300	$ 311,200	$ 260,600
Trading securities	140,200	152,900	132,300
Loans and acceptances	38,300	29,000	22,100
Deposits	132,600	125,700	108,100
Attributed capital (2)	5,600	4,800	4,250
Risk capital (2)	4,700	3,900	3,450
Other information			
Number of employees (full-time equivalent)	3,296	3,339	2,922
Credit information			
Gross impaired loans as a percentage of average net loans and acceptances	1.30%	.06%	.28%
Specific PCL as a percentage of average net loans and acceptances	.48%	(.08)%	(.52)%

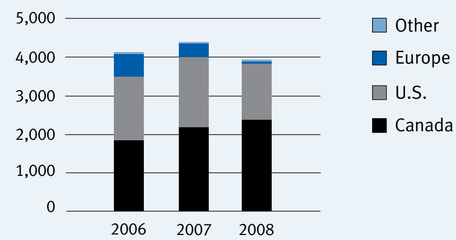
Impact of US$ and British pound translation on selected items (1)	2008 vs. 2007
Increased (decreased) total revenue	$ (111)
Increased (decreased) non-interest expense	(137)
Increased (decreased) net income	12
Percentage change in average US$ equivalent of C$1.00 (4)	6%
Percentage change in average British pound equivalent of C$1.00 (4)	10%

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

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



Revenue (1) by geography (C$ millions)



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

Financial performance

2008 vs. 2007

Net income decreased $122 million, or 9%, compared to a year ago, largely due to significantly higher writedowns of $2,091 million compared to $393 million last year, resulting from continued deterioration in the U.S. credit markets throughout 2008. These writedowns reduced net income by $920 million after tax and related compensation adjustments as compared to $173 million last year. Weak equity and debt origination activities and the increase in provision for credit losses also contributed to the decrease. The decrease in net income was partially offset by higher trading results in certain businesses and lower non-interest expense primarily due to the reduction of the Enron-related litigation provision, higher gains on credit derivative contracts recorded at fair value used to economically hedge our corporate lending portfolio and the gain on fair value adjustments on RBC debt designated as held-for-trading. For a detailed discussion regarding our writedowns, refer to the Impact of the market environment in the Financial performance section.

Total revenue decreased $454 million, or 10%, compared to the prior year. The decrease was primarily due to significantly higher writedowns noted above, weak equity and debt origination activities and weaker results in our equity trading businesses. The negative impact of the strong appreciation of the Canadian dollar on the translation of our U.S. dollar-denominated and British pound-denominated revenue also contributed to the decrease. These items were partially offset by higher trading results in certain of our fixed income and foreign exchange businesses, higher gains on credit derivative contracts recorded at fair value used to economically hedge our corporate lending portfolio and the gain on fair value adjustments on RBC debt designated as held-for-trading, as noted above. Improved results in our U.S. cash equities, lending and loan syndication finance businesses also partially offset the decrease in revenue.

Provision for credit losses of $183 million in the current year compares to a recovery of $22 million in the prior year. This included a $61 million provision related to loans extended under liquidity facilities drawn on by RBC-administered multi-seller asset-backed commercial paper conduit programs, and also included provisions related to some specific corporate loans.

Non-interest expense decreased $648 million, or 23%, from a year ago, mainly due to the reduction of the Enron-related litigation provision, lower variable compensation mostly attributable to the writedowns and the favourable impact of a stronger Canadian dollar on the translation of our U.S. dollar- and British pound-denominated expenses. These factors were partially offset by higher infrastructure investments in certain businesses, including acquisitions, sundry losses and Capital Markets' share of the settlement with U.S. regulators related to auction rate securities.

Average assets were up $29 billion, or 9%, primarily due to an increase in derivative assets, largely reflecting increased market volatility and an increase in loan assets due to growth in corporate lending activities. These factors were partially offset by lower fixed income and equity trading securities resulting from strategically reducing such assets.

2007 vs. 2006

Net income decreased $63 million, or 5%, compared to 2006, largely due to writedowns recorded in 2007 totalling $393 million related to the deterioration in the U.S. credit markets. These writedowns reduced net income by $173 million after tax and related compensation adjustments. The negative impact of the stronger Canadian dollar on the translated value of U.S. dollar-denominated earnings also contributed to the decrease. These factors were partially offset by broad-based revenue growth in many other businesses.

Total revenue increased $253 million, or 6%, from 2006. The increase was primarily due to increased equity derivatives and foreign exchange trading revenue, strong equity origination activity across all geographies and the inclusion of our recent acquisitions. Higher M&A activity, mainly in the U.S., gains associated with credit derivative contracts used to economically hedge our core lending portfolio and higher distributions on private equity investments also contributed to the increase. These factors were partially offset by lower trading revenue in our fixed income businesses, reflecting the valuation writedowns related to certain securities, the negative impact of the stronger Canadian dollar on the translated value of U.S. dollar-denominated revenue and lower U.S. debt origination results.

Recovery of credit losses of $22 million in 2007 compares to a recovery of credit losses of $115 million in 2006, which included a $50 million reversal of the general allowance.

Non-interest expense increased $166 million, or 6%, from 2006, primarily reflecting increased costs in support of business growth, including higher staffing levels and the inclusion of our recent acquisitions. These factors were partially offset by lower variable compensation commensurate with weaker performance and lower professional fees.

Outlook and priorities

As discussed in the Outlook and medium-term objectives section, market uncertainty will likely continue into 2009. Certain of our businesses will be affected in the near term but we expect there will be a slight improvement when global markets begin to stabilize. We anticipate that our fixed income businesses will encounter some writedowns due to continuing market volatility. However, we believe these writedowns should not be as significant as in 2008 as we are continuing to proactively reduce the risk and size of certain of our non-strategic businesses. We also expect some improvement in our equity and debt new issuance activities compared to 2008. Global central banks continue to provide liquidity to financial markets in an effort to minimize the impact of the market environment on the broader economy. Certain measures, such as significant interest rate reductions, financial-market rescue packages and intra-bank lending guarantees, are expected to improve market stability over time, and we anticipate that certain of our businesses are well positioned to capitalize on these opportunities.

Key strategic priorities for 2009

- Maintain our leadership position in Canada and deepen our penetration of the mid-market segment in energy and mining sectors.
- Leverage our investment banking expertise in energy and mining to expand our commodities business. This will include building our natural gas and energy trading and marketing platforms and developing U.S. power and global emissions capabilities.
- In our U.S. investment banking business, continue to improve our market share in key product areas, namely M&A, equity underwriting and leveraged loans.

- Continue to invest and grow our electronic trading and cash equities platforms to deliver multi-asset products and services to our clients.
- Intend to further extend our U.K. infrastructure finance and our project advisory capabilities in the European, U.S. and Canadian markets. We intend to further enhance our municipal banking business and expand our leveraged finance capabilities to grow our European client base.
- Enhance our Asian- and New York-based emerging markets distribution platforms to deliver fixed income and structured products to our institutional clients.

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

Global Markets revenue decreased $502 million, or 21%, from a year ago. Trading-related revenue was down $903 million, or 47%, primarily due to significantly higher writedowns and weaker results in our equity trading businesses, partially offset by stronger results in certain of our fixed income and foreign exchange businesses. Other revenue of $867 million was up $413 million from a year ago, largely due to the gain on fair value adjustments on RBC debt designated as held-for-trading, partially offset by weaker debt origination revenue.

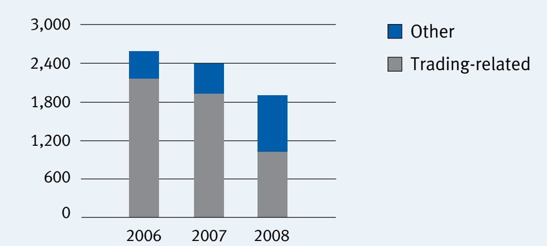
We led or jointly led 607 non-structured mid-term notes debt issues, up from 603 deals a year ago, with a total value of approximately $71 billion (2007 – $81 billion), and in municipal finance, we were involved in 732 issues, down from 1,092 a year ago, with a total value of approximately $74 billion (2007 – $115 billion) through October 2008.

Selected highlights — **Table 46**

(C$ millions)	2008	2007	2006
Total revenue (1)	$ 1,902	$ 2,404	$ 2,553
Other information			
Trading-related	1,028	1,931	2,154
Other (2)	867	454	425

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

Trading-related and Other revenue (C$ millions)



Global Investment Banking and Equity Markets

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

During the year, we closed our acquisition of Richardson Barr, a leading Houston-based energy advisory firm specializing in acquisitions and divestitures in the exploration and production sector, and also acquired teams in our leveraged finance and product businesses in the U.K., as well as in our options trading and program trading businesses in the U.S.

Financial performance

Global Investment Banking and Equity Markets revenue decreased $197 million, or 11%, compared to the prior year. Gross underwriting and advisory revenue was down $292 million, or 35%, due to weaker equity origination and lower M&A activities, reflecting challenging market conditions in 2008, as compared to strong results in 2007. Equity sales and trading revenue increased $117 million, or 31%, mainly due to improved results in our U.S. cash equities business, while Other revenue was up $43 million, or 9%, primarily reflecting strong lending and loan syndication activity.

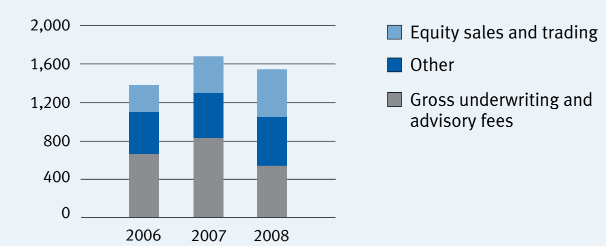
In 2008, we advised on 117 announced M&A deals, up from 98 announced deals a year ago, with a total value of US$41 billion (2007 – $190 billion). In 2008, we led or co-led 71 equity and equity-related new issues, down from 142 in the prior year, with a total market value of $30 billion (2007 – $20 billion).

Selected highlights — **Table 47**

(C$ millions)	2008	2007	2006
Total revenue (1)	$ 1,536	$ 1,733	$ 1,417
Other information			
Gross underwriting and advisory fees	539	831	665
Equity sales and trading	492	375	283
Other (2)	512	469	434

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

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



Other

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

Financial performance

Revenue from Other was $497 million, an increase of $245 million over the prior year, mainly reflecting higher gains on credit derivative contracts recorded at fair value used to economically hedge our corporate lending portfolio, as counterparty credit spreads widened during the period.

Net income was positively impacted by the decrease in non-interest expense, which largely reflected the reduction of the Enron-related litigation provision.

Corporate Support

The Corporate Support segment includes our global technology and operations group, corporate treasury, finance, human resources, risk management, internal audit and other global functions. The costs related to these activities are largely allocated to the business segments, although certain activities related to monitoring and oversight of the enterprise reside within this segment.

The reported results for the Corporate Support segment mainly reflect activities that are undertaken for the enterprise, and which are not allocated to the business segments, such as enterprise funding activities, and include fair value adjustments of RBC debt designated as held-for-trading, changes in the general allowance for credit losses, as well as the change in the fair value of certain derivatives used to economically hedge related risks. Also included are certain tax amounts, securitization and securities mainly held for treasury-related activities and the net charges associated with unattributed capital. In addition, the results reflect consolidation adjustments including the elimination of the teb adjustments recorded in Capital Markets related to the gross-up of income from Canadian taxable corporate dividends to their taxable equivalent value. These adjustments are recorded in net interest income and offset in the provision for income taxes.

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

Corporate Support financial highlights — Table 48

(C$ millions)	2008	2007	2006
Net interest income (1)	$ (995)	$ (732)	$ (488)
Non-interest income	358	377	178
Total revenue (1)	$ (637)	$ (355)	$ (310)
Provision for (recovery of) credit losses	47	(85)	(86)
Non-interest expense	(18)	36	36
Net loss before income taxes and non-controlling interest in subsidiaries (1)	$ (666)	$ (306)	$ (260)
Net income (loss)	$ (178)	$ 209	$ 111
Securitization			
Total securitizations sold and outstanding (2)	$ 19,316	$ 17,889	$ 15,836
New securitization activity in the year (3)	6,482	4,264	6,142
Other information			
Number of employees (full-time equivalent)	20,794	20,349	18,348

(1) Taxable equivalent basis. For further discussion, refer to the How we manage and report our business segments section. These amounts included the elimination of the adjustment related to the gross-up of income from Canadian corporate dividends of $410 million in 2008 recorded in Capital Markets (2007 – $332 million, 2006 – $213 million).
(2) Total securitizations sold and outstanding comprises credit card loans and residential mortgages.
(3) New securitization activity comprises residential mortgages and credit card loans securitized and sold in the year. For further details, refer to Note 5 to our Consolidated Financial Statements.

2008

Net loss of $178 million for the year included writedowns of $397 million ($297 million after-tax) on our exposure to U.S. MBS and other securities of which $268 million related to AFS and $129 million related to HFT. For a detailed discussion regarding our writedowns, refer to the Impact of the market environment in the Financial performance section

The net loss also reflected an increase in the general allowance of $145 million ($98 million after-tax) related to volume growth in our Canadian retail portfolio, weakness in our U.S. banking portfolios and a foreign currency translation adjustment related to our U.S. dollar-denominated deposits used to fund certain U.S. dollar-denominated AFS securities. These factors were partially offset by income tax amounts largely related to enterprise funding activities that were not allocated to the segments, the gain on the fair value adjustments on RBC debt designated as held-for-trading of $190 million ($129 million after-tax), gains related to the change in fair value of derivatives related to certain economic hedges on our funding and gains related to securitization activity.

Prior to the fourth quarter of 2008, changes in the general allowance were recorded in our Canadian Banking, International Banking and Capital Markets segments. For further information regarding the allocation of the general allowance, refer to the How we measure and report our business segments section.

2007

Net income of $209 million for 2007 included income tax amounts largely related to enterprise funding activities that were not allocated to the business segments and favourable income tax settlements related to prior years. These factors were partially offset by the decline in fair value related to the recognition of the ineffectiveness of hedged items and the related derivatives in hedge accounting relationships, a cumulative adjustment for losses resulting from the fair value of certain derivatives that did not qualify for hedge accounting and higher capital taxes that were not allocated to the business segments.

2006

Net income of $111 million for 2006 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. Gains on the change in fair value of derivatives related to certain economic hedges also contributed to net income in 2006. 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.

Financial condition

Condensed balance sheet (1)

Table 49

As at October 31 (C$ millions)	2008	2007
Assets		
Cash and due from banks (2)	$ 11,086	$ 4,226
Interest-bearing deposits with banks	20,041	11,881
Securities	171,134	178,255
Assets purchased under reverse repurchase agreements and securities borrowed	44,818	64,313
Loans (net of allowance for loan losses)	289,540	237,936
Other (3)	187,240	103,735
Total assets	$ 723,859	$ 600,346
Liabilities and shareholders' equity		
Deposits	$ 438,575	$ 365,205
Other (4)	242,624	201,284
Subordinated debentures	8,131	6,235
Trust capital securities	1,400	1,400
Preferred share liabilities	–	300
Non-controlling interest in subsidiaries	2,371	1,483
Shareholders' equity	30,758	24,439
Total liabilities and shareholders' equity	$ 723,859	$ 600,346

(1) The table above represents our condensed balance sheet, which is largely measured at fair value. Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at rates prevailing at the balance sheet date. Non-monetary assets and liabilities are translated into Canadian dollars at historical rates. Assets and liabilities of our self-sustaining operations with functional currencies other than Canadian dollars are translated into Canadian dollars at rates prevailing at the balance sheet date. For further details, refer to the Critical accounting policies and estimates section as well as Notes 1 and 2 to our Consolidated Financial Statements.

(2) Cash and due from banks of $11 billion is comprised mainly of operating balances with other banks, bank notes and operating balances with the Bank of Canada. As Cash and due from banks is related to operating activities in the near term, year-over-year trend analysis is not relevant.

(3) Other assets includes derivative-related amounts (2008 – $136,134 million, 2007 – $66,585 million), customer's liability under acceptances (2008 – $11,285, 2007 – $11,786) and Goodwill (2008 – $9,977, 2007 – $4,752). For further information, refer to our Consolidated Balance Sheets.

(4) For further information, refer to our Consolidated Balance Sheets.

2008 vs. 2007

Total assets were up $124 billion, or 21%, from a year ago, largely attributable to the impact of the weaker Canadian dollar on the translation of mainly U.S. dollar-denominated assets (approximately half the impact) and growth across most asset categories. The increase also reflected the impact of changes in market conditions on the fair value of derivatives, and solid loan growth, particularly in wholesale loans, Canadian residential mortgages and personal loans, partially offset by a reduction in our securities positions and a reduction in the fair value of these positions, reverse repos and securities borrowed.

Interest-bearing deposits with banks increased $8 billion from the prior year, largely reflecting higher balances required for pledging assets related to trading activities due to reduced liquidity in global financial markets in the latter part of the year. The increase also reflected a shift in our portfolio mix to higher-yielding assets and the impact of the weaker Canadian dollar on the translation of foreign currency-denominated interest-bearing deposits.

Securities were down $7 billion, or 4%, from a year ago, primarily due to reduced positions as a result of the continued financial market volatility and the reduction in fair values from weak market conditions. These factors were partially offset by the impact of the weaker Canadian dollar on the translation of mainly U.S. dollar-denominated securities and increased positions for government-guaranteed debt instruments amid the uncertainty in global financial markets.

Assets purchased under reverse repurchase agreements (reverse repos) and securities borrowed decreased $19 billion, or 30%, from a year ago, reflecting reduced counterparty activity as a result of financial market volatility and lower stock borrowing activity. This was partially offset by the impact of the weaker Canadian dollar on the translation of mainly U.S. dollar-denominated reverse repos and securities borrowed.

Loans increased $52 billion, or 22%, from a year ago, partially due to growth in our Canadian retail loan portfolio. This growth was led by Canadian residential mortgages, which increased $10 billion, or 10%, and an increase in personal loans, mainly driven by demand for home equity lending due to the strong housing market during the beginning of the year and continued relatively low interest rates and low unemployment in Canada throughout the year. Solid growth in our wholesale loans of $26 billion, or 38%, mainly reflected continued growth in corporate lending, our acquisitions of ANB and RBTT, and higher balances required for pledging assets related to trading activities due to reduced liquidity in global financial markets in the latter part of the year. The increase in total loans also reflected the impact of the weaker Canadian dollar on the translation of U.S. dollar-denominated loans.

Other assets were up $84 billion from the prior year, mainly attributable to higher fair value of derivative-related assets. This growth was primarily a result of the impact of the strengthening of the U.S. dollar, both on U.S. dollar-denominated asset balances and on foreign exchange contract positions where we were long on the U.S. dollar. The impact of the downward shift in yields on our received fixed positions, increased market volatility and the widening of credit spreads on credit protection bought also contributed to the increase. In addition, the increase reflected higher broker-dealer receivables due to higher activity resulting from increased capital market volatility and goodwill from our acquisitions of RBTT, ANB and PH&N.

Total liabilities were up $117 billion, or 20%, from a year ago, largely as a result of the impact of the weaker Canadian dollar on foreign currency-denominated liabilities. The increase was also driven by growth in deposits and increased fair value of derivative-related amounts due to market conditions that were partially offset by reduced activity from borrowed securities and repurchase agreements.

Deposits increased $73 billion, or 20%, from a year ago. The growth was largely due to higher business and government deposits that were driven by the weaker Canadian dollar on the translation of mainly U.S. currency-denominated deposits and our issuances of notes and covered bonds, which are classified in deposits, to support business growth. Higher personal deposits also contributed to the increase, largely based on the strong demand for our Canadian dollar- and U.S. dollar-denominated high-interest savings accounts and strong growth in personal fixed-term deposits amid the uncertainty in global financial markets. Our ANB and RBTT acquisitions also contributed to deposit growth.

Other liabilities increased $41 billion, or 21%, mainly attributable to higher fair value of derivative-related liabilities. This increase was primarily due to the impact of the stronger U.S. dollar on both our U.S.

dollar-denominated liabilities and foreign exchange contract positions where we were short on the U.S. dollar. The impact of the downward shift in yields on our pay fixed positions, increased market volatility, the widening of credit spreads on credit protection sold and higher broker-dealer payables, reflecting higher activity due to increased capital market volatility, also contributed to the increase. These factors were partially offset by reduced counterparty activity in borrowed securities and repurchase agreements, as a result of continued financial markets volatility, and a decrease in securities lending and short selling activities, partially reduced by the impact of the weaker Canadian dollar on mainly U.S. dollar-denominated borrowed securities and repurchase agreements.

Preferred share liabilities related to Non-cumulative First Preferred Shares Series N were redeemed during the year and was financed out of general corporate funds.

Non-controlling interest in subsidiaries increased $.9 billion from last year, mainly due to $500 million of RBC Trust Capital Securities which were issued in the current year. For further information, refer to Note 17 to our Consolidated Financial Statements.

Subordinated debentures increased $2 billion, or 30%, from the prior year, largely reflecting the issuances net of redemptions of subordinated debentures used to support business growth.

Shareholders' equity increased $6 billion, or 26%, from the prior year, largely reflecting the issuance of common shares mainly for consideration paid for our acquisitions of RBTT, ANB, PH&N and FBW, our current year net income and a decline in unrealized foreign currency losses in our self-sustaining foreign subsidiaries, net of our hedging activities. These factors were partially offset by dividends declared on our common shares, increased unrealized losses on our AFS portfolio and dividends declared on preferred shares during the year.

Off-balance sheet arrangements

In the normal course of business, we engage in a variety of financial transactions that, under GAAP, are not recorded on our balance sheet. Off-balance sheet transactions are generally undertaken for risk management, capital management and/or funding management purposes for our benefit and the benefit of our clients. These transactions include transactions with SPEs and issuance of guarantees. These transactions give rise to, among other risks, varying degrees of market, credit, liquidity and funding risk, which are discussed in the Risk management section.

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 VIEs as defined by CICA AcG-15, *Consolidation of Variable Interest Entities*. Refer to the Critical accounting policies and estimates section and Notes 1 and 6 to our Consolidated Financial Statements for our consolidation policy and information about the VIEs that we have consolidated or in which we have significant variable interests. Pursuant to CICA Accounting Guideline 12, *Transfers of Receivables* (AcG-12), Qualifying SPEs (QSPEs) are legal entities that are demonstrably distinct from the transferor, have limited and specified permitted activities, have defined asset holdings and may only sell or dispose of selected assets in automatic response to specified conditions.

We manage and monitor our involvement with SPEs through our Structured Transactions Oversight Committee. Refer to the Risk management section for further details.

Securitization of our financial assets

We periodically securitize our credit card receivables and residential mortgage loans primarily to diversify our funding sources and enhance our liquidity position. We also securitize residential and commercial mortgage loans for sales and trading activities. Gains and losses on securitizations are included in Non-interest income. Refer to Note 1 to our Consolidated Financial Statements for our accounting policy for loan securitizations.

In addition to traditional securitizations where we sell our loans and receivables, we also enter into synthetic securitizations to transfer risks relating to selected elements of our financial assets without actually transferring the assets through the use of certain financial instruments.

Credit card receivables

We securitize a portion of our credit card receivables through a SPE on a revolving basis. The SPE is funded through the issuance of senior and subordinated notes collateralized by the underlying credit card receivables. The issuances are rated by at least two of Dominion Bond Rating Service (DBRS), Moody's Investors Service (Moody's) and Standard & Poor's (S&P). This SPE meets the criteria for a QSPE and, accordingly, as the transferor of the credit card receivables, we are precluded from consolidating this SPE.

We continue to service the credit card receivables sold to the QSPE and perform an administrative role for the QSPE. We also provide first-loss protection to the QSPE in two forms. We have an interest in the excess spread from the QSPE which is subordinate to the QSPE's obligation to the holders of its asset-backed securities. Excess spread is the residual net interest income after all trust expenses have been paid. Our excess spread serves to absorb losses with respect to the credit card receivables before payments to the QSPE's noteholders are affected. The present value of this excess spread is reported as a retained interest within our AFS securities on our Consolidated Balance Sheets. In addition, we provide loans to the QSPE to pay upfront expenses. These loans rank subordinate to all notes issued by the QSPE.

Residential mortgage loans

We securitize government-guaranteed Canadian residential mortgage loans through the creation of MBS and sell a portion of these MBS as part of government auctions as well as to an independent SPE on a revolving basis. We retain interests in the excess spread on the sold MBS and service the underlying mortgages we have securitized for funding and liquidity purposes ourselves or through an independent servicer.

We did not securitize any residential mortgages synthetically in 2007 and 2008. As at October 31, 2008, the notional balance of our purchased credit protection totalled $399.4 million on residential mortgages with an outstanding unamortized balance of $9.9 billion.

Commercial mortgage loans

We securitize commercial mortgages by selling them in collateral pools, which meet certain diversification, leverage and debt coverage criteria, to SPEs, one of which is sponsored by us. The SPEs finance the purchase of these pools by issuing certificates that carry varying degrees of subordination. The certificates issued by the SPE which we sponsor range from AAA to B- and are rated by any two of DBRS, Moody's and S&P. The most subordinated certificates are unrated. The certificates represent undivided interests in the collateral pool, and the SPE which we sponsor, having sold all undivided interests available in the pool, retains none of the risk of the collateral pools. We do not retain any beneficial interests in the loans sold unless we purchase some of the securities issued by the SPEs for our own account. We are the primary servicer under contract with a third-party master servicer for the loans that are sold to our sponsored SPE.

Our financial asset securitizations — Table 50

As at October 31 (C$ millions)	2008	2007
Outstanding securitized assets		
Residential mortgages	$ 21,520	$ 18,384
Credit cards	4,120	3,650
Commercial mortgages	2,325	3,727
Total	$ 27,965	$ 25,761
Retained interests		
Residential mortgages		
Mortgage-backed securities retained (1)	$ 12,342	$ 5,954
Retained rights to future excess interest	699	414
Credit cards		
Asset-backed securities purchased (2)	954	870
Retained rights to future excess interest	26	27
Subordinated loan receivables	8	3
Commercial mortgages		
Asset-backed securities purchased (2)	7	12
Total	$ 14,036	$ 7,280

(1) All residential mortgages securitized are Canadian mortgages and are government guaranteed.
(2) Securities purchased during the securitization process.

Securitization activities during 2008

During the year, we securitized $18.4 billion of residential mortgages, of which $7.5 billion were sold and the remaining $10.9 billion (notional value) were retained. We securitized and sold $1.5 billion of credit card loans and purchased $65 million of related securities during the securitization process. We also securitized $.2 billion of commercial mortgages and purchased $9 million (notional value) of the related securities during the securitization process. Refer to Note 5 to our Consolidated Financial Statements for further details including the amounts of impaired and past due loans that we manage and any losses recognized on securitization activities during the year.

Capital trusts

We issue innovative capital instruments, RBC Trust Capital Securities (RBC TruCS) and RBC Trust Subordinated Notes (RBC TSNs), through three SPEs: (i) RBC Capital Trust (Trust), (ii) RBC Capital Trust II (Trust II) and (iii) RBC Subordinated Notes Trust (Trust III). We consolidate Trust but do not consolidate Trust II or Trust III because we are not the Primary Beneficiary since we are not exposed to the majority of the expected losses, and we do not have a significant interest in these trusts. As at October 31, 2008, we held residual interest of $1 million and $1 million (2007 – $1 million and $1 million) in Trust II and Trust III, respectively. We had loan receivables of $3 million (2007 – $40 million) and $30 million (2007 – $30 million) from Trust II and Trust III, respectively, and reported the senior deposit notes of $900 million and $999.8 million (2007 – $900 million and $999.8 million) that we issued to Trust II and Trust III, respectively, in our deposit liabilities. Under certain circumstances, RBC TruCS of Trust II will be automatically exchanged for our preferred shares and RBC TSNs exchanged for our subordinated notes without prior consent of the holders. In addition, RBC TruCS holders of Trust II have the right to exchange for our preferred shares as outlined in Note 17 to our Consolidated Financial Statements.

Interest expenses on the senior deposit notes issued to Trust II and Trust III amounted to $52 million and $47.2 million, respectively (2007 – $52 million and $23.6 million), during the year. For further details on the capital trusts and the terms of the RBC TruCS and RBC TSNs issued and outstanding, refer to the Capital management section and Note 17 to our Consolidated Financial Statements.

Securitization of client financial assets

Within Securitization Finance, our principal relationship with SPEs comes in the form of administering six multi-seller asset-backed commercial paper conduit programs (multi-seller conduits or conduits) – three in Canada and three in the U.S. We are involved in these conduit markets because our clients value these transactions, they offer us a 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 and finance the purchases by issuing highly rated asset-backed commercial paper. The main types of asset classes financed by the multi-seller conduits are credit cards, auto loans and leases, trade receivables, student loans, asset-backed securities, equipment receivables, and consumer loans. As at October 31, 2008, these asset classes comprised 95% of our maximum exposure to loss by client asset type. Less than 1% of outstanding securitized assets comprised U.S. Alt-A or subprime mortgages and the securitized assets do not contain commercial mortgage loans.

We do not maintain any ownership or retained interests in these multi-seller conduits and have no rights to, or control of, their assets. We provide services such as transaction structuring and administration as specified by the multi-seller conduit program documents for which we receive market based fees. In addition, we provide backstop liquidity facilities and partial credit enhancements to the multi-seller conduits, as shown in Table 51. Fee revenue for all such services, which is reported in Non-interest income, amounted to $160 million during the year (2007 – $72 million). Commitments under the backstop liquidity and credit enhancement facilities are factored into our risk adjusted asset calculation, and therefore impact our regulatory capital requirements.

