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, 2010, compared to the preceding two years. This MD&A should be read in conjunction with our Consolidated Financial Statements and related notes and is dated December 2, 2010. 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), unless otherwise noted.

Additional information about us, including our 2010 Annual Information Form, is available free of charge on our website at rbc.com/investor relations, 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 2010 Annual Report to Shareholders, in other filings with Canadian regulators or the SEC, in reports to shareholders and in other communications. Forward-looking statements in this document include, but are not limited to, statements relating to our financial performance objectives, our vision and strategic goals, the Economic, market and regulatory review and outlook for Canadian, U.S. and global economies, the outlook and priorities for each of our business segments, and the risk environment including our liquidity and funding management. The forward-looking information contained in this document is presented for the purpose of assisting the holders of our securities 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 vision and strategic goals and financial performance objectives, and may not be appropriate for other purposes. Forward-looking statements are typically identified by words such as "believe", "expect", "foresee", "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 financial performance objectives, vision and strategic goals will not be achieved. We caution readers not to place undue reliance on these statements as a number of risk factors could cause our actual results to differ materially from the expectations expressed in such forward-looking statements. These factors – many of which are beyond our control and the effects of which can be difficult to predict – include: credit, market, operational, and liquidity and funding risks, and other risks discussed in the Risk management and Overview of other risks sections; general business, economic and financial market conditions in Canada, the United States and certain other countries in which we conduct business, including the effects of the European sovereign debt crisis; changes in accounting standards, policies and estimates, including changes in our estimates of provisions, allowances and valuations; 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, changes to and new interpretations of risk-based capital guidelines, and reporting instructions and liquidity regulatory guidance, and the *Dodd-Frank Wall Street Reform and Consumer Protection Act* and the regulations to be issued thereunder; 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; and development and integration of our distribution networks.

We caution that the foregoing list 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 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 management and Overview of other risks 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 and outlook

Selected financial and other highlights — Table 1

(C$ millions, except per share, number of and percentage amounts)	2010	2009	2008	2010 vs. 2009 Increase (decrease)	
Total revenue	$ 28,330	$ 29,106	$ 21,582	$ (776)	(2.7)%
Provision for credit losses (PCL)	1,861	3,413	1,595	(1,552)	(45.5)%
Insurance policyholder benefits, claims and acquisition expense (PBCAE)	5,108	4,609	1,631	499	10.8%
Non-interest expense	14,393	14,558	12,351	(165)	(1.1)%
Goodwill impairment charge	–	1,000	–	(1,000)	n.m.
Net income before income taxes and non-controlling interest (NCI) in subsidiaries	6,968	5,526	6,005	1,442	26.1%
Net income	$ 5,223	$ 3,858	$ 4,555	$ 1,365	35.4%
Segments – net income (loss)					
Canadian Banking	$ 3,044	$ 2,663	$ 2,662	$ 381	14.3%
Wealth Management	669	583	665	86	14.8%
Insurance	405	496	389	(91)	(18.3)%
International Banking	(317)	(1,446)	(153)	1,129	78.1%
Capital Markets	1,647	1,768	1,170	(121)	(6.8)%
Corporate Support	(225)	(206)	(178)	(19)	(9.2)%
Net income	$ 5,223	$ 3,858	$ 4,555	$ 1,365	35.4%
Selected information					
Earnings per share (EPS) – basic	$ 3.49	$ 2.59	$ 3.41	$ .90	34.7%
– diluted	$ 3.46	$ 2.57	$ 3.38	$ .89	34.6%
Return on common equity (ROE) (1)	14.9%	11.9%	18.1%	n.m.	300 bps
Return on risk capital (RORC) (1)	25.4%	19.5%	29.6%	n.m.	590 bps
Specific PCL as a % of average net loans and acceptances	.63%	.97%	.53%	n.m.	(34) bps
Gross impaired loans (GIL) as a % of loans and acceptances	1.65%	1.86%	.96%	n.m.	(21) bps
Capital ratios and multiples					
Tier 1 capital ratio	13.0%	13.0%	9.0%	n.m.	– bps
Total capital ratio	14.4%	14.2%	11.0%	n.m.	20 bps
Assets-to-capital multiple	16.5X	16.3X	20.1X	n.m.	n.m.
Tier 1 common ratio (2)	9.8%	9.2%	6.5%	n.m.	60 bps
Selected balance sheet and other information					
Total assets	$ 726,206	$ 654,989	$ 723,859	$ 71,217	10.9%
Securities	193,331	186,272	171,134	7,059	3.8%
Loans (net of allowance for loan losses)	292,206	280,963	289,540	11,243	4.0%
Derivative related assets	106,246	92,173	136,134	14,073	15.3%
Deposits	433,033	398,304	438,575	34,729	8.7%
Average common equity (1)	33,250	30,450	24,650	2,800	9.2%
Average risk capital (1)	19,500	18,600	15,050	900	4.8%
Risk-weighted assets (RWA)	260,456	244,837	278,579	15,619	6.4%
Assets under management (AUM)	264,700	249,700	226,900	15,000	6.0%
Assets under administration (AUA) – RBC	683,800	648,800	623,300	35,000	5.4%
– RBC Dexia IS (3)	2,779,500	2,484,400	2,585,000	295,100	11.9%
Common share information					
Shares outstanding (000s) – average basic	1,420,719	1,398,675	1,305,706	22,044	1.6%
– average diluted	1,433,754	1,412,126	1,319,744	21,628	1.5%
– end of period	1,424,922	1,417,610	1,341,260	7,312	.5%
Dividends declared per share	$ 2.00	$ 2.00	$ 2.00	$ –	n.m.
Dividend yield (4)	3.6%	4.8%	4.2%	n.m.	(120) bps
Common share price (RY on TSX) – close, end of period	$ 54.39	$ 54.80	$ 46.84	$ (.41)	(.7)%
Market capitalization (TSX)	77,502	77,685	62,825	(183)	(.2)%
Business information (number of)					
Employees: full-time equivalent (FTE)	72,126	71,186	73,323	940	1.3%
Banking branches	1,762	1,761	1,741	1	.1%
Automated teller machines (ATMs)	5,033	5,030	4,964	3	.1%
Period average US$ equivalent of C$1.00 (5)	$ .959	$ .858	$ .969	$ .101	11.8%
Period-end US$ equivalent of C$1.00	$ .980	$ .924	$ .830	$ .056	6.1%

(1) Average amounts are calculated using methods intended to approximate the average of the daily balances for the period. This includes ROE, RORC, Average common equity, and Average risk capital. For further discussion on Average risk capital and RORC, refer to the Key performance and non-GAAP measures section.
(2) For further discussion, refer to the Key performance and non-GAAP measures section.
(3) Represents the total AUA of the joint venture, of which we have a 50% ownership interest, reported on a one-month lag.
(4) Defined as dividends per common share divided by the average of the high and low share price in the relevant period.
(5) Average amounts are calculated using month-end spot rates for the period.
n.m. not meaningful

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 among the largest banks in the world, based on market capitalization. We are one of North America's leading diversified financial services companies, and provide personal and commercial banking, wealth management services, insurance, corporate and investment banking and transaction processing services on a global basis. We employ approximately 79,000 full- and part-time employees who serve close to 18 million personal, business, public sector and institutional clients through offices in Canada, the U.S. and 50 other countries. For more information, please visit rbc.com.

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**. In 2010, our strategic goals were:

- In Canada, to be the undisputed leader in financial services;
- In the U.S., to be a leading provider of capital markets, wealth management and banking services by building on and leveraging our considerable capabilities; and
- Outside North America, to be a premier provider of select capital markets, wealth management and banking services in markets of choice.

For our progress in 2010 against these objectives, refer to the Business segment results section.

Effective Q1, 2011, we refined our strategic goals to address changes in the external environment including increased regulation, and to capitalize on opportunities in the financial services industry by including a focus on target markets and further global expansion. We aspire to be a top performing diversified financial institution that delivers sustainable, profitable growth and top quartile results for our shareholders. The following 2011 strategic goals reflect this aspiration:

- In Canada, to be the undisputed leader in financial services;
- Globally, to be a leading provider of capital markets and wealth management solutions; and
- In targeted markets, to be a leading provider of select financial services complementary to our core strengths.

Overview and outlook

Economic, market and regulatory review and outlook – data as at December 2, 2010

Canada

The Canadian economy grew at an estimated 3.1% during 2010, up from our estimate of 2.6% as at December 3, 2009. This mainly reflected gains in the first half of the year driven by increased levels of consumer, government and business spending. Strong housing activity in the first half of 2010, largely reflecting the low interest rate environment, slowed significantly in the latter part of the year with the introduction of the Harmonized Sales Tax (HST) in British Columbia and Ontario in July 2010. GDP growth also moderated in the second half of the year, in part due to a decrease in net exports. Unemployment of 8.1% in the third quarter was down slightly from a year ago. The Bank of Canada increased the overnight rate to 1% reflecting increased domestic demand in the first half of the year.

The Canadian economy is expected to grow by 2.9% in 2011 reflecting moderate consumer and business spending supported by a continued low interest rate environment. The Bank of Canada is expected to hold overnight rates steady at 1% in the first quarter of 2011. Rates are expected to increase to 2.0% by the end of the year, reflecting expected mild inflationary pressure. While labour markets are expected to strengthen, improvement will be gradual, which may put pressure on credit quality.

United States

The U.S. economy grew at an estimated 2.7% during 2010, up from the estimated rate of 2.5% projected as at December 3, 2009, largely in response to government stimulus programs and business spending on previously deferred inventory purchases in the first half of 2010. Growth slowed in the second half of the year as the effects of the stimulus faded and consumer confidence deteriorated. Weakening in the housing and labour markets during mid 2010 raised concerns that the U.S. economic recovery would be slower than expected. In response, the Federal Reserve maintained the target range for the federal funds rate at 0% to .25%.

In 2011, the U.S. economy is projected to grow by 2.8% reflecting moderate consumer and business spending. The U.S. Federal Reserve continues to apply policy stimulus through its quantitative easing program. We anticipate that the Federal Reserve will maintain the federal funds rate in the 0% to .25% range until the middle of 2012 in order to provide continued economic stimulus.

Other global economies

Most global economies experienced overall improvement in 2010. However, growth tempered in the latter part of the year due to the European sovereign debt crisis and fiscal austerity measures in Europe. The second quarter of 2010 reflected better than expected growth in the U.K. and Germany offset by continued weakness in Greece and Portugal. The European Central Bank (ECB) maintained its policy rate at 1% given renewed concerns about the global economic recovery. The Euro-zone is expected to moderately grow at 1.7% in 2011 reflecting recent sovereign credit rating downgrades, fiscal austerity measures and persistent weakness in domestic demand. As a result, the ECB is likely to maintain its policy rate steady at 1% until early 2012.

Globally, the world economy grew at an estimated 4.6% reflecting solid growth in the first half of the year. Growth in China remained strong, reflecting solid domestic demand. We expect moderation in 2011 with world economic growth tempering to 4.25%.

Financial markets

Global capital markets improved in early 2010; however were volatile in the latter half of the year. The European sovereign debt crisis put pressure on global financial markets particularly in the second half of the year. As well, uncertainty over U.S. regulatory reform and global capital requirements for financial institutions persisted. This resulted in increased investor caution and reduced client trading volumes which negatively impacted certain of our capital markets trading businesses.

In 2011, we expect global capital markets to remain under pressure until the sustainability of economic recovery becomes evident.

Effective for the first quarter of 2010, we no longer considered gains and losses on certain securities to be as a result of the volatile market environment that prevailed in 2008 and 2009. Certain of these securities continued to be impacted by accounting volatility and we disclose the respective gains and losses separately as certain market and credit related items when material.

The predictions and forecasts in this section are based on information and assumptions from sources we consider reliable. If this information or these assumptions are not accurate, actual economic outcomes may differ materially from the outlook presented in this section.

Regulatory environment

In September 2010, the Basel Committee on Banking Supervision (Basel Committee) announced amendments to the capital proposals initially published in December 2009. The Basel Committee's reforms changed the definition of capital, recalibrated minimum regulatory capital requirements and introduced new capital buffers aimed to ensure that banks are better able to withstand future periods of

economic and financial stress. These reforms will likely result in higher capital and liquidity requirements with phased-in implementation from 2013 to 2019.

Based on our current strong capital position, we expect to meet the Basel III requirements within the established timelines. We will continue to be proactive and make the optimal decisions to mitigate the impact these requirements will have on our business.

In November 2010, the group of 20 industrial and emerging economies (G20) endorsed the Basel Committee's proposed timelines. In addition, they committed to identify by the middle of 2011, financial institutions considered systematically important to the global financial system. These companies would be held to enhanced regulatory supervision and stricter standards on capital, liquidity and risk assessment.

In the U.S., the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act) was enacted in July 2010 and contains financial reforms including increased consumer protection, regulation of the over-the-counter derivatives markets, heightened capital and other prudential standards, restrictions on proprietary trading and investments and sponsorships in hedge funds and private equity funds by foreign banking organizations with U.S. operations. We continue to assess the potential impact as interpretation and implementation of the Dodd-Frank Act's provisions are developed by U.S. regulators.

In the U.K., an overhaul of the system of financial regulation continues as significant regulatory powers are transferred from the Financial Services Authority to the Bank of England. We continue to assess the potential impact of these and other U.K. reforms, such as the introduction of bank levies.

We monitor the evolving market and regulatory environment on an ongoing basis and reflect these changes through enhancements to our risk management framework. Our ability to manage these risks is a key competency within the organization, and is supported by a strong risk culture and an effective risk management approach. For further details on our risk management framework and our activities to manage risks, refer to the Risk management, Overview of other risks and Capital management sections.

Defining and measuring success through Total Shareholder Returns

Our focus is to maximize shareholder returns through the achievement of top quartile Total Shareholder Returns (TSR) over the medium term (3-5 years) which reflects a longer term view of strong and consistent financial performance.

TSR aligns to our three strategic goals and we believe represents the most appropriate measure of shareholder value creation. TSR is a concept used to compare the performance of our common shares over a period of time, reflecting share price appreciation and dividends paid to common shareholders. The absolute size of the TSR will vary depending on market conditions and the relative position reflects the market's perception of our overall performance relative to our peers over a period of time.

Financial performance objectives are annual metrics used to assess overall performance and measure progress against our medium term TSR objective. We review and revise these metrics as the economic, market and regulatory environment change.

Our financial objectives are diluted EPS growth of 7%+, ROE of 16% – 20% and strong capital ratios. The outcome of these financial objectives is the dividend payout ratio targeted at 40% – 50%. Defined operating leverage is no longer a suitable metric given our diversified business mix and the lack of comparability against our peer group.

By focusing on these financial performance objectives in our decision-making, we believe we will be well positioned to provide sustainable earnings growth and solid returns to our shareholders.

Our three- and five-year average annual TSR of 3% and 10% respectively, ranked us in the first quartile within our global peer group for both periods. The three-year and five-year average annual TSR for our global peer group was negative 9% and 0% respectively.

Three- and five-year TSR vs. peer group average — **Table 2**

	3-Year TSR (1)	5-Year TSR (1)
Royal Bank of Canada	3%	10%
	Top Quartile	Top Quartile
Peer Group Average (2)	(9)%	0%

(1) The three- and the five-year average annual TSR are calculated based on our common share price appreciation plus reinvested dividend income for the period October 31, 2007 to October 31, 2010 and October 31, 2005 to October 31, 2010 respectively, based on information as disclosed by Bloomberg L.P.

(2) We are part of a global peer group consisting of 20 financial institutions (seven large Canadian financial institutions in addition to us (Bank of Montreal, Canadian Imperial Bank of Commerce, Manulife Financial Corporation, National Bank of Canada, Power Financial Corporation, The Bank of Nova Scotia and The Toronto-Dominion Bank), five U.S. financial institutions (Bank of America Corporation, JPMorgan Chase & Co., The Bank of New York Mellon Corporation, U.S. Bancorp and Wells Fargo & Company), five European financial institutions (Banco Bilbao Vizcaya Argentaria Group (BBVA), Barclays PLC, BNP Paribas, Credit Suisse Group AG and Deutsche Bank Group) and two Australian financial institutions (National Australia Bank and Westpac Banking Corporation).

Common share and dividend information — **Table 3**

For the year ended October 31	2010	2009	2008	2007	2006
Common share price (RY on TSX) – close, end of period	$ 54.39	$ 54.80	$ 46.84	$ 56.04	$ 49.80
Dividends paid per share	2.00	2.00	2.00	1.72	1.32
Increase (decrease) in share price	(.7)%	17.0%	(16.4)%	12.5%	19.5%
Total shareholder return	2.9%	22.7%	(12.8)%	16.2%	23.2%

Estimated impact of foreign currency translation on our consolidated financial results

Our foreign currency-denominated results are impacted by exchange rate fluctuations. Revenue, provision for credit losses (PCL), Insurance policyholder benefits, claims and acquisitions expense (PBCAE), non-interest expense and income denominated in foreign currency are translated at the average rate of exchange for the year.

In 2010, foreign currency translation of our earnings had a significant impact on our consolidated financial results due to the considerable strengthening of the Canadian dollar relative to other currencies. The translation approximately reduced revenue by $1.2 billion, net income by $150 million and diluted EPS by $.10.

The following table reflects the estimated impact of foreign currency translation on key income statement items:

Table 4

(C$ millions, except per share amounts)	2010 vs. 2009	2009 vs. 2008
Impact on income *increase (decrease)*:		
Total revenue	$ (1,180)	$ 745
PCL	95	(95)
PBCAE	235	(150)
Non-interest expense	680	(485)
Net income	(150)	10
Impact on EPS:		
Basic	$ (.11)	$ .01
Diluted	$ (.10)	$ .01

Changes in the average exchange rates are shown in the following table:

Table 5

(Average foreign currency equivalent of C$1.00) (1)	2010	2009
U.S. dollar	.959	.858
British pound	.617	.556
Euro	.713	.627
TTD (2)	6.085	5.354

(1) Average amounts are calculated using month-end spot rates for the period.
(2) TTD represents the Trinidad and Tobago dollar. The TTD fluctuates within a narrow band of the U.S. dollar.

Certain of our business segment results are impacted by fluctuations in the U.S. dollar, Euro, British pound and the TTD exchange rates relative to the Canadian dollar. Wealth Management, Insurance, International Banking and Capital Markets each have significant U.S. dollar-denominated exposure, Insurance has significant British pound-denominated exposure and Capital Markets also has significant Euro and British pound-denominated exposure. In addition, International Banking has TTD denominated exposure. For further details on the impact to our segments, refer to the Business segment results section.

Financial performance

Overview

2010 vs. 2009

We reported net income of $5,223 million for the year ended October 31, 2010, up $1,365 million or 35% from the prior year. Diluted earnings per share (EPS) of $3.46 increased $.89 and return on common equity (ROE) of 14.9% was up 300 basis points (bps) from the prior year. Our Tier 1 capital ratio of 13.0% was unchanged from the prior year. Our current year results included a loss on Liberty Life Insurance Company (Liberty Life) of $116 million on a before-and after-tax basis. Our prior year results reflected a goodwill impairment charge of $1 billion on a before-and after-tax basis.

Excluding these items above, net income increased $481 million, or 10%, diluted EPS increased $.26 and ROE increased 40 bps compared to prior year. Our results reflected solid business growth in Canadian Banking, our wealth management businesses and Insurance as economic conditions improved, particularly in the first half of the year. In addition, PCL decreased reflecting stabilizing asset quality. These factors were offset by lower trading revenues in Capital Markets reflecting unfavourable trading conditions. The prior year reflected strong trading results from favourable market opportunities.

Canadian Banking net income was $3,044 million, up $381 million or 14% from last year, reflecting revenue growth in all businesses and lower PCL. These results were driven by strong volume growth in home equity and personal deposit products, increased credit card transaction volumes and higher mutual fund distribution fees. Higher pension and performance-related compensation expense and increased costs supporting business growth partially offset the increase.

Wealth Management net income was $669 million, up $86 million, or 15% from a year ago mainly due to higher average fee-based client assets and higher transaction volumes reflecting improved market conditions. Favourable income tax adjustments in the current year also contributed to the increase. These factors were partially offset by spread compression and the impact of the stronger Canadian dollar.