Our total commitment to the conduits in the form of backstop liquidity facilities and credit enhancement facilities is shown in Table 51.

Liquidity and credit enhancement facilities — Table 51

	2008				2007			
As at October 31 (C$ millions)	Notional of committed amounts	Allocable notional amounts (2)	Outstanding loans	Total maximum exposure to loss	Notional of committed amounts	Allocable notional amounts (2)	Outstanding loans	Total maximum exposure to loss
Backstop liquidity facilities	$ 43,452	$ 37,080	$ 1,947	$ 39,027	$ 42,567	$ 38,726	$ –	$ 38,726
Credit enhancement facilities	4,486	4,486	–	4,486	4,185	4,185	–	4,185
Total (1)	$ 47,938	$ 41,566	$ 1,947	$ 43,513	$ 46,752	$ 42,911	$ –	$ 42,911

(1) Represents multi-seller conduits administered by us.
(2) Based on total committed financing limit.

The total committed amount of the backstop liquidity facilities and the program-wide credit enhancement facilities exceeds the amount of the total financing limit established by the conduits under the receivable purchase agreements. The maximum exposure to loss cannot exceed the amount of the financing limit, and therefore the maximum exposure to loss attributable to our backstop liquidity and credit enhancement facilities is less than the total committed amount of these facilities.

Our maximum exposure to loss as shown in Table 51 is calculated based on the total amount we are exposed to under backstop liquidity facilities and partial credit enhancements we provide to the multi-seller conduits, and is limited to a maximum 102% of the total amount of assets purchased or committed to be purchased by the conduits plus any outstanding loans. Our maximum exposure to loss was $43.5 billion as at October 31, 2008 (2007 – $42.9 billion). The maximum assets that may have to be purchased by the conduits under purchase commitments outstanding as at October 31, 2008 were $42.7 billion (2007 – $41.8 billion). Outstanding loans as at October 31, 2008 were $1.9 billion (2007 – $nil). Of the total purchase commitments outstanding, the multi-seller conduits have purchased financial assets totalling $33.6 billion as at October 31, 2008 (2007 – $29.3 billion).

Maximum exposure to loss by client asset type — Table 52

As at October 31 ($ millions)	2008 (US$)	2008 (C$)	2008 Total (C$)	2007 (US$)	2007 (C$)	2007 Total (C$)
Outstanding securitized assets						
Credit cards	$ 12,281	$ 1,494	$ 16,286	$ 10,736	$ 984	$ 11,126
Auto loans and leases	3,426	5,390	9,517	4,915	7,514	12,157
Trade receivables	2,280	2,302	5,048	3,042	2,259	5,133
Student loans	3,670	–	4,420	2,808	–	2,653
Asset-backed securities	2,360	–	2,843	1,941	–	1,834
Equipment receivables	365	1,535	1,975	522	1,785	2,278
Consumer loans	1,122	–	1,351	1,822	49	1,770
Dealer floor plan receivables	327	187	581	326	187	495
Insurance premiums	213	203	460	306	321	610
Other loans	276	–	333	–	–	–
Electricity market receivables	–	306	306	–	306	306
Truck loans and leases	235	–	283	495	–	468
Residential mortgages	–	110	110	3,822	183	3,794
Corporate loans receivables	–	–	–	304	–	287
Total	$ 26,555	$ 11,527	$ 43,513	$ 31,039	$ 13,588	$ 42,911
Canadian equivalent (1)	$ 31,986	$ 11,527	$ 43,513	$ 29,323	$ 13,588	$ 42,911

(1) US$ amounts converted at an exchange rate of 1.2045 (2007 – .9447)

During the credit market dislocations of 2008, we continued to originate new business. At the same time, we reduced our exposure to U.S. dollar assets by U.S. $4.5 billion and to Canadian dollar assets by $2.1 billion, reduced exposure to specific asset classes, specifically U.S. residential mortgages and U.S. auto loans and leases, increased the amount of credit enhancement provided by the seller for new transactions, and increased the fees that we charge. As 74% of the assets of the multi-seller conduits are U.S. denominated assets, the total outstanding securitized assets reported in Table 52 is impacted by changes to the Canadian and U.S. exchange rate. Applying the exchange rate used in 2007, the outstanding assets would have decreased by approximately 14.7% to $36.6 billion from October 31, 2007 to October 31, 2008, rather than the 1.4% increase highlighted above.

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 generally continue to service the respective assets and generally provide some amount of first-loss credit protection on the assets in the form of transaction-specific credit enhancements, which reduces our overall risk exposure. This credit protection could be in the form of additional assets, cash or subordination of rights to cash flows. In many cases, the amount of first-loss credit protection is the greater of a fixed amount or a multiple of recent performance measures such that if an asset's performance deteriorates, then the amount of first-loss credit protection increases. As of September 30, 2008, the weighted averaged first loss credit protection was 35.7% of total assets, providing a coverage multiple of approximately 10 times weighted average annual expected loss rate on the client asset portfolio of 3.5%.

Multiple independent debt rating agencies review all of the transactions in the multi-seller conduits. Transactions financed in our U.S. multi-seller conduits are reviewed by at least three ratings agencies including Moody's, S&P and Fitch. Transactions in our Canadian multi-seller conduits are reviewed by the following four rating agencies: Moody's, S&P, Fitch and DBRS. Each applicable rating agency also reviews ongoing transaction performance on a monthly basis and may publish reports detailing portfolio and program information related to the conduits.

The commercial paper issued by each multi-seller conduit is in the conduit's own name with recourse to the financial assets owned by each multi-seller conduit, and is non-recourse to us except through our participation in liquidity and/or credit enhancement facilities. Of total commercial paper issued by the conduits of $33.6 billion (2007 – $42.9 billion), 74% (2007 – 78%) is generally rated within the top ratings category of each rating agency and the remaining amount is rated in the second highest ratings category of each rating agency. We sometimes purchase the commercial paper issued by the conduits in our capacity as a placement agent in order to facilitate overall program liquidity. As at October 31, 2008, the fair value of our inventory was $598 million, classified as Securities – Trading.

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 before us and the multi-seller conduit's debt holders (multi-seller conduit first-loss position). 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. We do not consolidate any of the multi-seller conduits.

Our fee structure also reduces our risk exposure on the portfolio. For over 90% of the securitized assets as at October 31, 2008, funding is provided on a cost of funds plus basis, such that the cost to our clients is the sum of the conduit cost of funds plus a fee that includes the cost of allocable credit facilities and ancillary costs provided by us and other third parties. As a result, we are not exposed to the funding or spread risk on these assets that would arise in volatile markets.

In 2008, certain multi-seller conduits drew down some of our backstop liquidity facilities. The outstanding loans are included in Loans – Wholesale, representing the gross loan amount before provisions, of $1.9 billion, representing less than 5% of outstanding securitized assets. As at October 31, 2008, allowance for loan losses on these loans totalled $65 million (2007 – $nil).

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, including credit derivatives to purchase protection from these SPEs (credit protection), in order to convert various risk factors such as yield, currency or credit risk of underlying assets to meet the needs of the investors. In this role of derivative counterparty to the SPE, we also assume the associated counterparty credit risk of the SPE.

These SPEs issue funded notes. In some instances, we invest in these notes. The funded notes may be rated by external rating agencies, as well as listed on a stock exchange, and are generally traded via recognized bond clearing systems. While the majority of the notes are expected to be sold on a "buy and hold" basis, we may occasionally act as market maker. Some of the SPEs also issue unfunded notes in the form of senior credit derivatives or funding commitment and we may be an investor in these unfunded notes. The investors in the funded and unfunded notes ultimately bear the cost of any payments made by the SPE as a result of the credit protection provided to us. 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 derivatives, the derivatives with these SPEs are carried at fair value in derivative-related assets and liabilities.

The assets in these SPEs amounted to $5.3 billion as at October 31, 2008 (2007 – $5.2 billion), of which $.2 billion were consolidated as at October 31, 2008 (2007 – $.3 billion). As at October 31, 2008, our investments in the funded notes, the derivative-related receivables and the notional amounts of the unfunded notes related to the unconsolidated SPEs were $34 million (2007 – $290 million), $599 million (2007 – $829 million) and $648 million (2007 – $614 million), respectively.

Structured finance

In 2008, we purchased U.S. ARS from entities which funded their long-term investments in student loans by issuing short-term senior and subordinated notes. Principal and accrued interest on the student loans are largely guaranteed by U.S. government agencies. In our role as auction remarketing agent to these entities, we are under no legal obligation to purchase the notes issued by these entities in the auction process. We consolidate the entities in which our ARS investments expose us to a majority of the expected losses. As at October 31, 2008, the total assets of the unconsolidated ARS entities and the fair value of our significant investments in these unconsolidated entities were $9.2 billion (2007 – $.2 billion) and $3.4 billion (2007 – $.2 billion), respectively. As at October 31, 2008, approximately 88% of these investments were AAA rated. Interest income from the ARS investments, which is reported in Net-interest income, amounted to $93 million during the year (2007 – $2 million, 2006 – $nil).

On October 8, 2008, we announced that, as part of an agreement in principle to settle with certain U.S. regulators, we will offer to purchase, at par, for a six-month period beginning no later than December 15, 2008, ARS held by U.S. retail brokerage clients that are qualified for the repurchase offer. Qualifying clients who sold eligible ARS below par between February 11, 2008 and October 8, 2008 will be paid the difference between par and the price of the sale.

During the year, we sold some of our ARS investments into Tender Option Bond (TOB) programs, where each TOB program consists of a credit enhancement (CE) trust and a TOB trust. Each ARS sold to the TOB program is supported by a letter of credit issued by us and is financed by the issuance of floating-rate certificates to short-term investors and a residual certificate to a single third-party investor. We are the remarketing agent for the floating-rate certificates and we provide liquidity facilities to each of the TOB programs to purchase any floating-rate certificates that have been tendered but not remarketed. We do not, however, consolidate these trusts because the residual certificate holder is exposed to a majority of the variability in these trusts. The liquidity facilities and letters of credit are included in our disclosure on guarantees in Note 25 to our Consolidated Financial Statements. As at October 31, 2008, the total assets of the TOB programs related to the ARS were $1.4 billion (2007 – $nil) and the floating-rate certificates that we hold as market maker were $nil (2007 – $nil). Fee revenue for the remarketing services and the provision for the letters of credit and liquidity facilities, which is reported in Non-interest income, amounted to $3 million during the year (2007 – $nil, 2006 – $nil).

In 2008, we also sold $465 million of our ARS to an unaffiliated and unconsolidated entity at fair market value. The purchase of the ARS by this entity was financed by a loan from us, and the loan is secured by various assets of the entity. We are the remarketing agent for the ARS. We provide to the entity a credit facility, certain administrative services and guarantees, which are secured by cash collateral. This entity also enters into interest rate derivatives with other counterparties who are exposed to the majority of its variability; as a result, we do not consolidate this entity. As at October 31, 2008, total assets of this entity and our maximum exposure to loss were $4.7 billion and $500 million, respectively. Fee revenue from this entity, which is reported in Non-interest income, amounted to $4.0 million during the year (2007 – $.3 million, 2006 – $nil). The interest income from the loan and the credit facility, which is reported in Net interest income, totalled $6.7 million for the year (2007 – $1.1 million, 2006 – $nil).

We occasionally invest in entities in the form of loan substitute and equity investments that are part of transactions structured to achieve a desired outcome, such as limiting exposure to specific assets or risks, obtaining indirect (and usually risk mitigated) exposure to financial assets, funding specific assets, supporting an enhanced yield and meeting client requirements. These transactions usually yield a higher return or provide lower-cost funding on an after-tax basis than financing non-SPE counterparties, holding an interest in financial assets directly, or receiving on-balance sheet funding. We consolidate the entities in which our interests expose us to a majority of the expected losses. The total assets of the unconsolidated entities in which we have significant investments or loans were $3.5 billion as at October 31, 2008 (2007 – $4.8 billion). As at October 31, 2008, our total investments in and loans to these entities were $1.7 billion (2007 – $2.5 billion), which are reflected on our Consolidated Balance Sheets.

Investment funds

We enter into equity 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 we are exposed to a majority of the expected losses of the funds. The total assets held in the unconsolidated funds where we have significant exposure were $1.2 billion as at October 31, 2008 (2007 – $1.6 billion). As at October 31, 2008, our total exposure was primarily related to the investments in the funds and was $349 million (2007 – $423 million).

Trusts, mutual and pooled funds

Our joint venture, RBC Dexia IS, provides global custody, fund and pension administration of client assets as well as the provision of shareholder services, foreign exchange, securities lending and other related services. With respect to trusteeship or custodial services for personal and institutional trusts, RBC Dexia IS has a fiduciary responsibility to act in the best interests of the beneficiaries of the trusts. RBC Dexia IS earns fees for providing these services, and we include 50% of these fees in our revenue, representing our share of interest in the joint venture. Refer to Note 9 to our Consolidated Financial Statements for more details.

We manage assets in mutual and pooled funds and earn fees at market rates from these funds, but do not guarantee either principal or returns to investors in any of these funds.

Guarantees

We issue guarantee products, as defined by the CICA Accounting Guideline 14, *Disclosure of Guarantees* (AcG-14), in return for fees which are 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.

In accordance with CICA Handbook Section 3855, *Financial Instruments – Recognition and Measurement*, financial guarantees are recognized at inception at the fair value of the obligation undertaken in issuing the guarantee. Subsequent measurement of financial guarantees at fair value is not required unless the financial guarantee qualifies as a derivative. As the carrying value of these financial guarantees does not reflect our maximum potential amount of future payments, we continue to consider guarantees as off-balance sheet arrangements.

Our maximum potential amount of future payments in relation to our guarantee products as at October 31, 2008, amounted to $137 billion (2007 – $152 billion). In addition, as at October 31, 2008, RBC Dexia IS securities lending indemnifications totalled $45.7 billion (2007 – $63.5 billion); we are exposed to 50% of this amount. The maximum potential amount of future payments represents the maximum risk of loss if there was a total default by the guaranteed parties, without consideration of possible recoveries under recourse provisions, insurance policies or collateral held or pledged.

As at October 31, 2008, we had $37.9 billion (2007 – $40.4 billion) in backstop liquidity facilities related to asset-backed commercial paper programs, of which 98% (2007 – 96%) was committed to RBC-administered multi-seller conduits.

Note 25 to our Consolidated Financial Statements provides detailed information regarding the nature and maximum potential exposure for the above-mentioned types of guarantee products.

Retail and commercial commitments

We also provide commitments to our clients to help them meet their financing needs. On behalf of our clients, we undertake written documentary and commercial letters of credit, authorizing a third party to draw drafts on us up to a stipulated amount and typically having underlying shipments of goods as collateral. We make commitments to extend credit, which represent unused portions of authorizations to extend credit in the form of loans, bankers' acceptances or letters of credit. We also have uncommitted amounts for which we retain the option to extend credit to a borrower. These guarantees and commitments exposed us to liquidity and funding risks. The following is a summary of our off-balance sheet commitments.

Retail and commercial commitments (1) — Table 53

(C$ millions)	Within 1 year	1 to 3 years	Over 3 to 5 years	Over 5 years	Total
Documentary and commercial letters of credit	$ 558	$ –	$ –	$ –	$ 558
Commitments to extend credit and liquidity facilities	11,570	66,520	21,314	5,303	104,707
Uncommitted amounts (2)	–	170,780	–	–	170,780
	$ 12,128	$ 237,300	$ 21,314	$ 5,303	$ 276,045

(1) Based on remaining term to maturity.
(2) Uncommitted amounts represent amounts for which we retain the option to extend credit to a borrower.

Financial Stability Forum disclosures

The Financial Stability Forum (FSF) is comprised of senior representatives from international financial authorities, including central banks and supervisory authorities and international financial institutions. On April 7, 2008, the FSF released its report to the G7 Ministers on recent conditions in the credit market. Key recommendations include increased disclosure around risk exposures and valuation methods, including writedowns. Our disclosures substantially comply with the FSF recommendations where they relate to areas that are significant to us.

We provide specialized disclosures in the following sections of our Annual Report:

- Financial performance – Impact of the market environment
- Risk management – Credit risk and Market risk
- Off-balance sheet arrangements
- Fair valuation methods and policies, in Notes 1 and 2 to our Consolidated Financial Statements

U.S. subprime and Alt-A exposures

Certain activities and transactions we enter into expose us to the risk of default of U.S. subprime and Alt-A residential mortgages. Our on-balance sheet exposures to these risks are comprised mainly of holdings of RMBS, CDOs of RMBS and mortgages (whole loans), which are loans rather than securities. RMBS and CDOs of RMBS may be classified on our balance sheets as either HFT or AFS. The mortgages are carried at amortized cost. The fair value of these holdings, net of applicable hedges, is presented in the table below. Our net exposures to U.S. subprime and Alt-A comprise less than .5% of our total assets as at October 31, 2008.

Net exposure to U.S. subprime and Alt-A through RMBS, CDOs and mortgages — Table 54

	2008			
As at October 31 (C$ millions)	Subprime RMBS	Alt-A RMBS	CDOs that may contain subprime or Alt-A	Total
Fair value of securities before hedging	$ 735	$ 1,749	$ 107	$ 2,591
Fair value of securities net of hedging by rating				
AAA	$ 125	$ 1,426	$ –	
AA	64	196	–	
A	63	21	–	
BBB	6	88	–	
Below BBB-	4	18	93	
Total	$ 262	$ 1,749	$ 93	$ 2,104
Fair value of securities net of hedging by vintage				
2003 (or before)	$ 33	$ 30	$ –	
2004	45	102	–	
2005	168	795	34	
2006	16	553	32	
2007	–	269	27	
Total	$ 262	$ 1,749	$ 93	$ 2,104
Amortized cost of subprime/Alt-A mortgages (whole loans)	$ 293	$ 952	$ –	$ 1,245
Total subprime and Alt-A exposures, net of hedging	$ 555	$ 2,701	$ 93	$ 3,349
Sensitivities of fair value of securities, net of hedging, to changes in assumptions				
100 bp increase in credit spread (spread over the benchmark swap curve)	$ (4)	$ (40)	$ (2)	
100 bp increase in interest rates (parallel shift upwards in the swap curve)	2	(2)	–	
20% increase in default rates (default rate on the underlying mortgages held as collateral)	(2)	(18)	(2)	
25% decrease in pre-payment rates (early repayment of principal on the underlying mortgages held as collateral)	(17)	(58)	–	

CDOs by collateral type net of hedging	Table 55
(C$ millions)	Fair value as at October 31, 2008
CDOs fair value net of hedging by collateral type	
CDOs that may contain U.S. subprime or Alt-A mortgages	$ 93
Corporate	493
Total CDOs net of hedging	**$ 586**

Of our total holdings of RMBS, holdings with a fair value of $262 million, net of hedging, may be exposed to U.S. subprime risk. Of this potential exposure, over 96% of our related holdings are rated A and above, and 48% of our related holdings were rated AAA, on a net basis as at October 31, 2008. None of these RMBS were issued within the past two years.

Of our total holdings of RMBS, holdings with a fair value of $1,749 million, net of hedging, may be exposed to U.S. Alt-A risk. Of this potential exposure, over 81% of our related holdings were rated AAA as at October 31, 2008. Less than 47% of these RMBS were issued within 2006 and 2007.

Of our total holdings of CDOs, holdings of $93 million, net of hedging, may be exposed to U.S. subprime or Alt-A risk. This represents less than 16% of our total net unhedged positions in CDOs in which we had direct holdings, which totalled $586 million.

As shown in Table 54, changes in assumptions have relatively minor impacts on the net exposures of our U.S. subprime and Alt-A securities. The greatest impact comes from a 25% decrease in prepayment rates, which results in a decline of 4% or less in the fair values of our U.S. subprime and Alt-A securities, net of hedging. Rising interest rates increase the cash flow available to our senior tranche of mostly floating-rate securities. Further, increases in credit spread or default rates reduce the net fair value by approximately 2% or less as most of our holdings are AAA rated or have a senior ranking in the capital structure.

Special purpose entities

In the normal course of business, we engage in a variety of financial transactions with SPEs that are typically set up for a single, discrete purpose, often have a limited life and serve to legally isolate the financial assets held by the SPE from the selling organization, which may be our customers or us. They are not operating entities and usually have no employees. Under GAAP, SPEs may or may not be recorded on our balance sheets. For a complete discussion of our off-balance sheet SPEs, refer to the Off-balance sheet arrangements section.

Refer to the Critical accounting policies and estimates section and Note 6 to our Consolidated Financial Statements, for information about the VIEs that we have consolidated (on-balance sheet), or in which we have significant variable interests, but have not consolidated (off-balance sheet). Additional information about these VIEs as at October 31, 2008 is provided in the following table.

Variable interest entities — Table 56

	2008						
			Total assets by credit ratings				
As at October 31 (C$ millions)	Total assets (1)	Maximum exposure (2)	AAA and AA	A	BBB	BB and below	Not rated
Unconsolidated VIEs in which we have significant variable interests:							
Multi-seller conduits (3)	$ 42,698	$ 43,513	$ 22,377	$ 18,982	$ 1,136	$ 203	$ –
Structured finance VIEs	15,245	5,319	9,762	1,293	–	–	4,190
Credit investment product VIEs	2,649	1,281	981	68	255	691	654
Investment funds	1,182	349	–	–	–	–	1,182
Third-party conduits	734	386	431	244	59	–	–
Other	155	63	–	–	–	–	155
	$ 62,663	$ 50,911	$ 33,551	$ 20,587	$ 1,450	$ 894	$ 6,181
Consolidated VIEs							
Structured finance VIEs	$ 1,688		$ 536	$ 1,152	$ –	$ –	$ –
Investment funds	1,268		–	–	–	–	1,268
Credit investment product VIEs	196		196	–	–	–	–
Compensation vehicles	76		–	–	–	–	76
Other	113		–	–	–	–	113
	$ 3,341		$ 732	$ 1,152	$ –	$ –	$ 1,457

	2008									
			Total assets by average maturities				Total assets by geographic location of borrowers			
(C$ millions)	Total assets (1)	Maximum exposure (2)	Under 1 year	1–5 years	Over 5 years	Not applicable	Canada	U.S.	Other international
Unconsolidated VIEs in which we have significant variable interests:									
Multi-seller conduits (3)	$ 42,698	$ 43,513	$ 17,274	$ 23,036	$ 2,388	$ –	$ 11,301	$ 29,201	$ 2,196
Structured finance VIEs	15,245	5,319	27	126	10,402	4,690	–	15,245	–
Credit investment product VIEs	2,649	1,281	–	–	2,649	–	–	2,649	–
Investment funds	1,182	349	–	15	–	1,167	325	459	398
Third-party conduits	734	386	719	15	–	–	734	–	–
Other	155	63	–	–	–	155	44	111	–
	$ 62,663	$ 50,911	$ 18,020	$ 23,192	$ 15,439	$ 6,012	$ 12,404	$ 47,665	$ 2,594
Consolidated VIEs									
Structured finance VIEs	$ 1,688		$ –	$ –	$ 1,688	$ –	$ –	$ 1,688	$ –
Investment funds	1,268		–	–	–	1,268	–	600	668
Credit investment product VIEs	196		196	–	–	–	–	–	196
Compensation vehicles	76		–	–	–	76	76	–	–
Other	113		–	–	113	–	14	35	64
	$ 3,341		$ 196	$ –	$ 1,801	$ 1,344	$ 90	$ 2,323	$ 928

(1) Total assets and maximum exposure to loss correspond to disclosures provided in Note 6 to our Consolidated Financial Statements. Refer to Note 6 for further information on these amounts.
(2) The maximum exposure to loss resulting from significant variable interests in these VIEs consists mostly of investments, loans, liquidity facilities and fair value of derivatives. The maximum exposure to loss may exceed the total assets in the multi-seller conduits, as our liquidity facilities may sometimes be extended for up to 102% of the total value of the assets in the conduits.
(3) Represents multi-seller conduits administered by us.

The risk rating distribution of assets within the VIEs in the table above is indicative of the credit quality of the collateral underlying those assets while for certain VIEs, assets or underlying collateral are not rated in the categories disclosed above. Examples of assets that have not been rated include derivatives, mutual fund or hedge fund units and personal or private loans.

Over 86% of assets in unconsolidated VIEs in which we have significant variable interests were rated A or above. Over 56% of assets in our consolidated VIEs were rated A or above. Both are primarily originated in the U.S. with varying maturities.

Multi-seller conduits

Multi-seller conduits that we administer comprise over 68% of the total assets of unconsolidated VIEs as at October 31, 2008, and are used primarily for the securitization of client financial assets. Our conduit programs are administered in North America.

We purchase commercial paper issued by our multi-seller conduits in our capacity as placement agent in order to facilitate the overall program liquidity. As at October 31, 2008, the fair value of our holdings was $598 million which are classified as HFT. Our variable interests in the multi-seller conduits are monitored to ensure that we are not at risk of being required to consolidate the multi-seller conduits under GAAP.

We also provide backstop liquidity facilities and partial credit enhancements to the multi-seller conduits. Refer to the Off-balance sheet arrangements section for the total commitments and amounts outstanding under liquidity and credit enhancement facilities for the multi-seller conduits as at October 31, 2008 and 2007, and for a breakdown of the October 31, 2008 maximum exposure to loss by client asset type.

For committed facilities, our multi-seller conduits purchase high credit quality financial assets primarily from our clients and finance these purchases primarily through the issuance of highly rated commercial paper offered on a discounted basis. For assets purchased, there are supporting backstop liquidity facilities generally equal to 102% of the financing limits established by the conduits under the receivable purchase agreements. The primary purpose of the backstop liquidity facilities is to provide an alternative source of financing in the event that our multi-seller conduits are unable to access the commercial paper market. We are the provider of the transaction-specific backstop liquidity facilities. In addition, we provide a program-wide credit enhancement facility sized at a minimum of 10% of the face amount of commercial paper outstanding. The total committed amount of the backstop liquidity facilities and the program-wide credit enhancement facility exceeds the amount of the total financing limit established by the conduits under the receivable purchase agreements. The maximum potential amount of payments or loss cannot exceed the amount of the financing limit, and therefore the maximum exposure to loss attributable to our backstop liquidity and credit enhancement facilities is less than the total committed amount of these facilities.

Canadian non-bank-sponsored ABCP

Liquidity facilities totalling $185 million, included above in the third-party conduit amounts of maximum exposure to loss, were in place to support Canadian non-bank administered conduits and remain undrawn. As at October 31, 2008, we held $2.6 million of third-party non-bank-sponsored commercial paper that is subject to the Montreal Accord (par value, or the face amount, is $10.5 million) where liquidity is contingent on a general market disruption and in which we were not a significant participant as a distributor or liquidity provider. The market for our remaining holdings remains liquid and active. For additional details on our involvement in the restructuring of non-bank-sponsored ABCP, refer to Note 25 to our Consolidated Financial Statements.

Structured investment vehicles

We held $108 million of normal course interest rate derivatives with structured investment vehicles (SIVs) as at October 31, 2008. We do not hold any commercial paper issued by SIVs. We do not manage any SIVs.

Leveraged finance

Leveraged finance comprises infrastructure finance, essential services and other types of finance. It excludes investment-grade financing and non-investment-grade financing where there is no private equity sponsor involvement. Our total commitments, both funded and unfunded, are summarized in the following table by geography and industry, and comprise less than .6% of our total assets.

Maximum exposure to loss by client asset type Table 57

	2008		
As at October 31 (C$ millions)	Unfunded commitments	Funded exposure	Total exposure
Leveraged finance by geography			
Canada	$ 226	$ 709	$ 935
United States	434	893	1,327
Europe	370	1,360	1,730
	$ 1,030	$ 2,962	$ 3,992
Leveraged finance by type			
Private equity ownership of infrastructure or essential services	$ 265	$ 1,075	$ 1,340
Private equity ownership of other entities	765	1,887	2,652
	$ 1,030	$ 2,962	$ 3,992

As at October 31 (C$ millions)	2008
Exposure by industry	
Communications, media and telecommunications	$ 567
Consumer and industrial products	993
Energy	70
Non-bank financial services	234
Healthcare	348
Infrastructure	1,341
Utilities	387
Real estate	52
Total	$ 3,992

Monoline insurance on non-subprime assets

In addition to the monoline insurance described under the Impact of the market environment section, we have direct and indirect monoline insurance on non-subprime assets, as described in the table and text below.

Direct and indirect monoline insurance — Table 58

	As at October 31, 2008	
(C$ millions)	Principal/ notional	Fair value
Financial Security Assurance Holdings Ltd. (FSA)	$ 375	$ 45
Syncora Holdings Ltd. (Formerly XL Capital Ltd.)	288	42
AMBAC Financial Group (AMBAC)	235	57
Total	$ 898	$ 144

As shown in the table above, as at October 31, 2008, we held monoline insurance protection of $898 million against default of the issuer or counterparty on non-subprime trading assets comprising CDOs or CLOs of corporate names and interest rate swaps. The recorded fair value as at October 31, 2008 on these monoline insurance contracts was $144 million.

We also have indirect monoline insurance exposure through assets that we hold and liquidity facilities that we provide. Monoline insurers provide bond insurance for third-party originated assets that we hold, such as U.S. municipal bonds, ARS and GICs, interest rate swaps, public infrastructure bonds and collateralized GICs. In these cases, we obtain a benefit from the insurance protection. The principal/notional value of these assets as at October 31, 2008 was $2,124 million. The majority of these assets are held in our trading book, with changes in fair value reflected in Non-interest income – Trading revenue, and the implied value of the insurance is reflected in the fair value of the asset (1). In addition, we provide liquidity facilities of $968 million to certain of our customers in respect of their bond issuance programs where monoline insurance was purchased as part of that program, of which $30.5 million was drawn as of October 3, 2008.

(1) Effective August 1, 2008, we adopted the CICA Handbook reclassification amendments and reclassified certain financial assets out of the HFT category to the AFS category during the quarter ended October 31, 2008. By reclassifying the securities, gains or losses will no longer be recorded in net income and are recorded in OCI, and will be subject to an impairment assessment at each reporting date to determine whether any unrealized losses are an other-than-temporary impairment. For further information, refer to Note 3 to our Consolidated Financial Statements.

Additional FSF disclosures

The fair value of our total direct holdings of CMBS was $391 million as at October 31, 2008.

Risk, capital and liquidity management

Overview

Risk environment

Our business activities expose us to a wide variety of risks in virtually all aspects of our operations. During 2008, market and economic conditions were severely impacted as credit markets deteriorated and financial markets experienced widespread illiquidity and elevated levels of volatility. Our risk profile has increased as a result of the deteriorating economic environment, negative credit quality trends and volatile markets.

The shortage of liquidity in the financial markets represents a significant risk facing the global banking industry as it experiences funding shortages and an inability to value and dispose of assets. This shortage of liquidity is resulting in a change in the landscape of the global financial services industry.

The slowing of economic growth and credit tightening has resulted in increasing bankruptcy rates, and deterioration in personal and business credit quality as evidenced through increased delinquency and impaired loans. The extent of this deterioration in 2009 is still very uncertain. Stock market volatility has and will continue to result in increased market risk and losses within certain capital markets businesses and investment portfolios.

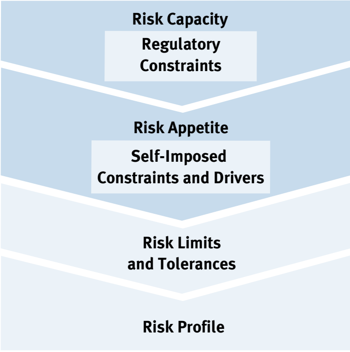
We manage these risks by seeking to ensure that business activities and transactions provide an appropriate balance of return for the risk assumed and remain within our Risk Appetite.

Our management of risk is supported by sound risk management practices and effective enterprise risk management frameworks including capital management and liquidity management. The cornerstone of these frameworks is a strong risk management culture, supported by a robust enterprise-wide set of policies, procedures and limits which involve our risk management professionals, business segments and other functional teams. This partnership is designed to ensure the ongoing alignment of business strategies and activities within our Risk Appetite.

Risk Appetite

Our Risk Appetite framework provides a structured approach to defining the amount and type of risk we are able and willing to accept in the pursuit of our business objectives. The Risk Appetite framework includes:

- Identification of regulatory constraints that restrict our ability to accept risk and helps us to define our Risk Capacity, which represents the maximum amount and type of risk we can accept
- Establishment and regular confirmation of Self-Imposed Constraints and Drivers where we have chosen to limit or otherwise influence the amount of risk we undertake is defined as our Risk Appetite
- Translation of Risk Appetite into Risk Limits and Tolerances that guide our businesses in their risk taking activity
- Measurement and monitoring of our Risk Profile against Risk Limits and Tolerances.



On a quarterly basis an assessment of our Risk Profile against our Risk Appetite is reviewed by senior management. This analysis focuses on areas where our current Risk Profile may be approaching our self-imposed constraints.

Our board-approved self-imposed constraints can be categorized as follows:

- Target AA senior debt rating, which is assessed against benchmarks established by rating agencies for similarly rated banks
- Strong capital ratios
- Limited appetite for earnings volatility including the impact of provision for credit losses and writedowns
- Limit the potential impact of an interest rate shock within established thresholds
- Maintain sound and prudent management of liquidity and funding risk
- Low exposure to "tail events" (i.e., low probability, high adverse impact)
- Ensure compliance with legislative and regulatory requirements

Risk management principles

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

(i) Balancing risk and reward is achieved through aligning risk appetite with business strategy, diversifying risk, pricing appropriately for risk, mitigating risk through preventive controls and transferring risk to third parties.

(ii) Management of risk is shared at all levels of the organization. Business management is accountable for all risks assumed in their operations, with direction and oversight provided by Group Risk Management (GRM), GTO, and Global Functions.

(iii) Effective decision-making is based on a strong understanding of risk.

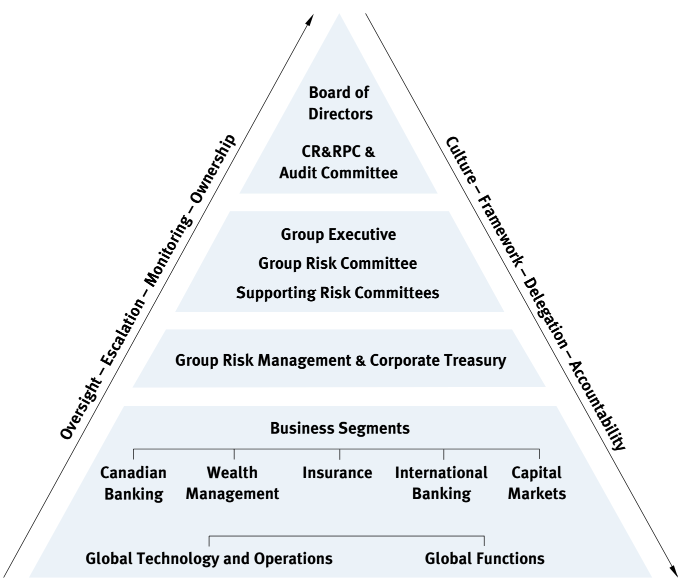
(iv) Avoiding all business activities that are not consistent with our values, Code of Conduct or policies.

(v) Assuring that services we provide are suitable for and understood by our clients.

(vi) Appropriate judgment is required throughout the organization in order to manage risk.

Risk governance

Our overall risk governance structure is presented below. It illustrates the roles and responsibilities of the various stakeholders.



Board and its committees

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

The CR&RPC shapes and influences our risk culture and ensures management have risk policies, processes and controls in place to manage significant risks and ensure compliance with the *Bank Act* (Canada) and other relevant laws and regulations.

The Audit Committee provides oversight over the integrity of the financial statements and reviews the adequacy and effectiveness of internal controls and the control environment, and ensures that policies related to liquidity, funding and capital management are in place.

Group Executive and Group Risk Committee

Group Executive (GE) is our senior management team and is led by our President and CEO. GE has overall responsibility for our strategy and its execution by establishing the "tone at the top." Their risk oversight role is executed primarily through the mandate of Group Risk Committee (GRC) and the five supporting risk committees as follows:

- The Asset and Liability Committee (ALCO) reviews, recommends, and approves policy frameworks pertaining to capital management, structural interest rate risk management, funds transfer pricing, liquidity and funding and subsidiary governance.
- The Ethics and Compliance Committee directly supports our management of regulatory, compliance and reputation risk.
- The Policy Review Committee (PRC) acts as the senior risk approval authority relating to policies, products and services.
- The Structured Transactions Oversight Committee (STOC) reviews structured transactions and complex credits.
- The USA Corporate Governance Committee is responsible for all corporate governance matters of our U.S. operations.

The GRC approves credit policies and products with significant risk implications and recommends credit transactions in excess of senior management's authority to the Board of Directors for approval. It also reviews enterprise-wide credit reporting, significant exposures and processes, and ensures that appropriate and timely information is provided to the Board of Directors on matters relating to credit risk and its management.

GRM and Corporate Treasury

GRM works in full partnership with our businesses to identify, assess, mitigate and monitor all forms of risk. Together with the President and CEO and other members of GE, the Chief Risk Officer (CRO) and GRM are primarily responsible for the promotion of our risk management culture. The CRO and GRM responsibilities include:

- Establishing comprehensive risk identification and approval processes
- Establishing appropriate methodologies for risk measurement.
- Establishing risk controls and limits to ensure appropriate risk diversification and optimization of risk and return on both a portfolio and transactional basis
- Monitoring risk levels and reporting to senior management and the Board of Directors on major risks we assume or face
- Acting as the catalyst in defining and communicating our risk appetite.

Corporate Treasury is responsible for the management, oversight and reporting of our capital position, structural interest rate risk, and liquidity and funding risks. Corporate Treasury recommends policies and authorities relating to the identification, measurement and management of liquidity and funding risk through ALCO and GRC for approval by the Audit Committee.

Business segments and corporate support groups

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

Risk measurement

Our ability to measure risks is a key component of our enterprise-wide risk management process. Certain measurement methodologies are common to a number of risk types, while others only apply to a single risk type. While quantitative risk measurement is important, we also place reliance on qualitative factors. Our measurement models and techniques are continually subject to independent assessment for appropriateness and reliability. For those risk types that are hard to quantify, we place greater emphasis on qualitative risk factors and assessment of activities to gauge the overall level of risk in order to ensure that they are within our risk appetite.

Expected loss

Expected loss represents losses that are statistically expected to occur in the normal course of business in a given period of time.

With respect to credit risk, the key parameters used to measure our expected loss are the probability of default (PD), loss given default (LGD) and exposure at default (EAD). These parameters are determined based on historical experience, supplemented by benchmarking and updated on a regular basis, and are defined as follows:

- PD: An estimated percentage that represents the probability those obligors within a specific rating grade or for a particular pool of exposures will default within a one-year period.
- LGD: An estimated percentage of EAD that is expected to be lost in the event of default of an obligor.
- EAD: An estimated dollar value of the expected gross exposure of a facility upon default of the obligor before specific provisions or partial write-offs.

With respect to trading market risk, we use a statistical technique known as Value-at-Risk (VaR) to measure expected loss. It is a generally accepted risk management concept that uses statistical models to estimate within a given level of confidence the maximum loss in market value we would experience in our trading portfolio from an adverse one-day movement in market rates and prices. For further details, refer to the Market risk section. For trading credit risk, we use a statistical model to derive a credit risk exposure profile by modeling the potential value of the portfolio of trades with each counterparty over its life, based on simulated market rates and prices, to estimate expected credit risk exposure and expected loss. The model takes into account wrong-way risk where our exposure to a particular counterparty increases as creditworthiness deteriorates, in which case we use the worst case exposure value.

Unexpected loss and Economic Capital

Unexpected loss is a statistical estimate of the amount by which actual losses can exceed expected loss over a specified time horizon, measured at a specified level of confidence. On an enterprise-wide basis, we use Economic Capital to estimate the unexpected loss associated with our business activities. We calculate Economic Capital by estimating the level of capital that is necessary to cover risks consistent with our desired solvency standard and desired debt rating. The use of Economic Capital as a risk measure enables us to assess performance on a comparable risk-adjusted basis at the transaction and portfolio levels. For further information, refer to the Capital management section.

Sensitivity analysis and stress testing

Sensitivity analysis and stress testing are risk measurement techniques which help us ensure that the risks we take remain within our risk appetite and our level of capital remains adequate. Sensitivity analysis involves varying the model inputs and assumptions to assess the impact on various risk measures. Stress testing helps us determine the potential impact of extreme market volatility and severe economic conditions on the organization.

Our enterprise-wide stress testing program utilizes stress scenarios which are conservatively based on unlikely but possible adverse market and economic events. We evaluate sets of common stress scenarios with relevant input that is integrated to develop an enterprise-wide view of the impacts on our financial results and capital requirements. This program uses macroeconomic projections that are then transformed into stress impacts on various types of risk across the organization.

Scenarios include shallow recession, severe recession, real estate weakness, financial sector crisis, stagflation and energy price volatility. The current economic environment is comparable to the assumptions under our shallow recession scenario.

Model validation

We use models to measure and manage different types of risk. We employ a holistic process whereby a model, its inputs and outputs are reviewed. This includes the data used, the logic and theoretical underpinnings of the model, the processing component, the interpretation of the output and the strategic use of the model results. Our model validation process is designed to ensure that all underlying model risk factors are identified and successfully mitigated. To ensure robustness of our measurement techniques, model validation is carried out by our risk professionals independent of those responsible for the development and use of the models and assumptions. In cases where independent validation is not internally possible (e.g., exceptionally specialized models) outside experts are hired to validate the model.

Risk control

Our enterprise-wide risk management approach is supported by a comprehensive set of risk controls. The controls are anchored by our Enterprise risk management framework, Risk-specific frameworks, Capital management framework and Liquidity management framework. These frameworks lay the foundation for the development and communication of policies, establishment of formal risk review and approval processes, and the establishment of delegated authorities and limits. The implementation of robust risk controls enables the optimization of risk and return on both a portfolio and a transactional basis.

Our Enterprise risk management framework provides an overview of our enterprise-wide program for identifying, measuring, controlling and reporting on the significant risks we face.

Our risk management frameworks and policies are structured into the following four levels:

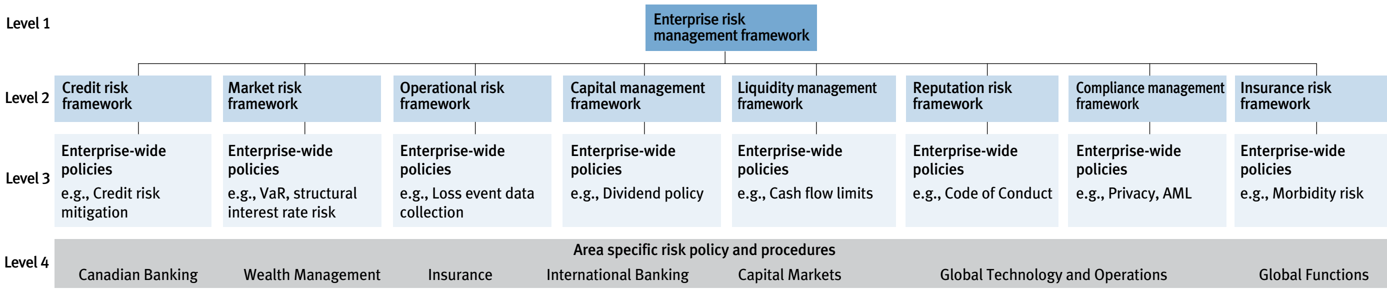
Risk policy architecture

Level 1: Enterprise Risk Management Framework: This framework serves as the foundation of our risk-specific frameworks and policies, and sets the “tone at the top.”

Level 2: Risk-Specific Frameworks: These individual frameworks elaborate on each risk type and explain the following areas:
- Mechanisms for identifying, measuring, monitoring and reporting of risk
- Key policies
- Respective roles and responsibilities related to a specific risk.

Level 3: Enterprise Risk Policies: These policies are considered our minimum requirements for our business segments, GTO and Global Functions, with respect to various risk types.

Level 4: Business Segments and GTO-Specific Policies and Procedures: These policies and procedures are established by the business segments and GTO to manage the risks that are unique to their operations.



Risk review and approval processes

Our risk review and approval processes are established by GRM based on the nature, size and complexity of the risk involved. In general, the risk review and approval process involves a formal review and approval by an individual, group or committee that is independent from the originator. The approval responsibilities are governed by delegated authorities based on the following four categories:

- Transactions: We strive to ensure that risk assessment processes are in place for the review and approval of all types of transactions, including credit transactions.
- Structured Transactions and Complex Credits: The STOC reviews new structured products and transactions with significant reputation, legal, accounting, regulatory or tax risks.
- Projects and Initiatives: Documentation of risk assessment is formalized through the requirement that each Project Appropriation Request (PAR) be reviewed and approved by GRM and Global Functions.
- New Products and Services: Policies and procedures for the approval of new or amended products and services are designed 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 the setting of credit, market and insurance risk limits to the President and CEO, COO and CRO. These delegated authorities allow these officers to set risk tolerances, approve geographic (country and region) and industry sector exposure limits within defined parameters, and establish underwriting and inventory limits for trading and investment banking activities. These delegated authorities are reviewed and approved annually by the Board of Directors and the CR&RPC. GRM is responsible for establishing:

- The criteria whereby these authorities may be further delegated
- The minimum requirements for documenting, communicating and monitoring the use of these delegated authorities.

CR&RPC must approve any transactions which exceed management's delegated authorities.

The Board of Directors through the Audit Committee approves the capital plan and risk limits for controlling liquidity and funding risk. These limits form part of our liquidity management framework and are a key risk control designed to ensure that reliable and cost-effective sources of cash are available to satisfy our current and prospective commitments, both on- and off-balance sheet.

Reporting

Enterprise-level risk monitoring and reporting is a critical component of our enterprise risk management program and supports the ability of senior management and the Board of Directors to effectively perform their risk management and oversight responsibilities.

Internal reporting is provided via the Enterprise Risk Report on a quarterly basis with the purpose of ensuring senior management and the Board of Directors receive timely and actionable forward-looking risk reporting on significant risk issues impacting our organization. This reporting focuses on assessing the status of our current and projected Risk Profile in relation to our risk appetite. External reporting is provided as required by law and other relevant regulations. Regular reporting on risks is provided to stakeholders including regulators, external ratings agencies and analysts.

Credit risk

Credit risk is the risk of loss associated with a counterparty's inability or unwillingness to fulfill its payment obligations. Credit risk may arise directly from claims against a debtor or obligor, an issuer of securities or a policyholder through outstanding premiums, or indirectly from claims against a guarantor of credit obligations or a reinsurer, resulting from ceded insurance risk.

We offer a wide range of credit products and services to individual and business clients within Canada, the U.S. and in numerous other countries. Core products offered include loans, residential and commercial mortgages, credit cards, lines of credit and letters of credit. Specialized credit services include asset-backed financing, margin lending, securities lending and project finance. The majority of our businesses offer credit products and services. Credit risk is also incurred through other activities not directly linked to the provision of credit products and services to clients, such as short-term investments relating to liquidity management and insurance business investment activities.

Our credit offerings are a significant driver of overall business performance. The failure to effectively manage credit risk across the organization and all products, services and activities can have a direct, immediate and material impact on our earnings and reputation.

The deteriorating economy, rising unemployment and tighter credit conditions negatively impacted household and business credit quality during 2008. These conditions have resulted in increased levels of impaired loans, allowance for credit losses and provision for credit losses. Within the U.S., housing value declines, a slowdown in consumer spending and turmoil in the global financial markets have negatively impacted our builder finance portfolio.

Our credit risk management principles are guided by the six overarching risk management principles discussed in the Risk management principles section. In particular, the following two principles are complemented by the items below with respect to credit risk management.

The effective balancing of risk and return is achieved through:

- Ensuring that credit quality is not compromised for growth
- Diversifying credit risks in transactions, relationships and portfolios
- Using our credit risk rating and scoring systems, policies and tools
- Pricing appropriately for the credit risk taken
- Applying consistent credit risk exposure measurements
- Mitigating credit risk through preventive and detective controls.
- Transferring credit risk to third parties where appropriate through approved credit risk mitigation techniques, including hedging activities and insurance coverage.

All business activities that are not consistent with our values, Code of Conduct or policies must be avoided. Such business activities include:

- Direct financing of companies manufacturing equipment or material for nuclear, chemical or biological warfare, landmines or cluster bombs
- Financing Internet gambling businesses
- Granting credit to entities subject to economic sanctions
- Credit transactions that facilitate illegal activity or contribute to misleading financial statements or regulatory reporting
- Credit transactions involving undocumented agreements, disbursements or funds transfers
- Granting credit to a business or individual engaged in activities inconsistent with generally accepted standards of ethical behaviour in the community.

Responsibilities

The PRC and the STOC support the GRC in meeting its credit mandate. The PRC approves enterprise-wide credit risk policies, new and amended business-specific credit risk policies and products with significant risk implications. STOC provides risk oversight of structured transactions and complex credits, including identification and mitigation of risks, and reviews and approves products and transactions referred to it in accordance with our policies.

Risk measurement

Given the potential for credit risk to significantly impact our earnings, it is critical that we accurately quantify credit risk, at both the individual obligor and portfolio levels. This allows us to effectively estimate expected credit losses and minimize unexpected losses in order to limit earnings volatility.

We employ different risk measurement processes for our wholesale and retail portfolios. The wholesale portfolio comprises business, sovereign and bank exposures, which include mid-size to large corporations and certain small businesses that are managed on an individual client basis. The retail portfolio is comprised of residential mortgages and personal, credit card and small business loans, which are managed on a pooled basis. This categorization of exposures is consistent with Basel II, which require banks to disclose their exposures based on how they manage their business and risks.

In measuring credit risk under Basel II, two principal approaches are available: Advanced Internal Ratings Based (AIRB) and Standardized. Most of our credit risk exposure is measured under the AIRB Approach.

Under the AIRB Approach, we use our own estimates of the three key parameters (PD, LGD, EAD) based on historical experience from internal credit risk rating systems in the derivation of risk-weighted assets in accordance with supervisory standards. Credit risk rating systems are designed to assess and quantify the risk inherent in credit activities in an accurate and consistent manner.

Under the Standardized Approach, used primarily for RBC Dexia IS, RBC Bank (USA) and our Caribbean banking operations, risk weights prescribed by OSFI are used to calculate risk-weighted assets for credit risk exposures. Credit assessments by OSFI-recognized external credit rating agencies of S&P, Moody's, Fitch Ratings (Fitch) and DBRS are used to risk-weight our sovereign and bank exposures based on the standards and guidelines issued by OSFI. For our business and retail exposures, we use the standard risk weights prescribed by OSFI.

Wholesale credit portfolio

The wholesale credit risk rating system is designed to measure and identify the risk inherent in our credit activities in an accurate and consistent manner along two dimensions.

In the first dimension, each obligor is assigned a borrower risk rating (BRR), which reflects an assessment of the credit quality of the obligor. Each BRR has PD assigned to it. This PD is an estimate of the probability that an obligor with a certain BRR will default within a one-year time horizon. The BRR differentiates the riskiness of obligors and represents our evaluation of the obligor's ability and willingness to meet its contractual obligations despite adverse or stressed business conditions, troughs in the business cycle, economic downturns or unexpected events that may occur. The assignment of BRRs is based on the evaluation of obligors' business risk and financial risk based on fundamental credit analysis supplemented by quantitative models.

Our rating system is largely consistent with that of external rating agencies. The following table provides a mapping of our 22-grade internal risk ratings compared to ratings by external rating agencies.

Internal ratings map — **Table 59**

Ratings	Standard & Poor's (S&P)	Moody's Investor Service (Moody's)	Description
1 to 4	AAA to AA-	Aaa to Aa3	Investment Grade
5 to 7	A+ to A-	A1 to A3	
8 to 10	BBB+ to BBB-	Baa1 to Baa3	
11 to 13	BB+ to BB-	Ba1 to Ba3	Non-investment Grade
14 to 16	B+ to B-	B1 to B3	
17 to 20	CCC+ to CC	Caa1 to Ca	
21 to 22	C to D	C to Bankruptcy	Impaired/Default

In the second dimension, LGD represents the portion of EAD expected to be lost when an obligor defaults. LGD rates are largely driven by factors such as seniority of debt, collateral security, client type, and the industry in which the obligor operates. EAD represents an estimate of the expected gross exposure of a credit facility at the time of default of the obligor. At default, the obligor may have drawn the facility fully or have repaid some of the principal. We estimate EAD based on the outstanding portion and an estimated amount of the undrawn portion that is expected to be drawn at the time of default.

The estimation of these parameters represents a critical part of our credit rating system. It is a process of quantifying the risk associated with obligors and the related facilities by estimating and assigning values to the parameters. Parameter estimations are based on historical internal experience and are benchmarked to external data where applicable. While PD is used at the obligor level, LGD and EAD are estimated for the various credit facilities under that obligor. These ratings and risk measurements are used in the determination of our expected losses, unexpected losses as well as economic and regulatory capital. They are also used in the setting of risk limits, portfolio management and product pricing. Our wholesale credit risk rating system is reviewed and updated on a regular basis to ensure its accuracy and consistency.

Retail credit portfolio

Credit scoring is the primary risk rating system for assessing obligor and transaction risk for retail exposures. Credit scoring is employed in the acquisition of new clients (acquisition scoring) and portfolio management of existing clients (behavioural scoring).

Acquisition scoring models, which are used for underwriting purposes, utilize established statistical methods of analyzing new applicant characteristics and past performance to estimate future credit performance. In model development, all accessible sources of data are used and include information obtained from the client such as employment status, data from our internal systems such as loan information and information from external sources such as credit bureaus.

Behavioural scoring is used in the ongoing management of retail clients with whom we have an established relationship. It utilizes statistical techniques that capture past performance to predict future behaviour and incorporate information, such as cash flow and borrowing trends, as well as the extent of our relationship with the client. The behavioural risk score is dynamic and is generally updated on a monthly basis to continually re-evaluate the risk. Characteristics used in behavioural scoring models are based on information from existing accounts and lending products for each client, and from information obtained from external sources, such as credit bureaus.

For overall portfolio management, retail exposures are assessed on a pooled basis, with each pool consisting of exposures that possess similar homogeneous characteristics. Pooling of exposures allows for more precise and consistent estimates of default and loss characteristics. Criteria used to pool exposures for risk quantification include behavioural score, product type (mortgage, credit cards, lines of credit and installment loans), collateral type (chattel, liquid assets and real estate), the time that the account has been on book, and the delinquency status (performing, delinquent and default) of the exposure. Regular monitoring and periodic adjustments and alignments are conducted to ensure that this process provides for a meaningful differentiation of risk. It also allows the grouping of homogeneous exposures from a risk perspective and permits accurate and consistent estimation of loss characteristics at the pool level. Migration between the pools is considered when assessing credit quality.

The pools are also assessed based on the following parameters: PD, LGD and EAD. The estimation of these parameters takes into account borrower and transaction characteristics, including behavioural credit score, product type and delinquency status. The LGD is estimated based on transaction-specific factors, including product and collateral types. Our risk ratings are reviewed and updated on a regular basis.

The following table maps PD bands to various risk levels:

Internal ratings map — Table 60

PD bands	Description
0.0%–1.0%	Low Risk
1.1%–6.4%	Medium Risk
6.5%–99.99%	High Risk
100.00%	Impaired/Default

Validation

Our credit risk rating systems and methodologies are subject to independent validation on a regular basis. The validation processes provide support for assuring confirmation that our systems properly identify factors that help differentiate risk, appropriately quantify risk, produce measures of risk that respond to changes in the macroeconomic and credit environments, and are consistent with regulatory requirements and our ratings philosophy. Those responsible for performing validation activities are functionally separate from the groups whose methodologies and processes are subject to validation.

We ensure that there is proper separation of responsibility between groups responsible for performing validation activities and groups whose methodologies and process are subject to validation. Validation results and conclusions are also reviewed by Internal Audit Services on a regular basis.

The validation of the risk parameter estimation process for both wholesale and retail portfolios includes the examination and assessment of the following:

- Quantification methodologies and processes, as well as the reasonableness of outputs
- Relationship between historical experience and internally derived parameter values that incorporate estimators' expert judgment and external benchmarking
- Sufficiency of data observations, the appropriateness of data sources and data segmentation
- Statistical significance and predictive power of the estimated values. Levels of tolerance are defined and mapped against actual results, with deviations explicitly noted.

A combination of quantitative (statistical) and qualitative (non-statistical) validation methods are employed to ensure that our credit risk rating system is valid. At a minimum, we adopt the following techniques intended to ensure that the validation process:

- Examine relevant and material data available from internal and external sources to establish a context for assumptions, calculations and outputs
- Demonstrate that estimates are grounded in historical experience
- Provide reasonable predictors of future default and loss.

Detailed validation reports are produced for the assessment of risk rating methodology and risk parameter estimation.

Economic Capital

Economic Capital which serves as management's estimate of the amount of equity required to underpin our risks is used in risk-based pricing decisions and profitability measurement to ensure an appropriate risk and return balance. Within our wholesale credit portfolio, it is also used in setting single-name and industry limits in order to manage concentration risk. For further details, refer to the Capital management section.

Sensitivity and stress testing

Sensitivity testing and stress scenario analysis are used to estimate the capital impacts and financial losses we might expect to occur under stress situations. While unexpected losses are, by nature, difficult to quantify, we use stress testing to better understand and mitigate the potential for unexpected credit losses. These activities serve to alert management to implications for overall capital adequacy. Scenarios such as economic or industry downturns are chosen on the basis of being meaningful, representative of plausible events or circumstances, and calibrated to feature a range of severities. Stress testing is one component of our internal capital adequacy assessment process (ICAAP) analysis. Refer to the Capital management section for further details on ICAAP.

Risk control

Our enterprise-wide credit risk policies are developed, communicated and maintained by GRM. These policies set out the minimum requirements for the prudent management of credit risk in a variety of transactional and portfolio management contexts.

Credit risk policies

Our credit risk policies have evolved over many years as the organization has grown in geographic scope and product complexity. They have been refined based on experience, regulatory influences and innovations in risk management, and they are managed under six major categories as follows:

- Credit Risk Assessment includes policies related to credit risk analysis, risk rating, risk scoring, and trading credit
- Credit Risk Mitigation includes credit structuring, collateral and guarantees
- Credit Risk Approval includes credit risk limits and exceptions.
- Credit Documentation focuses on documentation and administration
- Credit Review and Deterioration includes monitoring and review.
- Credit Portfolio Management includes portfolio management and risk quantification.

Approval of credit products and services

Our products and services are subject to robust risk review and approval processes. Proposals for new and amended credit products and services are comprehensively reviewed and approved under a risk assessment framework. A risk assessment is used to articulate the risk level of the proposal to determine the level of risk approval required. For proposals with significant risk implications, approval by the PRC is required.