Insurance net income was $405 million, down $91 million or 18%, from last year largely reflecting the $116 million loss on Liberty Life. Excluding the loss on Liberty Life, net income was $521 million, up $25 million, or 5%, mainly due to favourable actuarial adjustments, higher net investment gains, our ongoing focus on cost management and volume growth. These factors were partially offset by higher disability and auto claims costs and unfavourable life policyholder experience. For further details on the loss on Liberty Life refer to the Insurance segment.

International Banking net loss of $317 million compared to a net loss of $1,446 million from a year ago, mainly reflecting the prior year goodwill impairment charge. Lower provisions in our U.S. banking loan portfolio and the impact of the stronger Canadian dollar also contributed to the lower loss. These factors were partially offset by higher losses on our available for sale (AFS) securities.

Capital Markets net income of $1,647 million, decreased $121 million or 7% from a year ago as trading revenue was impacted by lower client volumes and tighter credit spreads. Our results were also unfavourably impacted by the stronger Canadian dollar. Losses on certain market and credit related items this year were significantly lower than market environment-related losses of $1.5 billion ($648 million after tax and compensation adjustments) in the prior year. The decrease was also partially offset by lower PCL and strong growth in our investment banking businesses.

Corporate Support net loss was $225 million compared to a net loss of $206 million a year ago. The current year net loss mainly reflected net unfavourable tax and accounting adjustments. Our prior year results included a general provision for credit losses of $589 million ($391 million after tax), losses on certain AFS securities of $419 million ($287 million after tax), losses on fair value adjustments of $217 million ($151 million after tax) on certain RBC debt designated as held-for-trading (HFT), and securitization gains inclusive of new and re-investment related activity, net of economic hedging activity of $918 million ($630 million after tax).

For a detailed discussion on measures excluding the goodwill impairment charge and the loss on Liberty Life, refer to the Key performance and non-GAAP measures section. For a further discussion on our treatment of market environment-related losses, refer to the Economic market and regulatory review and outlook section.

Medium-term objectives

In 2010, we compared favourably to our medium-term objective for Tier 1 capital ratio and compared unfavourably to our diluted EPS growth, ROE and dividend payout ratio objectives. We also compared unfavourably to our defined operating leverage objective.

Summary of 2009 and 2008

In 2009, net income was $3,858 million, down 15% from 2008 mainly reflecting the goodwill impairment charge. Excluding the goodwill impairment charge, net income was $4,858 million, an increase of $303 million, or 7%. This increase was driven by stronger trading results in Capital Markets, which included lower market environment-related losses, and higher net securitization gains. Solid growth in our banking-related businesses, partly reflecting our 2008 acquisitions, and volume growth in our insurance businesses also contributed to the increase. These factors were partially offset by net losses on fair value adjustments on certain RBC debt designated as Held-for-trading (HFT) and losses on credit default swaps used to economically hedge the corporate lending portfolio and higher provision for credit losses.

In 2008, net income was $4,555 million, down 17% from 2007. Our results included higher market environment-related net losses and higher PCL, partially offset by the favourable impact of $542 million ($252 million after tax and related compensation adjustments) related to the reduction of the Enron Corp-related litigation provision. Our 2007 results also included a gain of $326 million ($269 million after tax) relating to the Visa Inc. restructuring.

Total revenue			Table 6
(C$ millions)	2010	2009 (1)	2008 (1)
Interest income	$ 18,673	$ 20,578	$ 25,038
Interest expense	7,696	9,037	15,984
Net interest income	$ 10,977	$ 11,541	$ 9,054
Investments (2)	$ 4,620	$ 4,377	$ 4,697
Insurance (3)	6,174	5,718	2,609
Trading	1,315	2,750	(81)
Banking (4)	3,218	3,349	3,076
Underwriting and other advisory	1,193	1,050	875
Other (5)	833	321	1,352
Non-interest income	$ 17,353	$ 17,565	$ 12,528
Total revenue	$ 28,330	$ 29,106	$ 21,582
Additional information			
Total trading revenue (6)			
Net interest income	$ 1,443	$ 2,316	$ 680
Non-interest income	1,315	2,750	(81)
Total	$ 2,758	$ 5,066	$ 599
Total trading revenue by product			
Interest rate and credit	$ 1,992	$ 3,405	$ (250)
Equities	351	1,008	265
Foreign exchange and commodities	415	653	584
Total	$ 2,758	$ 5,066	$ 599

(1) We reclassified certain amounts in Corporate Support which were previously reported in trading revenue to the Other revenue to better reflect the nature of the amounts.
(2) Includes securities brokerage commissions, investment management and custodial fees, and mutual funds.
(3) Includes premiums, investment and fee income. Investment income includes the change in fair value of investments backing policyholder liabilities and is largely offset in PBCAE.
(4) Includes service charges, foreign exchange revenue other than trading, card service revenue and credit fees.
(5) Includes other non-interest income, net gain (loss) on available-for-sale (AFS) securities (other-than-temporary impairment and realized gain/loss), fair value adjustments on certain RBC debt designated as HFT, the change in fair value of certain derivatives related to economic hedges and securitization revenue.
(6) Total trading revenue comprises trading-related revenue recorded in Net interest income and Non-interest income.

Total revenue

2010 vs. 2009

Total revenue decreased $776 million, or 3%, from a year ago primarily attributable to significantly lower Total trading revenue. The impact of the stronger Canadian dollar which reduced revenue by an estimated $1.2 billion and lower securitization gains also contributed to the decrease. These factors were partially offset by solid volume growth in our Canadian banking businesses, higher average fee-based client assets and higher transaction volumes in our wealth management businesses, strong growth in our investment banking businesses, and higher insurance-related revenue. Certain market and credit related losses this year were significantly lower than our market environment-related losses in the prior year. For a discussion on market environment-related losses, refer to the Economic market and regulatory review and outlook section.

Total trading revenue, comprised of trading related revenue recorded in Net interest income and Non-interest income, decreased $2.3 billion mainly due to weaker trading revenues in our fixed income and currency, money market and U.S. global equity businesses, which were impacted by lower client volumes and tighter credit spreads reflecting less favourable trading conditions in the current year.

Net interest income decreased $564 million, or 5%, primarily as a result of lower trading-related net interest income as discussed above. Non-trading net interest income was up $309 million, or 3%, largely due to volume growth in our Canadian banking businesses, partially offset by spread compression in our banking-related and wealth management businesses.

Investments-related revenue increased $243 million, or 6%, mainly due to higher average fee-based client assets resulting from capital appreciation and higher transaction volumes in our wealth management businesses reflecting improved market conditions and investor confidence.

Insurance-related revenue increased $456 million or 8%, mainly due to volume growth across all businesses, including annuity growth in our U.S. and International businesses and higher net investment gains. These factors were partially offset by the change in fair value of investments backing our life and health policyholder liabilities, and the impact of the stronger Canadian dollar. The annuity volumes and the change in fair value of investments were largely offset in PBCAE. The loss on Liberty Life was recorded in Non-interest revenue – Other.

Banking revenue was down $131 million, or 4%, largely reflecting a portion of our credit card interchange fees, previously recorded in Banking revenue, now being included with our credit card securitization in Other revenue, and a favourable adjustment in the prior year related to our credit card customer loyalty reward program liability. These factors were partially offset by higher syndicated finance activity and higher credit card service revenue in the current year.

Underwriting and other advisory revenue increased $143 million, or 14% , mainly due to higher debt origination activity and merger and acquisition (M&A) activity.

Other revenue increased $512 million mainly due to gains as compared to losses last year on certain AFS securities, gains on the fair value adjustments on certain RBC debt designated as HFT in Capital Markets and Corporate Support, lower losses on credit default swaps recorded at fair value used to economically hedge our corporate loan portfolio in Capital Markets, and the inclusion of credit card interchange fees, as noted above. These factors were partially offset by lower securitization gains in the current year due to a higher than historical level of securitization activity in the prior year, higher net losses on instruments related to funding, and the loss on Liberty Life.

2009 vs. 2008

Total revenue increased $7,524 million, or 35%, from 2008.

Net interest income increased $2,487 million, or 27%, largely due to lower funding costs on certain trading positions in our capital markets businesses. Loan and deposit growth, largely due to solid volume growth in our Canadian banking businesses, and a full year of revenue from our 2008 acquisitions in Wealth Management and International Banking also contributed to the increase. These factors were partially offset by spread compression in our banking-related and wealth management businesses.

Investments-related revenue decreased $320 million, or 7%, mainly due to lower fee-based client assets and lower mutual fund distribution fees, partially offset by higher transaction volumes.

Insurance-related revenue increased $3,109 million, largely due to the change in fair value of investments backing our life and health policyholder liabilities and increased annuity volumes, both of which were largely offset by higher related PBCAE. Volume growth across all businesses also contributed to the increase.

Trading revenue in Non-interest income increased $2,831 million. Total trading revenue, which comprises trading-related revenue recorded in Net interest income and Non-interest income, was $5,066 million, up $4,467 million. Stronger trading revenue, which included lower market-environment related losses on HFT instruments, benefited from favourable market opportunities, including a historically low interest rate environment, and increased client activity. Gains on credit valuation adjustments on certain derivative contracts as compared to losses in 2008 also contributed to the increase.

Banking revenue was up $273 million, or 9%, mainly due to improved results in our client-based securitization activity and lending businesses in Capital Markets, higher service fee revenue across banking-related businesses, and a favourable adjustment related to our credit card customer loyalty reward program liability.

Underwriting and other advisory revenue increased $175 million, or 20%, mainly due to higher equity and debt origination activities, partially offset by lower M&A activity.

Other revenue was down $1,031 million, primarily due to losses on the fair value adjustments on certain RBC debt designated as HFT as compared to gains in 2008 in Capital Markets and Corporate Support, reflecting the tightening of our credit spreads. Losses on credit default swaps recorded at fair value used to economically hedge certain corporate loan portfolios as compared to gains in 2008 in Capital Markets also contributed to the decrease. These factors were partially offset by higher securitization revenue reflecting a higher than historical level of securitization activity from our participation in government-sponsored funding programs.

Our revenue for 2009 was favourably impacted by the weaker Canadian dollar.

Provision for credit losses

Credit quality has generally improved from the prior year reflecting stabilizing asset quality due to the general improvement in the global economic environment. For further details on our PCL, refer to the Credit quality performance section.

2010 vs. 2009

Total PCL in 2010 was $1.9 billion, down $1.6 billion from last year. Specific PCL of $1.8 billion decreased $1 billion mainly due to lower provisions in our corporate loan portfolio and residential builder finance portfolio in U.S. banking. We incurred a general provision of $26 million during the current year as compared to $589 million in the prior year, reflecting improved credit quality in our commercial U.S. banking and Canadian retail portfolios.

2009 vs. 2008

Total PCL of $3.4 billion increased $1.8 billion from 2008, largely reflecting increased specific provisions of $1.4 billion, mainly in our corporate loan portfolio, and in our U.S. banking and our Canadian unsecured retail and business lending portfolios. An increase in the general provision of $424 million, mainly in U.S. banking and to a lesser extent, our U.S. corporate lending and Canadian retail and business lending portfolios, also contributed to the increase.

Insurance policyholder benefits, claims and acquisition expense

2010 vs. 2009

PBCAE increased $499 million, or 11%, primarily reflecting higher costs commensurate with volume growth, partially offset by the change in fair value of investments backing our life and health policyholder liabilities and the impact of the stronger Canadian dollar. The increase in PBCAE from annuity volumes and the change in fair value of investments was largely offset in revenue. For further details, refer to the Insurance segment section.

2009 vs. 2008

PBCAE increased $2,978 million from 2008, largely reflecting the change in fair value of investments and higher costs commensurate with the increased annuity volumes, largely offset in revenue.

Non-interest expense

2010 vs. 2009

Non-interest expense decreased $165 million, or 1%, mainly due to the favourable impact of the stronger Canadian dollar which reduced non-interest expense by approximately $680 million. Lower variable compensation reflecting lower trading results and our continued focus on cost management also contributed to the decrease. These factors were largely offset by higher costs in support of our business growth, an increase in marketing costs largely for our Olympic sponsorship, higher professional fees, and higher stock-based compensation partly reflecting the increase in fair value of our earned compensation liability related to the Wealth Management stock-based compensation plan.

2009 vs. 2008

Non-interest expense increased $2,207 million, or 18% from 2008, largely due to increased variable compensation driven by higher trading results. Increased costs in support of business growth, which included acquisition-related staff and occupancy costs, reflecting a full year of expenses from our 2008 acquisitions, the impact of the weaker Canadian dollar, and the favourable impact of $542 million in 2008 related to the reduction of the Enron-related litigation provision also contributed to the increase. These factors were partially offset by our ongoing focus on cost management.

Non-interest expense — **Table 7**

(C$ millions)	2010	2009	2008
Salaries	$ 4,023	$ 4,146	$ 3,845
Variable compensation	3,384	3,561	2,689
Benefits and retention compensation	1,216	1,189	1,168
Stock-based compensation	201	82	77
Human resources	$ 8,824	$ 8,978	$ 7,779
Equipment	1,000	1,025	934
Occupancy	1,053	1,045	926
Communications	813	761	749
Professional and other external services	934	860	903
Other expenses	1,769	1,889	1,060
Non-interest expense	$ 14,393	$ 14,558	$ 12,351

Goodwill impairment

In 2009, we recorded a goodwill impairment charge in International Banking of $1 billion on both a before-and after-tax basis. For further details, refer to Note 10 to our 2010 Annual Consolidated Financial Statements.

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.

2010 vs. 2009

Income tax expense increased $78 million, or 5%, from a year ago due to higher earnings before income taxes in 2010. The effective tax rate of 23.6% decreased 4.8% from 28.4% a year ago, largely due to the goodwill impairment charge reported in the prior year, which was not deductible for tax purposes. Excluding the goodwill impairment charge, the effective tax rate decreased .4%, mainly due to a reduction in Canadian corporate income tax rates. For further details on the 2009 effective income tax rate, excluding the goodwill impairment charge, refer to the Key performance and non-GAAP measures section.

Other taxes increased by $38 million from 2009, due to the introduction of the HST in Ontario and British Columbia in the current year and the favourable resolution of a goods and services tax audit in the prior year, partially offset by lower capital taxes, reflecting lower capital tax rates. In addition to the income and other taxes reported in our Consolidated Statements of Income, we recorded income taxes of $685 million in 2010 (2009 – $1,706 million) in shareholders' equity, a decrease of $1,021 million, primarily reflecting decreased unrealized foreign currency translation gains, net of hedging activities, unrealized losses in our derivatives designated as cash flow hedges, and lower unrealized gains in our AFS portfolio.

The effective total tax rate of 31.6% decreased 5.5% from a year ago primarily reflecting the goodwill impairment charge discussed above.

2009 vs. 2008

Income tax expense increased $199 million, or 15%, from 2008 despite lower earnings before income taxes in 2009. The effective tax rate of 28.4% increased 5.6% from 22.8% a year ago, largely due to the goodwill impairment charge, which was not deductible for tax purposes. Excluding the goodwill impairment charge, the effective tax rate was 24.0%, an increase of 1.2%, mainly due to lower earnings reported by our subsidiaries operating in jurisdictions with lower income tax rates, partially offset by a reduction in the statutory Canadian corporate income tax rate in 2009.

Other taxes increased by $60 million from 2008, largely due to higher capital taxes, and higher property taxes, net of a release of amounts accrued due to favourable resolution of a goods and services tax audit.

Taxes — **Table 8**

(C$ millions, except percentage amounts)	2010	2009	2008
Income taxes	$ 1,646	$ 1,568	$ 1,369
Other taxes			
Goods and services and sales taxes	$ 250	$ 180	$ 204
Payroll taxes	249	249	242
Capital taxes	134	161	104
Property taxes (1)	114	115	103
Insurance premium taxes	51	46	42
Business taxes	11	20	16
	$ 809	$ 771	$ 711
Total income and other taxes	$ 2,455	$ 2,339	$ 2,080
Net income before income taxes	$ 6,968	$ 5,526	$ 6,005
Effective income tax rate	23.6%	28.4%	22.8%
Effective total tax rate (2)	31.6%	37.1%	31.0%

(1) Includes amounts netted against non-interest income regarding investment properties.

(2) Total income and other taxes as a percentage of net income before income and other taxes.

Business segment results

Results by business segment — **Table 9**

(C$ millions, except for percentage amounts)	2010 Canadian Banking	Wealth Management	Insurance	International Banking	Capital Markets (1)	Corporate Support (1)	Total	2009 Total	2008 Total
Net interest income	$ 7,488	$ 305	$ –	$ 1,367	$ 2,719	$ (902)	$ 10,977	$ 11,541	$ 9,054
Non-interest income	3,067	3,883	6,062	869	3,168	304	17,353	17,565	12,528
Total revenue	$ 10,555	$ 4,188	$ 6,062	$ 2,236	$ 5,887	$ (598)	$ 28,330	$ 29,106	$ 21,582
PCL	1,191	3	–	743	20	(96)	1,861	3,413	1,595
PBCAE	–	–	5,108	–	–	–	5,108	4,609	1,631
Goodwill impairment charge	–	–	–	–	–	–	–	1,000	–
Non-interest expense	4,995	3,295	552	2,105	3,420	26	14,393	14,558	12,351
Net income before income taxes and NCI in net income of subsidiaries	$ 4,369	$ 890	$ 402	$ (612)	$ 2,447	$ (528)	$ 6,968	$ 5,526	$ 6,005
Net income	$ 3,044	$ 669	$ 405	$ (317)	$ 1,647	$ (225)	$ 5,223	$ 3,858	$ 4,555
ROE	35.6%	17.6%	26.6%	(5.5)%	19.5%	n.m.	14.9%	11.9%	18.1%
RORC	46.9%	64.6%	30.1%	(12.2)%	22.3%	n.m.	25.4%	19.5%	29.6%
Average assets	$ 279,900	$ 18,400	$ 15,200	$ 55,300	$ 327,500	$ (13,300)	$ 683,000	$ 695,300	$ 650,300

(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.

How we measure and report our business segments

Our management reporting framework is intended to measure the performance of each business segment as if it were a stand-alone business and reflect the way that the business segment is managed. This approach is intended to ensure that our business segments' results include all applicable 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 specific provision for credit losses.
- Wealth Management, Insurance and International Banking reported results include disclosure in U.S. dollars as we review and manage the results of certain business lines largely in U.S. dollars.
- Insurance reported results include the change in fair value of investments backing our life and health policyholder liabilities recorded as revenue, which is largely offset in PBCAE.
- 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. We record the elimination of the teb adjustments in Corporate Support. We believe these adjustments are useful and reflect how Capital Markets manages its business, since it enhances the comparability of revenue and related ratios across taxable revenue 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.
- 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 volatility related to treasury activities, securitizations and net charges associated with unattributed capital.
- Specific allowances are recorded to recognize estimated losses on our lending portfolio on loans that have become impaired. The specific provisions for credit losses are included in the results of each business segment to fully reflect the appropriate expenses related to the conduct of each business segment. A general allowance is established to cover estimated credit losses incurred in the lending portfolio that have not been specifically identified as impaired. Changes in the general allowance are included in Corporate Support, as Group Risk

Management effectively controls this through its monitoring and oversight of various portfolios of loans throughout the enterprise.

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

Expense allocation
To ensure that our business segments' results include expenses associated with the conduct of their business, we allocate costs incurred or services provided by Operations, Technology and 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 determines 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. For further information, refer to the Capital management and Key performance and non-GAAP measures sections.

Funds transfer pricing
A funds transfer pricing methodology is used to allocate interest income and expense by product to each business segment. This allocation considers the interest rate risk, liquidity and funding risk and regulatory requirements of each of our business segments. We base transfer pricing on external market costs and each business segment fully absorbs the costs of running its business. Our business segments may retain certain interest rate exposures subject to management approval that would be expected in the normal course of operations.

Changes made in 2010
We reclassified certain amounts in Corporate Support which were previously reported primarily in Trading revenue, to the Other category of non-interest income to better reflect the nature of these amounts. Certain comparative amounts have been reclassified to conform to the current period's presentation.

Securitization reporting
The gains/losses on the sale of and hedging activities related to our Canadian originated mortgage securitizations and our securitized credit card loans are recorded in Corporate Support. Hedging activities include current net mark-to-market movement of the related instruments and the amortization gains/losses of cash flow hedges that were previously terminated. As the securitization activities related to our Canadian originated mortgages and credit card loans is done for funding purposes, Canadian Banking recognizes the mortgage and credit card loan related income and provision for credit losses, as if balances had not been securitized, with the corresponding offset recorded in Corporate Support.