Credit risk limits
Limits are used to ensure our portfolio is well diversified and within our risk appetite as approved by the Board of Directors. Our credit limits are established at the following levels to ensure adequate diversification and to reduce concentration risk:

- Single-name limits
- Underwriting risk
- Geographic (country and region) limits
- Industry sector limits
- Product and portfolio limits

To ensure that single-name credit risk exposure remains well under regulatory threshold, and concentration risk is prudently managed, we have established (i) internal single-name credit risk exposure limits as a percentage of total capital, which are lower than that required by OSFI, and (ii) a broader and more conservative definition of single-name credit risk exposure than that used by OSFI. These controls provide a significant buffer between our exposure tolerances and those of our regulators. Exceptions are monitored by GRM and reported to the CRO, with requisite reporting to the CR&RPC in accordance with its mandate.

Credit risk mitigation
We seek to mitigate our exposure to credit risk through a variety of means, including structuring of transactions, collateral and credit derivatives. The policies and processes that are in place regarding the monitoring of the effectiveness of our credit risk mitigation are discussed below.

Structuring of transactions
Proper structuring of a credit facility is a key factor in mitigating risk at the transaction level and often includes the use of guarantees, security, seniority and covenants. We use credit policies and procedures to set out requirements for structuring transactions. Product-specific guidelines set out appropriate product structuring as well as client and guarantor criteria. The third-party guarantors that we deal with are primarily sovereign-sponsored agencies.

Collateral
For most of our credit products and services, we generally require obligors to pledge collateral as security when we advance credit. This provides some protection in case of default. Real estate, liquid assets, cash, bonds and government securities are examples of the collateral securities we accept. The extent of risk mitigation provided by collateral depends on the amount, type and quality of the collateral taken. Specific requirements relating to collateral valuation and management are documented in our credit risk management policies.

Credit derivatives
Credit derivatives are used as a tool to mitigate industry sector concentration and single-name exposure. Procedures are in place to ensure these economic hedges are efficient and effective. The counterparties that we transact with are typically investment-grade banks and non-bank financial institutions.

All derivative transactions supported by collateral are documented using industry-standard master agreements. Internal policies have been developed for each jurisdiction in order to ensure the legal enforceability of the collateral arrangements. Cash and securities held as collateral are held by us or by our authorized custodian. Concentration within the collateral taken is minimal.

Credit valuation adjustments are made for derivative transactions, which are exposed to changes in counterparty credit quality. Credit valuation adjustments are calculated at least once a month using internal models under a GRM-approved methodology, which consist of sophisticated mathematical algorithms. The reasonableness of the level of valuation adjustments is independently verified on a monthly basis.

Netting is a technique that can reduce credit exposure from derivatives and is generally facilitated through the use of master netting agreements. A master netting agreement provides for a single net settlement for all financial instruments covered by the agreement in the event of default on, or termination of, any one contract with the counterparty. Our trading units provide GRM with relevant details of outstanding transactions, including itemized fair value data. This data is used to monitor the amount of netting benefit recognized. For further details, refer to Note 7 to our Consolidated Financial Statements.

Reporting
GRM provides a number of enterprise-level credit risk reports to senior management and the Board of Directors so as to ensure that shifts in our credit risk exposure or negative trends in our credit profile are highlighted and appropriate actions can be taken where necessary.

An Enterprise Risk Report is distributed to the Board of Directors, Group Risk Committee and senior executives on a quarterly basis. The report provides an overview of our risk profile, including trending information and significant risk issues. It also includes analysis of significant shifts in exposures, expected loss, Economic Capital and risk ratings. Large exposures subject to credit policy exceptions, as well as significant counterparty exposure and downgrades, are also reported. Analysis is provided on a portfolio and industry basis and includes the results of stress testing and sensitivity analysis.

Separate business-specific reports are also provided to senior management, who monitor the credit quality of their respective portfolios and emerging industry or market trends.

Gross credit risk exposure
Gross credit risk exposure is categorized into lending-related and other, and trading-related.

Lending-related and other credit risk exposure comprises outstanding loans and acceptances, undrawn commitments as well as other exposure, including contingent liabilities such as letters of credit and guarantees, and AFS debt securities. For undrawn commitments and contingent liabilities, gross exposure represents an estimated portion of the contractual amount that is expected to be drawn at the time of default of an obligor. For further details on the valuation of loans and acceptances and contingent liabilities, refer to Notes 1, 2 and 25 to our Consolidated Financial Statements.

Trading-related credit risk exposure consists of repo-style transactions, which include repurchase and reverse repurchase agreements and securities lending and borrowing transactions, as well as over-the-counter derivatives. For repurchase and reverse repurchase agreements, gross exposure represents the amount at which securities were initially sold or acquired. For securities lending and borrowing transactions, gross exposure is the amount at which securities were initially loaned or borrowed. For over-the-counter derivatives, the gross exposure amount represents the credit equivalent amount, which is defined by OSFI as the replacement cost plus an add-on amount for potential future credit exposure.

For more information on repurchase and reverse repurchase agreements and derivative-related credit risk, refer to Notes 1, 7 and 29 to our Consolidated Financial Statements.

Credit risk exposure by portfolio and sector — Table 61

As at October 31 (C$ millions)	2008 Lending-related and other: Loans and acceptances: Outstanding	Loans and acceptances: Undrawn commitments	Other (1)	Trading-related: Repo-style transactions (2)	Over-the-counter derivatives (3)	Total exposure (4)
Residential mortgages (5)	$ 122,991	$ 2	$ –	$ –	$ –	$ 122,993
Personal	60,727	42,462	67	–	–	103,256
Credit cards	8,933	19,933	–	–	–	28,866
Small business (6)	2,804	2,265	49	–	–	5,118
Retail	$ 195,455	$ 64,662	$ 116	$ –	$ –	$ 260,233
Business (7)						
Agriculture	$ 5,305	$ 409	$ 18	$ –	$ 54	$ 5,786
Automotive	3,999	1,856	137	20	507	6,519
Consumer goods	7,389	2,085	396	–	502	10,372
Energy	8,146	8,371	2,443	1	1,801	20,762
Non-bank financial services	8,788	5,212	4,589	49,463	18,241	86,293
Forest products	1,152	523	101	7	122	1,905
Industrial products	5,033	2,177	323	–	306	7,839
Mining and metals	3,947	1,206	542	69	962	6,726
Real estate and related	22,978	3,406	1,428	7	397	28,216
Technology and media	3,206	3,026	296	–	490	7,018
Transportation and environment	4,239	2,026	569	–	865	7,699
Other (8)	25,623	6,357	10,100	1,661	10,710	54,451
Sovereign (9)	2,496	2,548	10,749	2,784	17,824	36,401
Bank (10)	5,284	4,308	57,793	61,675	34,171	163,231
Wholesale	$ 107,585	$ 43,510	$ 89,484	$ 115,687	$ 86,952	$ 443,218
Total exposure	$ 303,040	$ 108,172	$ 89,600	$ 115,687	$ 86,952	$ 703,451

(1) Includes contingent liabilities such as letters of credit and guarantees, and AFS debt securities.
(2) Includes repurchase and reverse repurchase agreements and securities borrowing and lending transactions.
(3) Credit equivalent amount after factoring in master netting agreements.
(4) Total exposure represents exposure at default, which is the expected gross exposure upon the default of an obligor. This amount is before any specific allowances and does not reflect the impact of credit risk mitigation. Exposure under Basel II asset classes of qualifying revolving retail and other retail are largely included within Personal and Credit cards, while home equity lines of credit are included in Personal.
(5) Includes certain synthetic mortgage securitizations.
(6) Includes small business exposure managed on a pooled basis.
(7) Includes small business exposure managed on an individual client basis.
(8) The Lending-related and other credit risk exposure of our Other business sector within the Wholesale portfolio comprises: (i) for Outstanding loans and acceptances: other services \$10.9 billion, financing products \$4.9 billion, holding and investments \$4.6 billion, health \$2.5 billion and other \$2.7 billion; (ii) for Undrawn loans and acceptances commitments: other services \$3.7 billion, health \$.9 billion, holding and investments \$.7 billion, financing products \$.6 billion and other \$.4 billion; and (iii) for Other lending-related: other services \$2.2 billion, financing products \$.7 billion, holding and investments \$.6 billion and other \$6.5 billion. The Trading-related credit risk exposure of our Other business sector within the Wholesale portfolio comprises: (i) for Repo-style transactions: other services \$.4 billion, holding and investments \$.3 billion, financing products \$.1 billion and other \$.8 billion; and (ii) Over-the-counter derivatives: financing products \$5.4 billion, other services \$1.7 billion and other \$3.5 billion.
(9) Sovereign refers to all central governments and agencies, central banks, as well as other qualifying public sector entities and multilateral development banks.
(10) Bank refers primarily to regulated deposit-taking institutions and securities firms.

2008

As at October 31, 2008, our gross credit risk exposure was \$703 billion, with most of our exposure related to loans and acceptances and repo-style transactions. Retail credit risk exposure was \$260 billion, or 37%, of our total exposure. Our largest retail exposure was in residential mortgages and personal loans. Wholesale credit risk exposure was \$443 billion, or 63%, of our total exposure. Our largest wholesale exposure was in the bank portfolio and the Non-bank financial services sector, with which we transact the majority of our repo-style transactions and over-the-counter derivative trades.

Our credit portfolio remained well diversified across all geographic regions. The majority of our exposure was in Canada, followed by Other international and the U.S.

Loans and acceptances by portfolio and sector				Table 62
(C$ millions)	2008	2007	2008 vs. 2007 Increase (decrease)	
Residential mortgages (1)	$ 122,991	$ 109,745	$ 13,246	12%
Personal	60,727	48,743	11,984	25%
Credit cards	8,933	8,322	611	7%
Small business (2)	2,804	2,652	152	6%
Retail	$ 195,455	$ 169,462	$ 25,993	15%
Business (3)				
Agriculture	$ 5,305	$ 5,367	$ (62)	(1)%
Automotive	3,999	3,285	714	22%
Consumer goods	7,389	5,206	2,183	42%
Energy	8,146	7,632	514	7%
Non-bank financial services	8,788	6,959	1,829	26%
Forest products	1,152	1,349	(197)	(15)%
Industrial products	5,033	4,119	914	22%
Mining and metals	3,947	2,301	1,646	72%
Real estate and related	22,978	19,187	3,791	20%
Technology and media	3,206	2,423	783	32%
Transportation and environment	4,239	2,656	1,583	60%
Other (4)	25,623	17,583	8,040	46%
Sovereign (5)	2,496	932	1,564	168%
Bank (6)	5,284	2,754	2,530	92%
Wholesale	$ 107,585	$ 81,753	$ 25,832	32%
Total loans and acceptances (7)	$ 303,040	$ 251,215	$ 51,825	21%
Total allowance for loan losses	$ (2,215)	$ (1,493)	$ (722)	(48)%
Total loans and acceptances, net of allowance for loan losses	$ 300,825	$ 249,722	$ 51,103	20%

(1) Includes certain synthetic mortgage securitizations.
(2) Includes small business exposure managed on a pooled basis.
(3) Includes small business exposure managed on an individual client basis.
(4) Other in 2008 related to other services $10.9 billion, financing products $4.9 billion, holding and investments $4.6 billion, health $2.5 billion, and other $2.7 billion.
(5) Sovereign refers to all central governments and agencies, central banks, as well as other qualifying public sector entities and multilateral development banks.
(6) Bank refers primarily to regulated deposit-taking institutions and securities firms.
(7) Total loans and acceptances does not reflect the impact of credit risk mitigation. Basel II asset classes of qualifying revolving retail and other retail are largely included within Personal and Credit cards, while home equity lines of credit are included in Personal.

Loans and acceptances outstanding portfolio analysis

2008 vs. 2007

During 2008, our portfolio remained diversified and continued to show solid growth. Total loans and acceptances increased $52 billion, or 21%, compared to the prior year, reflecting growth in both our retail and wholesale loan portfolios. The favourable impact of the weaker Canadian dollar on the translation of U.S. dollar-denominated loans and acceptances into Canadian dollars also contributed to the increase.

Retail credit portfolio

Retail loans increased $26 billion, or 15%, from a year ago, largely due to portfolio growth in residential mortgages and personal loans. Our acquisitions of RBTT and ANB accounted for $4 billion of this growth.

Residential mortgages were up $13 billion, or 12%, primarily in Canada, as housing market activity remained strong throughout most of the year. Acquisitions of RBTT and ANB accounted for $2 billion of the increase.

Personal loans increased $12 billion, or 25%, largely attributable to growth in home equity lending in Canada. Acquisitions of RBTT and ANB accounted for $2 billion of this increase. Credit card loans increased $.6 billion, or 7%.

Wholesale credit portfolio

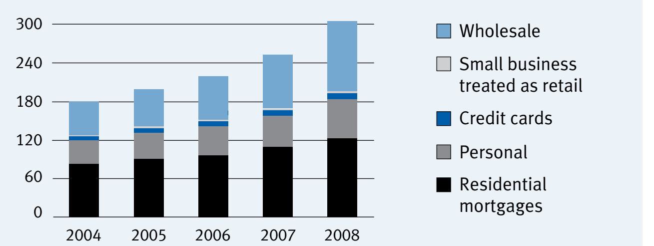
Wholesale loans and acceptances were up $26 billion, or 32%, from the prior year, primarily reflecting portfolio growth. Our RBTT and ANB acquisitions also contributed $8 billion to the increase.

Other increased by $8 billion, or 46%, spread across several sub sectors. Our Real estate and related exposure increased $3.8 billion, or 20%, largely attributable to our ANB acquisition and the impact of the weaker Canadian dollar on the translation of our U.S. dollar-denominated loans. The rest of the increase was spread across other areas such as Bank, Consumer goods and Non-bank financial services.

The overall mix of our portfolio did not change significantly from the prior year although retail loans decreased 3% while wholesale loans and acceptances increased by the same amount. The portfolio remained well balanced among residential mortgages comprising 40%, wholesale loans of 36%, personal loans of 20%, credit cards of 3% and small business of 1%.

The portfolio grew across all geographic regions. The largest increase was in Canada, with growth predominately in the Retail portfolio. Growth in the Business portfolio accounted for most of the increase in the U.S. and Other international. For further details, refer to Table 83 in the Additional financial information section.

Total loans and acceptances by credit portfolio (C$ billions)



Five-year trend

Over the last five years, total loans and acceptances have largely trended upward. Compared to 2004, our portfolio increased $124 billion, or 70%.

Retail loans have increased $68 billion, or 54%, since 2004, largely reflecting strong growth in Canada across all categories, particularly residential mortgages and personal loans, notwithstanding mortgage and credit card securitizations over the period. This growth reflected our continued focus on strengthening our leadership position in most major product categories, underpinned by a fairly benign market environment through most of this period, although the economy weakened in the latter part of 2008. Growth in the U.S. and Other international was primarily driven by our acquisitions of RBTT and ANB.

Our Wholesale portfolio has increased $56 billion, or 109%, since 2004. While there was broad-based growth in all sectors, the largest growth sectors were in Real estate and related, Other, Non-bank financial services and Energy. The increase in Real estate and related exposure over the period was largely due to relatively strong North American housing markets through to the early part of 2007 in the U.S. and the latter part of 2008 in Canada. Our exposure to Other services increased largely due to growth in the Business services, Entertainment/Recreation/Restaurants and Non-profit organizations subsectors. The increase in exposure to the Energy sector was largely attributable to increased investments in oil and gas exploration and production as well as oil refining, marketing and distribution activities in Canada and the U.S. Our exposure to Non-bank financial services increased over the period, primarily driven by growth in Funds and trusts, as a result of RBC Dexia IS, and the Consumer and commercial finance subsectors, primarily in the U.S. and Other international.

Compared to 2004, our portfolio mix has shifted, reflecting the growth in our Wholesale portfolio. Retail loans decreased from 71% of total loans and acceptances in 2004 to 64% in 2008, while Wholesale loans increased correspondently over the period. For further details, refer to Tables 83 and 84 in the Additional financial information section.

Our portfolio in Canada continued to grow over the period, underpinned by our Client First philosophy and by enhancing the quality and breadth of our products and services as well as expanding and upgrading of our distribution network to better serve our clients. Our exposure in the U.S. and Other international has trended upward, particularly in recent years, reflecting our expansion activities as well as organic growth.

Credit derivatives

Credit derivatives are over-the-counter contracts that transfer credit risk related to an underlying financial instrument from one counterparty to another. We purchase and sell credit protection for both trading and other than trading purposes. We are exposed to counterparty credit risk when we purchase credit protection or the derivative has a positive fair value. As with other derivatives, we use collateral and master netting agreements for managing counterparty credit risk and these contracts are subject to the same credit approval, limit and monitoring standards used for managing other credit risk. For a more detailed description of the types of credit derivatives we enter into and how we manage the related credit risk, refer to Note 7 to our Consolidated Financial Statements.

Trading credit derivatives

The majority of our credit derivative-related positions are entered into for trading purposes. These trading positions are generally equally split between purchased and sold protection. Our trading activities are conducted in association with market-making, positioning and managing certain trading-related credit risk. Over 98% of our net exposures are with investment-grade counterparties.

For a summary of significant market developments during the year affecting certain trading credit derivative positions purchased from monoline insurers, refer to the Impact of the market environment in the Financial performance section.

Trading credit derivatives (1) — **Table 63**

As at October 31 (C$ millions)	2008	2007	2008 vs. 2007 Increase (decrease)	
Notional amount				
Protection purchased	$ 140,010	$ 202,733	$ (62,723)	(31)%
Protection sold	132,515	190,514	(57,999)	(30)%
Fair value (2)				
Positive	16,456	10,416	6,040	58%
Negative	15,344	9,375	5,969	64%
Replacement cost (3)	5,607	3,340	2,267	68%

(1) Comprises credit default swaps.
(2) Gross fair value before netting.
(3) Replacement cost is after netting but before collateral.

2008 vs. 2007

The total notional value of trading credit derivatives was down $121 billion, or 31%, from a year ago. The decrease largely reflected the strategic reduction in positions supporting structured transactions during 2008.

Total gross Positive and Negative fair value were each up $6 billion from last year, while the Replacement cost increased $2 billion from a year ago. These amounts increased despite a reduction in positions, largely due to the continued widening of credit spreads during the year and the depreciation of the Canadian dollar compared to the U.S. dollar in the latter part of 2008.

Other than trading credit derivatives

We also purchase and sell credit derivatives for other than trading purposes in order to manage our overall credit portfolio. To mitigate industry sector concentrations and single-name exposures related to our credit portfolio, we purchase credit derivatives to transfer credit risk to third parties. We also sell credit protection in order to diversify our portfolio. Our credit protection sold does not constitute a material portion of our overall credit exposure. The notional amount of other than trading credit derivatives represents the contract amount used as a reference point to calculate payments. Notional amounts are generally not exchanged by the counterparties, and do not reflect our exposure at default. None of these contracts are with monoline insurers nor related to U.S. subprime-related assets.

Other than trading credit derivatives position (notional amount and fair value) (1) — Table 64

(C$ millions)	2008	2007	2008 vs. 2007 Increase (decrease)	
Notional amount				
Business				
Automotive	$ 473	$ 379	$ 94	25%
Energy	363	957	(594)	(62)%
Non-bank financial services	379	1,161	(782)	(67)%
Mining and metals	590	591	(1)	–
Real estate and related	136	413	(277)	(67)%
Technology and media	10	10	–	–
Transportation and environment	224	335	(111)	(33)%
Other (2)	439	472	(33)	(7)%
Sovereign (3)	294	220	74	34%
Bank (4)	259	731	(472)	(65)%
Net protection purchased	$ 3,167	$ 5,269	$ (2,102)	(40)%
Offsetting protection sold related to the same reference entity	–	261	(261)	(100)%
Gross protection purchased	$ 3,167	$ 5,530	$ (2,363)	(43)%
Net protection sold (5)	$ 147	$ 186	$ (39)	(21)%
Offsetting protection purchased related to the same reference entity	–	261	(261)	(100)%
Gross protection sold	$ 147	$ 447	$ (300)	(67)%
Gross protection purchased and sold (notional amount)	$ 3,314	$ 5,977	$ (2,663)	(45)%
Fair value (6)				
Positive	$ 400	$ 36	$ 364	n.m.
Negative	15	30	(15)	(50)%

(1) Comprises credit default swaps.
(2) Other in 2008 related to consumer goods $39 million, health $12 million and other $388 million.
(3) Sovereign refers to all central governments and agencies, central banks, as well as other qualifying public sector entities and multilateral development banks.
(4) Bank refers primarily to regulated deposit-taking institutions and securities firms.
(5) Protection sold as at October 31, 2008 related to consumer goods $81 million and other $66 million (2007 – consumer goods $67 million and other $119 million).
(6) Gross fair value before netting.
n.m. not meaningful

2008 vs. 2007

The gross notional value of other than trading credit derivatives was down $2.7 billion, or 45%, from a year ago, primarily reflecting the strategic reduction of positions and the maturing of contracts. Total protection purchased was down $2.4 billion, or 43%, from the prior year. The decrease was mainly due to the strategic reduction of positions related to Non-bank financial services, Energy, Bank, and Real estate and related, and Transportation and environment. This reduction was partially offset by an increase in exposure to Sovereign and Automobile.

Total protection sold was down $300 million, or 67%, from the prior year, mainly related to a strategic reduction in positions.

Total gross Positive fair value increased $364 million from the prior year, largely related to the continued widening of credit spreads and the depreciation of the Canadian dollar compared to the U.S. dollar in the latter part of 2008. Total gross Negative fair value was down $15 million, or 50%, from a year ago, largely related to the maturing of contracts.

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 65
(C$ millions, except percentage amounts)	2008	2007	2008 vs. 2007 Increase (decrease)		
Gross impaired loans, beginning of year					
Retail	$ 388	$ 383	$ 5	1%	
Wholesale	730	443	287	65	
	$ 1,118	$ 826	$ 292	35%	
New impaired loans					
Retail	$ 1,263	$ 896	$ 367	41%	
Wholesale	2,138	721	1,417	197	
	$ 3,401	$ 1,617	$ 1,784	110%	
Repayment, return to performing status, sold and other					
Retail	$ (47)	$ (132)	$ 85	64%	
Wholesale	(238)	(325)	87	27	
	$ (285)	$ (457)	$ 172	38%	
Net impaired loan formations					
Retail	$ 1,216	$ 764	$ 452	59%	
Wholesale	1,900	396	1,504	380	
	$ 3,116	$ 1,160	$ 1,956	169%	
Write-offs					
Retail	$ (876)	$ (759)	$ (117)	(15)%	
Wholesale	(435)	(109)	(326)	(299)	
	$ (1,311)	$ (868)	$ (443)	(51)%	
Gross impaired loans, end of year					
Retail	$ 728	$ 388	$ 340	88%	
Wholesale	2,195	730	1,465	201	
Total gross impaired loans	$ 2,923	$ 1,118	$ 1,805	161%	
Key ratios					
Gross impaired loans as a % of loans and acceptances	.96%	.45%	n.m.	51 bps	
Total net write-offs as a % of average net loans and acceptances	.42%	.30%	n.m.	12 bps	

n.m. not meaningful

Allowance for credit losses continuity					Table 66
(C$ millions, except percentage amounts)	2008	2007	2008 vs. 2007 Increase (decrease)		
Specific allowance					
Balance, beginning of year	$ 351	$ 263	$ 88	33%	
Provision for credit losses	1,430	782	648	83	
Write-offs	(1,311)	(868)	(443)	(51)	
Recoveries	162	170	(8)	(5)	
Adjustments	135	4	131	n.m.	
Specific allowance for credit losses, end of year	$ 767	$ 351	$ 416	119%	
General allowance					
Balance, beginning of year	$ 1,221	$ 1,223	$ (2)	–%	
Provision for credit losses	165	9	156	n.m.	
Adjustments	146	(11)	157	n.m.	
General allowance for credit losses, end of year	$ 1,532	$ 1,221	$ 311	25%	
Allowance for credit losses	$ 2,299	$ 1,572	$ 727	46%	

n.m. not meaningful

2008 vs. 2007

Gross impaired loans

Total gross impaired loans (GIL) increased $1,805 million. This primarily reflected higher impaired loans in both wholesale and retail portfolios.

Retail gross impaired loans increased $340 million from a year ago. This increase reflected higher impairment in our Canadian residential mortgage portfolio due to portfolio growth and in our U.S. residential mortgage and personal loans portfolio, reflecting deteriorating economic conditions. Higher impaired loans in Other international, primarily due to the acquisition of RBTT, also contributed to the increase.

Wholesale gross impaired loans increased $1,465 million from a year ago. The increase was largely attributable to our U.S. banking business, mainly in our residential builder finance and commercial and business banking loan portfolios due to the continued housing downturn and deteriorating economic conditions. The increase also reflected higher impaired loans related to some specific accounts in our corporate lending portfolios, primarily in the U.S. and to a lesser extent in Canada including $203 million related to loans extended under liquidity facilities drawn on by RBC-administered multi-seller ABCP conduit programs secured by the AAA tranche of a CDO of ABS in the U.S.

The increase in Gross impaired loans resulted in the ratio of Gross impaired loans as a percentage of loans and acceptances increasing to .96% compared to .45% last year.

For further details, refer to Table 85 in the Additional financial information section.

Allowance for credit losses

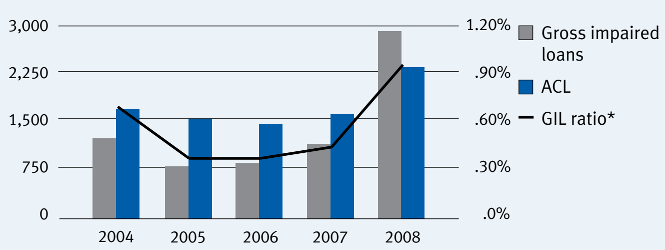
Total allowance for credit losses increased $727 million, or 46%, from a year ago directly related to the increase in impaired loans.

Specific allowance for retail loans increased $88 million, primarily due to increased allowance in the personal loan portfolio related to Other international, primarily due to the acquisition of RBTT. Higher allowance in our U.S. retail loan and residential mortgage portfolio in Canada also contributed to the increase.

Specific allowance for wholesale loans increased $328 million from a year ago. The increase was largely attributable to higher impaired loans as noted above.

The general allowance increased $311 million, or 25%, from a year ago, commensurate with volume growth and weakening credit quality in the Canadian retail portfolio, weakness in the U.S. banking portfolios, the acquisitions of ANB and RBTT, and foreign currency impact of depreciating Canadian dollar.

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



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

Five-year trend

Gross impaired loans

Gross impaired loans decreased in 2005, and remained relatively stable from 2005 to 2006. The increase in 2007 reflected the beginning of the downturn in the U.S. housing market, primarily affecting our U.S. residential builder finance business. The increase in 2008 largely reflects the impact of the continued housing downturn and deteriorating economic conditions in the U.S. The increase also reflected higher impaired loans in our corporate lending portfolio.

For further details, refer to Table 85 in the Additional financial information section.

Allowance for credit losses

Total allowance for credit losses decreased slightly, but remained relatively stable from 2004 to 2006. In 2007, the specific allowance increased largely due to higher gross impaired loans in our U.S. residential builder finance business as noted above. In 2008, specific allowance for credit losses continued to increase as the downturn in the U.S. housing market and slowing economic conditions further impacted our builder finance portfolio. Higher impaired loans in our corporate lending portfolio also contributed to the increase.

The general allowance remained relatively stable between 2004 and 2007. The increase in general allowance in 2008 reflected volume growth and weakness in our U.S. retail and commercial portfolios.

For further details, refer Table 87 in the Additional financial information section.

Provision for credit losses

The provision for credit losses is charged to income by an amount necessary to bring the allowance for credit losses to a level determined appropriate by management, as discussed in the Critical accounting policies and estimates section and Note 1 to our Consolidated Financial Statements.

Provision for (recovery of) credit losses — Table 67

(C$ millions, except percentage amounts)	2008	2007	2008 vs. 2007 Increase (decrease)	
Residential mortgages	$ 16	$ 5	$ 11	220%
Personal	445	364	81	22
Credit cards	270	223	47	21
Small business (1)	46	34	12	35
Retail	$ 777	$ 626	$ 151	24%
Business (2)	$ 653	$ 156	$ 497	319%
Sovereign (3)	–	–	–	–
Bank (4)	–	–	–	–
Wholesale	$ 653	$ 156	$ 497	319%
Total specific provision for loan losses	$ 1,430	$ 782	$ 648	83%
Total general provision	$ 165	$ 9	$ 156	n.m.
Total provision for credit losses	$ 1,595	$ 791	$ 804	102%
Specific PCL as a % of average net loans and acceptances	.53%	.33%	n.m.	20 bps

(1) Includes small business exposure managed on a pooled basis.
(2) Includes small business exposure managed on an individual client basis.
(3) Sovereign refers to all central governments and agencies, central banks, as well as other qualifying public sector entities and multilateral development banks.
(4) Bank refers primarily to regulated deposit-taking institutions and securities firms.
n.m. not meaningful

2008 vs. 2007

Provision for credit losses

Total PCL increased $804 million, compared to the prior year. The increase reflected higher specific and general provisions in both our wholesale and retail portfolios.

Specific PCL for retail loans was up $151 million, or 24%, from a year ago. The increase was primarily attributable to higher provisions in Canadian credit cards, reflecting higher loss rates and portfolio growth. Higher provisions in our U.S. retail portfolio also contributed to the increase.