Canadian Banking

Canadian Banking comprises our domestic personal and business banking operations and certain retail investment businesses and is operated through three business lines: 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, automated teller machines (ATMs), online and telephone banking networks, as well as through a large number of proprietary sales professionals. The competitive landscape of our banking-related operations in the Canadian financial services industry consists of other Schedule I banks, independent trust companies, foreign banks, credit unions and caisses populaires. In this competitive environment, we have top rankings in market share for most retail financial product categories, the largest branch network, the most ATMs and the largest mobile sales network across Canada.

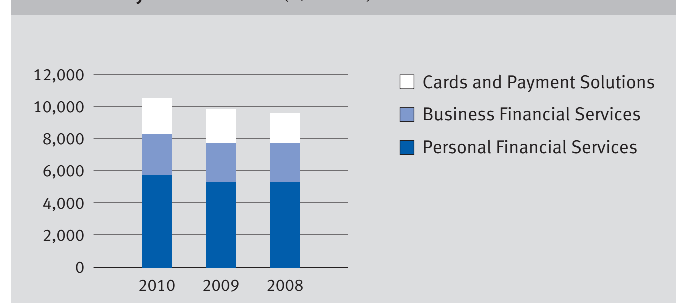
Year in review
- We became the first Canadian issuer of both Visa and MasterCard with the launch of Westjet MasterCard co-brand card in March; a travel rewards card offering Westjet travel credit rewards to clients. We also launched our new Cash back credit card in June which rewards our clients a portion of their purchases in the form of cash back.
- We made significant investments in technology for the benefit of our clients, including a new commercial sales platform and a new online banking website. Our newly designed online banking website includes *my*FinanceTracker™, Canada's first online financial management tool integrated into an online banking system. *my*FinanceTracker will automatically categorize transactions, track expenses and provide advanced budgeting capabilities for all personal banking and credit card accounts.
- We launched the $6 low fee small business account providing value conscious business clients with the most competitive product available in the industry.
- We opened our new RBC retail store concept, a dramatically new retail banking environment with merchandising areas and interactive digital technologies which will redesign and simplify the customer shopping experience.

Economic and market review
Continued improvement in the Canadian economy in the first half of the year, drove volume growth in our home equity products, personal lending, and personal and business deposits. Volume growth moderated in the latter part of the year due to the effects of a slowing Canadian economy. The improvement in global capital markets contributed to higher mutual fund revenue from overall capital appreciation and net sales of long-term funds as retail investor confidence returned. Stabilizing asset quality and the continued recovery of the Canadian labour market resulted in lower PCL. For further details on our general economic review, refer to the Economic, market and regulatory review and outlook section.

Canadian Banking financial highlights			Table 10
(C$ millions, except number of and percentage amounts)	2010	2009	2008
Net interest income	$ 7,488	$ 6,947	$ 6,718
Non-interest income	3,067	2,943	2,868
Total revenue	$ 10,555	$ 9,890	$ 9,586
PCL	$ 1,191	$ 1,275	$ 867
Non-interest expense	4,995	4,729	4,758
Net income before income taxes	$ 4,369	$ 3,886	$ 3,961
Net income	$ 3,044	$ 2,663	$ 2,662
Key ratios			
ROE	35.6%	35.9%	38.1%
RORC	46.9%	48.4%	52.2%
NIM (1)	2.75%	2.76%	2.98%
Operating leverage	1.1%	3.8%	2.6%
Selected average balance sheet information			
Total assets (2)	$ 279,900	$ 258,900	$ 232,300
Total earning assets (2)	272,100	251,600	225,600
Loans and acceptances (2)	269,500	249,600	225,000
Deposits	191,400	176,000	155,000
Attributed capital	8,350	7,250	6,900
Risk capital	6,350	5,400	5,050
Other information			
AUA	$ 148,200	$ 133,800	$ 109,500
Number of employees (FTE)	23,122	23,280	24,222
Credit information			
Gross impaired loans as a % of average net loans and acceptances	.52%	.50%	.36%
Specific PCL as a % of average net loans and acceptances	.44%	.51%	.39%

(1) NIM is calculated as Net interest income divided by Average total earning assets.
(2) Average total assets, Average total earning assets, and Average loans and acceptances include average securitized residential mortgage and credit card loans for the year of $37 billion and $3 billion, respectively (2009 – $37 billion and $4 billion; 2008 – $22 billion and $4 billion).

Revenue by business line (C$ millions)



Financial performance

2010 vs. 2009

Net income was $3,044 million, up $381 million or 14% from last year, reflecting revenue growth in all businesses and lower PCL.

Total revenue increased $665 million, or 7%, from the previous year largely driven by strong volume growth in home equity and personal deposits products and higher credit card transaction volumes. Mutual fund distribution fees also increased primarily reflecting capital appreciation and net long-term fund sales. These factors were partially offset by a favourable adjustment to our credit card customer loyalty reward program in the prior year.

Net interest margin remained flat from a year ago reflecting the continued low interest rate environment and higher mortgage breakage costs, which was partially offset by favourable repricing.

PCL decreased $84 million, or 7%, due to lower provisions in our business lending, personal and small business portfolios reflecting improving economic conditions. For further details, refer to the Credit quality performance section.

Non-interest expense increased $266 million, or 6%, driven by higher pension costs and performance-related compensation costs, higher costs in support of business growth, increased marketing costs largely for our Olympic sponsorship, higher occupancy costs and the introduction of the HST on July 1, 2010. These factors were partly offset by our continued focus on efficiency and cost reduction initiatives, including the impact of lower staff levels as a result of sales productivity improvements.

Average assets increased $21 billion, or 8% largely due to continued growth in home equity and personal lending products. Average deposits were up $15 billion or 9%, reflecting solid growth in both personal and business deposits.

2009 vs. 2008

Net income of $2.7 billion was flat compared to 2008 as strong volume growth in personal and business products and effective cost management were fully offset by significantly higher PCL and spread compression.

Total revenue increased $304 million, or 3%, from 2008 largely reflecting strong volume growth in home equity loans and personal and business deposits, and a favourable adjustment to our credit card customer loyalty reward program in 2009. These factors were partly offset by lower spreads and a decline in mutual fund distribution fees.

Net interest margin decreased 22 bps from 2008 reflecting lower interest rates, higher term funding costs and the impact of changes in product mix.

PCL increased $408 million, or 47%, reflecting higher loss rates in credit cards, and unsecured personal portfolios, and higher impaired loans in our business lending portfolio.

Non-interest expense decreased $29 million, or 1%, mainly due to cost management, partly offset by higher operational costs in support of business volume growth and branch network expansion.

Outlook and priorities

While continued economic improvement is expected to drive strength in home equity products and improvements in credit quality, mortgage volumes are expected to moderate in 2011 due to a slowing housing market. A continued low interest rate environment and increased price competition is expected to maintain pressure on spreads of retail banking products. Competitors who reduced their presence during the financial crisis are re-entering the market in addition to non-traditional entrants to the market which is expected to put pressure on spreads for business lending and credit cards. For further details on our general economic outlook, refer to the Economic, market and regulatory review and outlook section.

Key strategic priorities for 2011

- Continue to deliver superior client experience and advice to drive industry leading volume growth.
- Continue to simplify our end-to-end processes to reduce complexity and improve efficiency.
- Enable collaboration and convergence of people and channels to increase employee engagement and productivity and strengthen our distribution capabilities.

Business line review

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 1,209 branches and 4,227 ATMs.

Financial performance

Total revenue increased $455 million, or 9%, compared to the prior year reflecting strong volume growth in residential mortgages, personal loans and personal deposits. Mutual fund distribution fees also increased on solid balance growth reflecting capital appreciation and net sales of long-term funds.

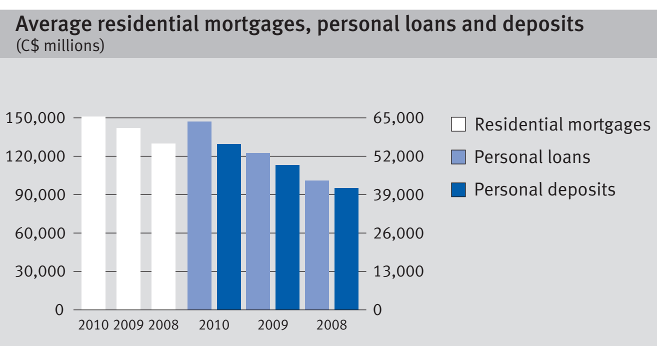
Average residential mortgages were up 7% over last year, supported by continued low interest rates and a solid housing market. Average personal deposits grew by 14% from last year, driven by the continued success of our key savings products and customer preference for reduced risk.

Selected highlights — **Table 11**

(C$ millions except number of)	2010	2009	2008
Total revenue	$ 5,760	$ 5,305	$ 5,315
Other information (average)			
Residential mortgages	151,000	141,800	129,800
Personal loans	63,700	53,000	43,700
Personal deposits	56,100	49,000	41,200
Personal GICs	55,500	58,000	55,600
Branch mutual fund balances (1)	70,100	63,300	58,000
AUA – Self-directed brokerage (1)	42,400	35,500	26,500
New deposit accounts opened (thousands)	968	990	1,129
Number of:			
Branches	1,209	1,197	1,174
ATMs	4,227	4,214	4,149

(1) Represents year-end spot balances.

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 $100 million or 4%, compared to the prior year largely reflecting volume growth in business deposits.

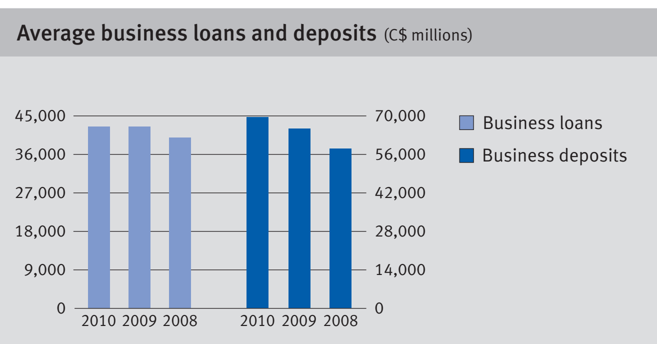
Over the course of the year, businesses have continued to increase their liquidity levels, leading to solid growth of 6% in business deposits; however this resulted in reduced demand for credit, limiting our business loan growth, which was flat compared to the prior year.

Selected highlights — **Table 12**

(C$ millions)	2010	2009	2008
Total revenue	$ 2,557	$ 2,457	$ 2,441
Other information (average)			
Business loans (1)	42,400	42,400	39,900
Business deposits (2)	69,400	65,400	58,000

(1) Includes small business loans treated as retail and wholesale loans.
(2) Includes GIC balances.

Average business loans and deposits (C$ millions)



Cards and Payment Solutions

Cards and Payment Solutions provides a wide array of convenient and customized credit cards and related payment products and solutions. We have over 6 million credit card accounts and rank second in market share in outstanding balances.

In addition, this business line includes our 50% interest in Moneris Solutions, Inc., our merchant card processing joint venture with the Bank of Montreal.

Financial performance

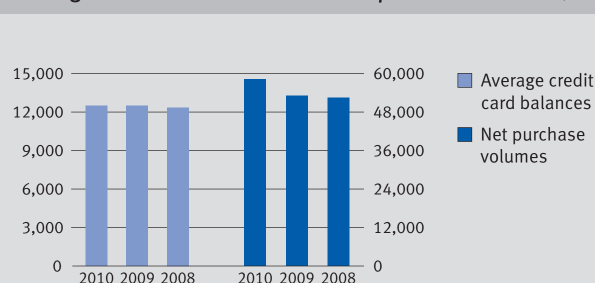
Total revenue increased $110 million or 5%, compared to the past year primarily reflecting higher spreads, higher transactional volumes and higher revenues from Moneris Solutions, Inc. A gain of $34 million on the sale of a portion of our remaining Visa IPO shares this year, as compared to a gain of $18 million last year, also contributed to the increase. These factors were partially offset by a $52 million favourable adjustment to our credit card customer loyalty program in the prior year.

Balances remained flat compared to last year reflecting the continuation of strategies and programs implemented in 2009 to limit credit losses, which included a reduction in our marketing and direct mail programs. Some of these programs were re-introduced in the latter half of 2010.

Selected highlights **Table 13**

(C$ millions)	2010	2009	2008
Total revenue	**$ 2,238**	$ 2,128	$ 1,830
Other information			
Average credit card balances	**12,500**	12,500	12,400
Net purchase volumes	**58,400**	53,200	52,600

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



Wealth Management

Wealth Management comprises Canadian Wealth Management, U.S. & International Wealth Management and Global Asset Management. We serve affluent and high net worth clients in Canada, the United States, Europe, Asia and Latin America with a full suite of investment, trust and other wealth management solutions. We also provide asset management products and services through other RBC distribution channels and third-party distributors, and directly to institutional and individual clients. Our competitive environment is discussed below in each business.

Year in review

- In September 2010, we announced a number of transformational changes effective November 1, 2010 to better align our operating structure with our goals and to accelerate our global growth strategy. By leveraging the breadth and depth of our global expertise, as well as our reputation and brand equity, we intend to be a global leader in wealth and asset management.
- In October 2010, we announced an agreement to acquire U.K.-based BlueBay Asset Management plc (BlueBay), which will expand our Global Asset Management business and align with our global expansion objectives. (1)
- We acquired the wealth management business of Fortis Wealth Management Hong Kong Limited in early November 2010 which reflects our particular focus on significantly expanding our operations in Asia. Earlier in 2010, we also acquired J.P. Morgan Securities' Third Party Registered Investment Advisory Servicing Business representing our ongoing commitment to high-net-worth clients in the U.S.
- We were recognized as a top 10 global wealth manager in AUM, net income and employees in Scorpio Partnership's Global Private Banking KPI Benchmark 2010, an annual independent survey, reflecting both our comprehensive offering of investment management solutions and our global reach. We also received numerous Canadian, U.S. and international awards including those for the Best Overall Fund Group and Best Bond Fund Family in Canada by Lipper Inc.

Economic and market review

Capital market appreciation over most of the year resulted in an increase in fee-based client assets and revenue, as well as higher transaction volumes reflecting growing investor confidence. However, our results were negatively impacted by the stronger Canadian dollar as well as spread compression due to the continued low interest rate environment. While recruiting efforts for experienced client-facing professionals continued into 2010, these efforts slowed in the latter part of the year due to increased competition especially in the U.S. For further details on our general economic review, refer to the Economic, market and regulatory review and outlook section.

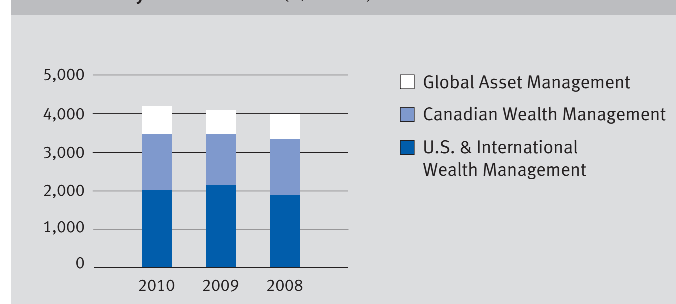
(1) The proposed acquisition is subject to customary closing conditions including regulatory approval and is expected to close by the end of December 2010.

Wealth Management financial highlights				**Table 14**
(C$ millions, except number of and percentage amounts)	**2010**	2009	2008
Net interest income	$ **305**	$ 397	$ 468
Non-interest income			
Fee-based revenue	**2,362**	2,154	2,276
Transaction and other revenue	**1,521**	1,529	1,243
Total revenue	$ **4,188**	$ 4,080	$ 3,987
PCL	$ **3**	$ –	$ 1
Non-interest expense	**3,295**	3,262	3,038
Net income before income taxes	$ **890**	$ 818	$ 948
Net income	$ **669**	$ 583	$ 665
Key ratios			
ROE	**17.6%**	14.2%	23.3%
RORC	**64.6%**	49.2%	64.9%
Pre-tax margin (1)	**21.3%**	20.0%	23.8%
Selected average balance sheet information			
Total assets	$ **18,400**	$ 20,500	$ 16,900
Loans and acceptances	**6,800**	5,800	5,200
Deposits	**29,000**	31,500	26,900
Attributed capital	**3,650**	3,900	2,800
Risk capital	**1,000**	1,100	1,000
Other information			
Revenue per advisor (000s) (2)	$ **703**	$ 670	$ 731
AUA	**521,600**	502,300	495,100
AUM	**261,800**	245,700	222,600
Number of employees (FTE)	**10,677**	10,818	10,954
Number of advisors (3)	**4,299**	4,504	4,346

Estimated impact of US$ translation on key income statement items	**2010 vs. 2009**
Impact on income *increase (decrease):*	
Total revenue	$ **(200)**
Non-interest expense	**160**
Net income	**(35)**
Percentage change in average US$ equivalent of C$1.00	**12%**

(1) Pre-tax margin is defined as net income before income taxes divided by total revenue.
(2) Represents investment advisors and financial consultants of our Canadian and U.S. full-service brokerage businesses.
(3) Represents client-facing advisors across all our wealth management businesses.

Revenue by business line (C$ millions)



Financial performance

2010 vs. 2009

Net income increased $86 million, or 15%, from a year ago, primarily due to higher average fee-based client assets and higher transaction volumes as well as favourable income tax adjustments recorded in the current year. These factors were partially offset by spread compression and the impact of the stronger Canadian dollar.

Total revenue increased $108 million, or 3%, largely reflecting higher average fee-based client assets resulting from capital appreciation and higher transaction volumes reflecting improved market conditions and investor confidence. These factors were partially offset by the impact of the stronger Canadian dollar, lower spreads on client cash deposits and higher fee waivers largely on U.S. money market funds resulting from the continued low interest rate environment.

Non-interest expense increased $33 million, or 1%, primarily due to higher variable compensation driven by higher commission-based revenue, and the increase in fair value of our earned compensation liability related to our stock-based compensation plan. These factors were largely offset by the impact of the stronger Canadian dollar and the reversal of the remaining provision related to the Reserve Primary Fund. For further details refer to the 2009 vs 2008 discussion below.

2009 vs. 2008

Net income decreased $82 million, or 12%, from 2008, mainly reflecting lower average fee-based client assets and spread compression. These factors were partially offset by a gain, as compared to a loss in 2008, on our stock-based compensation plan, the provisions related to the Reserve Primary Fund and auction rate securities in 2008, the impact of the weaker Canadian dollar and the full year of results from our Phillips, Hager & North Investment Management Ltd. (PH&N) acquisition.

Total revenue increased $93 million, or 2%, mainly due to the impact of the weaker Canadian dollar. A gain, as compared to a loss in 2008, on our stock-based compensation plan in our U.S. brokerage business and higher transaction volumes reflecting a full year of revenue from Ferris, Baker Watts Inc. (FBW) also contributed to the increase. These factors were largely offset by lower average fee-based client assets, which was only partially offset by the inclusion of a full year of revenue from PH&N, as well as spread compression.

Non-interest expense was up $224 million, or 7%, mainly due to the impact of the weaker Canadian dollar as well as higher infra-structure and staff costs in support of business growth. These factors were partially offset by our focus on cost management, the provisions related to our support agreement for clients of FBW invested in the Reserve Primary Fund in 2008 and Wealth Management's share of the settlement with U.S. regulators relating to auction rate securities.

Outlook and priorities

As market conditions improve and investor confidence returns, the environment should continue to benefit our fee-based revenues and increase transaction volumes. However, while interest rates have modestly increased in Canada they are expected to remain at low levels in markets in which we compete, resulting in continued spread compression along with the unfavourable impact from money market fund fee waivers. We expect growth to accelerate under our new operating structure, and remain committed to prudent cost management, and leveraging platform enhancements to continue to achieve global efficiencies. For further details on our general economic outlook, refer to the Economic, market and regulatory review and outlook section.

Key strategic priorities for 2011

- Build a leading Global Asset Management business that complements our wealth distribution businesses by growing our footprint organically and through acquisitions. This growth will also enhance our investment management and high net worth product development capabilities globally in the retirement market as well as emerging markets, while deepening the breadth of our global leadership team.
- Deepen our high and ultra high net worth client relationships, ensuring we deliver the full range of wealth management solutions including investments, trusts, banking and credit, and insurance solutions. Continuing to improve client satisfaction from already high levels, will drive productivity of our client-facing advisors in the U.S., Canada, and globally, and improve financial performance in our wealth distribution businesses.
- Focus on key areas with the greatest potential including (i) growing our industry-leading share of high net worth client assets in Canada; (ii) expanding our geographic footprint to attract high net worth clients from emerging markets, particularly in Hong Kong and Singapore as well as Latin America and Europe, the Middle East and Africa (EMEA); and (iii) growing our onshore U.K. wealth management business in pace with our Global Asset Management business and RBC Capital Markets expansion.
- Accelerate our Operations and Technology investments to achieve global operating efficiencies to support our growth.

Business line review

Canadian Wealth Management

Canadian Wealth Management includes our full-service Canadian brokerage, which is the market leader as measured by AUA, with close to 1,440 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 clients through close to 60 investment counsellors and more than 120 trust professionals in locations across Canada.

We compete with domestic banks and trust companies, global private banks, investment counselling firms, bank-owned full service and boutique brokerages, and mutual fund companies. In Canada, bank-owned wealth managers continue to be the major players.

Financial performance

Revenue increased $126 million, or 10%, compared to the prior year, primarily due to higher average fee-based client assets resulting from capital appreciation and higher transaction volumes reflecting improved market conditions and investor confidence. These factors were partially offset by spread compression.

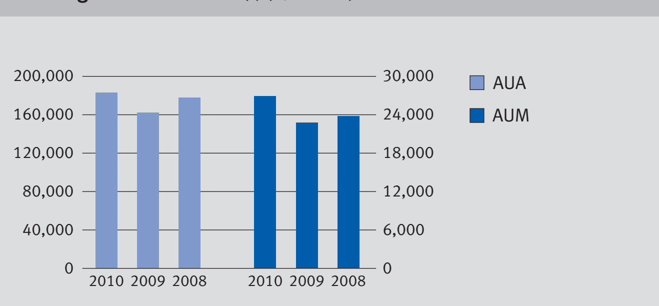
Assets under administration increased 11% from a year ago, mainly due to capital appreciation resulting from improved market conditions.

Selected highlights — Table 15

(C$ millions)	2010	2009	2008
Total revenue	$ 1,449	$ 1,323	$ 1,474
Other information			
AUA (1)	193,000	174,200	160,700
AUM (1)	29,200	24,700	23,000
Total assets under fee-based programs	99,000	88,000	78,800

(1) Represents year-end spot balances.

Average AUA and AUM (1) (C$ millions)



(1) Represents average balances, which are more representative of the impact client balances have upon our revenue.

U.S. & International Wealth Management

U.S. & International Wealth Management includes one of the largest full-service brokerage firms in the U.S., with more than 2,100 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 trust, banking, credit, and investment solutions to high net worth private clients with over 2,400 employees across a network of 27 offices located in 18 countries around the world.

We operate in a fragmented and extremely competitive industry. There are approximately 5,000 registered broker-dealers in the U.S., comprising independent, regional and global players. Competitors in international wealth management comprise global wealth managers, traditional offshore private banks, domestic wealth managers and U.S. investment-led private client operations.

Financial performance

Revenue decreased $129 million, or 6%. In U.S. dollars, revenue increased $88 million, or 5%, largely due to higher average fee-based client assets resulting from capital appreciation and higher transaction volumes reflecting improved market conditions and investor confidence. Partially offsetting the increase were higher fee waivers on money market funds resulting from the continued low interest rate environment and lower spreads on client cash deposits.

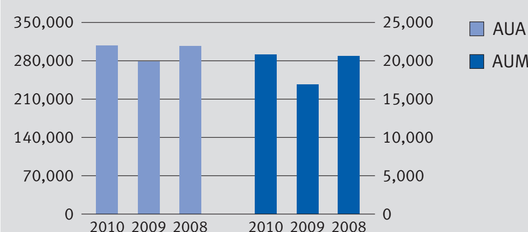
In U.S. dollars, assets under administration increased 6% from a year ago, mainly due to capital appreciation resulting from improved market conditions.

Selected highlights — **Table 16**

(C$ millions)	2010	2009	2008
Total revenue	$ 2,003	$ 2,132	$ 1,869
Other information (US$ millions)			
Total revenue	1,927	1,839	1,812
Total loans, guarantees and letters of credit (1), (2)	6,700	5,500	5,200
Total deposits (1), (2)	18,200	18,700	18,500
AUA (3)	322,100	303,300	277,600
AUM (3)	22,900	19,700	16,200
Total assets under fee-based programs (4)	39,200	31,000	21,300

(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 year end spot balances.
(4) Represents amounts related to our U.S. wealth management businesses.

Average AUA and AUM (1) (US$ millions)



(1) Represents average balances, which are more representative of the impact client balances have upon our revenue.

Global Asset Management

Global Asset Management is responsible for our proprietary asset management business. We provide a broad range of investment management services through mutual and pooled funds, fee-based accounts and separately managed portfolios. We distribute our investment solutions through a broad network of our bank branches, our discount and full-service brokerage businesses, independent advisors and directly to consumers. We also provide investment solutions directly to institutional clients, including pension plans, endowments and foundations. We are the largest fund company and one of the largest money managers in Canada, with a 15% market share as measured by AUM as recognized by the Investment Funds Institute of Canada.

As discussed above, in October 2010 we announced our intention to acquire BlueBay, which is one of Europe's largest independent managers of fixed income funds and products. BlueBay will enable a broader product offering and distribution presence, and coupled with its strong management, is capable of leading asset management growth across the U.K., EMEA, Latin America and Asian markets.

We face competition in Canada from major banks, insurance companies, asset management organizations and boutique firms. The Canadian fund management industry is large, and mature, but still a relatively fragmented industry. Our U.S. asset manager competes with independent asset management firms, as well as those that are part of national and international banks, insurance companies and boutique asset managers.

Financial performance

Revenue increased $111 million, or 18%, from a year ago, mainly due to higher average fee-based client assets resulting from capital appreciation, and clients' preference for higher-yielding long-term funds.

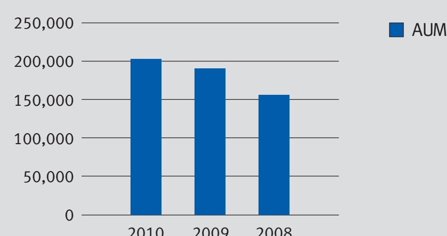
AUM increased 5% from a year ago, mainly due to capital appreciation from improved market conditions and increased long-term mutual fund sales, partially offset by the impact of the stronger Canadian dollar and increased Canadian money market fund net redemptions.

Selected highlights — **Table 17**

(C$ millions)	2010	2009	2008
Total revenue	$ 736	$ 625	$ 644
Other information			
Canadian net long-term mutual fund sales	6,400	2,100	600
Canadian net money market mutual fund (redemptions) sales	(8,700)	(2,000)	8,200
AUM (1)	209,200	199,700	180,100

(1) Represents year end spot balances.

Average AUM (1) (C$ millions)



(1) Represents average balances, which are more representative of the impact client balances have upon our revenue.

Insurance comprises Canadian Insurance, U.S. Insurance, and International & Other. In Canada, we offer our products and services through our growing proprietary channels including retail insurance branches, call centres, and our career sales force, as well as through independent insurance advisors and travel agencies. Outside North America, we operate in reinsurance markets globally. Our competitive environment is discussed in each business.

Divestiture of Liberty Life

In October 2010, we announced our intention to sell Liberty Life, our U.S. life insurance business, to Athene Holding Ltd., for US$628 million. The transaction is subject to regulatory approvals and customary closing conditions, and is expected to close in early 2011. As a result of this transaction, we recorded a loss of $116 million (US$114 million) in the fourth quarter of 2010 on both a before- and after-tax basis. For further details, refer to Note 11 and Note 31 to our 2010 Annual Consolidated Financial Statements.

Subsequent to the completion of the divestiture, we will realign Insurance into two lines of business, Canadian Insurance and International & Other. The travel insurance businesses in the U.S. will be included in International & Other.

Year in review

- In Canada, we continued to improve our distribution economics through shared and streamlined processes, while deepening our client relationships and simplifying the way we do business.
- We continued to expand and improve our Canadian retail insurance network to 52 branches in 2010, from 49 branches in 2009 giving our clients more convenient access to insurance services.
- We launched an improved Universal Life product, with a new supporting team working across all channels to efficiently deliver a better product to our clients.
- Internationally, we have continued to develop our reinsurance businesses with solid business growth during the year.

Economic and market review

Improved market conditions contributed to higher investment returns in the current year as well as annuity growth in our International and other businesses. During the year, we experienced higher disability and auto claims costs. The higher auto claims cost partly resulted from higher auto claim activity in advance of the Ontario auto insurance reform which was passed in late 2010. For further details on our general economic review, refer to the Economic, market and regulatory review and outlook section.

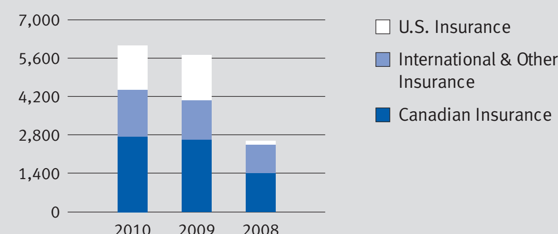
Insurance financial highlights — **Table 18**

(C$ millions, except number of and percentage amounts)	2010	2009	2008
Non-interest income			
Net earned premiums	$ 4,484	$ 3,889	$ 2,864
Investment income (1)	1,443	1,579	(458)
Fee income	251	247	204
Other (2)	(116)	–	–
Total revenue	$ 6,062	$ 5,715	$ 2,610
Insurance policyholder benefits and claims (1)	$ 4,421	$ 3,975	$ 1,029
Insurance policyholder acquisition expense	687	634	602
Non-interest expense	552	559	576
Net income before income taxes	$ 402	$ 547	$ 403
Net income	$ 405	$ 496	$ 389
Key ratios			
ROE	26.6%	37.0%	32.8%
RORC	30.1%	42.9%	37.1%
Selected average balance sheet information			
Total assets	$ 15,200	$ 13,100	$ 12,600
Attributed capital	1,500	1,300	1,150
Risk capital	1,300	1,150	1,050
Other information			
Premiums and deposits (3)	$ 5,704	$ 4,970	$ 3,861
Insurance claims and policy benefit liabilities	$ 10,750	$ 8,922	$ 7,385
Fair value changes on investments backing policyholder liabilities (1)	662	917	(870)
Embedded value (4)	6,427	5,924	4,919
AUM	300	200	400
Number of employees (FTE) (5)	2,957	2,777	2,939

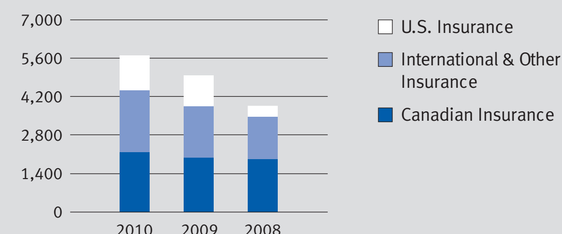
Estimated impact of US$ and British pound translation on key income statement items	2010 vs. 2009
Impact on income *increase (decrease)*:	
Total revenue	$ (250)
PBCAE	235
Non-interest expense	10
Net income	(5)
Percentage change in average US$ equivalent of C$1.00	12%
Percentage change in average British pound equivalent of C$1.00	11%

(1) Investment income can experience volatility arising from fluctuation in the fair value of HFT assets. The investments which support actuarial liabilities are predominantly fixed income assets designated as HFT. Consequently changes in fair values of these assets are recorded in investment income in the consolidated statements of income and are largely offset by changes in the fair value of the actuarial liabilities, the impact of which is reflected in insurance policyholder benefits and claims.
(2) Relates to loss on Liberty Life.
(3) Premiums and deposits include premiums on risk-based insurance and annuity products, and individual and group segregated fund deposits, consistent with insurance industry practices.
(4) Embedded value is defined as the value of equity held in our Insurance segment and the value of in-force business (existing policies). For further details, refer to the Key performance and non GAAP measures section.
(5) 2009 and 2008 amounts have been restated to reflect the realignment of our insurance operations and technology teams in 2009.

Revenue by business line (C$ millions)



Premiums and deposits by business line (C$ millions)



Financial performance

2010 vs. 2009

Net income decreased $91 million or 18%, compared to the prior year. Excluding the loss on Liberty Life, net income increased $25 million, or 5%, mainly due to favourable actuarial adjustments reflecting management actions and assumption changes, higher net investment gains, our ongoing focus on cost management and volume growth. These factors were partially offset by higher disability and auto claims costs, and unfavourable life policyholder experience.

Total revenue increased $347 million, compared to the prior year. Excluding the loss on Liberty Life, total revenue increased $463 million, or 8%, mainly reflecting volume growth across all businesses, including annuity growth in our U.S. and International businesses, and higher net investment gains. These factors were partially offset by the change in fair value of investments backing our life and health policyholder liabilities, and the impact of the stronger Canadian dollar. The annuity volumes and the change in fair value of investments were largely offset in PBCAE. Results excluding the loss on Liberty Life are non-GAAP measures. Refer to the Key performance and non-GAAP measures section.

PBCAE increased $499 million, or 11%, primarily reflecting higher costs commensurate with volume growth across all businesses, including annuity growth in our U.S. and International businesses, higher disability and auto claims costs, and unfavourable life policyholder experience. These factors were partially offset by the change in fair value of investments, the impact of the stronger Canadian dollar, and favourable actuarial adjustments.

Non-interest expense was down $7 million, or 1%, mainly due to our ongoing focus on cost management and the impact of the stronger Canadian dollar. These factors were largely offset by higher costs in support of volume growth.

Premiums and deposits were up $734 million, or 15%, reflecting volume growth in all business lines due to strong sales and client retention, partially offset by the impact of the stronger Canadian dollar.

Embedded value increased $503 million, or 8%, largely reflecting growth from new sales and favourable experience adjustments. These items were partially offset by the impact of the transfer of capital from our Insurance businesses and the impact of the stronger Canadian dollar. For further details, refer to the Key performance and non-GAAP measures section.

2009 vs. 2008

Net income increased by $107 million, or 28%, compared to 2008, as 2008 included investment losses of $110 million ($80 million after-tax). Volume growth in all businesses, new U.K. annuity reinsurance arrangements, lower allocated funding costs on capital, and our ongoing focus on cost management also contributed to the increase. These factors were partially offset by unfavourable actuarial adjustments.

Total revenue increased $3,105 million, mainly due to the change in fair value of investments and volume growth across all businesses, including annuity growth in our U.S. and International & Other insurance businesses. The impact of the weaker Canadian dollar and the 2008 investment losses on disposals and impairments also contributed to the increase. The change in fair value of investments and the annuity volumes were largely offset in PBCAE.

PBCAE increased $2,978 million, primarily reflecting the change in fair value of investments backing our life and health policyholder liabilities and higher costs commensurate with the increased annuity volumes. The unfavourable actuarial adjustments and the impact of the weaker Canadian dollar also contributed to the increase.

Non-interest expense decreased $17 million, or 3%, reflecting our ongoing focus on cost management, largely offset by the impact of the weaker Canadian dollar and higher costs in support of volume growth, including the addition of new Canadian retail insurance branches.

Outlook and priorities

We expect continued volume growth driven by new and improved client focused products delivered through our growing proprietary channels. Our investment returns are expected to continue to improve with stabilized market conditions. The recent Ontario auto reform is anticipated to have a favourable impact on auto claims experience. For further details on our general economic outlook, refer to the Economic, market and regulatory review and outlook section.

Key strategic priorities for 2011

- Increase sales through low cost distribution channels.
- Deepen our relationships with clients by providing customers with a comprehensive suite of RBC Insurance 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, while managing our expenses.
- Pursue selected international niche opportunities with the aim of growing our reinsurance business.

Business line review

Canadian Insurance

We offer life and health, property and casualty insurance products as well as wealth accumulation solutions, to individual and group clients across Canada. Our life and health portfolio includes universal life, critical illness, disability, long-term care insurance and group benefits. We offer a wide range of property and casualty products including home, auto and travel insurance. Our travel products include out of province/country medical coverage, trip cancellation insurance and interruption insurance. We also offer commercial insurance through our partnership with Aon Reed Stenhouse Inc.

In Canada, we compete against approximately 250 insurance companies, with the bulk of the organizations specializing in either life and health, or property and casualty products. We hold a leading market position in travel insurance products, have a significant presence in life and health products, and a growing presence in the home and auto markets.

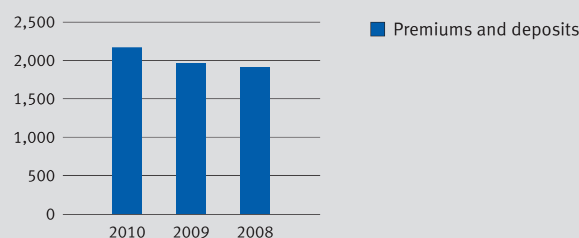
Financial performance
Total revenue increased $81 million, or 3%, compared to the prior year, mainly due to volume growth in auto, home and life and health products. These factors were partially offset by the change in fair value of investments backing our life and health policyholder liabilities, largely offset in PBCAE.

Premiums and deposits increased $206 million, or 10%, reflecting sales growth in home, auto and life and health products and continued strong client retention.

Selected highlights — Table 19

(C$ millions)	2010	2009	2008
Total revenue	**$ 2,735**	$ 2,654	$ 1,400
Other information			
Premiums and deposits			
Life and health	**1,249**	1,210	1,188
Property and casualty	**838**	708	643
Annuity and segregated fund deposits	**83**	46	84
Fair value changes on investments backing policyholder liabilities	**382**	452	(524)

Premiums and deposits (C$ millions)



U.S. Insurance

In 2010, we offered life and health insurance, annuities and travel insurance to clients across the United States. Life and health products include term, indexed universal life, whole life, accidental death and critical illness protection. We also offered traditional fixed and fixed-indexed annuities. Travel insurance products include trip cancellation, interruption insurance and emergency medical coverage.

In October 2010, we announced our intention to sell Liberty Life. Refer to Notes 11 and 31 to our 2010 Annual Consolidated Financial Statements. While we grew our U.S. life insurance business under our brand, it lacks the scale required to build and maintain a significant portfolio of insurance products in a very competitive market place. We will retain our U.S. travel business as this business is separate and distinct from the other U.S. Insurance businesses (life and annuity). The U.S. travel business is a strategic extension of our Canadian travel operations allowing us to leverage the existing scale and expertise built over the years.

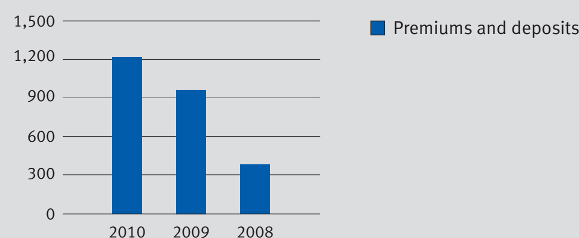
Financial performance
Total revenue decreased $60 million, or 4%, compared to the prior year. In U.S. dollars, total revenue increased $83 million, or 6%. Excluding the loss on Liberty Life, total revenue in U.S. dollars increased $197 million, or 14%, mainly due to an increase in annuity volumes and lower investment losses. These factors were partially offset by the change in fair value of investments backing our life and annuity policyholder liabilities. The annuity volumes and the change in fair value of investments were largely offset in PBCAE. Total revenue excluding the loss on Liberty Life is a non-GAAP measure. Refer to the Key performance and non-GAAP measures section.

Premiums and deposits increased $165 million. In U.S. dollars, premiums and deposits increased $255 million, reflecting the increase in annuity volumes.

Selected highlights — Table 20

(C$ millions)	2010	2009	2008
Total revenue	**$ 1,602**	$ 1,662	$ 146
Fair value changes on investments backing policyholder liabilities	**274**	458	(346)
Other information (US$ millions)			
Total revenue	**1,531**	1,448	166
Premiums and deposits			
Life and health	**244**	247	263
Property and casualty	**21**	11	4
Annuity	**952**	704	115
Fair value changes on investments backing policyholder liabilities	**259**	400	(313)

Premiums and deposits (US$ millions)



International & Other Insurance

International & Other Insurance is primarily comprised of our Reinsurance businesses which insure risks of other international insurance and reinsurance companies. We offer life and health, accident, annuity and trade credit reinsurance products.