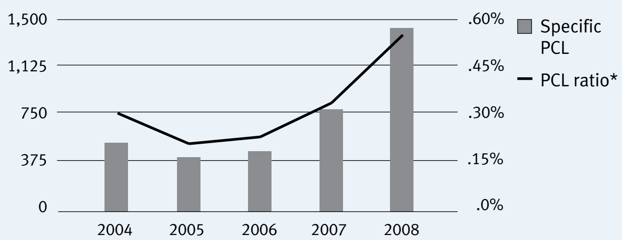
Specific PCL for wholesale loans increased $497 million from a year ago. The increase was largely attributable to higher impaired loans in our U.S. banking business, mainly in our residential builder finance, commercial and business banking loan portfolios as noted earlier. The increase also reflected higher provisions, largely related to some specific accounts in our corporate lending portfolios, primarily in the U.S. and to a lesser extent in Canada, including a $61 million provision related to loans extended under liquidity facilities drawn on by an RBC-administered multi-seller ABCP conduit programs in the U.S.

The general provision increased $156 million from a year ago, commensurate with volume growth and weakening credit quality in the Canadian retail portfolio and weakness in the U.S. banking portfolios.

The increase in specific PCL resulted in the ratio of Specific PCL as a percentage of loans and acceptances increasing to .53% compared to .33% last year.

For further details, refer Table 86 in the Additional financial information section.

Specific provision for credit losses (C$ millions)



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

Five-year trend

Provision for credit losses

During the period 2004 to 2005, specific provision for credit losses trended downward, primarily reflecting a reduction in provisions for our business portfolio. We recorded significant recoveries, particularly in our corporate loans in 2005 and 2006.

In 2007, specific provisions increased primarily due to our U.S. residential builder finance portfolio, reflecting the beginning of the downturn in the U.S. housing market. The increase in 2008 largely reflected the impact of continued deterioration in the U.S. housing market and slowing economic conditions as discussed above.

U.S. banking operations — Table 68

As at October 31 (C$ millions)	2008
Retail	
Residential mortgages	$ 2,922
Home equity	4,269
Lot loans	1,142
Credit cards	187
Other	320
	$ 8,840
Wholesale	
Commercial and business banking loans	$ 14,588
Residential builder finance loans	2,116
RBC Real Estate Finance Inc. (REFI)	1,153
Other	585
	$ 18,442
Total U.S. banking operations loans	$ 27,282

As at October 31, 2008, U.S. banking operations loans totalled $27.3 billion, consisting of $18.4 billion in wholesale loans and $8.8 billion in retail loans. U.S. residential builder finance loans consist of $2.1 billion in our ongoing builder finance business and $1.2 billion in RBC Real Estate Finance Inc. (REFI), a wholly-owned subsidiary set up to manage the wind down of builder finance loans from the out-of-footprint states, primarily in California, Washington, Arizona, Utah, Illinois and Colorado, as well as certain other impaired U.S. residential builder finance loans from the in-footprint portfolio.

Approximately 80% of the $578 million in total specific PCL in the U.S. this year relates to our U.S. banking operations. Of this amount, approximately 60% relates to our U.S. residential builder finance business, including REFI portfolio. The balance relates to commercial and business banking loans and home equity and lot loans.

Of the $436 million increase in the wholesale PCL in the U.S. this year, approximately 70% relates to our U.S. banking operations. Approximately 80% of this amount is attributable to impaired loans in our U.S. residential builder finance business including our REFI portfolio. The balance relates to commercial and business banking loans.

Banking book equities

Banking book equities consist of positions in financial instruments held for investment purposes and are not part of our trading book. They include both direct and indirect ownership interests, whether voting or non-voting, in the assets and income of an entity that are neither consolidated nor deducted for regulatory capital purposes. Banking book equities consist of publicly traded and private equities, partnership units, venture capital and holdings of derivative instruments tied to equity interests.

Basel II defines banking book equity exposures based on the economic substance of the transaction rather than the legal form or accounting treatment associated with the instrument. As such, differences exist in the identification of equity securities held in the banking book and those reported in Notes 1 to 3 to our Consolidated Financial Statements.

With reference to banking book equities reported on our Consolidated Balance Sheets, the majority are classified as AFS, with the remainder classified as investments in associated corporations under other assets and non-equity (debt) securities.

Equities held in the banking book are subject to credit risk capital requirements as prescribed by OSFI under Basel II.

The following table summarizes our banking book equity exposure and net unrealized losses on the portfolio.

Banking book equity exposure — Table 69

As at October 31 (C$ millions)	2008
Public	$ 1,461
Private	1,630
Total banking book equity exposure (1)	$ 3,091
Accumulated net unrealized losses for regulatory capital purposes (2)	$ (380)

(1) Total exposure represents exposure at default, which is the expected gross exposure upon the default of an obligor.
(2) This amount represents unrealized losses net of income taxes.

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, equity or commodity prices, and credit spreads. We are exposed to market risk in our trading activity and our asset/liability management activities. The level of market risk to which we are exposed varies depending on market conditions, expectations of future price and yield movements and the composition of our trading portfolio.

In the last quarter of 2008, all markets, both cash and derivatives across all asset classes, including credit, experienced unprecedented volatility in prices, as major market participants underwent radical and rapid de-leveraging of balance sheets and forced-selling. This activity, coupled with the fear of a global recession, dragged prices down across all markets. We supplemented existing market risk measures by frequent updates to the historical scenario window used in VaR as well as the refinement of the risk factors used in the calculations to accurately reflect the current market conditions.

Trading market risk

Trading market risk encompasses various risks associated with cash and related derivative products that are traded in interest rate, foreign exchange, equity, credit and commodity markets. Trading market risk is comprised of the following components:

- Interest rate risk is the potential adverse impact on our earnings and economic value due to changes in interest rates. It is composed of: (i) directional risk – arising from parallel shifts in the yield curve, (ii) yield curve risk – arising from non-uniform rate changes across a spectrum of maturities, (iii) basis risk – arising from an imperfect hedge of one instrument type by another instrument type in which changes in price are not perfectly correlated, and (iv) option risk – arising from changes in the value of embedded options due to changes in prices or rates and their volatility. Most financial instruments have exposure to interest rate risk.
- Foreign exchange rate risk is the potential adverse impact on our earnings and economic value due to currency rate and precious metals price movements and volatilities. In our proprietary positions, we are exposed to the spot, forward and derivative markets.
- Equity risk is the potential adverse impact on our earnings due to movements in individual equity prices or general movements in the level of the stock market. We are exposed to equity risk from the buying and selling of equities and indices as principal in conjunction with our investment banking activities and from our trading activities, which include tailored equity derivative products, arbitrage trading and relative value trading.
- Commodities risk is the potential adverse impact on our earnings and economic value due to commodities price movements and volatilities. Principal commodities traded include crude oil, heating oil, natural gas and power. In our proprietary positions, we are exposed to the spot, forwards and derivative markets.
- Credit spread risk is the general adverse impact on our earnings and economic value due to changes in the credit spreads associated with our holdings of instruments subject to credit risk.
- Credit specific risk is the potential adverse impact on our earnings and economic value due to changes in the creditworthiness and default of issuers on our holdings in bonds and money market instruments, and those underlying credit derivatives. Severe dislocation of money market and bond markets from the synthetic credit markets, as well as fundamentals-based market valuations, impacts trading ability, profitability and risk measurements.
- Market illiquidity risk is the inability to liquidate our positions or acquire hedges to neutralize our trading positions. In times of severe stress, illiquidity is experienced in even the most highly rated and previously highly liquid instruments.

We conduct trading activities over-the-counter and on exchanges in the spot, forwards, 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 act 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 determined 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

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 GRM – Market and Trading Credit Risk, which includes major units in Toronto, London, New York, Tokyo and Sydney. GRM – Market and Trading Credit Risk establishes market risk policies and limits, develops quantitative techniques and analytical tools, vets trading models and systems, maintains the VaR and stress risk measurement systems, and provides enterprise risk reporting on trading activities. This group also provides independent oversight on trading activities, including the establishment and administration of trading operational limits, market risk and counterparty credit limit compliance, risk analytics, and the review and oversight of non-traditional or complex transactions.

Business segments are accountable for their market risks, working in partnership with GRM to ensure the alignment between risk appetite and business strategies.

GRM – Market and Trading Credit Risk is responsible for the determination and reporting of regulatory and Economic Capital requirements for market risk, and provides assurance to regulators in regular filings on reporting accuracy, timeliness and the proper functioning of statistical models within the approved confidence level.

Risk measurement

We employ risk measurement tools such as VaR, sensitivity analysis and stress testing. GRM uses these measures in assessing global risk-return trends and to alert senior management to adverse trends or positions.

The majority of trading positions in foreign exchange, interest rate, equity, commodity and credit trading have capital calculated under an Internal Models Approach (VaR based), while structured credit derivatives and mortgage-backed securities are calculated under the Standardized Approach as approved by OSFI. Also calculated under the Standardized Approach for migration and default (specific) risk are a limited set of interest rate products. These products and risks are not included in our global VaR, as discussed below.

Value-at-Risk

VaR is a statistical technique that measures the worst-case loss expected over a one-day period within a 99% confidence level. Larger losses are possible, but with low probability. For example, based on a 99% confidence interval, a portfolio with a VaR of $20 million held over one day would have a one in one hundred chance of suffering a loss greater than $20 million in that day.

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.

As with any modeled risk measure, there are certain limitations that arise from the assumptions used in VaR. Historical VaR assumes that the future will behave like the past. As a result, historical scenarios may not reflect the next market cycle. Furthermore, the use of a one-day horizon VaR for risk measurement implies that positions could be unwound or hedged within a day but this may not be a realistic assumption if the market becomes largely or completely illiquid. VaR is calculated based on end-of-day positions.

Validation
To ensure VaR effectively captures our market risk, we continuously monitor and enhance our methodology. Daily back-testing serves to compare hypothetical profit or loss against the VaR to monitor the statistical validity of 99% confidence level of the daily VaR measure. Back-testing is calculated by holding position levels constant and isolating the effect of the movement of actual market rates over the next day and over the next 10 days on the market value of the portfolios. Intra-day position changes account for most of the difference between theoretical back-testing and actual profit and loss. VaR models and market risk factors are independently reviewed periodically to further ensure accuracy and reliability. In 2008, there were 18 occurrences of a back-test exceeding VaR, of which 9 occurred in the latter part of 2008. The breaches occurred during the very volatile markets in March, September and October. VaR calculated using a historical window can lead to back-testing breaches when the historical window used in the calculation is less volatile than current markets. During this period, we frequently updated our scenarios to keep pace with current market events.

Sensitivity analysis and stress testing
Sensitivity analysis is used to measure the impact of small changes in individual risk factors such as interest rates and foreign exchange rates and is designed to isolate and quantify exposure to the underlying risk.

VaR is a risk measure that is only meaningful in normal market conditions. To address more extreme market events, stress testing is used to measure and alert senior management to our exposure to potential political, economic or other disruptive events. We run several types of stress testing, including historical stress events such as the 1987 stock market crash, as well as hypothetical "what-if" stress events that represent potential future events that are plausible but have a very low probability of occurring. Our stress scenarios are reviewed and updated as required to reflect relevant events and hypothetical situations. While we endeavour to be conservative in our stress testing, there can be no assurance that our stress testing assumptions will cover every market scenario that may unfold.

Risk control
Policies
A comprehensive market risk 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 CRO and the operating committee of Capital Markets on a weekly basis and to senior management on a daily basis. Enterprise-wide reporting is used to monitor compliance against VaR and stress limits approved by the Board of Directors, and the operating limits derived from these board limits. In addition to this monitoring, GRM – Market and Trading Credit Risk pre-approves excesses and reports any breach to the CRO and the operating committee of Capital Markets.

Internal reporting to senior management includes stand-alone risk calculations for portfolios that have standardized regulatory capital, which are then combined with models-based results to present an aggregated enterprise risk profile.

The following table shows our global VaR for total trading activities under our models based approach for capital by major risk category and also shows the diversification effect, which is calculated as the difference between the global VaR and the sum of the separate risk factor VaRs.

Global VaR by major risk category **Table 70**

	2008				2007			
	As at	For the year ended October 31			As at	For the year ended October 31		
(C$ millions)	Oct. 31	Average	High	Low	Oct. 31	Average	High	Low
Equity	$ 8	$ 13	$ 28	$ 6	$ 8	$ 9	$ 18	$ 4
Foreign exchange	8	3	9	1	4	2	7	1
Commodities	1	2	6	–	2	1	2	–
Interest rate	34	26	44	17	20	19	23	14
Credit specific	8	7	11	4	3	3	5	2
Diversification	(19)	(23)	(38)	(13)	(19)	(13)	(22)	(8)
Global VaR	$ 40	$ 28	$ 50	$ 18	$ 18	$ 21	$ 27	$ 16

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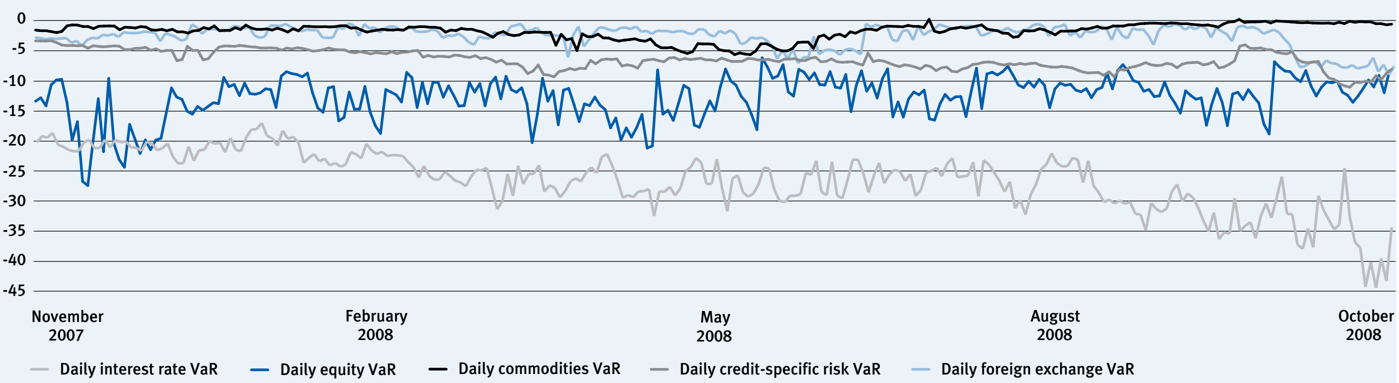
Global VaR by major risk category (C$ millions)



Global VaR

2008 vs. 2007

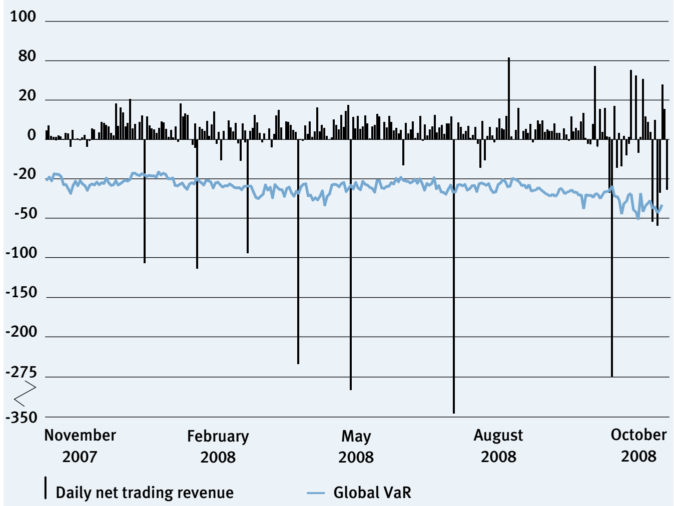
Average global VaR for the year of $28 million was up compared to $21 million a year ago. This increase largely reflected an increase in both interest rate, including credit specific, and equity risk due to increased market volatility. These increases were mostly offset by an increase in the diversification effect, up from 38% to 45% for 2008.

Trading revenue

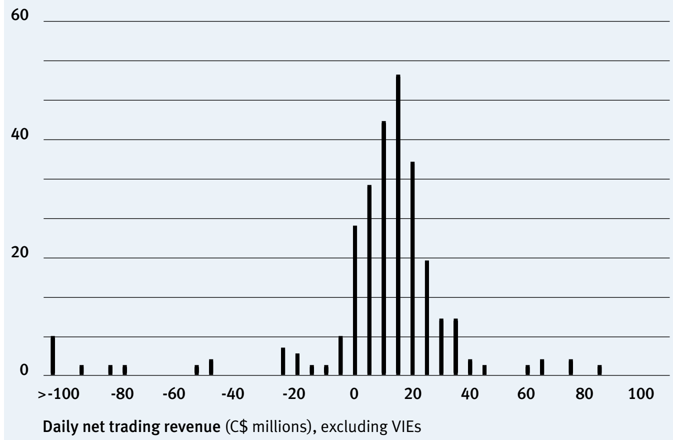
2008 vs. 2007

During the year, we experienced 44 days of net trading losses compared to 25 days in 2007. The volatility in daily trading revenue in the last part of 2008 reflected the unprecedented volatility in the market. The largest daily loss, including writedowns, of $342 million was related to unprecedented volatility in equity and credit markets and exceeded the global VaR estimate for that day. Writedowns and valuation adjustments are discussed further in the impact of market environment in the Financial performance section. The breadth of our trading activities is designed to diversify market risk to any particular strategy, and to reduce trading revenue volatility.

Trading revenues and global VaR (1) (C$ millions)



Trading revenues for the year ended October 31, 2008 (teb)
(number of days)



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

Non-trading market risk (Asset/liability management)

Traditional non-trading banking activities, such as deposit taking and lending, expose us to market risk, of which interest rate risk is the largest component.

Our goal is to manage the interest rate risk of the non-trading balance sheet to a target level. We modify the risk profile of the balance sheet through proactive hedging to achieve our target level. For additional information regarding the use of derivatives in asset and liability management, refer to the Off-balance sheet section and Note 7 to our Consolidated Financial Statements. We continually monitor the effectiveness of our interest rate risk mitigation activity within Corporate Treasury on a value and earnings basis.

For a discussion of the management of foreign exchange risk in the non-trading balance sheet, refer to the Hedging foreign currency-denominated operations discussion in the Capital management section.

Responsibilities

While our individual subsidiaries and business segments manage the daily activities, Corporate Treasury is responsible for managing our enterprise-wide interest rate risk, monitoring approved limits and compliance with policies and operating standards. ALCO provides oversight to Corporate Treasury and reviews and approves the policies developed by Corporate Treasury.

Risk measurement

We endeavour to keep pace with best practices in instrument valuation, econometric modeling and new hedging techniques on an ongoing basis. Our investigations range from the evaluation of traditional asset/liability management processes to pro forma application of recent developments in quantitative methods.

Our risk position is measured daily, weekly or monthly based on the size and complexity of the portfolio. Measurement of risk is based on rates charged to clients as well as funds transfer pricing rates. Key rate analysis is utilized as a primary tool for risk management. It provides us with an assessment of the sensitivity of the exposure of our economic value of equity to instantaneous changes in individual points on the yield curve.

The economic value of equity is equal to the net present value of our assets, liabilities and off-balance sheet instruments.

Funds transfer pricing

We use a funds transfer pricing mechanism at the transaction level to transfer interest rate risk to Corporate Treasury and identify the profitability of various products. The funds transfer pricing rates are market-based and are aligned with interest rate risk management principles. They are supported by empirical research into client behaviour and are an integral input to the retail business pricing decisions.

We also focus on developing retail product valuation models that incorporate the impact of consumer behaviour. These valuation models are typically derived through econometric estimation of consumer exercise of options embedded in retail products. The most significant embedded options are mortgage rate commitments and prepayment options. In addition, we model the sensitivity of the value of deposits with an indefinite maturity to interest rate changes.

Validation

We supplement our assessment by measuring interest rate risk for a range of dynamic and static market scenarios. Dynamic scenarios simulate our interest income in response to various combinations of business and market factors. Business factors include assumptions about future pricing strategies and volume and mix of new business, whereas market factors include assumed changes in interest rate levels and changes in the shape of the yield curve. Static scenarios supplement dynamic scenarios and are employed for assessing the risks to the value of equity and net interest income.

As part of our monitoring of the effectiveness of our interest rate risk mitigation activity within Corporate Treasury which is done on a value and earnings basis, model assumptions are validated against actual client behaviour.

Risk control

Policies and limits

The interest rate risk policy and interest rate limit document define the management standards and acceptable limits within which risks to net interest income over a 12-month horizon, and the economic value of equity, are to be contained. These ranges are based on immediate and sustained ±100 bp parallel shift of the yield curve. The limit for net interest income risk is 3% of projected net interest income, and for economic value of equity risk, the limit is 5% of projected common equity. Interest rate risk limits are reviewed and approved annually by the Board of Directors.

Risk reporting

The individual subsidiaries and business segments report the interest rate risk management activity on a monthly basis. They must also immediately report any exceptions to the interest rate risk policies to Corporate Treasury and seek approval for corrective actions.

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

Market risk measures – Non-trading banking activities **Table 71**

	2008						2007		2006	
	Economic value of equity risk			Net interest income risk						
(C$ millions)	Canadian dollar impact	U.S. dollar impact (1)	Total	Canadian dollar impact	U.S. dollar impact (1)	Total	Economic value of equity risk	Net interest income risk	Economic value of equity risk	Net interest income risk
Before-tax impact of:										
100 bp increase in rates	$ (470)	$ (38)	$ (508)	$ 23	$ 22	$ 45	$ (440)	$ 54	$ (496)	$ 87
100 bp decrease in rates	404	44	448	(62)	(28)	(90)	309	(111)	375	(153)
Before-tax impact of:										
200 bp increase in rates	(982)	(68)	(1,050)	8	54	62	(930)	97	(1,044)	147
200 bp decrease in rates	774	64	838	(236)	(43)	(279)	553	(231)	658	(319)

(1) Represents the impact on the non-trading portfolios held in our U.S. banking operations.

2008 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 2008, our interest rate risk exposure was well within our target level.

Operational risk

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

Operational risk is embedded in all our activities, including the practices and controls used to manage other risks. Failure to manage operational risk can result in direct or indirect financial loss, reputational impact, regulatory censure, or failure in the management of other risks such as credit or market risk. During 2008, we broadened how we define operational risk to include harm as well as loss. This better reflects how we perceive operational risk and will help us ensure it is effectively managed.

Our operational risk management framework flows directly from our enterprise risk management framework and sets out the principles and practices that we use to manage operational risk by identifying, measuring, controlling, monitoring and reporting it.

Responsibilities

A dedicated team within GRM designs and supports operational risk policies, programs and initiatives, and monitors implementation progress and ongoing execution. The businesses and corporate support groups are responsible for the informed and active management of the operational risks within their activities in accordance with the operational risk management framework. Where appropriate, execution of operational risk management programs is conducted by GTO on behalf of the businesses and corporate support groups.

Risk measurement

Operational risk is difficult to measure in a complete and precise manner, given that exposure to operational risk is often implicit, bundled with other risks, or otherwise not taken on intentionally. In the banking industry, measurement tools and methodologies continue to evolve. Nonetheless, we are able to gauge our operational risk exposure by using several approaches concurrently.

Risk assessment

Operational risks are identified and their potential impact assessed through our enterprise-wide integrated operational risk and control assessment and monitoring program. Our operational risk management framework is used to ensure consistent identification and assessment of operational risks and the controls used to manage them.

Key risk indicators

Our business segments, Global Technology and Operations, and Global Functions use a broad range of risk indicators to manage their day-to-day activities. GRM uses indicators to monitor operational risk at the enterprise level. These indicators provide insight into the level and composition of, as well as potential changes in, our operational risk exposure.

Operational event data collection and analysis
Operational risk events are reported in a central enterprise database. Comprehensive information about these events is collected, and includes information regarding amount, occurrence, discovery date, business area and product involved, root causes and risk drivers. Analysis of operational risk event data helps us to understand where and how our risks are manifesting themselves, provides a historical perspective of our operational risk experience and establishes a basis for measuring our operational risk exposure. In keeping with our broadened definition of operational risk, during 2008 we began to include data on events with non-monetary impacts and near-miss events in our collection and analysis activities.

Industry loss analysis
We review and analyze information on operational losses that have occurred at other financial institutions, using published information and information we acquire through our membership in ORX (Operational Riskdata eXchange Association), a private data-sharing consortium. Both provide insights into the size and nature of potential exposures, which enables us to benchmark our loss experience against those of our peers to determine if our experience puts us in an outlier position. It also allows us to monitor emerging developments and trends that affect the financial industry as a whole.

Risk control
Operational risk is managed through our infrastructure, controls, systems and people, complemented by central enterprise-wide groups focusing on management of specific operational risks such as fraud, privacy, outsourcing, and business disruption, as well as people and systems risks.

A number of our enterprise-wide groups ensure that all of these controls and systems are effective under our operational risk management framework. These include compliance, which ensures a complete view of our regulatory obligations and provides a co-coordinated, effective response to these; and the internal audit group, which provides independent assessment of risk management practices, internal controls and corporate governance processes.

Risk mitigation
Any high-risk exposures that we identify are subject to remedial measures, monitoring and control testing. This includes exposures identified through our integrated risk and control assessment and monitoring program, internal audits, compliance reviews, business continuity readiness reviews, or operational risk event reporting.

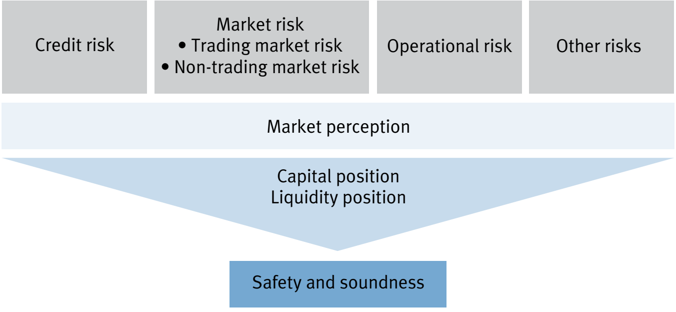
Our corporate insurance program enables us to transfer some of our operational risk exposure by purchasing insurance coverage. The nature and amounts of this insurance are determined on a central, enterprise-wide basis.

Reporting
GRM provides quarterly enterprise-wide risk reports to senior management and the Board of Directors. The operational risk reporting includes an overview of our operational risk profile and the trend and outlook for our exposure. Details are provided on areas of elevated risk, individual operational risks where there is heightened awareness, regulatory or compliance issues, and large operational risk events. These reports are supplemented with more detailed specific contributions from groups such as compliance, audit, legal and human resources.

Capital management

Strong capital and liquidity positions facilitate opportunistic business expansion and help maintain safety and soundness in times of stress. Our stress absorption capability is comprised of both capital adequacy and our liquidity position which together aim to provide the market with confidence in the organization's ability to remain safe and sound. A detailed overview of our capital management and liquidity and funding management practices are discussed in this section and the next section, respectively.

Risks, including credit, market and operational, as discussed earlier, influence overall capital management, and liquidity and funding management. The linkage between risks and our stress absorption capability to ensure the safety and soundness of the organization are illustrated below.



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

Our capital management framework provides the policies and processes for defining, measuring, raising and investing all forms of capital in a co-ordinated and consistent manner. We manage and monitor our capital from several perspectives, including:
- Regulatory capital: capital required for regulatory compliance defined in accordance with OSFI
- Economic capital: an internal assessment of the amount of capital required to underpin our risks
- Subsidiary capital: the amount of regulatory capital invested in subsidiaries.

Additionally, within our capital management framework, we have in place an ICAAP for the purpose of setting internal capital targets and strategies for achieving those targets consistent with our business plans, risk profile, risk appetite and operating environment.

As part of this process, we have implemented a program of enterprise-wide stress testing to evaluate the income and capital (economic and regulatory) impacts of several potential stress events. This exercise involves various teams, including GRM, Corporate Treasury, Finance and Economics. Results from this testing are a key input into our capital planning process and are used in settling appropriate stress factors we use to test the robustness of our capital position on a quarterly basis.

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

Governance

The Board of Directors is responsible for ultimate oversight of capital management, including the annual review and approval of our Capital Plan, and our ICAAP. The Audit Committee is responsible for the governance of capital management, which includes:

- The approval of capital management policies
- The regular review of our capital position and liquidity, funding and capital management processes
- The approval of the ICAAP
- The ongoing review of internal control over financial reporting.

In addition, OSFI meets with our Audit Committee and the CR&RPC to discuss policies and procedures regarding capital management.

The Asset Liability Committee and the Group Executive share management oversight responsibility for capital management and receive regular reports detailing compliance with established limits and guidelines. Corporate Treasury and GRM are responsible for the design and implementation of policies relative to regulatory, economic and subsidiary capital, and for developing and implementing the ICAAP.

Basel II

With OSFI's adoption of new capital guidelines based on "International Convergence of Capital Measurement and Capital Standards: A Revised Framework – Comprehensive Version (June 2006)," known as Basel II, effective November 1, 2007, major Canadian banks are required to calculate and report their regulatory capital ratios under new measurement standards.

The top corporate entity to which Basel II applies at the consolidated level is Royal Bank of Canada. Basel II represents a major change to bank regulation in that it allows banks to select from a limited menu of risk-based approaches of increasing sophistication, used to calculate the minimum regulatory (Pillar 1) capital, in particular with respect to credit and operational risk.

For credit risk, OSFI expects each major bank to adopt the AIRB Approach for its material portfolios, although some flexibility is permitted for the timing of the adoption. Accordingly, as part of our transition to Basel II, OSFI has allowed for staged implementation of the AIRB Approach for credit risk, including:

- A waiver for RBC Bank (USA), formerly RBC Centura Bank, to use the Standardized Approach for credit risk through fiscal 2010
- An extension whereby we are permitted to defer use of the AIRB Approach for our proportionate interest in the exposures of RBC Dexia IS, until November 1, 2010, at the latest
- Exemptions for exposures for which credit risk is reported under the Basel II Standardized Approach (i.e., our Caribbean banking operations) on the basis that such portfolios and entities in applicable jurisdictions are non-material.