The global reinsurance market is dominated by a few large players, with significant presence in the U.S., U.K. and Eurozone. The reinsurance industry is competitive but barriers to entry remain high.

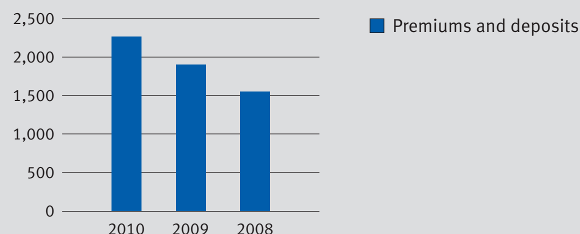
Financial performance
Total revenue increased $326 million, or 23%, mainly reflecting volume growth in our life and annuity reinsurance products, partially offset by the impact of the stronger Canadian dollar.

Premiums and deposits increased $363 million or 19%, primarily for the reasons noted above.

Selected highlights — **Table 21**

(C$ millions)	2010	2009	2008
Total revenue	$ 1,725	$ 1,399	$ 1,064
Other information			
Premiums and deposits			
Life and health	1,896	1,643	1,374
Property and casualty	49	41	52
Annuity	321	219	125

Premiums and deposits (C$ millions)



International Banking

International Banking comprises Banking and our joint venture, RBC Dexia Investor Services (RBC Dexia IS). Banking includes our banking businesses in the U.S. and Caribbean, which offer a broad range of financial products and services to individuals, business clients and public institutions in their respective markets. RBC Dexia IS offers an integrated suite of products to institutional investors worldwide. Our competitive environment is discussed below in each business.

Year in review
- Our U.S. retail bank continued to be challenged in 2010 by weak economic, credit and market conditions. We remained focused on managing our loan portfolio and restructuring our operations.
- In the Caribbean, we continued to integrate RBTT Financial Group (RBTT) to a common banking platform for growth and expansion in the region.
- RBC Dexia IS closed its acquisition of Unione di Banche Italiane Scpa's (UBI) depositary bank business, making RBC Dexia IS the second largest third-party fund administration company and the fifth largest depositary bank in the Italian market.

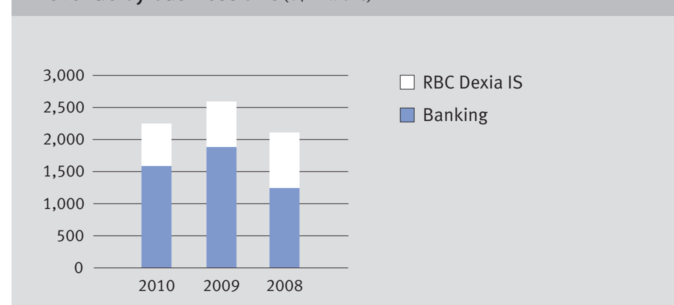
Economic and market review
The recovery of the U.S. economy remained under pressure although signs of asset quality stabilization resulted in lower PCL. Our banking revenue continued to be affected by historically low interest rates which compressed spreads. We also experienced pricing pressures from increased competition for client deposits and loans. Loan demand in the U.S. continued to be weak and persistent unemployment in the U.S. negatively affected the travel industry and the local Caribbean economy. This resulted in reduced banking volumes and higher PCL in the Caribbean. For further details on our general economic review, refer to the Economic, market and regulatory review and outlook section.

International Banking financial highlights			Table 22
(C$ millions, except number of and percentage amounts)	2010	2009	2008
Net interest income	$ 1,367	$ 1,687	$ 1,330
Non-interest income	869	903	771
Total revenue	$ 2,236	$ 2,590	$ 2,101
PCL	$ 743	$ 980	$ 497
Non-interest expense	2,105	2,346	1,876
Goodwill impairment charge	–	1,000	–
Net (loss) before income taxes and NCI in subsidiaries	$ (612)	$ (1,736)	$ (272)
Net (loss)	$ (317)	$ (1,446)	$ (153)
Key ratios			
ROE	(5.5)%	(19.4)%	(3.4)%
RORC	(12.2)%	(49.1)%	(8.1)%
Selected average balance sheet information			
Total assets	$ 55,300	$ 63,700	$ 51,300
Loans and acceptances	29,600	35,800	27,000
Deposits	45,800	51,600	42,500
Attributed capital	6,650	7,750	5,200
Risk capital	3,000	3,050	2,150
Other information			
AUA – RBC (1)	$ 7,800	$ 7,700	$ 11,200
– RBC Dexia IS (2)	$ 2,779,500	$ 2,484,400	$ 2,585,000
AUM – RBC (1)	$ 2,600	$ 3,800	$ 3,900
Number of employees (FTE)	11,174	11,462	12,335
Credit information			
Gross impaired loans as a % of average net loans and acceptances	10.32%	8.80%	5.97%
Specific PCL as a % of average net loans and acceptances	2.51%	2.74%	1.84%

Estimated impact of US$, Euro and TTD translation on key income statement items	2010 vs. 2009
Impact on income *increase (decrease):*	
Total revenue	$ (250)
PCL	80
Non-interest expense	225
Net income	20
Percentage change in average US$ equivalent of C$1.00	12%
Percentage change in average Euro equivalent of C$1.00	14%
Percentage change in average TTD equivalent of C$1.00	14%

(1) These represent the AUA and AUM of RBTT, reported on a one-month lag.
(2) Represents the total AUA of the joint venture, of which we have a 50% ownership interest, reported on a one-month lag.

Revenue by business line (C$ millions)



Financial performance
2010 vs. 2009
Net loss of $317 million compares to a net loss of $1,446 million a year ago, mainly reflecting the prior year goodwill impairment charge of $1 billion on both a before-and after-tax basis. Our lower loss also reflected reduced provisions in our U.S. banking loan portfolio, and the impact of the stronger Canadian dollar. These factors were partially offset by higher losses on our AFS securities.

Total revenue decreased $354 million, or 14%, primarily reflecting the impact of the stronger Canadian dollar. The decrease was also due to higher losses on our AFS securities and foreclosed assets, as well as a strategic reduction in our U.S. banking portfolio. These factors were partially offset by a $52 million ($39 million after tax) provision recorded in the prior year related to the restructuring of certain Caribbean banking mutual funds of which $11 million ($8 million after tax) was reversed in the current year.

PCL decreased $237 million, or 24%, largely as a result of lower provisions in U.S. banking, primarily due to our residential builder finance loans and AFS securities reclassified to loans. These factors were partially offset by higher provisions in our commercial portfolio in the Caribbean. For further details, refer to the Credit quality performance section.

Non-interest expense was down $241 million, or 10%, primarily due to the impact of the stronger Canadian dollar. Our continued focus on cost management, including the ongoing restructuring of our U.S. banking business, also contributed to the decrease.

2009 vs. 2008
Net loss of $1,446 million compares to a net loss of $153 million in 2008, reflecting the goodwill impairment charge and higher PCL. These factors were partially offset by the decrease in losses on our AFS securities of $272 million ($184 million after tax), and a full year of results from our acquisition of RBTT in 2008.

Total revenue increased $489 million, or 23%, mainly due to a full year of revenue from RBTT, and to a lesser extent from Alabama National BanCorporation (ABN) acquired in 2008. Lower losses on our AFS securities and the impact of the weaker Canadian dollar relative to the U.S. dollar also contributed to the increase. These factors were partially offset by lower revenue at RBC Dexia IS and spread compression, primarily in U.S. banking.

PCL was up $483 million, mainly attributable to U.S. banking, reflecting impaired loans in commercial, residential builder finance, lot loan, home equity and residential mortgage portfolios. The impact of the weaker Canadian dollar on the translation of U.S. specific PCL, higher provisions of $59 million resulting from reclassification of certain AFS securities to loans due to our adoption of the amendments to Canadian Institute of Chartered Accountants (CICA) section 3855 and a full year of results from RBTT also contributed to the increase.

Non-interest expense increased $470 million, or 25%, primarily reflecting higher staff and occupancy costs mainly related to a full year of expenses from RBTT, and to a lesser extent ANB. The impact of the weaker Canadian dollar relative to the U.S. dollar and the restructuring of our U.S. banking business also contributed to the increase.

Outlook and priorities
The economic outlook for the U.S. remains weak, with high levels of unemployment, low absolute home values, soft demand for credit and low interest rates anticipated to continue for some time. Earnings generated from our U.S. banking operations will continue to be challenged in 2011 by difficult economic conditions, increasing regulatory costs and elevated levels of PCL.

In the Caribbean, low economic growth will place continued pressure on loan portfolios and PCL.

RBC Dexia IS is expected to see returns improve with new client mandates, the demand for outsourcing continuing to grow and market values continuing to increase, all driving the expansion of assets under administration. For further details on our general economic outlook, refer to the Economic, market and regulatory review and outlook section.

Key strategic priorities for 2011
- Continue to strengthen our operating performance by improving product and distribution capabilities in order to deliver a differentiated client experience and value proposition.
- Build upon the productivity and efficiency enhancements generated by the integration of our Caribbean banking businesses to leverage our sales force capabilities and deliver distinctive relationship-based financial advice to our Caribbean clients.
- Enhance and broaden our suite of products and services at RBC Dexia IS to maximize client and revenue growth opportunities across our geographic footprint and deliver a globally integrated and differentiated client experience.

Business line review

Banking

Banking consists of our banking operations in the U.S. and Caribbean. Our U.S. banking business provides a complete line of banking products and services through 426 banking centres, 476 ATMs and online banking. Our Caribbean banking business offers a comprehensive suite of banking products and services, as well as international financing and trade promotion services through an extensive branch and ATM network, and online banking.

In the southeastern U.S., we compete against approximately 1,100 other banks, savings banks, and thrifts as well as a large number of credit unions. Deteriorating economic and market conditions in 2009 led to significant consolidation in the U.S. retail banking industry, with numerous bank failures and some acquisitions. During 2010, the industry continued to experience a number of bank failures. In this environment, we are among the top five deposit holders in North Carolina and rank seventh overall as measured by deposits in our southeastern U.S. footprint (1).

In the Caribbean, we compete against banks, trust companies and investment companies serving retail, corporate and institutional customers. We are the second largest bank, by assets, in the English Caribbean, with 127 branches in 16 countries.

Financial performance
Total revenue decreased $301 million, or 16%, from the prior year. In U.S. dollars, total revenue decreased $97 million, or 6%. The decrease primarily reflects higher losses on our AFS securities and higher losses on foreclosed assets. These factors were partially offset by a provision related to the restructuring of certain Caribbean banking mutual funds in the prior year.

In U.S. dollars, average loans and acceptances decreased $2 billion, or 7% and average deposits decreased $500 million, or 2%, mainly due to the strategic reduction in our U.S. banking portfolio, partially offset by business growth in Caribbean banking.

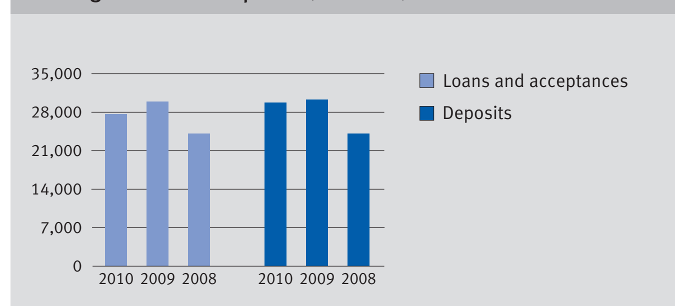
(1) Our southeastern U.S. banking footprint comprises North Carolina, South Carolina, Virginia, Alabama, Florida, and Georgia.

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

(C$ millions, except number of and percentage amounts)	2010	2009	2008
Total revenue	$ 1,579	$ 1,880	$ 1,246
Other information (US$ millions)			
Total revenue	1,515	1,612	1,221
Net interest margin	3.72%	3.56%	3.63%
Average loans and acceptances	$ 27,800	$ 30,000	$ 24,100
Average deposits	29,800	30,300	24,100
AUA	7,600	7,100	9,300
AUM	2,500	3,500	3,300
Number of:			
Branches	553	563	566
ATMs	806	816	815

(1) RBTT reports on a one-month lag. For 2008, our results included RBTT results from June 16 to September 30.

Average loans and deposits (US$ millions)



RBC Dexia IS

RBC Dexia IS, of which we have a 50% ownership interest, offers global custody, fund and pension administration, securities lending, shareholder services, analytics and other related services to institutional investors.

RBC Dexia IS, with offices in 15 countries on four continents, competes against the world's largest global custodians and, in certain markets, against select local financial institutions providing investor services. Although competition continues to be intense, RBC Dexia IS ranks among the top 10 global custodians and consistently achieves top quartile standing in leading industry surveys.

Financial performance

Total revenue decreased by $53 million, or 7%, compared to last year, mainly due to the impact of the stronger Canadian dollar, and lower spreads on client cash deposits due to the continued low interest rate environment, partially offset by higher transaction volumes, and higher fee-based client assets as a result of capital appreciation.

Assets under administration increased 12%, largely reflecting improved market conditions, and business growth. These factors were partially offset by the impact of the stronger Canadian dollar.

Selected highlights — Table 24

(C$ millions)	2010	2009	2008
Total revenue	657	710	855
Other information			
AUA (1)	2,779,500	2,484,400	2,585,000

(1) Represents the total AUA of the joint venture, of which we have a 50% ownership interest, reported on a one-month lag.

Capital Markets

Capital Markets comprises our global wholesale banking businesses providing corporate, public sector and institutional clients with a wide range of products and services. In North America, we offer a full suite of products and service capabilities and have long-standing and deep relationships with our clients. Outside North America, we have a select but diversified set of global capabilities, which includes fixed income origination and distribution, structuring and trading, foreign exchange, commodities and investment banking. Capital Markets is comprised of two primary businesses: Capital Markets Sales and Trading and Corporate and Investment Banking. Our competitive environment is discussed below in each business.

Year in review

- We continued to win significant mandates throughout the year and remained Canada's leading global investment bank. In recognition of our ongoing success, we were named Best Investment Bank in Canada by Euromoney Magazine for the third year in a row and Dealmaker of the Year in Canada (*Financial Post*) for this year and for six of the last seven years. We were also ranked number one in debt, equity and M&A in Canada (*Bloomberg*).
- Outside Canada, we have continued to invest in our key businesses, extending our capabilities, adding new clients and expanding our market share. As a result of our strategic growth initiatives, we now generate approximately 60% of our revenues outside Canada.
- We made significant progress in expanding our business in the U.S., reflecting our investments in top talent, the build-out of our infrastructure and the strength of our brand. This has resulted in market share increases across several businesses including U.S. dollar fixed income and currency trading, debt and equity origination.
- In the U.K., we continued to extend our capabilities in fixed income and currency, and are a top five Gilt-edged Market Maker. We acted as the joint bookrunner and hedge manager to the largest ever U.K. Gilt offering of £8 billion. Our credit trading business in Europe received top rankings in several categories, including the Best Bank for Fixed Income, e-Trading and Non-Core Currency bonds, by institutional investors in *Credit* magazine's 2010 European Credit awards.
- In Europe, we became a European Primary Dealer in Germany and France. In our investment banking, equity and research businesses, we have broadened our sector focus beyond oil and gas and mining to growth industries where we have well established North American capabilities. We also acted as sole sponsor, joint global coordinator and joint bookrunner in a £2.0 billion equity offering for Resolution plc, underpinning our role as a top tier investment bank in Europe.

Economic and market review

Global capital markets continued to improve in early 2010 reflecting general economic recovery. However, trading conditions were volatile in the latter half of 2010 largely due to uncertainty over the European sovereign debt crisis, U.S. regulatory reform and evolving global capital and liquidity requirements. Most of our trading businesses were negatively impacted in the second half of 2010 by investor uncertainty which reduced client volumes across all geographies. We were also impacted by tightening credit spreads and narrow bid/ask spreads. Investment banking activities demonstrated strong growth, particularly in debt origination, M&A and loan syndication, as a result of overall improved economic conditions. For further details on our general economic outlook, refer to the Economic, market and regulatory review and outlook.

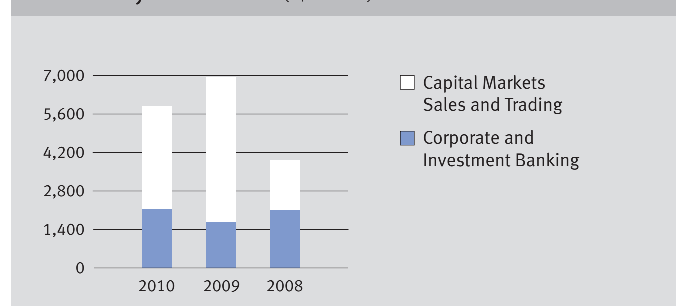
Capital Markets financial highlights — Table 25

(C$ millions, except number of and percentage amounts)	2010	2009	2008
Net interest income (1)	$ 2,719	$ 3,399	$ 1,527
Non-interest income	3,168	3,524	2,408
Total revenue (1)	$ 5,887	$ 6,923	$ 3,935
PCL	$ 20	$ 702	$ 183
Non-interest expense	3,420	3,628	2,121
Net income before income taxes and NCI in subsidiaries	$ 2,447	$ 2,593	$ 1,631
Net income	$ 1,647	$ 1,768	$ 1,170
Key ratios			
ROE	19.5%	21.0%	20.5%
RORC	22.3%	24.3%	24.5%
Selected average balance sheet information			
Total assets	$ 327,500	$ 347,900	$ 340,300
Trading securities	130,700	121,100	140,200
Loans and acceptances	29,600	39,500	38,300
Deposits	94,800	108,100	132,600
Attributed capital	8,100	8,100	5,600
Risk capital	7,100	7,000	4,700
Other information			
Number of employees (FTE)	3,399	3,097	3,296
Credit information			
Gross impaired loans as a % of average net loans and acceptances	1.38%	2.32%	1.30%
Specific PCL as a % of average net loans and acceptances	.07%	1.78%	.48%

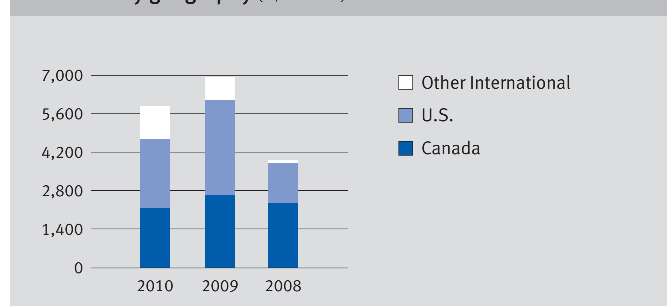
Estimated impact of US$, British pound and Euro translation on key income statement items (1)	**2010 vs. 2009**
Impact on income *increase (decrease):*	
Total revenue	$ (450)
Non-interest expense	220
Net income	(130)
Percentage change in average US$ equivalent of C$1.00	12%
Percentage change in average British pound equivalent of C$1.00	11%
Percentage change in average Euro equivalent of C$1.00	14%

(1) Taxable equivalent basis. The teb adjustment for 2010 was $489 million (2009 – $366 million, 2008 – $410 million). For further discussion, refer to the How we measure and report our business segments section.

Revenue by business line (C$ millions)



Revenue by geography (C$ millions)



Financial performance

2010 vs. 2009

Net income decreased $121 million or 7% from a year ago, mainly due to lower trading revenues resulting from lower client volumes and tighter credit spreads reflecting less favourable trading conditions. Our results were also unfavourably impacted by the stronger Canadian dollar. These factors were partially offset by losses on certain market and credit related items this year that were significantly lower than market environment-related losses in the prior year. Lower PCL and strong growth in our investment banking business also partially offset the decrease.

Total revenue decreased $1,036 million or 15%, mainly reflecting weaker trading revenues in our fixed income business particularly in the latter part of the year and primarily in the U.S. and Europe. Our revenues were also unfavourably impacted by the stronger Canadian dollar. This was partially offset by strong revenue growth in our investment banking business across all products and geographies. Certain market and credit related losses this year were significantly lower than market environment-related losses recorded in the prior year.

PCL decreased $682 million, primarily reflecting a number of provisions in our portfolio in the prior period and recoveries of a few large accounts in the current period. For further details, refer to the Credit quality performance section.

Non-interest expense decreased $208 million, or 6%, mainly due to lower variable compensation reflecting lower trading results and the favourable impact of the stronger Canadian dollar. This was partially offset by higher costs in support of business growth and new regulatory requirements.

For a further discussion on our treatment of market environment-related losses, refer to the Economic market and regulatory review and outlook section.

2009 vs. 2008

Net income increased $598 million or 51% compared to 2008, primarily due to stronger trading revenue, improved results in our corporate and investment banking businesses, and decreased total market environment-related net losses. The increase was partially offset by higher PCL and the reduction of the Enron-related litigation provision recorded in the prior year.

Total revenue increased $3 billion or 76%, mainly reflecting stronger trading revenue, which included decreased market environment-related losses on HFT instruments. These factors were partially offset by losses on the fair value adjustment of certain RBC debt designated as HFT and losses on credit default swaps used to economically hedge the corporate lending portfolio as compared to gains in 2008.

PCL increased $519 million reflecting a number of impaired loans in our corporate lending portfolio.

Non-interest expense increased $1.5 billion largely due to increased variable compensation driven by higher trading results and the impact of the weaker Canadian dollar relative to the U.S. dollar. In 2008, the reduction of the Enron-related litigation provision favourably impacted non-interest expense.

Outlook and priorities

As the economic, market and regulatory environments stabilize, we expect continued growth in our global equity and debt origination, and M&A activities as a result of our strategic investments in the U.S. and Europe. We anticipate moderate improvement in our 2011 trading revenues driven by growth in our sovereign and agency debt-related activities, and increased client volumes due to a stabilizing market environment, partially offset by narrow bid/ask spreads. However, our trading revenue may be impacted by evolving regulatory capital rules in which stricter risk and liquidity requirements will increase our funding costs. Our lending businesses will likely be negatively impacted by narrower credit spreads. We expect PCL to remain at moderate levels given the current economic environment. For further details on our general economic outlook, refer to the Economic, market and regulatory review and outlook section.

Key strategic priorities for 2011

- Remain the undisputed market leader in Canada with a leading global franchise as a market-maker, originator and distributor of a select but diversified set of products and currencies.
- Sustain the momentum we have achieved in our U.S. investment banking business through ongoing investment in our brand and a focus on clients in industry sectors that match our product and distribution strengths.
- Extend our European investment banking, equity sales and trading, and research business and make further investments to broaden our sector focus and enhance our product capabilities.
- Leverage our U.S. and European primary dealer status to grow our fixed income and currency trading, and investment banking businesses. We will continue to expand our global capabilities in infrastructure finance, energy, mining, and structured products businesses in the U.S., Europe and Asia.
- Further invest in our commodities business to establish a leading energy trading platform in North America.
- Continue to follow our disciplined approach to growth, managing our balance sheet within our established risk and return parameters and diversifying our operations to support stable earnings over the long term.
- Continue to make the requisite investments in our risk and control infrastructure to support our growth across all businesses.

Business line review

Capital Markets Sales and Trading

Capital Markets Sales and Trading comprises our trading and distribution operations largely related to fixed income, foreign exchange, equities, commodities and derivative products for institutional, public sector and corporate clients and our proprietary trading operations.

Our Capital Markets Sales and Trading businesses compete with global and regional investment banks. Over the last year, we have strategically expanded our investments in talent and businesses mainly in the U.S. and Europe to provide broader product capabilities and leverage relationships between our market making and origination activities.

Financial performance

Capital Markets Sales and Trading revenue of $3,743 million, decreased $1,504 million, or 29%, as compared to prior year.

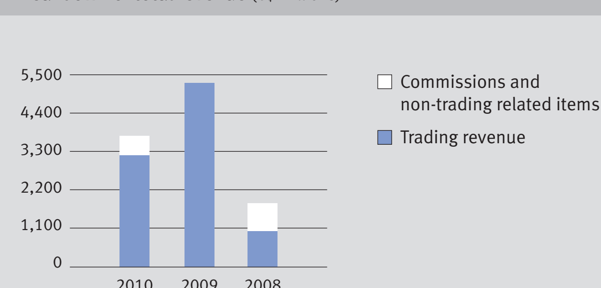
Our trading revenues decreased $2,074 million, or 39%, largely in our fixed income and currency, money market and U.S. global equity businesses, particularly in the U.S. and Europe. Trading revenue was significantly impacted by lower client volumes in the latter half of 2010, resulting from sovereign debt concerns and regulatory uncertainty, in addition to the unfavourable impact of tightening credit and bid/ask spreads. Trading revenue was also unfavourably impacted by the stronger Canadian dollar. Losses on certain market and credit related items were significantly lower than our market environment-related losses in the prior year. Our revenue from commissions and non-trading related items increased $570 million, mainly due to gains instead of losses on the fair value adjustment of certain RBC debt designated as HFT and an accounting adjustment recorded in the prior year which reduced prior year revenue. This was partially offset by lower commissions, reflecting the impact of reduced client volumes.

Selected highlights — Table 26

(C$ millions, except number of amounts)	2010	2009	2008
Total revenue	**$3,743**	$5,247	$1,824
Breakdown of revenue			
Trading (1)	**3,186**	5,260	1,028
Commissions and non-trading related items	**557**	(13)	796
Other information			
Average assets	**305,000**	315,700	309,700
FTE	**1,606**	1,493	1,595

(1) Taxable equivalent basis. The teb adjustment for 2010 was $465 million (2009 – $353 million, 2008 – $394 million). For further discussion, refer to the How we measure and report our business segments section.

Breakdown of total revenue (C$ millions)



Corporate and Investment Banking

Corporate and Investment Banking comprises our investment banking, debt and equity origination, advisory services, corporate lending, private equity, and client securitization businesses. It also includes our global credit business, which oversees the management of our lending portfolios and global financial institutions business. Our Research group offers economic and securities research to institutional and retail clients globally.

Our Corporate and Investment Banking businesses primarily compete with global investment banks, commercial banks and boutique firms. We have an established reputation as a premier global investment bank with a strategic presence in virtually all lines of wholesale business in Canada and the U.S., and a select set of capabilities in Europe and Asia. We are also now ranked as one of the top 15 global investment banks (*Thomson Reuters*).

Financial performance

Corporate and Investment Banking revenue of $2,144 million increased $468 million, or 28% as compared to the prior year.

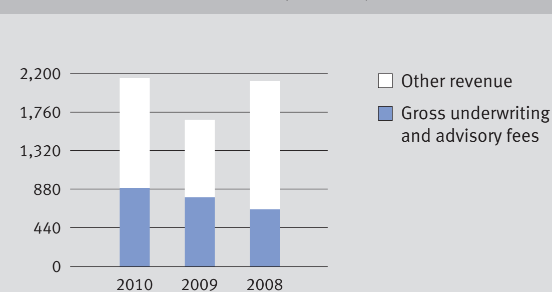
Gross underwriting and advisory fees increased $106 million, or 13% reflecting growth in all geographies, particularly in the U.S. Growth was driven by higher debt origination mainly due to increased activity in high yield debt. Revenues from M&A activity increased, largely reflecting solid growth primarily in the U.S. and Europe. Other revenues increased due to lower losses on credit default swaps used to economically hedge our corporate loan portfolio, and gains, instead of losses, on our municipal banking business. We also saw strong growth in our syndicated finance business in the U.S. and Europe. Revenues from our corporate lending portfolio remained flat as volume and pricing improvements were mostly offset by decreased corporate loan utilization. The increase in revenue was partially offset by losses primarily relating to U.S. commercial mortgage backed securities.

Selected highlights — Table 27

(C$ millions, except number of amounts)	2010	2009	2008
Total revenue	$ 2,144	$ 1,676	$ 2,111
Breakdown of revenue			
Gross underwriting and advisory fees	895	789	650
Other revenue (1)	1,249	887	1,461
Other Information			
Average assets	22,500	32,200	30,600
FTE	1,793	1,604	1,701

(1) Other revenue includes revenue associated with our core lending portfolio and syndicated finance, private equity distributions and gains/losses on private equity investments. It also includes losses mainly relating to commercial mortgage backed securities of $67 million (2009 – $55 million, 2008 – $61 million).

Breakdown of total revenue (C$ millions)



Corporate Support

Corporate Support comprises Operations, Technology and Functions. Our Operations and Technology teams provide the operational and technological foundation required to effectively deliver products and services to our clients, while Functions includes our corporate treasury, finance, human resources, risk management, internal audit and other functional groups. The associated costs are largely allocated to the business segments, although certain activities related to monitoring and oversight of the enterprise reside within this segment.

Reported results for Corporate Support mainly reflect activities that are undertaken for the enterprise, and which are not allocated to the business segments. For further details, refer to the How we measure and report our business segments section.

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

Corporate Support financial highlights — Table 28

(C$ millions, except number of employees)	2010	2009 (1)	2008 (1)
Net interest loss (2)	$ (902)	$ (889)	$ (989)
Non-interest income	304	797	352
Total revenue (2)	$ (598)	$ (92)	$ (637)
PCL (3)	$ (96)	$ 456	$ 47
Non-interest expense	26	34	(18)
Net loss before income taxes and NCI in subsidiaries (2)	$ (528)	$ (582)	$ (666)
Net loss	$ (225)	$ (206)	$ (178)
Securitization			
Total securitizations sold and outstanding (4)	$ 31,503	$ 32,685	$ 19,316
New securitization activity in the period (5)	5,818	18,689	6,482
Other information			
Number of employees (FTE) (6)	20,797	19,752	19,577

(1) Certain amounts have been reclassified. For further details, refer to the How we measure and report our business segments section.
(2) Taxable equivalent basis. For further discussion, refer to the How we measure and report our business segments section. These amounts included the elimination of the adjustments related to the gross-up of income from Canadian taxable corporate dividends recorded in Capital Markets of $489 million in 2010 (2009 – $366 million, 2008 – $410 million).
(3) PCL in Corporate Support primarily comprises the general provision, an adjustment related to PCL on securitized credit card loans managed by Canadian Banking and an amount related to the reclassification of certain AFS securities to loans in 2009. For further information, refer to the How we measure and report our business segments section.
(4) Total securitizations sold and outstanding comprises credit card loans and residential mortgages.
(5) New securitization activity comprises Canadian residential mortgages and credit card loans securitized and sold in the year. For further details, refer to Note 5 to our 2010 Annual Consolidated Financial Statements. This amount does not include Canadian residential mortgage and commercial mortgage securitization activity of Capital Markets.
(6) 2009 and 2008 amounts have been restated to reflect the realignment of our insurance operations and technology teams in 2009.

2010
Net loss of $225 million largely reflected net unfavourable tax and accounting adjustments, including cumulative accounting adjustments of $51 million ($36 million after tax) related to securitization activity. Losses of $21 million on both a before-and after-tax basis attributed to an equity accounted for investment and a general provision for credit losses of $26 million ($18 million after tax) also increased our net loss.

2009
Net loss of $206 million included a general provision for credit losses of $589 million ($391 million after tax), losses on certain AFS securities of $419 million ($390 million of market environment-related losses), including a loss of $144 million ($99 million after tax) on certain Canadian bank common shares. Losses on fair value adjustments of $217 million ($151 million after tax) on certain RBC debt designated as HFT, reflecting the tightening of our credit spreads also contributed to the loss. These factors were partially offset by securitization gains inclusive of new and re-investment related activity, net of economic hedging activities, totalling $918 million ($630 million after tax), mainly due to a higher than historical level of securitization activity from our participation in government-sponsored funding programs.

2008
Net loss of $178 million included losses of $268 million ($210 million after tax) on certain AFS securities and $129 million ($87 million after tax) on certain HFT securities. The net loss also reflected an increase in the general allowance of $145 million ($98 million after tax) 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 fair value adjustments on certain RBC debt designated as HFT of $190 million ($129 million after tax), gains related to the change in fair value of certain derivatives used to economically hedge our funding activities and gains related to securitization activity.

Quarterly financial information

Fourth quarter 2010 performance

Q4 2010 vs. Q4 2009
Fourth quarter net income of $1,121 million was down $116 million, or 9% from the prior year. Excluding the $116 million loss on Liberty Life, earnings of $1,237 million were flat. We had solid volume growth in Canadian Banking, favourable actuarial adjustments in Insurance, higher average fee-based client assets in Wealth Management and lower PCL. Losses on certain market and credit related items this year were significantly lower than our market environment-related losses in the prior year. These factors were offset by lower trading revenue, higher costs in support of our business growth, the impact of the stronger Canadian dollar and an adjustment in the prior year which reduced variable compensation expense in Capital Markets. For a further discussion on our treatment of market environment-related losses, refer to the Economic market and regulatory review and outlook section.

Total revenue decreased $257 million, or 3%. Excluding the loss on Liberty Life, revenue decreased $141 million, or 2% mainly due to lower trading revenue reflecting less favourable trading conditions and the impact of the stronger Canadian dollar. These factors were partially offset by lower losses on AFS securities, volume growth in Canadian banking-related businesses, higher average fee-based client assets in Wealth Management, and higher insurance-related revenue.

Total PCL decreased by $451 million, or 51% from a year ago, mainly reflecting lower provisions in our corporate lending portfolio mainly in the U.S. and lower loss rates in our Canadian credit card and unsecured personal portfolios. Several large corporate provisions in the prior year also contributed to the decrease. We incurred a lower general provision of $4 million in the current period as compared to $156 million in the prior period reflecting generally improved credit quality in our commercial U.S. banking and Canadian retail portfolios.

PBCAE increased $101 million, or 8%, mainly reflecting the change in fair value of investments and higher costs commensurate with volume growth. These factors were partially offset by favourable actuarial adjustments and the impact of the stronger Canadian dollar.

Non-interest expense increased $212 million, or 6%, mainly reflecting higher costs in support of our business growth and a full quarter impact of the HST. Also contributing to the increase was an adjustment to variable compensation in the prior year which lowered the expense. These factors were partially offset by our ongoing focus on cost management and the impact of the stronger Canadian dollar in the current quarter.

For a detailed discussion on measures excluding the loss on Liberty Life, refer to the Key performance and non-GAAP measures section.

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 and market conditions, and fluctuations in foreign exchange rates. The following table summarizes our results for the last eight quarters:

Quarterly results — **Table 29**

(C$ millions, except percentage amounts)	2010 Q4	2010 Q3	2010 Q2	2010 Q1	2009 Q4	2009 Q3	2009 Q2	2009 Q1
Net interest income	$ 2,783	$ 2,748	$ 2,699	$ 2,747	$ 2,876	$ 2,904	$ 2,914	$ 2,847
Non-interest income	4,419	4,079	4,268	4,587	4,583	4,919	3,847	4,216
Total revenue	$ 7,202	$ 6,827	$ 6,967	$ 7,334	$ 7,459	$ 7,823	$ 6,761	$ 7,063
PCL	432	432	504	493	883	770	974	786
PBCAE	1,423	1,459	1,096	1,130	1,322	1,253	958	1,076
Non-interest expense	3,818	3,377	3,572	3,626	3,606	3,755	3,575	3,622
Goodwill impairment charge	–	–	–	–	–	–	1,000	–
Net income before income taxes and NCI in subsidiaries	$ 1,529	$ 1,559	$ 1,795	$ 2,085	$ 1,648	$ 2,045	$ 254	$ 1,579
Income taxes	381	257	443	565	389	449	266	464
NCI in net income of subsidiaries	27	26	23	23	22	35	38	5
Net income (loss)	$ 1,121	$ 1,276	$ 1,329	$ 1,497	$ 1,237	$ 1,561	$ (50)	$ 1,110
EPS – basic	$ .74	$ .85	$ .89	$ 1.01	$ .83	$ 1.06	$ (.07)	$ .78
– diluted	$ .74	$ .84	$ .88	$ 1.00	$ .82	$ 1.05	$ (.07)	$ .78
Segment net income (loss)								
Canadian Banking	$ 765	$ 766	$ 736	$ 777	$ 717	$ 669	$ 581	$ 696
Wealth Management	175	185	90	219	161	168	126	128
Insurance	27	153	107	118	104	167	113	112
International Banking	(157)	(76)	(27)	(57)	(125)	(95)	(1,126)	(100)
Capital Markets	373	201	502	571	561	562	420	225
Corporate Support	(62)	47	(79)	(131)	(181)	90	(164)	49
Net income (loss)	$ 1,121	$ 1,276	$ 1,329	$ 1,497	$ 1,237	$ 1,561	$ (50)	$ 1,110
Effective income tax rate	24.9%	16.5%	24.7%	27.1%	23.6%	22.0%	104.7%	29.4%
Period average US$ equivalent of C$1.00	$ .963	$ .957	$ .973	$ .945	$ .924	$ .900	$ .805	$ .815

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

Notable items affecting our consolidated results
- In the fourth quarter of 2010 we recorded a loss of $116 million relating to the loss on the announced sale of Liberty Life.
- Market environment-related losses adversely affected our results, mainly in the first half of 2009. For a further discussion on our treatment of market environment-related losses, refer to the Economic market and regulatory review and outlook section.
- In the second quarter of 2009, we recorded a goodwill impairment charge in International Banking of $1 billion.
- We incurred significant additions to our general provision during 2009 largely reflecting credit deterioration mainly related to the recessionary conditions in the prior year.
- Fluctuations in the Canadian dollar relative to other foreign currencies have affected our consolidated results over the period.

Trend analysis
Challenging economic and market conditions impacted our earnings, particularly during the first half of 2009. Since that period, we have seen improvement in economic conditions although growth slowed in the latter half of 2010. The recovery of the U.S. economy remains under pressure and there continues to be general uncertainty over global markets.

Revenue generally fluctuated over the period with solid volume growth in Canadian Banking, strong trading revenue in 2009 and early 2010, changes in the fair value of our investment portfolios backing our life and health policyholder liabilities in Insurance, largely offset in PBCAE, and revenue growth in our wealth management businesses. Revenue was unfavourably impacted by market environment-related losses particularly in the first half of 2009. We incurred significantly lower losses on certain market and credit related items in 2010. Lower trading revenues in the latter half of 2010 were negatively impacted by lower client volumes and tighter credit spreads reflecting less favourable market conditions. Spread compression in our banking-related and wealth management businesses unfavourably impacted revenue throughout the period due to the continuing low interest rate environment.

PCL has generally trended lower during 2010 from the elevated levels in 2009, reflecting stabilizing asset quality. The increase in 2009 was due to credit deterioration mainly related to the challenging economic environment. For further details, refer to the Credit quality performance section.

PBCAE has been subject to quarterly fluctuations resulting from changes in the fair value of investments backing our life and health policyholder liabilities due to market volatility, higher costs commensurate with volume growth, actuarial liability adjustments and claims experience.

Non-interest expense has fluctuated throughout the period. Higher variable compensation resulting from strong performance mainly in 2009 and increased costs in support of business growth, partly due to changes in the regulatory environment were largely offset by our ongoing focus on cost management.

Our effective income tax rate has generally fluctuated over the period, reflecting a varying portion of income being reported by our subsidiaries operating in jurisdictions with differing income tax rates, a fluctuating level of income from tax-advantaged sources (Canadian taxable corporate dividends), and tax adjustments. The goodwill impairment charge, loss on Liberty Life and a reduction in statutory Canadian corporate income tax rates over the period also impacted our effective income tax rate.

Results by geographic segment (1) **Table 30**

	2010				2009				2008			
(C$ millions)	**Canada**	**U.S.** (2)	**Other International**	**Total**	Canada	U.S.	Other International	Total	Canada	U.S.	Other International	Total
Net interest income	**$ 8,405**	**$ 1,718**	**$ 854**	**$ 10,977**	$ 7,863	$ 2,134	$ 1,544	$ 11,541	$ 6,935	$ 1,132	$ 987	$ 9,054
Non-interest income	**8,869**	**4,647**	**3,837**	**17,353**	9,429	5,565	2,571	17,565	8,214	2,521	1,793	$ 12,528
Total revenue	**$ 17,274**	**$ 6,365**	**$ 4,691**	**$ 28,330**	$ 17,292	$ 7,699	$ 4,115	$ 29,106	$ 15,149	$ 3,653	$ 2,780	$ 21,582
PCL	**1,026**	**675**	**160**	**1,861**	1,479	1,821	113	3,413	924	643	28	1,595
PBCAE	**2,343**	**1,582**	**1,183**	**5,108**	2,100	1,571	938	4,609	922	30	679	1,631
Non-interest expense	**7,944**	**4,055**	**2,394**	**14,393**	7,632	4,572	2,354	14,558	7,490	2,991	1,870	12,351
Goodwill impairment charge	**–**	**–**	**–**	**–**	–	1,000	–	1,000	–	–	–	–
Income taxes and NCI	**1,729**	**(77)**	**93**	**1,745**	1,799	(133)	2	1,668	1,826	(163)	(213)	1,450
Net income (loss)	**$ 4,232**	**$ 130**	**$ 861**	**$ 5,223**	$ 4,282	$(1,132)	$ 708	$ 3,858	$ 3,987	$ 152	$ 416	$ 4,555

(1) For geographic reporting, our segments are grouped into Canada, U.S. 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. For further details, refer to Note 28 to our 2010 Annual Consolidated Financial Statements.