For operational risk, the two options available to us are the Advanced Measurement Approach (AMA) and the Standardized Approach. Initially, we have adopted the Standardized Approach for operational risk.

For market risk capital, we use both Internal Models and Standardized Approaches.

Basel II has resulted in capital requirements that differ from those calculated under Basel I. For the most part, this reflects a shift in calculation methodology for risk-adjusted assets (RAA) from prescribed risk weights to using parameters that are more closely aligned with our internal assessment and measurement of risk. As Basel II is applied on a prospective basis, Basel I and Basel II calculations are not directly comparable.

Regulatory capital and capital ratios — Table 72

As at October 31 (C$ millions, except percentage amounts)	Basel II (1) 2008	Basel I (1) 2007
Capital		
Tier 1 capital	$ 25,173	$ 23,383
Total capital	30,830	28,571
Risk-adjusted assets		
Credit risk	$ 229,537	$ 231,302
Market risk	17,220	16,333
Operational risk	31,822	–
Total risk-adjusted assets	$ 278,579	$ 247,635
Capital ratios		
Tier 1 capital	9.0%	9.4%
Total capital	11.1%	11.5%
Assets-to-capital multiple	20.1X	19.9X

(1) As defined in the guidelines issued by OSFI. Basel I and II calculations are not directly comparable.

Regulatory capital and capital ratios

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

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

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

The adoption of Basel II introduced changes in the components of eligible regulatory capital. Significant changes include:

- General allowances for credit losses on portfolios subject to the Standardized Approach can be included in Tier 2 capital up to a limit of 1.25% of the RAA of those portfolios. For portfolios subject to the AIRB Approach, the treatment depends on whether allowances are more or less than expected losses. In the former case, the difference is included in Tier 2 capital up to a limit of .6% of the AIRB portfolio's credit RAA. In the latter case, the difference is deducted 50% from Tier 1 capital and 50% from Tier 2 capital. Under Basel I, general allowances were included in Tier 2 capital up to a maximum of .875% of total RAA.

- Securitization-related increases in equity, for example, gains on sale, are deducted from Tier 1 capital. Other securitization-related deductions are made 50% from Tier 1 capital and 50% from Tier 2 capital. Previously, these deductions were made from Total capital.

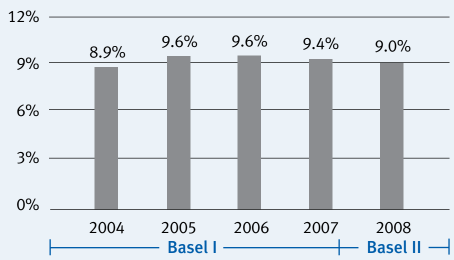
The components of regulatory capital are shown in the following table.

Capital — **Table 73**

As at October 31 (C$ millions, except percentage amounts)	Basel II 2008	Basel I 2007
Tier 1 regulatory capital (1)		
Common equity (2)	$ 28,946	$ 22,272
Non-cumulative preferred shares	2,657	2,344
Innovative capital instruments	3,879	3,494
Other non-controlling interests in subsidiaries	357	25
Goodwill (3)	(9,977)	(4,752)
Substantial investments (4)	(37)	
Securitization-related deductions (5)	(329)	
Expected loss in excess of allowances – AIRB Approach	(315)	
Other	(8)	
Total Tier 1 capital	$ 25,173	$ 23,383
Tier 2 regulatory capital (1)		
Permanent subordinated debentures	$ 900	$ 779
Non-permanent subordinated debentures (6)	7,223	5,473
Innovative capital instruments (excess over 15% of Tier 1)	120	–
Excess of non-cumulative preferred shares	–	–
Trust subordinated notes	1,027	1,027
General allowance	488	1,221
Accumulated net unrealized gain on available-for-sale equity securities (7)	–	105
Substantial investments (4)	(277)	
Investment in insurance subsidiaries	(3,198)	
Securitization-related deductions (8)	(305)	
Expected loss in excess of allowances – AIRB Approach	(315)	
Other	(6)	
Total Tier 2 capital	$ 5,657	$ 8,605
Total regulatory capital		
Total Tier 1 and Tier 2 capital	$ 30,830	$ 31,988
Substantial investments	–	(309)
Investment in insurance subsidiaries	–	(2,912)
First-loss facility	–	(196)
Total regulatory capital (1)	$ 30,830	$ 28,571

(1) As defined in the guidelines issued by OSFI, Basel I and Basel II calculations are not directly comparable.
(2) This amount is shareholders' equity less preferred shares of $2,663 million plus other items not included in regulatory capital of $851 million.
(3) Basel II goodwill deduction reflects total consolidated goodwill. Basel I goodwill deduction reflects consolidated goodwill net of insurance goodwill.
(4) Under Basel II, substantial investment deductions are made 50% from each of Tier I and Tier 2 capital. Currently, there is a transitional provision until October 31, 2008, to deduct substantial investments held prior to December 31, 2006 in full from Tier 2 capital. Under Basel I, these investments were deducted from Total capital.
(5) Securitization deduction from Tier 1 capital consists of (i) seller's interest in residential mortgages of $80 million and credit cards of $29 million; (ii) securitizations rated below BB- of $102 million; and (iii) unrated positions of $118 million.
(6) 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 at their amortized value.
(7) As prescribed by OSFI, certain components of accumulated other comprehensive income are included in the determination of regulatory capital. Accumulated net foreign currency translation adjustments are included in Tier 1 capital. Net unrealized fair value losses on AFS equities are deducted in the determination of Tier 1 capital while net unrealized fair value gains on AFS equities are included in Tier 2 capital.
(8) Securitization deduction from Tier 2 capital consists of (i) seller's interest in residential mortgages of $80 million and credit cards of $5 million; (ii) securitizations rated below BB- of $101 million; and (iii) unrated positions of $119 million.

Tier 1 capital ratio



As at October 31, 2008, our Tier 1 capital ratio was 9.0% and our Total capital ratio was 11.1%.

The Tier 1 capital ratio was down 40 bps from a year ago. The decrease was largely due to higher RAA, and a higher goodwill capital deduction reflecting the impact of a weaker Canadian dollar on foreign currency denominated assets and additional goodwill from the acquisitions of ANB, PH&N, RBTT and FBW. These factors were partially offset by higher shareholders' equity from retained earnings, capital issuances and the positive impact of a weaker Canadian dollar on net unrealized foreign currency translation gains and losses.

The Total capital ratio was down 40 bps from a year ago largely due to factors noted above for Tier 1 capital and a decrease in the amount of general allowance included in regulatory capital under Basel II, partially offset by net issuance of subordinated debentures.

As at October 31, 2008, our assets-to-capital multiple was 20.1 compared to 19.9 a year ago. Our assets-to-capital multiple remains below the maximum prescribed by OSFI.

Risk-adjusted assets

Under the current Basel II framework, OSFI requires banks to meet minimum risk-based capital requirements for exposures to credit risk, operational risk, and, where they have significant trading activity, market risk. RAA is calculated for each of these risk types and added together to determine total RAA.

Our RAA as calculated under Basel II is not directly comparable to RAA calculated previously under Basel I due to several factors, including:

- Under the Basel II AIRB Approach for credit risk, banks rely on their own internal estimates for risk components in determining their capital requirements and equivalent RAA for a given exposure which is in contrast to the use of industry-wide prescribed rates under Basel I
- A capital charge for operational risk was not required under Basel I
- The asset class definitions have changed significantly and are more differentiated under Basel II.

Further, Basel II has introduced a transitional capital floor adjustment. Once a bank achieves full compliance with AIRB implementation and data requirements, contingent on OSFI approval, a 90% Basel I capital floor will apply for at least four quarters, after which the banks may qualify for an 80% Basel I capital floor, which will also apply for at least four quarters.

During the year, RAA increased by $31 billion, primarily due to business growth, including our acquisition of ANB and RBTT, the inclusion of RAA for operational risk under Basel II and the impact of a weaker Canadian dollar at October 31, 2008 on the translated value of our foreign currency-denominated assets. These factors were partially offset by the impact of the adoption of the AIRB Approach for credit risk under Basel II.

Risk-adjusted assets – Basel II (1) — Table 74

As at October 31 (C$ millions)	2008 Exposure (2)	Average of risk weights (3)	Risk-adjusted assets Standardized Approach	Advanced Approach	Other (4)	Total (5)
Credit risk						
Lending-related and other						
Residential mortgages	$ 93,445	8%	$ 1,418	$ 6,024		$ 7,442
Other retail (Personal, Credit cards and Small business treated as retail)	142,221	22%	7,974	23,954		31,928
Business (Corporate, Commercial, Medium-sized enterprises and Non-bank financial institutions)	161,331	60%	40,566	56,760		97,326
Sovereign (Government)	15,793	12%	560	1,266		1,826
Bank	67,385	13%	6,733	2,267		9,000
Total lending-related and other	$ 480,175	31%	$ 57,251	$ 90,271	$ –	$ 147,522
Trading-related						
Repo-style transactions	$ 115,687	3%	$ 643	$ 2,472		$ 3,115
Over-the-counter derivatives	86,952	30%	3,139	22,757		25,896
Total trading-related	$ 202,639	14%	$ 3,782	$ 25,229	$ –	$ 29,011
Total lending-related and other and trading-related	$ 682,814	26%	$ 61,033	$ 115,500		$ 176,533
Bank book equities (6)	3,091	91%	–	2,826		2,826
Securitization exposures	83,190	9%	767	6,527		7,294
Regulatory scaling factor (7)	n.a.	n.a.	n.a.	7,491		7,491
Other risk-adjusted assets (4)	186,623	19%	n.a.	n.a.	$ 35,393	35,393
Total credit risk (4)	$ 955,718	24%	$ 61,800	$ 132,344	$ 35,393	$ 229,537
Market risk (8)						
Interest rate			$ 2,719	$ 2,110		$ 4,829
Equity			1,206	1,367		2,573
Foreign exchange			326	22		348
Commodities			345	2		347
Specific risk			6,150	2,973		9,123
Total market risk			$ 10,746	$ 6,474		$ 17,220
Operational risk (9)			$ 31,822	n.a.	n.a.	$ 31,822
Total risk-adjusted assets	$ 955,718		$ 104,368	$ 138,818	$ 35,393	$ 278,579

(1) Calculated using guidelines issued by OSFI under the new Basel II framework.
(2) Total exposure represents exposure at default which is the expected gross exposure upon the default of an obligor. This amount is before any specific allowances or partial write-offs and does not reflect the impact of credit risk mitigation and collateral held.
(3) Represents the average of counterparty risk weights within a particular category.
(4) For credit risk, a majority of our portfolios use the AIRB Approach, which represents 58% of RAA. Portfolios using the Standardized Approach represent 27% of RAA. The remaining 15% represents balance sheet assets not included in the Standardized or AIRB Approaches.
(5) The minimum capital requirements for each category can be calculated by multiplying the total RAA by 8%.
(6) The amount of banking book equity exposures that were "grandfathered" under Basel II, and thus subject to a 100% risk-weighting until the end of 2017, was $1,095 million as at October 31, 2008.
(7) The scaling factor represents a calibration adjustment of 6% as prescribed by OSFI under the Basel II framework and is applied to RAA amounts for credit risk assessed under the AIRB Approach.
(8) For market risk RAA measurement, we use an Internal Models Approach where we have obtained regulatory approval and a Standardized Approach for products yet to be approved.
(9) For operational risk, we use the Standardized Approach.

In 2008, we undertook several initiatives to support the effective management of our capital, as outlined in Table 75 below.

Selected capital management activity **Table 75**

	For the year ended							
	October 31, 2008				October 31, 2007			
(C$ millions)	Issuance or redemption date	Number of shares (000s)	Dollars per share	Amount	Issuance or redemption date	Number of shares (000s)	Dollars per share	Amount
Tier 1								
Common shares issued								
Stock options exercised (1)		6,445		$ 153		7,215		$ 170
Acquisition of ANB	February 22, 2008	16,370	$ 50.69	830				
Acquisition of PH&N (2)	May 1, 2008	20,250	48.00	972				
Acquisition of RBTT	June 16, 2008	18,246	49.27	899				
Acquisition of FBW	June 27, 2008	4,809	49.07	236				
Repurchase of common shares – normal course issuer bid (3), (4)		1,120	49.50	55		11,845	$ 54.59	646
First preferred shares issued								
Non-cumulative Series AC					November 1, 2006	8,000	25.00	200
Non-cumulative Series AD					December 13, 2006	10,000	25.00	250
Non-cumulative Series AE					January 19, 2007	10,000	25.00	250
Non-cumulative Series AF					March 14, 2007	8,000	25.00	200
Non-cumulative Series AG					April 26, 2007	10,000	25.00	250
Non-cumulative Series AH	April 29, 2008	8,500	25.00	213				
Non-cumulative Series AJ (5)	September 16, 2008	16,000	25.00	400				
First preferred shares redeemed								
Non-cumulative Series O					November 24, 2006	6,000	25.00	150
Non-cumulative Series N	August 22, 2008	12,000	25.00	300	.			
Trust Capital Securities issued (6)	April 28, 2008			500				
Tier 2								
Subordinated debentures issued (7)								
March 11, 2018	March 11, 2008			1,000				
June 6, 2018	June 6, 2008			1,000				
June 26, 2037 (JPY10 billion)					June 26, 2007			87
Repurchase and redemption of subordinated debentures (7)								
November 8, 2011					November 8, 2006			US$400
June 4, 2012					June 4, 2007			500
January 22, 2013	January 22, 2008			500				
Trust subordinated notes issued (8)					April 30, 2007			1,000

(1) Amounts include cash received for stock options exercised during the year, fair value adjustment to stock options, and the exercise of stock options from tandem stock appreciation rights (SARs) awards and from renounced tandem SARs.
(2) In addition, we issued 6.75 million shares in RBC PH&N Holdings Inc. for $324 million which, after three years, are exchangeable into our common shares as part of the consideration paid for the acquisition of PH&N.
(3) For further details, refer to Note 18 to our Consolidated Financial Statements.
(4) Effective November 1, 2008, we renewed our normal course issuer bid (NCIB) for one year to purchase, for cancellation, up to 20 million common shares.
(5) Dividend rate will reset every five years.
(6) $379 million is included in Tier 1 capital, $121 million is included in Tier 2 capital. For further details, refer to Note 17 to our Consolidated Financial Statements.
(7) For further details, refer to Note 16 to our Consolidated Financial Statements.
(8) Amount in par value. For further details, refer to Note 17 to our Consolidated Financial Statements.

Subsequent to October 31, 2008, the following capital transaction occurred:

On November 3, 2008, we issued 12 million Non-cumulative First Preferred Shares Series AL at $25 per share, for total proceeds of $300 million.

On November 24, 2008, we announced our intention to issue 9 million Non-cumulative 5-year rate reset First Preferred Shares Series AN at $25 per share, for total proceeds of $225 million. The underwriters have the option to purchase an additional $100 million preferred shares at the same offering price. The issuance is expected to be completed on December 8, 2008.

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 range of our common share dividend payout ratio for 2008 was 40 to 50%. In 2008, the dividend payout ratio was 59%, up from 43% in 2007, as 2008 earnings declined largely due to writedowns, higher provision for credit losses in U.S. banking and spread compression. Common share dividends paid during the year were $2.6 billion, up 13% from a year ago.

Share data and dividends — Table 76

(C$ millions, except number of shares and per share amounts)	2008 Number of shares (000s)	2008 Amount	2008 Dividends declared per share	2007 Number of shares (000s)	2007 Amount	2007 Dividends declared per share	2006 Number of shares (000s)	2006 Amount	2006 Dividends declared per share
First Preferred (1)									
Non-cumulative Series N	–	$ –	$ .88	12,000	$ 300	$ 1.18	12,000	$ 300	$ 1.18
Non-cumulative Series O	–	–	–	–	–	–	6,000	150	1.38
Non-cumulative Series W	12,000	300	1.23	12,000	300	1.23	12,000	300	1.23
Non-cumulative Series AA	12,000	300	1.11	12,000	300	1.11	12,000	300	.71
Non-cumulative Series AB	12,000	300	1.18	12,000	300	1.18	12,000	300	.41
Non-cumulative Series AC	8,000	200	1.15	8,000	200	1.22	–	–	–
Non-cumulative Series AD	10,000	250	1.13	10,000	250	1.06	–	–	–
Non-cumulative Series AE	10,000	250	1.13	10,000	250	.95	–	–	–
Non-cumulative Series AF	8,000	200	1.11	8,000	200	.77	–	–	–
Non-cumulative Series AG	10,000	250	1.13	10,000	250	.65	–	–	–
Non-cumulative Series AH	8,500	213	.81	–	–	–	–	–	–
Non-cumulative Series AJ (2)	16,000	400	–	–	–	–	–	–	–
Total First Preferred		$ 2,663			$ 2,350			$ 1,350	
Common shares outstanding	1,341,260	$ 10,384	$ 2.00	1,276,260	$ 7,300	$ 1.82	1,280,890	$ 7,196	$ 1.44
Treasury shares – preferred	(260)	(5)		(249)	(6)		(94)	(2)	
Treasury shares – common	(2,258)	(104)		(2,444)	(101)		(5,486)	(180)	
Exchangeable shares of RBC PH&N Holdings Inc.	6,750	324	–	–	–	–	–	–	–
Stock options									
Outstanding	21,773			26,623			32,243		
Exercisable	17,247			21,924			26,918		
Dividends									
Common		2,624			2,321			1,847	
Preferred		101			88			60	

(1) Only the First Preferred Shares Series W has a conversion option which, as at October 31, 2008, was not yet convertible.
(2) Dividend rate will reset every five years.

As at December 1, 2008, the number of outstanding common shares and stock options were 1,341,342,000 and 21,627,000, respectively. As at December 1, 2008, the number of Treasury shares – preferred and Treasury shares – common were 191,200 and 2,202,000, respectively. For further information about our share capital, refer to Notes 18 and 21 to our Consolidated Financial Statements.

Economic Capital

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

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

Economic Capital is calculated and attributed on a wider array of risks than is Basel II Pillar I regulatory capital, which is calibrated predominantly to target credit, market (trading) and operational risk measures. The identified risks (described below) for which we calculate Economic Capital are credit, market (trading and non-trading), operational, business, fixed asset, and insurance. Additionally, Economic Capital includes goodwill and intangibles, and reflects diversification benefits across risks and business segments.

- Credit risk is the risk of loss associated with a counterparty's inability or unwillingness to fulfill its payment obligations.
- Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, equity or commodity prices, and credit spreads, in both banking and trading books. Market risk can be exacerbated by thinly traded or illiquid markets.
- Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.
- Business risk is the risk of loss or harm 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.

For further discussion of credit, market, operational and insurance risk, refer to the Risk management section.

The calculation and attribution of Economic Capital involves a number of assumptions and judgments. The methodologies are continually monitored with a view to ensuring that the Economic Capital framework is comprehensive and consistent. Economic Capital measurement models and techniques are developed by GRM and are subject to an internal independent assessment for appropriateness and reliability. The models are continually benchmarked to leading industry practices via participation in surveys, reviews of methodologies and ongoing interaction with external risk management industry professionals. The models and input parameters are subject to independent vetting and validation, as per internal model risk policies.

Economic Capital		Table 77
(C$ millions average balances)	2008	2007
Credit risk	$ 8,100	$ 6,850
Market risk (trading and non-trading)	1,750	2,700
Operational risk	2,850	2,750
Business and fixed asset risk	2,200	2,000
Insurance risk	150	150
Risk capital	$ 15,050	$ 14,450
Goodwill and intangibles	7,700	5,550
Economic Capital	$ 22,750	$ 20,000
Unattributed capital	2,000	2,000
Common equity	$ 24,750	$ 22,000

Economic Capital increased $2.8 billion from a year ago largely due to increases in Goodwill and intangibles capital and Credit risk capital, partly offset by a decrease in Market risk (non-trading) capital. Goodwill and intangibles capital increased primarily as a result of our acquisitions of ANB, RBTT, PH&N and FBW, as well as the impact of a weaker Canadian dollar on goodwill denominated in foreign currencies. The increase in Credit risk capital was largely due to business growth, including acquisitions during the current year, and the impact of a weaker Canadian dollar on the translated value of foreign currency-denominated assets. The decrease in Market risk (non-trading) capital was mostly attributable to methodology changes related to diversification benefits in certain portfolios and improved measurement of interest rate risk inherent in our Canadian retail and wholesale operations.

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

Subsidiary capital

Management of our subsidiary capital is an important part of our overall capital management framework. We allocate capital across the enterprise to maximize returns to our shareholders and meet local regulators' capital adequacy requirements. Additionally, we focus on ensuring that we can access capital recognized in our consolidated regulatory capital measurements. To achieve this objective, we set guidelines for defining capital investments in our subsidiaries and manage the relationship between capital invested in subsidiaries and our consolidated capital base.

Each of our subsidiaries has individual responsibility for maintaining the subsidiary's compliance with local regulatory capital adequacy requirements, which may include restrictions on the transfer of assets in the form of cash, dividends, loans or advances. Concurrently, Corporate Treasury provides centralized oversight and consolidated capital base management across the various entities.

The following table provides the Tier 1 and Total capital ratios of our significant banking subsidiary RBC Bank (USA).

Capital ratios of our significant banking subsidiary		Table 78
As at October 31	2008	2007
RBC Bank (USA) (1), (2)		
Tier 1 capital ratio	9.2%	10.7%
Total capital ratio	12.5%	13.0%

(1) Calculated using guidelines issued by the U.S. Federal Reserve Board under Basel I, as the U.S. will adopt Basel II no earlier than 2010.
(2) As RBC Bank (USA)'s fiscal year runs from January 1 to December 31, the ratios shown are as at September 30, 2008 and September 30, 2007, respectively.

Other considerations affecting capital

In addition to the regulatory environment, we closely monitor changes in GAAP and their potential impact on our capitalization levels.

The Accounting Standards Board (AcSB) of the CICA has announced the adoption of IFRS in place of existing Canadian GAAP. For fiscal years beginning on or after January 1, 2011, publicly accountable enterprises are required to adopt IFRS for financial reporting and disclosure purposes. Moreover, OSFI has confirmed that all federally regulated financial institutions must adopt IFRS as required in the AcSB plan. The adoption of IFRS may impact the capital and capital ratios of banks due to significant recognition and measurement differences between IFRS and current Canadian GAAP. We will begin reporting our financial statements in accordance with IFRS on November 1, 2011. We are currently reviewing the IFRS requirements to assess their impact on our capital and disclosure requirements.

Capital treatment for equity investments in other entities is determined by a combination of accounting and legal guidelines based on the size or nature of the investment. Three broad approaches apply as follows:

- Consolidation: entities in which we have a controlling interest must be fully consolidated on our Consolidated Balance Sheets. Joint ventures are consolidated on a pro rata basis. Consolidated holdings are capitalized directly by asset class and are not treated as equity investments for regulatory capital calculation purposes.
- Deduction: certain holdings are deducted in full from our regulatory capital. These include all unconsolidated "substantial investments," as defined by the *Bank Act* (Canada), as well as all investments in insurance subsidiaries.
- Risk weighting: unconsolidated equity investments that are not deducted from capital are risk weighted at a prescribed rate for determination of capital charges.

While Basel II retains the same criteria for determination of capital treatment of equities, the prescribed risk weightings are generally higher than under Basel I.

Impact of the financial market turmoil on capital

Our capital position continues to be strong despite the global market turmoil. We maintain a capital cushion to support our business plans and accommodate unexpected increases in risk. While our cost of capital has increased from recent historical lows along with the market, our access to capital funding remains sound, as reflected in our continuing ability to raise over $6 billion of regulatory capital in 2008 and early fiscal 2009, both as consideration for our acquisitions and for general business purposes. We have reflected our higher costs of capital in internal models and performance measures to ensure the prudent use of capital. To reflect a renewed focus on managing capital at an appropriate level through the business cycle, we have increased our medium-term Tier 1 capital ratio objective from greater than 8.0% to greater than 8.5%. Additionally, we continue to focus on cost-effective initiatives to strengthen our capital position globally.

Our forward-looking capital plan provides the flexibility to accommodate the changing environment. We continue to monitor developments in both the domestic and international markets to assess their potential impact on our capital and adjust our capital plans accordingly.

Hedging foreign currency-denominated operations
We are exposed to foreign currency risk arising from our investments in foreign operations. For unhedged equity investments, when the Canadian dollar weakens against other currencies, the unrealized translation gains on net foreign investments increase our capital levels through AOCI and increase the translated value of the risk-adjusted assets of the foreign currency-denominated operations. The reverse is true when the Canadian dollar appreciates against other currencies. As such, fluctuations in foreign currency exchange rates can result in volatility in our capital and capital ratios. Consequently, we consider these impacts in selecting an appropriate level of our investments in foreign operations to be hedged.

Liquidity and funding risk

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

Our liquidity and funding management framework is designed to ensure that adequate sources of reliable and cost-effective cash or its equivalents are continually available to satisfy our current and prospective financial commitments under normal and contemplated stress conditions. To achieve this goal, we are dedicated to the preservation of the following key liquidity and funding risk mitigation strategies:

- A large base of core client deposits
- Continual access to diversified sources of wholesale funding, including demonstrated capacities to monetize specific asset classes
- A comprehensive and enterprise-wide liquidity contingency plan supported by an earmarked pool of unencumbered marketable securities (referred to as "contingency liquidity assets") that provide assured access to cash in a crisis.

Our liquidity and funding management practices and processes reinforce these risk mitigation strategies by assigning prudential limits or targets to metrics associated with these activities and regularly measuring and monitoring various sources of liquidity risk under both normal and stressed market conditions. In managing this risk, we aim to achieve a prudent balance between the level of risk we take and the cost of its mitigation, recognizing that this balance may need to be adjusted if our internal or external environments change materially.

Responsibilities
The Board of Directors is responsible for oversight of our liquidity and funding management framework, which is developed and implemented by senior management.

- The Audit Committee and the Conduct Review and Risk Policy Committee approve our liquidity and funding management framework. The Audit Committee approves our liquidity risk policy, pledging framework, and liquidity contingency plan and establishes broad liquidity risk tolerance levels, and the Board of Directors is informed on a periodic basis about our current and prospective liquidity condition.
- The Group Risk Committee and the ALCO share management oversight responsibility for liquidity and funding policies and receive regular reports detailing compliance with key limits and guidelines.
- Corporate Treasury has global responsibility for the development of liquidity and funding management policies, strategies and contingency plans and for recommending and monitoring limits within the framework. In this role, Corporate Treasury is assisted by Group Risk Management. Corporate Treasury actively participates in national and international industry initiatives to benchmark and enhance its liquidity management practices.
- Treasury departments of business segments and key subsidiaries execute transactions in line with liquidity management policies and strategies.
- Subsidiaries are responsible for managing their own liquidity in compliance with policies and practices established under advice and counsel by Corporate Treasury and within governing regulatory requirements.

In managing liquidity risk, we favour a centralized management approach so that funding and operational efficiencies can be maximized. We also believe that this approach results in more coordinated and effective measurement and oversight. However, market, regulatory, tax and organizational considerations influence the extent to which we can be fully centralized.

Risk measurement
The assessment of our liquidity position reflects management's conservative estimates, assumptions and judgments pertaining to current and prospective firm-specific and market conditions and the related behaviour of our clients and counterparties. We measure and manage our liquidity position from three risk perspectives as follows:

Structural liquidity risk
Structural liquidity risk management addresses the risk due to mismatches in effective maturities between all assets and liabilities, more specifically the risk of over-reliance on short-term liabilities to fund longer-term illiquid assets. We use both the cash capital and survival horizon models to assist in the evaluation of balance sheet liquidity and determination of the appropriate term structure of our debt financing. These methodologies also allow us to measure and monitor the relationship between illiquid assets and core funding, including our exposure to a protracted loss of unsecured wholesale deposits under stressed conditions.

Tactical liquidity risk
Tactical liquidity risk management addresses our normal day-to-day funding requirements, which are managed by imposing prudential limits on net fund outflows in Canadian dollar and foreign currencies for key short-term time horizons (overnight to nine weeks), as well as on our pledging activities that are subject to an enterprise-wide framework that assigns a risk-adjusted limit to our aggregate pledging exposure and individual limits by types of pledging activities. Pledged assets are not considered a source of available liquidity and include a pool of eligible assets that are reserved exclusively to support our participation in payment and settlement systems.

Contingent liquidity risk
Contingent liquidity risk management assesses the impact of and our intended responses to sudden stressful events. The liquidity contingency plan identifies comprehensive action plans that would be considered in response to various types of crisis of different duration and severity and in light of prevailing internal and external market conditions. Corporate Treasury maintains and administers the liquidity contingency plan. The Liquidity Crisis Team, consisting of senior representatives of all key business and functional units, meets regularly to engage in stress testing and to review our liquidity contingency preparedness.

Our stress testing exercises are based on models that measure our potential exposure to global, country-specific or RBC-specific events (or a combination thereof) and consider both historical and hypothetical events. Different levels of severity are considered for each type of crisis including ratings downgrades of two and four notches and to non-investment grade for RBC-specific events. These comprehensive tests include elements of scenario and sensitivity stress testing techniques. In all cases, the crisis impact is measured over a nine-week horizon, which is also used in our key measure of tactical liquidity risk and is what we consider to be the most crucial time span for a liquidity event. The risk of more prolonged crises is addressed through the frequency with which our key tests are updated as well as through our measures of structural liquidity that assume a stressed environment. Liquidity Crisis Team members contribute to assumptions about the expected behaviour of balance sheet asset and liability categories and off-balance sheet exposures based on their specialized client, product and market perspectives. Some tests are run monthly, others are only run annually. Frequency is determined by considering a combination of their likelihood and impact. After reviewing test results, the liquidity contingency plan and other related liquidity and funding risk management practices may be modified in light of lessons learned. Failure to meet predetermined minimum targets in some of these tests, as well as in aforementioned risk measures, would result in discussion with senior management and, as necessary, the Board of Directors, and could lead to more conservative practices and limits being prescribed.

Our liquid assets are primarily a diversified pool of highly rated and liquid marketable securities and include segregated portfolios (in both Canadian and U.S. dollars) of contingency liquidity assets to address potential on- and off-balance sheet liquidity exposures (such as deposit erosion, loan drawdowns and higher collateral demands), that have been estimated through models we have developed or by the scenario analyses and stress tests that we conduct periodically. These portfolios are subject to minimum asset levels and strict eligibility guidelines to ensure ready access to cash in emergencies, including their eligibility for central bank advances.

Risk control
We monitor and manage our liquidity position on a consolidated basis and consider legal, regulatory, tax, operational and any other applicable restrictions when analyzing our ability to lend or borrow funds between branches, branches and subsidiaries, and subsidiaries.

Policies
Our principal liquidity and funding policies are reviewed and approved annually by the Asset and Liability Committee, Group Risk Committee and the Board of Directors. These broad policies establish risk tolerance parameters and authorize senior management committees or Corporate Treasury to approve more detailed policies and limits related to specific measures, businesses and products. These policies and procedures govern management, measurement and reporting requirements and define approved liquidity and funding limits.

Authorities and limits
Targets for our structural liquidity position, based on both a "cash capital" metric and a "survivability horizon" measurement, are approved at least annually and monitored quarterly.

With respect to net short-term funding requirements, limits are monitored daily or weekly, depending on the materiality of each RBC reporting entity, to ensure compliance. The prescribed treatment of cash flow assets and liabilities under varying conditions are reviewed periodically by Corporate Treasury in concert with Group Risk Management and the business segments to determine if they remain valid or changes to assumptions and limits are required in light of internal or external developments. Through this type of process, we ensure that a close link is maintained between the management of liquidity and funding risk and market liquidity risk. Global market volatility since mid-2007 has prompted us to modify the liquidity treatment of certain asset classes, including auction rate securities and asset-backed securities, to reflect our expectations that market liquidity for these products will be sporadic for some time. Some limits have been revised to take into consideration the results of updated stress tests that reflect lessons learned during this period of market volatility.

Reporting
Detailed reports on our principal short-term asset/liability mismatches are monitored on a daily basis to ensure compliance with the limits for overall group exposure and by major currency, branches, subsidiaries and geographic locations. As set out in our liquidity and funding management framework, any potential exceptions to established limits on net fund outflows or other rules, whether monitored on a daily, weekly, monthly or quarterly basis, are reported immediately to Corporate Treasury, which provides or arranges for approval after reviewing a remedial action plan.

Various other liquidity metrics related to internal and external risk conditions are also monitored and reported regularly to senior management.

Funding
Funding strategy
Diversification of funding sources from retail, commercial, corporate and institutional investors is a crucial component of our overall liquidity management strategy. We encourage wholesale funding diversity and regularly review sources of short- and long-term funds to ensure that they are well diversified by provider, product, market, currency, structure, maturity and geographic origin. 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. Diversification expands our wholesale funding flexibility while minimizing funding concentration and dependency and generally reducing financing costs. To that effect, since September 2007, we have completed our first two covered bond issuances, as well as our first Samurai bond and U.S. dollar-denominated asset-backed security underpinned by credit card receivables from Canadian clients. 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 79**

As at December 4, 2008 (1)	Short-term debt	Senior long-term debt	Outlook
Moody's	P-1	Aaa	negative
S&P	A-1+	AA-	stable
Fitch	F1+	AA	stable
DBRS	R-1(high)	AA	stable

(1) Credit ratings are not recommendations to purchase, sell or hold a financial obligation inasmuch as they do not comment on market price or suitability for a particular investor. Ratings are subject to revision or withdrawal at any time by the rating organization.

The above table presents our major credit ratings as at December 4, 2008. On May 1, 2008, S&P revised our rating outlook from positive to stable, citing the pressure on our earnings of our U.S. retail banking operations due to the downturn in the U.S. housing market. On November 24, 2008, Moody's revised our rating outlook from stable to negative, citing the potential for further writedowns related to our structured credit exposures and our off-balance sheet exposure to multi-seller and third-party conduits. Our Fitch and DBRS ratings and outlooks remain unchanged from October 31, 2007. Our collective ratings continue to be the highest categories assigned by the respective agencies to a Canadian bank, and these strong credit ratings support our ability to competitively access unsecured funding markets.

Deposit profile

In 2008, personal and commercial deposits remained the key source of funding for our Canadian dollar balance sheet while most foreign currency deposits originated from unsecured, wholesale sources, including large corporate and institutional clients and foreign commercial and central banks. The composition of our global deposit liabilities is summarized in Note 13 to our Consolidated Financial Statements.

Our personal deposit franchise constitutes the principal source of constant funding while certain commercial and institutional client groups also maintain relational balances with low volatility profiles. Taken together, these clients represent a highly stable supply of core deposits in most conceivable environments as they typically are less responsive to market developments than transactional lenders and investors due to the impact of deposit insurance and extensive and, at times, exclusive relationships with us. Core deposits, consisting of our own statistically derived estimates of the highly stable portions of all of our relational personal, commercial and institutional balances (demand, notice and fixed-term) together with wholesale funds maturing beyond one year, increased during the year by about 1% to 57% of our total deposits.

Term funding sources — **Table 80**

(C$ millions)	2008	2007	2006
Long-term funding outstanding	**$ 70,906**	$ 51,540	$ 33,361
Total mortgage-backed securities sold	**15,196**	14,239	12,186
Commercial mortgage-backed securities sold	**2,159**	2,405	1,914
Credit card receivables financed through notes issued by a securitization special purpose entity	**3,163**	2,759	2,250

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, desired debt maturity profile and desired financial structure influence our long-term funding activities. We operate debt issuance programs in Canada, the U.S., Europe, Australia and Japan. Diversification into new markets and untapped investor segments is also constantly evaluated against relative issuance costs.

During 2008, we continued to expand our long-term funding base by issuing, either directly or through our subsidiaries, $31.7 billion of senior deposit notes in various currencies and markets. Total long-term funding outstanding increased $19.4 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 $957 million. Our credit card receivables, which are financed through notes issued by a securitization special purposes entity, increased year over year by $404 million. For further details, refer to the Off-balance sheet arrangements section and Note 5 to our Consolidated Financial Statements.

Impact of global market turmoil on liquidity management

Despite recent global market events, including a material reduction in liquidity in term funding markets, we believe our liquidity and funding position remains adequate to execute our strategy. By leveraging our new and existing domestic and global funding programs, we continued to raise wholesale term funding in size throughout the year as opportunities presented themselves. Most of the funding was raised through large benchmark-sized transactions, but a significant amount was also raised in a variety of lower-cost funding transactions. The $25 billion MBS auctions announced by the Government of Canada in October and subsequently increased to $75 billion in November have helped us further strengthen our liquidity position. We are also in the process of evaluating various newly announced public sector funding programs in different jurisdictions to determine our eligibility and, as applicable, our interest.

As the macroeconomic environment and the health of the financial industry in general has deteriorated, we have taken incremental steps to further conserve funding and manage the composition of our balance sheet. This includes selectively reducing trading inventories and enhancing the liquidity of our balance sheet by securitizing more of our loans to create more eligible collateral to access existing and new central bank lending programs. We will continue to undertake similar initiatives as opportunities arise and circumstances warrant. We expect that various government interventions and central bank initiatives globally will improve the credit markets over the next few months. Except for uncertainty about the timing of the recovery of liquidity in term markets, there are no other known trends, demands, commitments or events that are presently expected 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 81

	2008					2007	2006
As at October 31 (C$ millions) (1)	Within 1 year	1 to 3 years	3 to 5 years	Over 5 years	Total	Total	Total
Unsecured long-term funding	$ 11,906	$ 26,676	$ 14,237	$ 5,796	$ 58,615	$ 49,131	$ 33,361
Covered bonds	205	–	3,103	1,940	5,248	–	–
Subordinated debentures	278	–	–	7,980	8,258	6,343	7,103
Obligations under leases (2)	550	884	633	1,129	3,196	3,161	2,486
	$ 12,939	$ 27,560	$ 17,973	$ 16,845	$ 75,317	$ 58,635	$ 42,950

(1) The amounts presented above exclude accrued interest except for the category "Within 1 year."
(2) Substantially all of our lease commitments are operating.

Overview of other risks

Reputation risk

Reputation risk is the risk that an activity undertaken by an organization or its representatives will impair its image in the community or lower public confidence in it, resulting in the loss of business, legal action or increased regulatory oversight.

Reputation risk can arise from a number of events and primarily occurs in connection with regulatory, legal and operational risks. Operational failures and non-compliance with laws and regulations can have a significant reputational impact on us.

In addition to the six risk management principles discussed earlier in the Risk management principles section, the following principles also apply to our overall management of reputation risk:

- We must operate with integrity at all times in order to sustain a strong and positive reputation.
- Protecting our reputation is the responsibility of all our employees, including senior management, and extends to all members of the Board of Directors.

Code of Conduct

Our corporate values and Code of Conduct underpin the management of risk to our reputation and drive our ethical culture. Our Code of Conduct is the foundation of employee and director awareness of the kinds of conduct that protect our reputation, and those that put our reputation at risk.

Responsibilities

The management of reputation risk is overseen by the Board of Directors. The key senior management committees involved with monitoring and reporting on reputation risk at an enterprise level are the Ethics and Compliance Committee, PRC, STOC, Group Risk Committee and Capital Markets Risk Committee.

Risk control

Policies

Policies and procedures support the management of reputation risk across the organization. Business segments have specific policies in place to manage the risks within their businesses, including reputation risk. A comprehensive set of policy requirements applies to the identification and assessment of reputation risk, including Know Your Client due diligence controls and procedures, anti-money laundering and anti-terrorist financing policy requirements, auditor independence requirements, research standards, whistle blowing, and the requirements for managing conflicts of interest.

Reporting

The responsibility for monitoring and reporting on reputation risk issues is primarily within GRM. Regular comprehensive reporting is provided to the Group Risk Committee and the Board of Directors and its committees. This includes annual reporting on fraud issues, litigation issues and quarterly reporting on regulatory, compliance and operational risk issues. Reputation risk issues are also raised in internal audit reports provided to senior management.

Regulatory and legal risk

Regulatory and legal risk is the risk of negative impact to business activities, earnings or capital, regulatory relationships or reputation as a result of failure to comply with or a failure to adapt to current and changing regulations, law, industry codes or rules, regulatory expectations, or ethical standards.

Global Compliance, which is a part of GRM, has developed a comprehensive enterprise compliance management (ECM) framework that is consistent with regulatory guidance from OSFI and other regulators. The framework is designed to promote the proactive, risk-based management of compliance and regulatory risk. It applies to all of our businesses and operations, legal entities and employees globally and confirms the shared accountability of all our employees for ensuring we maintain robust and effective regulatory risk and compliance controls. The framework covers the following eight elements of compliance management: liaison with regulators, risk identification and assessment, control design and evaluation, learning and awareness, compliance execution, monitoring and oversight, issue management and reporting, and new initiative management.

Responsibilities

Global Compliance sets out the enterprise-wide requirements for the identification, assessment, control, monitoring and reporting of regulatory and compliance risk (and associated operational and reputation risk), as well as remediation of any issues identified. Oversight is provided by the Board of Directors through the CR&RPC and the Audit Committee. The Ethics and Compliance Committee supports our management of regulatory risk. It approves compliance programs and compliance-related policies and informs and advises the GRC, CR&RPC and the Audit Committee on significant regulatory issues and remedial measures.

The CCO and Global Compliance work closely with business partners to ensure the overall effectiveness of compliance and regulatory risk management controls across the enterprise through the ECM framework, which includes policies for consistent and effective compliance, independent oversight of compliance controls, timely reporting of trends and escalation of issues to senior management and the Board of Directors and timely execution of appropriate action plans.

Risk measurement

The identification and assessment of regulatory risk includes formal risk assessment activities carried out across the organization, both at the individual business and operational level, and at the enterprise level. Risk is measured through the assessment of the impact of regulatory and organizational changes, the introduction of new products and services, and the acquisition or development of new lines of business. It is also measured through the testing of the effectiveness of the controls established to ensure compliance with regulatory requirements and expectations. Although the use of metrics to measure compliance-related matters is relatively new and there are few proven methods for detecting leading indicators, we are working on developing new qualitative and quantitative measures. Meanwhile, we use what measures are available to identify issues and trends.

Risk control

Policies

We have a strong ethical and compliance culture grounded in our Code of Conduct. The Code of Conduct is regularly reviewed and updated to ensure that it continues to meet the expectations of regulators and other stakeholders. All our employees must reconfirm their understanding of and commitment to comply with the Code of Conduct at least every two years, and employees in certain key roles, such as Group Executive and others in financial oversight roles, must do so annually.

We provide online and face-to-face training for all our employees on the Code of Conduct and in the area of anti-money laundering and anti-terrorist financing compliance. Relevant employees also receive additional training in other compliance and regulatory risk matters. This is done through online tools and job aids (as part of employees' regular job training), new employee orientation materials, and periodically through targeted online, face-to-face or webcast training.

Reporting

On a quarterly basis, the CCO reports compliance matters to senior management, the Audit Committee and CR&RPC. The CCO also provides an annual report on overall compliance, and on specific topics, such as related party transactions, conflicts of interest, outsourcing arrangements and compliance with Canadian consumer protection requirements. In addition, the Global Chief Anti-Money Laundering Officer reports at least annually on anti-money laundering and anti-terrorist financing compliance. Similarly, senior compliance officers supporting our operating subsidiaries and lines of business provide relevant annual and quarterly reports to their respective senior management teams and boards of directors.

Insurance risk

Insurance risk is the risk of loss that may occur when actuarial assumptions made in insurance product design and pricing activities differ from actual experience. Insurance risk arises from all our Insurance businesses, which include life and health, creditor, home and auto, and travel insurance, and reinsurance businesses. Insurance risk can be categorized into the following sub-risks:

- Claims risk: The risk that the actual severity and/or frequency of claims differ from the levels assumed in pricing calculations. This risk can occur through (i) a misestimation of expected claims activities as compared to actual claims activities, or (ii) the misselection of a risk during the underwriting process. Components of claims risk include mortality risk, morbidity risk, home and auto risk and travel risk.
- Policyholder behaviour risk: The risk that the behaviour of policyholders relating to premium payments, policy withdrawals or loans, policy lapses, surrenders and other voluntary terminations differs from the behaviour assumed in pricing calculations.
- Expense risk: The risk that the expense of acquiring or administering policies, or of processing claims, exceeds the costs assumed in pricing calculations.

Responsibilities

Insurance risk approval authorities are established by the Board of Directors upon recommendation of its committees and delegated to senior management.

The boards of directors of the insurance subsidiaries are responsible for the stewardship of the insurance companies. The boards of directors oversee and monitor the management of the insurance subsidiaries and ensure that the subsidiaries are properly managed and functioning within our overall strategies and policies.

GRM – Insurance is responsible for providing risk management direction and oversight to the insurance businesses and for providing comprehensive reporting of insurance risks that we face. The Appointed Actuaries of our Canadian insurance companies are appointed by the boards of directors and have statutory requirements to provide opinions on adequacy of liabilities, sufficiency of capital, the insurance company's future financial condition and fairness of treatment for policyholders. External actuarial reviewers, in accordance with OSFI guidelines and Canadian Institute of Actuaries standards, provide oversight on the work of the Appointed Actuaries. Our international insurance subsidiaries receive similar actuarial oversight. Global Functions and GTO also provide direction and oversight to manage risk within their areas of expertise.

Insurance business units are responsible for the active management of insurance risk in partnership with GRM, other Global Functions groups and GTO.

Risk measurement

We measure insurance risks at regular intervals to ensure that our risk profile is appropriately monitored, reported, and aligned with business assumptions. These risk measurements are used for Economic Capital quantification, valuation of actuarial liabilities, and to meet statutory reporting requirements. This process is managed by GRM – Insurance through the use of models.

Models used for risk measurement are subject to a robust and systematic process of review and reporting in accordance with our Model Risk Policy. Key elements of the policy include maintaining appropriate model documentation, an approval process to ensure appropriate segregation of duties, independent and periodic model reviews, and clear accountability and oversight.

Risk control

Policies

Insurance risk policies articulate our strategies to identify, prioritize and manage insurance risk. GRM is responsible for insurance risk policies, which establish the expectations and parameters within which the insurance businesses operate, communicate our risk tolerance, and ensure accountability through clear roles and responsibilities.

Authorities and limits

Risk approval authorities and limits are established by the Board of Directors and delegated to management within the business units in order to guide insurance business activities. These delegated authorities and limits ensure our insurance portfolio is well diversified and within the risk appetite as approved by the Board of Directors.

Risk oversight and approval

GRM – Insurance provides independent oversight over our insurance business activities, including product development, product pricing, underwriting and claims management. GRM – Insurance also approves authority for activities that exceed business unit authorities and limits, and certain business activities, which are deemed to be of significant risk.

Risk mitigation

Our key elements for identifying, assessing and managing insurance risk include a risk-based approach for product development and pricing, effective guidelines and practices for underwriting, and claims management. Reinsurance, which involves transactions that transfer insurance risk to independent insurance companies, is also used to diversify our portfolio of insurance risks, limit loss exposure to large risks, and provide additional capacity for future growth.

Actuarial liabilities

Actuarial liabilities are estimates of the amounts required to meet obligations resulting from insurance contracts. Liabilities for estimated future policy benefits and expenses are established in accordance with the standards of practice of the Canadian Institute of Actuaries and the requirements of OSFI and other relevant professional and regulatory bodies. Actuarial liabilities for life insurance contracts are calculated using the Canadian Asset Liability Method. These estimates and actuarial assumptions include explicit provisions for adverse deviations to ensure adequacy of liabilities and are validated through extensive internal and independent external reviews and audits.

Reporting

GRM – Insurance regularly provides independent evaluation and reporting on our insurance risk exposures to management at the business segment level and at the enterprise level. The reports analyze and communicate insurance risk information and contribute to the overall understanding of insurance risk. Reporting includes an assessment of risks facing the insurance business units, trends related to all claims and adequacy of actuarial liabilities. The reports also provide an assessment of the risk-return profile of insurance products and a view of future potential risks.

Environmental risk

Environmental risk is the risk of loss to financial, operational or reputation value resulting from the impact of environmental issues. Environmental risk arises from our business activities and our operations. For example, the environmental issues associated with our clients' purchase and sale of contaminated property or development of large-scale projects may give rise to credit and reputation risk for us. Operational and legal risks may arise from environmental issues at our branches, offices or data processing centres.

We undertake independent and collaborative research to identify and better understand the material environmental risks we face. Some current and emerging issues include climate change, biodiversity, water and the rights of indigenous peoples, among others.

Responsibilities

Environmental risk management activities are overseen by the Corporate Environmental Affairs (CEA) Group with support from our business segments and Corporate Support groups. The CEA Group is responsible for developing and implementing the environmental risk management system, including identifying environmental risks in the organization; designing and supporting environmental risk policies, programs and initiatives; monitoring implementation; and leading communication and training. The CEA Group also provides advisory services and support to business and functional units on the management of specific environmental risks in business transactions.

Risk measurement

The magnitude of environmental risk associated with business activities is a function of several factors including the industry sector, the type and size of the transaction, the ability of the borrower to manage environmental matters, and whether real property is taken as collateral. Some environmental risks can be easily quantified while others are assessed on a qualitative basis. For example, in our lending activities, we quantify the potential cost of cleaning up environmental contamination of properties used as security for loans, and the cost to an obligor of making operational changes that may be required to meet environmental regulatory requirements or satisfy other obligations. We are also progressively able to quantify the potential cost of new environmental regulations, such as climate change regulation, to a particular sector or client. Other environmental risks are assessed on a qualitative basis; for example, the exposure of a particular industry to the physical effects of climate change or water scarcity.

In our operations, we quantify our cost of compliance with environmental regulations or applicable standards.

Risk control

We manage environmental risk by maintaining an environmental management system, including policy requirements, management and mitigation strategies, and reporting. Specifically, to manage environmental risk, we:

- Develop and maintain environmental polices, standards, procedures and guidelines
- Monitor relevant laws and regulations, as well as other requirements to which RBC adheres
- Maintain environmental programs and initiatives
- Establish roles and responsibilities for environmental management in the organization
- Train employees to identify and manage environmental risks
- Maintain an open dialogue with stakeholders, both internal and external to the organization
- Measure our performance and compare it to our objectives, which enables us to identify enhancement opportunities
- Periodically verify that our environmental risk management policies and processes are operating as intended.

Policies

We published our first environmental policy in 1991. The RBC Environmental Blueprint™, published in 2007, includes a revised corporate environmental policy, as well as details on environmental issues that are important to our stakeholders and us, and outlines our commitment to reducing our environmental footprint, responsible lending and investment, and the development of environmental products and services.

Our suite of environmental credit risk management policies enables us to proactively identify and manage environmental risks in our lending activities. These policies are regularly reviewed to ensure compliance with legal and operational requirements, and to take into account evolving business activities.

In addition to general policies for commercial and corporate lending, we have sector-specific and business-segment-specific policies and guidelines. For example, we have a separate Policy on Social and Environmental Review in our Project Finance business, which reflects our commitment to the Equator Principles (EPs). The EPs are voluntary guidelines that help financial institutions address the environmental and social risks associated with project finance.

Management and mitigation

In addition to adherence to policies, standards, procedures and guidelines, environmental risk is mitigated through transaction structuring and the use of insurance as well as other mechanisms. The CEA Group supports lenders, risk managers and clients in the management and mitigation of environmental risks in transactions by recommending strategies to treat, eliminate or transfer (via insurance) environmental risk.

Reporting

The Board of Directors and senior management committees are periodically provided with reports and analysis on risks associated with environmental issues, as appropriate. Loan losses resulting from environmental issues are tracked and reported to senior management.

We report on our implementation of the EPs annually in our Corporate Responsibility Report and Public Accountability Statement (CRR and PAS) and on rbc.com. The CRR and PAS also provides information about our environmental policies, lending, emerging issues, stakeholder engagement, and environmental performance and initiatives.

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

Impact of the market environment

The impact from the continuing volatility in the financial markets and lack of liquidity in credit markets has led to unprecedented levels of market volatility. This market environment has led to the failure or significant weakening of a number of substantial financial institutions globally, causing widespread liquidation of assets and further constraining of credits markets. These asset sales, along with asset sales by other leveraged investors, including some hedge funds, have rapidly driven down prices and valuations across a wide variety of traded asset classes. Asset price deterioration has a negative effect on the valuation of many of the asset categories represented on our balance sheet, and reduces our ability to sell assets at prices we consider to be fair value.

Our ability to effectively manage our liquidity, our positions within global financial markets, our capital ratios, and our ability to implement effective risk management processes could have a material impact on our business, financial condition, earnings and share price. Writedowns on the value of our held-for-trading securities, or our available-for-sale securities following a determination that they are other-than-temporarily impaired, could further impact our earnings. As well, a protracted market decline could further reduce liquidity in the markets, making it more difficult to value financial instruments, as the most recent transaction price may not be indicative of fair value and we may have to rely on other valuation techniques based on market parameters if the market is deemed to be inactive; access the capital markets and sell assets; increased competition for funding could increase our funding costs; changes in market rates and prices may adversely affect the value of financial products; and our derivative and other transactions may expose us to unexpected risks and potential losses, any or all of which could impact our financial condition and earnings.

General business and economic conditions in Canada, the United States and other countries in which we conduct business

Interest rates, foreign exchange rates, the stability of various financial markets, consumer saving and spending habits as well as consumer borrowing and repayment patterns, 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, as a result of the market environment many countries are currently experiencing an economic downturn or recession. Either occurrence would result in high unemployment and lower family incomes, corporate earnings, business investment and consumer spending, any or all of which would adversely affect the demand for our loan and other products and services. In addition, our provision for credit losses would likely increase due to higher expected credit losses, the amount of which could be significant, resulting in lower earnings. Similarly, a further downturn in a particular equity or debt market could cause additional reductions in new issue and investor trading activity or assets under management and assets under administration, resulting in lower fee, commission and other revenue. Also, additional defaults by one or more large financial institutions in Canada, the United States or internationally could further adversely affect the financial markets generally and us specifically.

Changes in accounting standards and accounting policies and estimates

From time to time, the AcSB changes the financial accounting and reporting standards that govern the preparation of our financial statements. These changes can be difficult to anticipate and can materially impact how we record and report our financial condition and results of operations. In some instances, we may be required to retroactively apply a new or revised standard that results in our restating prior period financial statements.

The accounting policies and methods we utilize determine how we report our financial condition and results of operations, and they require management to make estimates, including estimates of provisions, allowances and valuations of financial instruments, or rely on assumptions about matters that are inherently uncertain. Such estimates and assumptions may require revisions, and changes to them may materially adversely affect our results of operations and financial condition. Significant accounting policies are described in Note 1 to our Consolidated Financial Statements.

As detailed in the Critical accounting policies and estimates section, we have identified eight accounting policies as being “critical” to the presentation of our financial condition and results of operations as: (i) they require management to make particularly subjective and/or complex judgments about matters that are inherently uncertain; and (ii) it is likely that materially different amounts could be reported using different assumptions and estimates.

In 2006, the AcSB announced its decision that all reporting issuers should adopt IFRS. We are required to adopt IFRS commencing November 1, 2011. The adoption of IFRS could impact (i) our current accounting policies, and (ii) our capital and capital ratios due to significant recognition and measurement differences between IFRS and current Canadian GAAP which could in turn materially impact our financial condition and results of operations

Currency rates

Our revenue, expenses and income denominated in currencies other than the Canadian dollar are subject to fluctuations in the movement of the average Canadian dollar relative to the average of those currencies. Such fluctuations may affect our overall business and financial results. Our most significant exposure is to the U.S. dollar due to our level of operations in the U.S., and other activities conducted in U.S. dollars. A strengthening or weakening of the average Canadian dollar compared to the average U.S. dollar could have a significant effect on our results of operations. For example, in the fourth quarter of 2008, the average Canadian dollar exchange rate depreciated considerably against the U.S. dollar, resulting in an increase in the translated value of our U.S. dollar net loss. A strengthening or weakening of the Canadian dollar spot rate compared to the U.S. dollar spot rate could also have a significant effect on our financial condition. For example, as at October 31, 2008, the Canadian dollar spot rate depreciated sharply against the U.S. dollar, resulting in an increase in the translated value of our U.S. dollar-denominated assets and liabilities, and a decrease in our Tier 1 capital ratio as a result of higher risk-adjusted assets and a higher goodwill capital deduction. We are also exposed to the British pound and the Euro due to our activities conducted internationally in these currencies. Appreciation or depreciation of the Canadian dollar relative to the British pound or Euro could reduce or increase, as applicable, the translated value of our British pound- or Euro-denominated revenue, expenses and earnings, and could also impact our financial condition.

Government fiscal monetary and other policies
Our businesses and earnings are affected by the fiscal, monetary or other policies that are adopted by the Bank of Canada and various other Canadian regulatory authorities, the Board of Governors of the Federal Reserve System in the United States and other U.S. government authorities, as well as those adopted by international regulatory authorities and agencies, in jurisdictions in which we operate. For example, the Bank of Canada reduced the overnight rate from 4.25% to 2.25% taking into consideration the global economic slowdown, weaker market conditions and declining commodity prices which reduced spreads on many of our products and in turn impacted our earnings. As well, such policies can adversely affect our clients and counterparties in Canada, the United States and internationally, which may increase the risk of default by such clients and counterparties.

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. Benefits received by our U.S. and international competitors under laws and regulations enacted by their governments in response to the credit environment may also impact our ability to compete. For example, the benefits received by U.S. financial institutions under the *Emergency Economic Stabilization Act*, the Troubled Asset Relief Program (which has involved injections of capital into U.S. financial institutions) and the Temporary Liquidity Guarantee Program (which includes the temporary raising of the U.S. Federal Deposit Insurance Corporation's deposit insurance from US$100,000 to US$250,000) could result in our potential or existing customers deciding to deposit their money in a U.S. deposit-taking financial institution instead of with us. Other financial services companies, such as insurance companies and non-financial companies, are increasingly offering services traditionally provided by banks. Such competition could also reduce net interest income, fee revenue and adversely affect our earnings.

Changes in laws and regulations
Laws and regulations are in place to protect the financial and other interests of our clients, investors and the public interest. Changes to laws, including tax laws, regulations or regulatory policies, including changes to our capital management framework, as well as the changes in how they are interpreted, implemented or enforced, particularly due to the market environment, 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 or injunctions or loss of licences or registrations 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. We operate in an increasingly regulated and litigious environment, potentially exposing us to liability and other costs, the amounts of which may be difficult to estimate. 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.

Execution of our strategy
Our ability to execute on our objectives and strategic goals will influence our financial performance. If we are unable to successfully implement selected strategies or related plans and decisions, if we make inappropriate strategic choices or if we make a change to our strategic goals, our financial results could be adversely affected.