(2) Includes the results of Liberty Life. Refer to Notes 11 and 31 to our 2010 Annual Consolidated Financial Statements.

2010 vs. 2009

Net income in Canada of $4,232 million was essentially flat compared to last year. Lower securitization gains, higher costs in support of business growth and spread compression in our banking related business were largely offset by solid volume growth in our Canadian banking and wealth management businesses, lower PCL and gains on fair value adjustments on certain RBC debt designated as HFT, compared to losses in the prior year.

U.S. net income of $130 million compares to a net loss of $1,132 million, mainly reflecting the prior year goodwill impairment charge. Our improved results also reflected lower PCL mainly in our U.S. banking business. These factors were largely offset by lower trading revenue reflecting lower client volumes and tighter credit spreads. Our results were also unfavourably impacted by the stronger Canadian dollar and the loss on Liberty Life. For further details on the loss on Liberty Life, refer to the Insurance segment.

Other International net income of $861 million was up $153 million, largely reflecting significantly lower losses on certain market and credit related items as compared to prior year market environment-related losses and gains on fair value adjustments on certain RBC debt designated as HFT. Also, volume growth in our life reinsurance and annuity products contributed to the increase. This was partially offset by lower trading revenues, spread compression in certain businesses and higher PCL in our commercial portfolio in the Caribbean. Our results were also unfavourably impacted by the stronger Canadian dollar. For a further discussion on our treatment of market environment-related losses, refer to the Economic market and regulatory review and outlook section.

2009 vs. 2008

Net income in Canada was $4,282 million, up $295 million, or 7%, from 2008. The increase primarily reflected higher net securitization gains, strong volume growth and cost management in our banking-related businesses, and higher trading revenue. These factors were partially offset by higher PCL and losses on fair value adjustments on certain RBC debt designated as HFT, compared to gains in 2008. Spread compression in our banking-related and certain wealth management businesses and higher losses on our AFS securities also partly offset this increase.

U.S. net loss of $1,132 million compared to net income of $152 million in 2008, primarily reflecting the goodwill impairment charge, higher PCL and the reduction of the Enron-related litigation provision in 2008. The impact of the weaker Canadian dollar relative to the U.S. dollar, losses on credit default swaps and spread compression also contributed to the decrease. These factors were partly offset by higher trading revenue and lower market environment-related losses on our HFT and AFS instruments.

Other International net income was $708 million, up $292 million, mainly reflecting lower market environment-related losses on our HFT and AFS instruments, and higher trading revenue. A full year of results from RBTT, growth in our life and other life retrocession businesses, and the continued expansion of our U.K. annuity reinsurance business also contributed to the increase. These factors were partly offset by losses on credit default swaps and losses on fair value adjustments on certain RBC debt designated as HFT.

Financial condition

Condensed balance sheet (1) (2) — **Table 31**

As at October 31 (C$ millions)	2010	2009
Assets		
Cash and due from banks	$ 9,330	$ 8,353
Interest-bearing deposits with banks	13,252	8,923
Securities	193,331	186,272
Assets purchased under reverse repurchase agreements and securities borrowed	72,698	41,580
Loans (net of allowance for loan losses)		
Retail loans	220,321	203,856
Wholesale loans	71,885	77,107
Other – Derivatives	106,246	92,173
– Other	39,143	36,725
Total assets	$ 726,206	$ 654,989
Liabilities and shareholders' equity		
Deposits	$ 433,033	$ 398,304
Other – Derivatives	108,910	84,390
– Other	135,648	125,462
Subordinated debentures	6,681	6,461
Trust capital securities	727	1,395
NCI in subsidiaries	2,256	2,071
Total liabilities	$ 687,255	$ 618,083
Total shareholders' equity	38,951	36,906
Total liabilities and shareholders' equity	$ 726,206	$ 654,989

(1) Foreign currency denominated assets and liabilities are translated to Canadian dollars. Refer to Note 1 to our 2010 Annual Consolidated Financial Statements.
(2) Refer to Table 1 for period-end Canadian/U.S. dollar spot exchange rates.

Our consolidated balance sheet was impacted by foreign currency translation which reduced our total assets by approximately $16 billion due to the strengthening of the Canadian dollar compared to last year.

2010 vs. 2009
Total assets were up $71 billion, or 11%, from the prior year.

Interest bearing deposits with banks increased $4 billion, or 49%, largely reflecting higher collateral requirements.

Securities were up $7 billion, or 4%, primarily due to increased positions in government debt instruments in support of increased business activity from our newly formed European Government Bond (EGB) trading business and increased holdings of our securitized residential mortgages. These factors were partially offset by the impact of the stronger Canadian dollar.

Assets purchased under reverse repurchase agreements (reverse repos) and securities borrowed increased $31 billion, or 75% mainly attributable to higher market activity from the EGB trading business and increased volume from our primary dealer activities. This was partially offset by the impact of the stronger Canadian dollar.

Loans were up $11 billion, or 4%, predominantly due to solid retail lending growth mainly as a result of volume growth in Canadian home equity and personal lending products. This was partially offset by a decrease in our wholesale loans due to a strategic reduction in our U.S. loan portfolio, maturity and repayments and the impact of the stronger Canadian dollar particularly on our wholesale loans.

Derivative assets increased $14 billion, or 15%, mainly attributable to the higher fair values as a result of the impact of increased interest rate and foreign exchange contract positions driven by higher client activity and the impact of decreasing interest rates on receive fixed rate positions partially offset by the impact of the stronger Canadian dollar.

Other assets were up $2 billion, or 7%, primarily due to increased business activity.

Total liabilities were up $69 billion, or 11%.

Deposits increased $35 billion, or 9%, mainly reflecting an increase in corporate deposits due to an increase in our internal funding requirements and demand for our high-yield savings and other product offerings. This was partially offset by the impact of the stronger Canadian dollar.

Derivative liabilities increased $25 billion, or 29%, mainly attributable to higher fair values resulting primarily from the impact of an increasing interest rate and foreign exchange contract positions driven by higher client activity and the impact of decreasing interest rates on pay fixed rate positions.

Other liabilities increased by $10 billion, or 8% mainly resulting from an increase in obligations related to securities sold short and an increase in repurchase agreements, largely due to increased volume from our primary dealer activities and from the EGB trading business.

Shareholders' equity increased $2 billion, or 6%, largely reflecting earnings, net of dividends.

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, capital and/or funding management purposes which benefit us and our clients. These include transactions with special-purpose entities (SPEs) and may include issuance of guarantees and give rise to, among other risks, varying degrees of market, credit, liquidity and funding risk, which are discussed in the Risk management section.

SPEs are typically created for a single, discrete purpose, have a limited life and serve to legally isolate the financial assets held by the SPE from the selling organization. They are not operating entities and usually have no employees. SPEs may be variable interest entities (VIEs) as defined by CICA Accounting Guideline 15, *Consolidation of Variable Interest Entities* (AcG-15). Refer to the Critical accounting policies and estimates section and Notes 1, 6 and 31 to our 2010 Annual Consolidated Financial Statements for our consolidation policy and 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). 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 Reputation Risk Oversight Committee.

Securitization of our financial assets

We periodically securitize portions of 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. In addition, we participate in bond securitization activities primarily to diversify our funding sources. Gains and losses on securitizations are included in Non-interest income. Refer to Note 1 to our 2010 Annual Consolidated Financial Statements for our accounting policy for securitizations, and to Note 5 for a description of our securitization activities by major product types.

The following table provides details of our securitized assets sold and the assets retained on our balance sheet as a result of our securitization activities.

Our financial asset securitizations		Table 32
As at October 31 (C$ millions)	2010	2009
Securitized assets		
Credit cards	$ 3,265	$ 3,870
Commercial and residential mortgages	39,962	39,796
Bond participation certificates (1)	935	1,105
Total	$ 44,162	$ 44,771
Retained		
Residential mortgages		
Mortgage-backed securities retained (2)	$ 10,687	$ 8,920
Retained rights to future excess interest	1,397	1,497
Credit cards		
Asset-backed securities purchased (3)	421	981
Retained rights to future excess interest	15	33
Subordinated loan receivables	9	5
Commercial mortgages		
Asset-backed securities purchased (3)	2	2
Bond participation certificates retained	19	55
Total	$ 12,550	$ 11,493

(1) Includes securitization activities prior to the acquisition of RBTT.
(2) All residential mortgages securitized are Canadian mortgages and are government guaranteed.
(3) Securities purchased during the securitization process.

Securitization activities during 2010
During the year, we securitized $17.7 billion of residential mortgages, of which $6.0 billion were sold and the remaining $11.7 billion (notional value) were retained. Our securitization activity this year was lower compared to the prior year primarily because we have not participated in the Government of Canada's Insured Mortgage Purchase Program subsequent to September 2009. We also securitized and sold $1.3 billion in credit card receivables. We did not securitize bond participation certificates or commercial mortgages during the year. Refer to Note 5 to our 2010 Annual Consolidated Financial Statements for further details including the amounts of impaired loans past due that we manage, and any gains recognized on securitization activities during the year.

Capital trusts
In prior periods we issued innovative capital instruments, RBC Trust Capital Securities (RBC TruCS) and RBC Trust Subordinated Notes (RBC TSNs), through three SPEs: RBC Capital Trust (Trust), RBC Capital Trust II (Trust II) and 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, 2010 and October 31, 2009, we held residual interests of $1 million in each of Trust II and Trust III. We had loan receivables of $3 million (2009 – $3 million) and $30 million (2009 – $30 million) from Trust II and Trust III, respectively, and reported in our deposit liabilities the senior deposit notes of $900 million and $1,000 million (2009 – $900 million and $1,000 million) that we issued to Trust II and Trust III, respectively. 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 their securities for our preferred shares as outlined in Note 17 to our 2010 Annual Consolidated Financial Statements.

Interest expenses on the senior deposit notes issued to Trust II and Trust III amounted to $52 million and $47 million, respectively (2009 – $52 million and $47 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 2010 Annual Consolidated Financial Statements.

Special purpose entities
The following table provides information on our VIEs in addition to the disclosures and detailed description of VIEs provided in Notes 1, 6 and 31 to our 2010 Annual Consolidated Financial Statements.

Variable interest entities — Table 33

As at October 31 (C$ millions)	2010 Total assets (1)	2010 Maximum exposure (1),(2)	Total assets by credit ratings (3): Investment grade (4)	Non-investment grade (4)	Not rated	Total assets by average maturities: Under 1 year	1-5 years	Over 5 years	Not applicable	Total assets by geographic location of borrowers: Canada	U.S.	Other International	2009 Total assets (1)	2009 Maximum exposure (1),(2)
Unconsolidated VIEs in which we have significant variable interests:														
Multi-seller conduits (5)	$ 21,847	$ 22,139	$ 21,679	$ 168	$ –	$ 4,302	$ 14,795	$ 2,750	$ –	$ 3,845	$ 15,997	$ 2,005	$ 26,181	$ 26,550
Structured finance VIEs (6)	4,669	2,030	4,549	–	120	–	–	4,669	–	–	4,669	–	5,907	2,527
Credit investment product VIEs	502	19	50	452	–	–	–	502	–	–	–	502	930	505
Third-party conduits	–	–	–	–	–	–	–	–	–	–	–	–	575	250
Investment funds	249	61	–	–	249	–	–	–	249	26	15	208	84	28
Other	165	39	–	–	165	–	–	–	165	31	130	4	340	103
	$ 27,432	$ 24,288	$ 26,278	$ 620	$ 534	$ 4,302	$ 14,795	$ 7,921	$ 414	$ 3,902	$ 20,811	$ 2,719	$ 34,017	$ 29,963
Consolidated VIEs:														
Structured finance VIEs	$ 2,998		$ 2,982	$ –	$ 16	$ –	$ –	$ 2,998	$ –	$ –	$ 2,998	$ –	$ 2,620	
Investment funds	1,012		–	–	1,012	–	–	–	1,012	210	166	636	588	
Compensation vehicles	53		–	–	53	–	–	–	53	53	–	–	64	
Other	3		–	–	3	–	–	3	–	–	3	–	3	
	$ 4,066		$ 2,982	$ –	$1,084	$ –	$ –	$ 3,001	$ 1,065	$ 263	$ 3,167	$ 636	$ 3,275	

(1) Total assets and maximum exposure to loss correspond to disclosures provided in Note 6 to our 2010 Annual Consolidated Financial Statements.
(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) The risk rating distribution of assets within the VIEs is indicative of the credit quality of the collateral underlying those assets. Certain assets, such as derivatives, mutual fund or hedge fund units and personal loans, or underlying collateral are not rated in the categories disclosed in the table.
(4) Our internal risk ratings for major counterparty types approximate those of public rating agencies. Ratings of AAA, AA, A and BBB represent investment grade ratings and ratings of BB or lower represent non-investment grade ratings.
(5) Represents multi-seller conduits administered by us.
(6) Our October 31, 2009 comparatives have been revised to present information related to a certain entity on a net basis that was previously presented on a gross basis. The total gross and net assets related to this entity as at October 31, 2009 were $4,177 million and $471 million, respectively.

Over 94% of assets in unconsolidated VIEs in which we have significant variable interests and over 73% of assets in consolidated VIEs were rated A or above. For multi-seller conduits and unconsolidated structured finance VIEs, over 97% of assets were rated A or above.

Approximately 76% of the assets in unconsolidated VIEs were originated in the U.S., compared to 75% in the prior year. Approximately 14% of the assets in unconsolidated VIEs were originated in Canada compared to 20% in the prior year. The decrease in assets originated in Canada since the prior year primarily reflected the amortization of existing transactions.

The assets in unconsolidated VIEs as at October 31, 2010 have varying maturities and a remaining expected weighted average life of approximately 3.8 years.

Securitization of client financial assets

We administer 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. 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 conduits offer us a favourable revenue stream, risk-adjusted return and cross-selling opportunities.

The multi-seller conduits purchase various financial assets and finance the purchases by issuing highly rated asset-backed commercial paper (ABCP) on an unleveraged basis. Over 99% of the outstanding securitized assets of the multi-seller conduits are internally rated as investment grade. Less than 1% (2009 – 1%) of outstanding securitized assets comprised U.S. Alt-A or subprime mortgages and the securitized assets do not contain commercial mortgage loans. The remaining expected weighted average life of the assets is approximately 2.5 years.

We provide services such as transaction structuring, administration, backstop liquidity facilities and partial credit enhancements to the multi-seller conduits. Fee revenue for all such services have decreased to $181 million in 2010 from $271 million in 2009, due to lower client demand and declining spreads and fees during the year. These amounts are reported in Non-interest income. Commitments under the backstop liquidity and credit enhancement facilities are factored into our risk adjusted asset calculation and therefore impact our regulatory capital requirements. We do not maintain any ownership or retained interests in these multi-seller conduits and have no rights to, or control of, their assets.

Our total commitment to the conduits in the form of backstop liquidity and credit enhancement facilities is shown below. The total committed amount of these facilities exceeds the total amount of the maximum assets that may have to be purchased by the conduits under the purchase agreements. As a result, 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 backstop liquidity and credit enhancement facilities are explained in Notes 6 and 31 to our 2010 Annual Consolidated Financial Statements.

Liquidity and credit enhancement facilities **Table 34**

As at October 31 (C$ millions)	2010 Notional of committed amounts (1)	2010 Allocable notional amounts	2010 Outstanding loans (2)	2010 Total maximum exposure to loss	2009 Notional of committed amounts (1)	2009 Allocable notional amounts	2009 Outstanding loans (2)	2009 Total maximum exposure to loss
Backstop liquidity facilities	$ 22,251	$ 18,429	$ 1,517	$ 19,946	$ 26,669	$ 22,200	$ 1,683	$ 23,883
Credit enhancement facilities	2,193	2,193	–	2,193	2,667	2,667	-	2,667
Total	$ 24,444	$ 20,622	$ 1,517	$ 22,139	$ 29,336	$ 24,867	$ 1,683	$ 26,550

(1) Based on total committed financing limit.
(2) Net of allowance for loan losses and write-offs.

Maximum exposure to loss by client asset type **Table 35**

As at October 31 ($millions)	2010 (US$)	2010 (C$)	2010 Total (C$)	2009 (US$)	2009 (C$)	2009 Total (C$)
Outstanding securitized assets						
Credit cards	$ 6,213	$ 510	$ 6,849	$ 9,180	$ 1,494	$11,426
Auto loans and leases	3,656	2,052	5,782	2,611	2,488	5,312
Student loans	2,637	–	2,690	2,358	–	2,551
Trade receivables	2,300	255	2,601	1,464	867	2,451
Asset-backed securities	1,890	–	1,928	2,087	–	2,258
Equipment receivables	820	475	1,312	596	986	1,631
Electricity market receivables	–	255	255	–	255	255
Dealer floor plan receivables	76	255	333	–	–	–
Fleet finance receivables	102	102	206	–	–	–
Corporate loans receivables	162	–	165	206	–	223
Residential mortgages	–	18	18	–	63	63
Truck loans and leases	–	–	–	290	–	314
Insurance premiums	–	–	–	–	66	66
Total	$17,856	$ 3,922	$22,139	$18,792	$ 6,219	$26,550
Canadian equivalent	$18,217	$ 3,922	$22,139	$20,331	$ 6,219	$26,550

Our overall exposure has decreased compared to the prior year reflecting the decrease in assets financed by multi-seller conduits due to decreased client demand as a result of lower global economic activity. The maximum assets that may have to be purchased by the conduits under purchase commitments outstanding as of October 31, 2010 were $21.8 billion (2009 – $26.1 billion). The changes from year to year are as follows: U.S. dollar assets decreased by U.S. $918 million from the prior year, mainly in the Credit cards, Asset-backed securities, and Truck loans and leases asset classes; Canadian dollar assets decreased $2.3 billion from the prior year, mainly in the Credit cards, Trade receivables and Equipment receivables asset classes. Of the total purchase commitments outstanding, the multi-seller conduits have purchased financial assets totalling $14.0 billion as at October 31, 2010 (2009 – $18.9 billion). As 82% of the assets of the multi-seller conduits are U.S. denominated assets, our total maximum exposure to loss reported in Table 35 is impacted by changes to the Canadian and U.S. exchange rate. Applying the exchange rate as at October 31, 2009, our maximum exposure to loss would have decreased by approximately 12% to $23.2 billion from October 31, 2009 to October 31, 2010, rather than the 17% decrease highlighted above.

As of September 30, 2010, the weighted averaged first loss credit protection provided by the sellers of the financial assets was 49% of total assets (2009 – 40%), providing a coverage multiple of 13.1 times (2009 – 8.3 times) the weighted average annual expected loss rate on the client asset portfolio of 3.8% (2009 – 4.8%). The short term nature of many of the conduit transactions allows us to adjust the amount of first loss protection in response to changing economic conditions and portfolio performance. Our fee structure also reduces our risk exposure on the portfolio. For 93% of the securitized assets as at October 31, 2010 (2009 – 93%), 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 services 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. Furthermore, 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.