Acquisitions and joint ventures
Although we regularly explore opportunities for strategic acquisitions of, or joint ventures with, companies in our lines of business, there is no assurance that we will receive required regulatory or shareholder approvals or be able to complete acquisitions or joint ventures on terms and conditions that satisfy our investment criteria. There is also no assurance we will achieve our financial or strategic objectives or anticipated cost savings following acquisitions or forming joint ventures. Our performance is contingent on successful integration of acquisitions and joint ventures, and 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 to our credit ratings
There can be no assurance that our credit ratings and rating outlooks from rating agencies such as Moody's, S&P, Fitch Ratings or DBRS will not be lowered or that these ratings agencies will not issue adverse commentaries about us, potentially resulting in higher financing costs and reduced access to capital markets. A lowering of our credit ratings may also affect our ability, and the cost, to enter into normal course derivative or hedging transactions and may require us to post additional collateral under certain contracts.

Development and integration of our distribution networks
Although we regularly explore opportunities to expand our distribution networks, either through acquisitions or organically by adding, for example, new bank branches, insurance offices, online savings accounts and ATMs in high-growth, receptive markets in Canada, the United States and internationally, if we are not able to develop or integrate these distribution networks effectively, our results of operations and financial condition may be negatively affected.

Other factors

Other factors that may affect actual results include the possibility that the financial system as a whole may not withstand the effects of a crisis resulting from extraordinary economic, political, social or financial circumstances, changes in government trade policy, the timely and successful development of new products and services, our ability to cross-sell more products to customers, technological changes and our reliance on third parties to provide components of our business infrastructure, the failure of third parties to comply with their obligations to us and our affiliates as such obligations relate to the handling of personal information, fraud by internal or external parties, the possible impact on our business from disease or illness that affects local, national or global economies, disruptions to public infrastructure, including transportation, communication, power and water, international conflicts and other political developments including those relating to the war on terrorism, and our success in anticipating and managing the associated risks.

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

Net interest income on average assets and liabilities from continuing operations (1) — Table 82

(C$ millions, except percentage amounts)	Average balances (2) 2008	2007	2006	Interest (3) 2008	2007	2006	Average rate 2008	2007	2006
Assets									
Deposits with other banks									
Canada	$ 1,837	$ 1,570	$ 1,218	$ 45	$ 43	$ 41	2.45%	2.74%	3.37%
United States	4,168	2,904	1,856	137	176	155	3.29	6.06	8.35
Other International	7,802	5,436	4,913	316	319	284	4.05	5.87	5.78
	13,807	9,910	7,987	498	538	480	3.61	5.43	6.01
Securities									
Trading	149,098	162,828	134,166	5,519	6,621	5,056	3.70	4.07	3.77
Available-for-sale (4)	39,626	31,516	–	1,455	1,044	–	3.67	3.31	–
Investments (4)	–	–	38,792	–	–	1,133	–	–	2.92
	188,724	194,344	172,958	6,974	7,665	6,189	3.70	3.94	3.58
Assets purchased under reverse repurchase agreements and securities borrowed	68,356	71,759	55,615	2,889	3,620	2,827	4.23	5.04	5.08
Loans (5)									
Canada									
Retail	170,300	152,588	135,852	8,889	9,376	8,157	5.22	6.14	6.00
Wholesale	38,558	31,541	31,539	994	1,047	1,264	2.58	3.32	4.01
	208,858	184,129	167,391	9,883	10,423	9,421	4.73	5.66	5.63
United States	35,096	25,718	21,871	2,161	2,240	2,110	6.16	8.71	9.65
Other International	15,623	13,388	8,286	2,939	2,061	1,177	18.81	15.39	14.20
	259,577	223,235	197,548	14,983	14,724	12,708	5.77	6.60	6.43
Total interest-earning assets	530,464	499,248	434,108	25,344	26,547	22,204	4.78	5.32	5.11
Non-interest-bearing deposits with other banks	3,702	2,137	2,806	–	–	–	–	–	–
Customers' liability under acceptances	11,274	10,270	8,748	–	–	–	–	–	–
Other assets	104,860	69,345	56,438	–	–	–	–	–	–
Total assets	$ 650,300	$ 581,000	$ 502,100	$ 25,344	$ 26,547	$ 22,204	3.90%	4.57%	4.42%
Liabilities and shareholders' equity									
Deposits (6)									
Canada	$ 174,441	$ 166,983	$ 167,015	$ 4,423	$ 5,669	$ 5,024	2.54%	3.39%	3.01%
United States	56,329	53,817	47,913	1,758	2,563	2,018	3.12	4.76	4.21
Other International	163,487	121,924	91,334	5,977	5,538	3,666	3.66	4.54	4.01
	394,257	342,724	306,262	12,158	13,770	10,708	3.08	4.02	3.50
Obligations related to securities sold short	45,367	46,654	38,630	1,525	1,997	2,071	3.36	4.28	5.36
Obligations related to assets sold under repurchase agreements and securities loaned	36,558	42,503	32,786	1,613	2,364	1,882	4.41	5.56	5.74
Subordinated debentures	7,183	6,704	8,013	354	338	419	4.93	5.04	5.23
Other interest-bearing liabilities	3,962	3,569	2,759	334	376	328	8.43	10.54	11.89
Total interest-bearing liabilities	487,327	442,154	388,450	15,984	18,845	15,408	3.28	4.26	3.97
Non-interest-bearing deposits	16,784	25,752	17,037	–	–	–	–	–	–
Acceptances	11,274	10,270	8,882	–	–	–	–	–	–
Other liabilities	108,116	79,087	66,755	–	–	–	–	–	–
Total liabilities	$ 623,501	$ 557,263	$ 481,124	$ 15,984	$ 18,845	$ 15,408	2.56%	3.38%	3.20%
Shareholders' equity									
Preferred	1,795	1,553	1,022	–	–	–	–	–	–
Common	25,004	22,184	19,954	–	–	–	–	–	–
Total liabilities and shareholders' equity	$ 650,300	$ 581,000	$ 502,100	$ 15,984	$ 18,845	$ 15,408	2.46%	3.24%	3.07%
Net interest income and margin	$ 650,300	$ 581,000	$ 502,100	$ 9,360	$ 7,702	$ 6,796	1.44%	1.33%	1.35%
Net interest income and margin (average earning assets)									
Canada	$ 308,574	$ 280,385	$ 257,319	$ 6,929	$ 6,402	$ 6,045	2.25%	2.28%	2.35%
United States	108,733	106,044	90,684	1,132	412	108	1.04	.39	.12
Other International	113,157	112,819	86,105	1,299	888	643	1.15	.79	.75
Total	$ 530,464	$ 499,248	$ 434,108	$ 9,360	$ 7,702	$ 6,796	1.76%	1.54%	1.57%

(1) Geographic classification for selected assets and liabilities is based on the domicile of the booking point of the subject assets and liabilities.
(2) Calculated using methods intended to approximate the average of the daily balances for the period.
(3) Interest income includes loan fees of $339 million (2007 – $331 million; 2006 – $348 million).
(4) AFS securities are carried at fair value. Prior to November 1, 2006, AFS securities were classified as investment securities and were carried at amortized cost.
(5) Average balances include impaired loans.
(6) Deposits include savings deposits with average balances of $48 billion (2007 – $46 billion; 2006 – $46 billion), interest expense of $.5 billion (2007 – $.4 billion; 2006 – $.4 billion) and average rates of 1.0% (2007 – .9%; 2006 – .8%). Deposits also include term deposits with average balances of $227 billion (2007 – $240 billion; 2006 – $206 billion), interest expense of $8.0 billion (2007 – $10.7 billion; 2006 – $8.3 billion) and average rates of 3.50% (2007 – 4.43%; 2006 – 4.02%).

Loans and acceptances by geography (1) — Table 83

As at October 31 (C$ millions)	2008	2007	2006	2005	2004
Canada					
Residential mortgages (2)	$ 117,690	$ 107,453	$ 94,272	$ 88,808	$ 80,168
Personal	48,780	42,506	37,946	33,986	30,415
Credit cards	8,538	8,142	6,966	6,024	6,298
Small business (3)	2,804	2,652	2,318	1,951	1,928
Retail	177,812	160,753	141,502	130,769	118,809
Business (4)	53,775	51,237	44,353	42,383	35,214
Sovereign (5)	1,544	585	553	521	535
Bank (6)	978	521	160	74	106
Wholesale	56,297	52,343	45,066	42,978	35,855
	234,109	213,096	186,568	173,747	154,664
United States					
Retail	12,931	6,804	7,652	7,741	7,010
Wholesale	30,943	18,548	13,847	12,317	11,698
	43,874	25,352	21,499	20,058	18,708
Other International					
Retail	4,712	1,905	1,896	1,729	1,411
Wholesale	20,345	10,862	9,084	3,454	3,961
	25,057	12,767	10,980	5,183	5,372
Total loans and acceptances	$ 303,040	$ 251,215	$ 219,047	$ 198,988	$ 178,744
Total allowance for loan losses	$ (2,215)	$ (1,493)	$ (1,409)	$ (1,498)	$ (1,644)
Total loans and acceptances, net of allowance for loan losses	$ 300,825	$ 249,722	$ 217,638	$ 197,490	$ 177,100

(1) Geographic information is based on residence of borrower.
(2) Includes certain synthetic mortgage securitizations in 2005, 2006, 2007 and 2008.
(3) Includes small business exposure managed on a pooled basis.
(4) Includes small business exposure managed on an individual client basis.
(5) Sovereign refers to all central governments and agencies, central banks, as well as other qualifying public sector entities and multilateral development banks.
(6) Bank refers primarily to regulated deposit-taking institutions and securities firms.

Loans and acceptances by portfolio and sector — Table 84

As at October 31 (C$ millions)	2008	2007	2006	2005	2004
Residential mortgages (1)	$ 122,991	$ 109,745	$ 96,675	$ 91,043	$ 81,998
Personal	60,727	48,743	44,902	41,045	36,848
Credit cards	8,933	8,322	7,155	6,200	6,456
Small business (2)	2,804	2,652	2,318	1,951	1,928
Retail	$ 195,455	$ 169,462	$ 151,050	$ 140,239	$ 127,230
Business (3)					
Agriculture	5,305	5,367	5,435	5,238	4,992
Automotive	3,999	3,285	2,958	2,545	2,370
Consumer goods	7,389	5,206	4,553	4,437	4,566
Energy	8,146	7,632	6,010	5,628	3,462
Non-bank financial services	8,788	6,959	4,459	1,892	935
Forest products	1,152	1,349	1,126	1,210	1,150
Industrial products	5,033	4,119	3,659	3,157	2,827
Mining and metals	3,947	2,301	1,072	543	511
Real estate and related	22,978	19,187	16,145	13,730	12,224
Technology and media	3,206	2,423	2,326	2,244	2,135
Transportation and environment	4,239	2,656	2,400	1,900	2,555
Other (4)	25,623	17,583	15,586	14,772	12,319
Sovereign (5)	2,496	932	887	550	800
Bank (6)	5,284	2,754	1,381	903	668
Wholesale	$ 107,585	$ 81,753	$ 67,997	$ 58,749	$ 51,514
Total loans and acceptances (7)	$ 303,040	$ 251,215	$ 219,047	$ 198,988	$ 178,744
Total allowance for loan losses	$ (2,215)	$ (1,493)	$ (1,409)	$ (1,498)	$ (1,644)
Total loans and acceptances, net of allowance for loan losses	$ 300,825	$ 249,722	$ 217,638	$ 197,490	$ 177,100

(1) Includes certain synthetic mortgage securitizations in 2005, 2006, 2007 and 2008.
(2) Includes small business exposure managed on a pooled basis.
(3) Includes small business exposure managed on an individual client basis.
(4) Other in 2008 related to other services, $10.9 billion; financing products, $4.9 billion, holding and investments, $4.6 billion, health $2.5 billion and other $2.7 billion.
(5) Sovereign refers to all central governments and agencies, central banks, as well as other qualifying public sector entities and multilateral development banks.
(6) Bank refers primarily to regulated deposit-taking institutions and securities firms.
(7) Total loans and acceptances does not reflect the impact of credit risk mitigation. Basel II asset classes of qualifying revolving retail and other retail are largely included within Personal and Credit cards, while home equity lines of credit are included in Personal.

Impaired loans by portfolio and geography (1) — Table 85

As at October 31 (C$ millions, except percentage amounts)	2008	2007	2006	2005	2004
Residential mortgages	$ 340	$ 180	$ 165	$ 146	$ 156
Personal	348	189	205	183	204
Small business (2)	40	19	13	11	8
Retail	$ 728	$ 388	$ 383	$ 340	$ 368
Business (3)					
Agriculture	$ 95	$ 65	$ 45	$ 48	$ 89
Automotive	20	5	8	4	8
Consumer goods	57	83	85	73	59
Energy	80	3	6	47	162
Non-bank financial services	25	14	15	15	14
Forest products	25	29	12	16	163
Industrial products	194	29	17	12	60
Mining and metals	7	4	5	4	10
Real estate and related	1,137	353	74	58	76
Technology and media	45	10	49	52	89
Transportation and environment	10	19	19	14	19
Other (4)	500	116	108	75	116
Sovereign (5)	–	–	–	–	–
Bank (6)	–	–	–	–	–
Wholesale	$ 2,195	$ 730	$ 443	$ 418	$ 865
Total impaired loans (7)	$ 2,923	$ 1,118	$ 826	$ 758	$ 1,233
Canada					
Residential mortgages	$ 238	$ 149	$ 127	$ 106	$ 96
Personal	150	152	183	161	178
Small business (2)	40	19	13	11	8
Retail	$ 428	$ 320	$ 323	$ 278	$ 282
Business (3)					
Agriculture	$ 95	$ 64	$ 45	$ 44	$ 75
Automotive	17	4	5	2	4
Consumer goods	43	81	73	69	48
Energy	5	1	4	1	1
Non-bank financial services	3	3	2	2	–
Forest products	22	28	11	16	163
Industrial products	174	28	14	11	56
Mining and metals	6	4	5	4	8
Real estate and related	50	53	26	33	37
Technology and media	10	10	9	6	16
Transportation and environment	10	19	6	7	16
Other	94	82	66	30	77
Sovereign (5)	–	–	–	–	–
Bank (6)	–	–	–	–	–
Wholesale	$ 529	$ 377	$ 266	$ 225	$ 501
United States					
Residential mortgages	$ 52	$ 6	$ 8	$ 8	$ 33
Personal	81	–	–	–	11
Retail	$ 133	$ 27	$ 15	$ 16	$ 44
Business (3)					
Agriculture	$ –	$ 1	$ –	$ 4	$ –
Automotive	3	1	3	2	4
Consumer goods	14	2	12	4	11
Energy	73	–	–	43	141
Non-bank financial services	8	–	–	–	–
Forest products	3	1	1	–	–
Industrial products	20	1	3	1	4
Mining and metals	1	–	–	–	–
Real estate and related	1,087	300	48	25	39
Technology and media	35	–	40	46	73
Transportation and environment	–	–	13	7	3
Other	282	16	23	25	31
Sovereign (5)	–	–	–	–	–
Bank (6)	–	–	–	–	–
Wholesale	$ 1,526	$ 322	$ 143	$ 157	$ 306
	$ 1,659	$ 349	$ 158	$ 173	$ 350
Other International					
Retail	$ 167	$ 41	$ 45	$ 46	$ 42
Wholesale	140	31	34	36	58
	$ 307	$ 72	$ 79	$ 82	$ 100
Total impaired loans	$ 2,923	$ 1,118	$ 826	$ 758	$ 1,233
Specific allowance for loan losses	(767)	(351)	(263)	(282)	(487)
Net impaired loans	$ 2,156	$ 767	$ 563	$ 476	$ 746
Gross impaired loans as a % of loans and acceptances					
Residential mortgages	.28%	.16%	.17%	.16%	.19%
Personal	.57%	.39%	.46%	.45%	.55%
Small business (2)	1.43%	.72%	.56%	.56%	.41%
Retail	.37%	.23%	.25%	.24%	.29%
Wholesale	2.04%	.89%	.65%	.71%	1.73%
Total	.96%	.45%	.38%	.38%	.70%
Specific allowance for loan losses as a % of gross impaired loans	26.24%	31.40%	31.84%	37.20%	38.68%

(1) Geographic information is based on residence of borrower.
(2) Includes small business exposure managed on a pooled basis.
(3) Includes small business exposure managed on an individual client basis.
(4) Other in 2008 is related to other, $135 million; financing products, $203 million; other services, $124 million; holding and investments, $22 million; and health, $16 million.
(5) Sovereign refers to all central governments and agencies, central banks, as well as other qualifying public sector entities and multilateral development banks.
(6) Bank refers primarily to regulated deposit-taking institutions and securities firms.
(7) Past due loans greater than 90 days not included in impaired loans were $479 million in 2008 (2007 – $280 million; 2006 – $305 million; 2005 – $304 million; 2004 – $219 million).

Provision for (recovery of) credit losses by portfolio and geography (1) — Table 86

(C$ millions, except percentage amounts)	2008	2007	2006	2005	2004
Residential mortgages	$ 16	$ 5	$ 6	$ 2	$ 7
Personal	445	364	306	259	222
Credit cards	270	223	163	194	167
Small business (2)	46	34	29	27	27
Retail	$ 777	$ 626	$ 504	$ 482	$ 423
Business (3)					
Agriculture	$ 5	$ 2	$ (1)	$ (12)	$ 7
Automotive	10	2	4	–	2
Consumer goods	19	27	7	24	(11)
Energy	21	(7)	(53)	(20)	50
Non-bank financial services	–	–	4	10	–
Forest products	2	10	2	(52)	7
Industrial products	95	10	4	(7)	13
Mining and metals	2	1	–	(1)	(3)
Real estate and related	345	78	1	(11)	(1)
Technology and media	21	(2)	(5)	(6)	2
Transportation and environment	3	7	1	8	(32)
Other (4)	130	28	14	(26)	64
Sovereign (5)	–	–	–	–	–
Bank (6)	–	–	–	–	–
Wholesale	$ 653	$ 156	$ (22)	$ (93)	$ 98
Total specific provision	$ 1,430	$ 782	$ 482	$ 389	$ 521
Canada					
Residential mortgages	$ 8	$ 5	$ 6	$ 1	$ 6
Personal	352	334	296	247	212
Credit cards	266	220	161	192	165
Small business (2)	46	34	29	27	27
Retail	$ 672	$ 593	$ 492	$ 467	$ 410
Business (3)					
Agriculture	$ 5	$ 2	$ (1)	$ (12)	$ 6
Automotive	10	2	4	–	1
Consumer goods	13	26	6	25	(12)
Energy	(3)	(4)	(10)	1	–
Non-bank financial services	–	–	–	10	–
Forest products	2	10	1	(52)	7
Industrial products	78	10	4	(5)	12
Mining and metals	1	1	–	–	1
Real estate and related	12	15	2	(1)	(4)
Technology and media	4	4	1	(3)	7
Transportation and environment	3	8	2	10	(30)
Other	27	28	6	(5)	15
Sovereign (5)	–	–	–	–	–
Bank (6)	–	–	–	–	–
Wholesale	$ 152	$ 102	$ 15	$ (32)	$ 3
	$ 824	$ 695	$ 507	$ 435	$ 413
United States					
Residential mortgages	$ 6	$ 1	$ –	$ 1	$ 1
Personal	74	22	10	12	9
Credit cards	4	3	2	2	3
Small business (2)	–	–	–	–	–
Retail	$ 84	$ 26	$ 12	$ 15	$ 13
Business (3)					
Automotive	$ –	$ –	$ –	$ –	$ 1
Consumer goods	6	1	1	(1)	1
Energy	24	(3)	(43)	(20)	63
Non-bank financial services	–	–	4	–	–
Forest products	–	–	1	–	–
Industrial products	17	–	–	(2)	1
Mining and metals	1	–	–	–	–
Real estate and related	333	63	–	(10)	3
Technology and media	17	(6)	(6)	(3)	(9)
Transportation and environment	–	–	(1)	(2)	(1)
Other	96	3	6	(22)	47
Sovereign (5)	–	–	–	–	–
Bank (6)	–	–	–	–	–
Wholesale	$ 494	$ 58	$ (38)	$ (60)	$ 106
	$ 578	$ 84	$ (26)	$ (45)	$ 119
Other International					
Retail	$ 21	$ 7	$ –	$ –	$ –
Wholesale	7	(4)	1	(1)	(11)
	$ 28	$ 3	$ 1	$ (1)	$ (11)
Total specific provision	$ 1,430	$ 782	$ 482	$ 389	$ 521
Total general provision	$ 165	$ 9	$ (53)	$ 66	$ (175)
Total provision for credit losses	$ 1,595	$ 791	$ 429	$ 455	$ 346
Specific provision as a % of average net loans and acceptances	.53%	.33%	.23%	.21%	.30%

(1) Geographic information is based on residence of borrower.
(2) Includes small business exposure managed on a pooled basis.
(3) Includes small business exposure managed on an individual client basis.
(4) Other in 2008 is related to financing products, $61 million; other services, $39 million; health, $9 million; holdings and investments, $8 million; and other, $13 million.
(5) Sovereign refers to all central governments and agencies, central banks, as well as other qualifying public sector entities and multilateral development banks.
(6) Bank refers primarily to regulated deposit-taking institutions and securities firms.

Allowance for credit losses by portfolio and geography (1) — Table 87

(C$ millions, except percentage amounts)	2008	2007	2006	2005	2004
Allowance at beginning of year	$ 1,572	$ 1,486	$ 1,568	$ 1,714	$ 2,164
Provision for credit losses	1,595	791	429	455	346
Write-offs by portfolio					
Residential mortgages	(9)	(5)	(5)	(5)	(7)
Personal	(504)	(446)	(379)	(353)	(332)
Credit cards	(319)	(268)	(204)	(237)	(207)
Small business (2)	(44)	(42)	(36)	(34)	(44)
Retail	$ (876)	$ (761)	$ (624)	$ (629)	$ (590)
Business (3)	$ (435)	$ (107)	$ (89)	$ (141)	$ (411)
Sovereign (4)	–	–	–	–	–
Bank (5)	–	–	–	–	–
Wholesale	$ (435)	$ (107)	$ (89)	$ (141)	$ (411)
Less developed countries exposures	$ –	$ –	$ –	$ –	$ –
Total write-offs by portfolio	$ (1,311)	$ (868)	$ (713)	$ (770)	$ (1,001)
Recoveries by portfolio					
Residential mortgages	$ 1	$ 1	$ –	$ –	$ –
Personal	76	75	64	69	68
Credit cards	49	46	41	43	39
Small business (2)	7	7	7	9	11
Retail	$ 133	$ 129	$ 112	$ 121	$ 118
Business (3)	$ 29	$ 41	$ 93	$ 53	$ 98
Sovereign (4)	–	–	–	–	–
Bank (5)	–	–	–	–	–
Wholesale	$ 29	$ 41	$ 93	$ 53	$ 98
Total recoveries by portfolio	$ 162	$ 170	$ 205	$ 174	$ 216
Net write-offs	$ (1,149)	$ (698)	$ (508)	$ (596)	$ (785)
Adjustments (6)	281	(7)	(3)	(5)	(11)
Total allowance for credit losses at end of year	$ 2,299	$ 1,572	$ 1,486	$ 1,568	$ 1,714
Specific allowance for loan losses					
Canada					
Residential mortgages	$ 23	$ 13	$ 11	$ 9	$ 11
Personal	79	79	88	101	108
Small business (2)	17	9	9	8	6
Retail	$ 119	$ 101	$ 108	$ 118	$ 125
Business (3)					
Agriculture	$ 13	$ 9	$ 8	$ 14	$ 27
Automotive	5	2	3	1	2
Consumer goods	12	45	32	31	14
Energy	2	–	2	5	–
Non-bank financial services	9	9	10	10	–
Forest products	4	10	2	6	63
Industrial products	49	9	8	7	24
Mining and metals	1	1	1	–	3
Real estate and related	9	18	10	15	14
Technology and media	6	5	5	3	6
Transportation and environment	5	7	7	4	13
Other	23	38	24	16	36
Sovereign (4)	–	–	–	–	–
Bank (5)	–	–	–	–	–
Wholesale	$ 138	$ 153	$ 112	$ 112	$ 202
	$ 257	$ 254	$ 220	$ 230	$ 327
United States					
Residential mortgages	$ 5	$ 1	$ 1	$ 1	$ 2
Personal	16	5	2	2	3
Small business (2)	–	–	–	–	–
Retail	$ 21	$ 6	$ 3	$ 3	$ 5
Business (3)					
Agriculture	$ –	$ –	$ 1	$ 1	$ –
Automotive	–	–	2	2	2
Consumer goods	6	–	3	3	4
Energy	27	–	–	1	48
Non-bank financial services	–	–	1	–	–
Forest products	–	–	–	–	–
Industrial products	8	–	–	–	3
Mining and metals	1	–	–	–	–
Real estate and related	241	56	1	1	14
Technology and media	13	–	–	5	8
Transportation and environment	–	–	–	1	2
Other	79	6	4	4	37
Sovereign (4)	–	–	–	–	–
Bank (5)	–	–	–	–	–
Wholesale	$ 375	$ 62	$ 12	$ 18	$ 118
	$ 396	$ 68	$ 15	$ 21	$ 123
Other International					
Retail	$ 68	$ 13	$ 12	$ 12	$ 14
Wholesale	46	16	16	19	23
	$ 114	$ 29	$ 28	$ 31	$ 37
Total specific allowance for loan losses	$ 767	$ 351	$ 263	$ 282	$ 487
General allowance					
Residential mortgages	$ 20	$ 16	$ 19	$ 19	$ 14
Personal	461	349	365	343	334
Credit cards	270	193	195	195	191
Small business (2)	47	37	37	37	37
Retail	$ 798	$ 595	$ 616	$ 594	$ 576
Wholesale	$ 650	$ 370	$ 349	$ 425	$ 374
General allowance for off-balance sheet items and other items	$ 84	$ 256	$ 258	$ 267	$ 277
Total general allowance	$ 1,532	$ 1,221	$ 1,223	$ 1,286	$ 1,227
Total allowance for credit losses	$ 2,299	$ 1,572	$ 1,486	$ 1,568	$ 1,714
Key ratios					
Allowance for credit losses as a % of loans and acceptances	.76%	.63%	.68%	.79%	.97%
Net write-offs as a % of average net loans and acceptances	.42%	.30%	.25%	.32%	.46%

(1) Geographic information is based on residence of borrower.
(2) Includes small business exposure managed on a pooled basis.
(3) Includes small business exposure managed on an individual client basis.
(4) Sovereign refers to all central governments and agencies, central banks, as well as other qualifying public sector entities and multilateral development banks.
(5) Bank refers primarily to regulated deposit-taking institutions and securities firms.
(6) Other adjustments include primarily foreign exchange translations on non-Canadian dollar-denominated allowance for credit losses and acquisition adjustments for RBTT $25 million in 2008; ANB $50 million in 2008; Flag Bank $21 million in 2007; and Provident Financial Group Inc. $6 million in 2004.

Credit quality information by Canadian province (1) — Table 88

(C$ millions)	2008	2007	2006	2005	2004
Loans and acceptances					
Atlantic provinces (2)	$ 11,446	$ 11,556	$ 10,256	$ 10,255	$ 9,598
Quebec	32,908	35,168	32,723	26,646	23,670
Ontario	105,410	90,242	81,968	78,283	70,896
Prairie provinces (3)	43,884	40,956	32,598	31,190	26,701
B.C. and territories (4)	40,461	35,174	29,023	27,373	23,799
Total loans and acceptances in Canada	$ 234,109	$ 213,096	$ 186,568	$ 173,747	$ 154,664
Gross impaired loans					
Atlantic provinces (2)	$ 66	$ 53	$ 53	$ 47	$ 60
Quebec	122	118	68	44	131
Ontario	504	322	286	269	254
Prairie provinces (3)	158	112	107	78	93
B.C. and territories (4)	107	92	75	65	245
Total gross impaired loans in Canada	$ 957	$ 697	$ 589	$ 503	$ 783
Specific provision					
Atlantic provinces (2)	$ 43	$ 40	$ 33	$ 30	$ 34
Quebec	63	66	47	7	(1)
Ontario	610	490	344	368	318
Prairie provinces (3)	60	51	38	44	31
B.C. and territories (4)	48	48	45	(14)	31
Total specific provision for credit losses in Canada	$ 824	$ 695	$ 507	$ 435	$ 413

(1) Based on residence of borrower.
(2) Comprises Newfoundland and Labrador, Prince Edward Island, Nova Scotia and New Brunswick.
(3) Comprises Manitoba, Saskatchewan and Alberta.
(4) Comprises British Columbia, Nunavut, Northwest Territories and Yukon.

Small business loans and acceptances in Canada by sector (1) — Table 89

As at October 31 (C$ millions)	2008	2007	2006	2005	2004
Agriculture	$ 261	$ 271	$ 248	$ 715	$ 519
Automotive	636	650	601	490	463
Consumer goods	2,234	2,350	2,043	1,728	1,764
Energy	384	370	284	182	150
Non-bank financial services	84	88	73	78	51
Forest products	346	351	366	311	276
Industrial products	1,672	1,543	1,377	1,057	999
Mining and metals	100	98	88	57	62
Real estate and related	3,052	2,822	2,565	1,982	1,821
Technology and media	316	314	300	243	232
Transportation and environment	940	901	774	549	502
Other (2)	4,687	4,488	4,098	3,365	3,298
Total small business loans	$ 14,712	$ 14,246	$ 12,817	$ 10,757	$ 10,137

(1) Includes small business exposure managed on a pooled and individual client basis.
(2) Other sector in 2008 related primarily to other services – $2,977 million, health – $1,108 million, holding and investment – $473 million and financing products – $79 million.