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 Moody's Investors Service (Moody's), Standard & Poor's (S&P) and Fitch Ratings (Fitch). Transactions in our Canadian multi-seller conduits are also reviewed by Dominion Bond Rating Services (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 total ABCP issued by the conduits amounted to $14.0 billion, a decrease of $4.9 billion or 26% since the prior year due to the amortization of existing transactions and decreased client usage. The rating agencies that rate the ABCP rated 67% (2009 – 70%) of the total amount issued within the top ratings category and the remaining amount in the second highest ratings category. The weighted average maturities (U.S. conduits 30.1 and 45.3 days and Canadian conduits 38.2 and 31.3 days as at October 31, 2010 and October 31, 2009, respectively) remain longer than historical averages, providing well balanced maturity profiles and assisting in mitigating funding risks associated with market disruptions. We sometimes purchase the ABCP issued by the multi-seller conduits in our capacity as a placement agent in order to facilitate overall program liquidity. As at October 31, 2010, the fair value of our inventory was $4 million (2009 – $4 million), classified as Securities – Trading.

The U.S. multi-seller conduits include $2 billion of asset-backed securities (ABS). There are no ABS in the Canadian multi-seller conduits and there have been no new ABS in the U.S. multi-seller conduits since 2007. The existing ABS transactions are amortizing and building first loss protection. In 2008 and 2009, certain U.S. multi-seller conduits drew down some of our backstop liquidity facilities to fund a portion of the ABS. These loans, net of write offs and allowances, amounted to $1.5 billion (2009 – $ 1.7 billion), and are included in Loans – Wholesale. We continue to receive principal repayments on these loans.

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. These SPEs issue funded and unfunded 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. While the majority of the funded notes are expected to be sold on a "buy and hold" basis, we may occasionally act as market maker. For information on unfunded notes, refer to Notes 6 and 31 to our 2010 Annual Consolidated Financial Statements.

As with all our derivatives, the derivatives with these SPEs are carried at fair value in derivative-related assets and liabilities. Our exposure to these SPEs has decreased from the prior year due to certain entities winding down. The assets in these SPEs amounted to $1.5 billion as at October 31, 2010 (2009 – $2.9 billion), of which none were consolidated as at October 31, 2010 and October 31, 2009. As at October 31, 2010, our investments in the funded notes, the derivative-related receivables, and the notional amounts of the unfunded notes related to the unconsolidated SPEs were $19 million (2009 – $18 million), $nil (2009 – $317 million) and $nil (2009 – $170 million), respectively.

Structured finance

In 2008, we purchased U.S. auction rate securities (ARS) from entities which funded their long-term investments in student loans by issuing short-term senior and subordinated notes. As at October 31, 2010, the total assets of the unconsolidated ARS VIEs in which we have significant investments were $3.5 billion (2009 – $4.7 billion). Our maximum exposure to loss in these ARS VIEs was $834 million (2009 – $1.3 billion). Our maximum exposure to loss has decreased from 2009 primarily reflecting of the sale of our investments in one of these entities. As a result of no longer being involved in this ARS VIE, the total assets of the unconsolidated ARS VIEs in which we have significant interest have also decreased. As at October 31, 2010, approximately 92% of these investments were AAA rated. Interest income from the ARS investments, which is reported in Net-interest income, amounted to $36 million during the year (2009 – $78 million, 2008 – $93 million).

We also sell ARS into Tender Option Bond (ARS TOB) programs. We are the remarketing agent for the floating-rate certificates issued by the ARS TOB programs and we provide liquidity facilities and letters of credit to each of the ARS TOB programs. The liquidity facilities and letters of credit are included in our disclosure on guarantees in Note 25 to our 2010 Annual Consolidated Financial Statements. As at October 31, 2010, the total assets of unconsolidated ARS TOB programs in which we have significant investments were $743 million (2009 – $791 million). We did not hold any floating-rate certificates as market maker for the ARS TOB programs as at October 31, 2010 or October 31, 2009. 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 $1 million during the year (2009 – $3 million, 2008 – $3 million).

In 2008, we also sold 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. As at October 31, 2010, total assets of this entity and our maximum exposure to loss were $450 million (2009 – $471 million) and $426 million (2009 – $449 million), respectively. Fee revenue from this entity, resulting from the credit facility, administrative services and guarantees that we provide to the entity, as well as our role as remarketing agent for the ARS held by the entity, amounted to $3 million during the year (2009 – $ 4 million, 2008 – $4 million). This amount is reported in Non-interest income. The interest income from the loan and the credit facility, which is reported in Net interest income, totalled $5 million for the year (2009 – $7 million, 2008 – $7 million).

Investment funds

We enter into fee-based equity derivative transactions with third parties including mutual funds, unit investment trusts and other investment funds. These transactions provide their investors with the desired exposure to the referenced funds, and we hedge our exposure from these derivatives by investing in those referenced funds. Our total exposure, which is primarily related to our investments in the referenced funds, increased by $33 million to $61 million as at October 31, 2010. In addition, the total assets held in the unconsolidated referenced funds also increased by $165 million to $249 million as at October 31, 2010 due to overall redemptions in the referenced funds by third party investors of the funds, resulting in our investments in certain of these referenced funds becoming significant.

Trusts, mutual and pooled funds

Where RBC Dexia IS acts as trustee, it has a fiduciary responsibility to act in the best interests of the beneficiaries of the trusts. 50% of the fees earned by RBC Dexia IS are included in our revenue, representing our interest in the joint venture. Refer to Note 9 to our 2010 Annual 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, retail and commercial commitments

We issue guarantee products, as described in Note 25 to our 2010 Annual Consolidated Financial Statements, in return for fees which are recorded in Non-interest income. Our maximum potential amount of future payments in relation to our guarantee products as at October 31, 2010, amounted to $73.5 billion (2009 – $88.9 billion). The decline compared to the prior year relates primarily to fewer credit derivatives and backstop liquidity facilities. In addition, as at October 31, 2010, RBC Dexia IS securities lending indemnifications totalled $52.1 billion (2009 – 34.7 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 of October 31, 2010, our maximum potential amount of future payments for our backstop liquidity facilities related to ABCP programs were $19.1 billion (2009 – $22.6 billion) of which 96% (2009 – 98%) was committed to RBC-administered multi-seller conduits.

We also provide commitments to our clients to help them meet their financing needs. These guarantees and commitments expose us to liquidity and funding risks. The following is a summary of our off-balance sheet commitments. Refer to Note 25 to our 2010 Annual Consolidated Financial Statements for details regarding our guarantees and commitments.

Retail and commercial commitments (1) **Table 36**

(C$ millions)	Within 1 year	1 to 3 years	Over 3 to 5 years	Over 5 years	Total
Documentary and commercial letters of credit	$ 255	$ –	$ –	$ –	$ 255
Commitments to extend credit and liquidity facilities	7,998	63,113	8,463	6,826	86,400
Uncommitted amounts (2)	17	166,963	–	–	166,980
	$ 8,270	$230,076	$ 8,463	$ 6,826	$253,635

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

Risk management

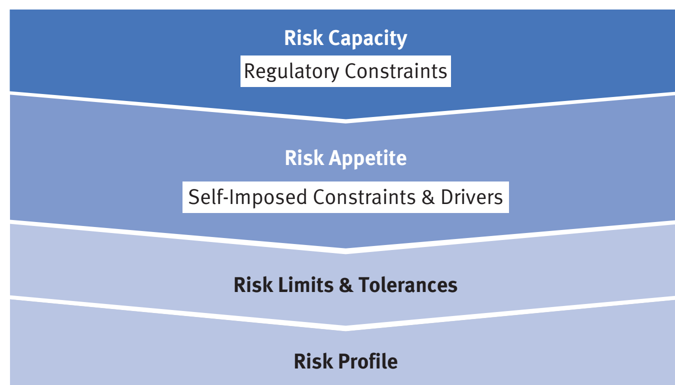
Overview

Our business activities expose us to a wide variety of risks in virtually all aspects of our operations. Our ability to manage these risks is a key competency within the organization, and is supported by a strong risk culture and an effective risk management approach.

We manage our risks by seeking to ensure that business activities and transactions provide an appropriate balance of return for the risks assumed and remain within our Risk Appetite, which is collectively managed throughout the organization, through adherence to our Enterprise Risk Appetite Framework.

Risk Appetite

Our Risk Appetite is the amount and type of risk we are willing to accept in the pursuit of our business objectives. Our Risk Appetite Framework provides a structured approach to:



1. Define our **Risk Capacity** by identifying regulatory constraints that restrict our ability to accept risk.
2. Establish and regularly confirm our Risk Appetite, defined by **Self-Imposed Constraints and Drivers** in which we have chosen to limit or otherwise influence the amount of risk undertaken. They include:
   - maintaining an "AA" rating or better,
   - ensuring capital adequacy by maintaining capital ratios in excess of rating agency and regulatory thresholds,
   - maintaining low exposure to "stress events",
   - maintaining stability of earnings,
   - ensuring sound management of liquidity and funding risk,
   - maintaining a generally acceptable regulatory risk and compliance control environment, and
   - maintaining a Risk Profile that is no riskier than that of our average peer.
3. Translate our Risk Appetite into **Risk Limits and Tolerances** that guide businesses in their risk taking activities.
4. Regularly measure and evaluate our **Risk Profile** against Risk Limits and Tolerances ensuring appropriate action is taken in advance of Risk Profile surpassing Risk Appetite.

We apply our Risk Appetite Framework at an enterprise-wide level, as well as at the business segment, Corporate Support, and line of business levels. Risk Appetite is integrated into our business strategies and our planning process.

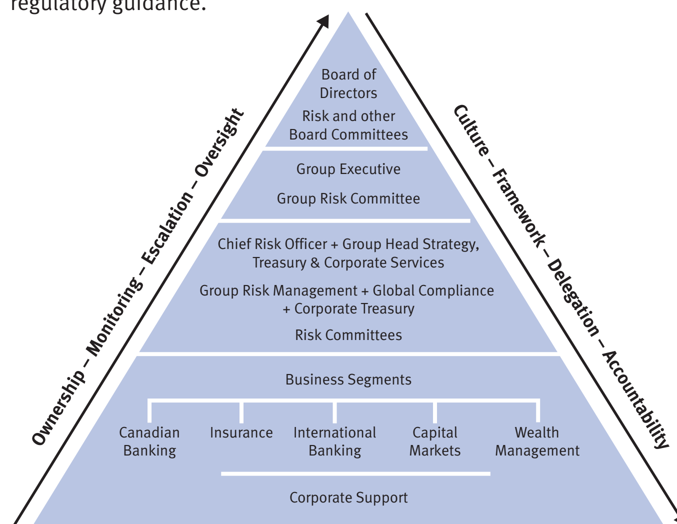
Risk management principles

The following principles guide our enterprise-wide management of risk:

1. **Effective balancing of risk and reward** by aligning risk appetite with business strategy, diversifying risk, pricing appropriately for risk, mitigating risk through preventive and detective controls and transferring risk to third parties.
2. **Shared responsibility for risk management** as business segments are responsible for active management of their risks, with direction and oversight provided by Group Risk Management and other corporate support groups.
3. **Business decisions are based on an understanding of risk** as we perform rigorous assessment of risks in relationships, products, transactions and other business activities.
4. **Avoid activities that are not consistent with our Values, Code of Conduct or Policies**, which contributes to the protection of our reputation.
5. **Proper focus on clients reduces our risks** by knowing our clients and ensuring that the services we provide are suitable for and understood by our clients.
6. **Use of judgment and common sense** in order to manage risk throughout the organization.

Risk governance

Our overall risk governance structure shown below illustrates the roles and responsibilities of the various stakeholders in our enterprise risk management program. Our risk governance structure is reviewed regularly against best practices as set out in industry and regulatory guidance.



The Board of Directors provides oversight and carries out its risk management mandate primarily through its Risk and other Board Committees, consisting of the Audit Committee, Corporate Governance and Public Policy Committee (CG&PPC) and Human Resources Committee. The Group Executive (GE) is responsible for our strategy and its execution by establishing the "tone at the top". GE's risk oversight role is executed primarily through the mandate of the Group Risk Committee (GRC). GRC, with the assistance of its supporting Risk Committees, is the senior management risk committee responsible for ensuring that our overall risk profile is consistent with strategic objectives and there are ongoing, appropriate and effective risk management processes. In addition, our risk governance structure is supported by:

- The Chief Risk Officer (CRO) and Group Risk Management (GRM) which have overall responsibility for the promotion of our risk culture; and maintain our enterprise-wide program for identifying, measuring, controlling and reporting the significant risks that face the organization;
- The Chief Compliance Officer and Global Compliance which are responsible for our compliance policies and processes designed to mitigate and manage regulatory risk;
- Corporate Treasury which manages and oversees our capital position, structural interest rate risk and liquidity and funding risks; and
- The business segments which are responsible for specific risks, alignment of business strategies with risk appetite, and identification, control and management of their risks.

The roles of the various stakeholders in our enterprise risk management program are described further in the discussion of specific risks below.

Risk measurement

Our ability to measure risks is a key component of our enterprise-wide risk and capital management processes. 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 difficult to quantify, we place greater emphasis on qualitative risk factors and assessment of activities to gauge the overall level of risk 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.

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. We hold economic capital to offset these unexpected losses, should they occur. For further information, refer to the Capital management section.

Sensitivity analysis and stress testing

Sensitivity analysis and stress testing are risk measurement techniques that help us ensure that risks we take remain within our risk appetite and our level of capital remains adequate.

Sensitivity analysis involves varying a single factor (e.g., a model input or specific assumption) to assess the impact on various risk measures.

Stress testing generally involves consideration of the simultaneous movements in a number of risk factors. It is used to measure the potential impacts on the organization of Credit, Market, Liquidity and Funding and Operational risks under adverse conditions. Stress testing plays an important role in supporting overall capital management and adequacy assessment processes. Our enterprise-wide stress testing program utilizes stress scenarios featuring a range of severities based on possible adverse market and economic events. These stress scenarios are evaluated across the organization, and results are 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. Macroeconomic scenarios evaluated this year include mild recession, prolonged recession, real estate weakness, crisis in China, and sovereign debt crisis. Our evaluations indicate that the resulting capital and financial impacts of these stress scenarios are within our ability to manage.

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. Validation activities, results and conclusions are also reviewed by Internal Audit Services on a regular basis.

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, Risk Specific, Liquidity, Compliance and Capital Management Frameworks. 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 risk management frameworks and policies are organized into the following five levels:

Level 1: Enterprise Risk Management Framework provides an overview of our enterprise-wide program for identifying, measuring, controlling and reporting on the significant risks we face. The Risk Appetite Framework underpins this Framework.

Level 2: Risk-Specific Frameworks elaborate on each specific risk type and the mechanisms for identifying, measuring, monitoring and reporting of risks, key policies and responsibilities.

Level 3: Enterprise Risk Policies articulate minimum requirements within which businesses and employees must operate.

Level 4: "Multi-risk" Enterprise Risk Policies govern activities such as product risk review and approval, stress testing, risk limits, risk approval authorities and model risk management.

Level 5: Business Segments and Corporate Support Specific Policies & Procedures are established to manage the risks that are unique to their operations.

Risk review and approval processes

Risk review and approval processes are established by GRM based on the nature, size, and complexity of 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 categories: transactions, structured credit, projects and initiatives, and new products and services.

Authorities and limits

The Risk Committee of the Board of Directors delegates Credit, Market, and Insurance risk authorities to the President and Chief Executive Officer and CRO. These delegated authorities allow these officers to approve single name, geographic (country and region) and industry sector exposures within defined parameters, establish underwriting and inventory limits for trading and investment banking activities and set market risk tolerances.

Reporting

Enterprise level risk monitoring and reporting are critical components of our enterprise risk management program and support the ability of senior management and the Board of Directors to effectively perform their risk management and oversight responsibilities. On a quarterly basis, the Enterprise Risk Report which includes a range of risks facing the organization along with analysis of related issues and trends is provided to senior management and the Board of Directors. This report includes a comprehensive review of our risk profile relative to our risk appetite and the identification of emerging risks. In addition to regular risk monitoring, ad-hoc risk reporting is provided to senior management and the Board of Directors as warranted for new or emerging risk issues or significant changes in our level of risk.

The shaded texts along with the tables specifically marked with an asterisk(*) in the following sections of the MD&A represent our disclosures on credit, market and liquidity and funding risks in accordance with CICA Handbook Section 3862, *Financial Instruments – Disclosures*, and include discussion on how we measure our risks and the objectives, policies and methodologies for managing these risks. Therefore, these shaded texts and tables represent an integral part of our audited 2010 Annual Consolidated Financial Statements for the years ended October 31, 2010 and October 31, 2009.

Credit risk

Credit risk is the risk of loss associated with an obligor's inability or unwillingness to fulfill its contractual obligations. Credit risk may arise directly from the risk of default of a primary obligor (e.g. issuer, debtor, counterparty, borrower or policyholder), or indirectly from a secondary obligor (e.g. guarantor, reinsurer).

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.

We balance our risk and return by:

- 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.
- Avoiding business activities that are not consistent with our Values, Code of Conduct or policies.

Risk measurement

We quantify credit risk, at both the individual obligor and portfolio levels, to 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 credit 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. Credit risk rating systems are designed to assess and quantify the risk inherent in credit activities in an accurate and consistent manner.

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.

Economic capital, which represents our internal estimate of unexpected loss, is used extensively for performance measurement, limit setting and internal capital adequacy.

The key parameters that form the basis of our credit risk measures for both regulatory and economic capital are:

- Probability of default (PD): An estimated percentage that represents the likelihood of default within a one-year period of an obligor for a specific rating grade or for a particular pool of exposures.
- Exposure at default (EAD): An amount expected to be owed by an obligor at the time of default.
- Loss given default (LGD): An estimated percentage of EAD that is not expected to be recovered during the collections and recoveries process.

These parameters are determined based on historical experience from internal credit risk rating systems in accordance with supervisory standards, and are independently validated and updated on a regular basis.

Under the Standardized Approach, used primarily for RBC Dexia IS, RBC Bank (USA) and our Caribbean banking operations, risk weights prescribed by the Office of the Superintendent of Financial Institutions (OSFI) are used to calculate risk-weighted assets (RWA) for credit risk exposure. To determine the appropriate risk weight, credit assessments by OSFI-recognized external credit rating agencies of S&P, Moody's, Fitch and DBRS are used. For rated exposures, primarily in the sovereign and bank classes, we assign the risk weight corresponding to OSFI's standard mapping. For unrated exposures, mainly in the business and retail classes, we generally apply prescribed risk weights in accordance with OSFI's standards and guidelines taking into consideration certain exposure specific factors including counterparty type, exposure type and credit risk mitigation technique employed.

Wholesale credit portfolio

The wholesale credit risk rating system is designed to measure the credit risk inherent in our wholesale lending activities along two dimensions.

First, each obligor is assigned a borrower risk rating (BRR), reflecting an assessment of the credit quality of the obligor. Each BRR has a PD assigned to it. 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 maps our 22-grade internal risk ratings compared to ratings by external rating agencies.

Internal ratings map — **Table 37**

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

Second, each credit facility is assigned an LGD rate. LGD rates are largely driven by factors such as seniority of debt, collateral security, product type, and the industry in which the obligor operates and market environment.

EAD is estimated based on the current exposure to the obligor and the possible future changes of that exposure driven by factors such as credit quality of the obligor and type of credit commitment.

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 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, 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 with similar homogeneous characteristics. We believe pooling allows for more precise, accurate and consistent estimates of default and loss characteristics at the pool level.

Criteria used to pool exposures for risk quantification include behavioural score, product type (mortgage, credit cards, lines of credit and instalment loans), collateral type (chattel, liquid assets and real estate), the length of time that the account has been on our books, 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. Migration between the pools is considered when assessing credit quality.

The pools are also assessed based on PD, EAD and LGD which consider borrower and transaction characteristics, including behavioural credit score, product type and delinquency status. The LGD is estimated based on transaction specific factors, including product, loan to value 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 38**

PD bands	Description
.0% - 1.0%	Low Risk
1.1% - 6.4%	Medium Risk
6.5% - 99.99%	High Risk
100.00%	Impaired/Default

Risk Control

The Board of Directors and its Committees, Group Executive, Group Risk Committee (GRC) and other management risk committees work in combination to approve credit risk limits and ensure that management has in place frameworks, policies, processes and procedures to manage credit risk. Reports are distributed to the Board of Directors, GRC, and senior executives to keep them informed of our risk profile, including trending information and significant credit risk issues and shifts in exposures to ensure appropriate actions can be taken where necessary. Our enterprise-wide credit risk policies set out the minimum requirements for the management of credit risk in a variety of borrower, transactional and portfolio management contexts.

Credit policies are an integral component of our Credit Risk Management Framework and set out the minimum requirements for the management of credit risk as follows:

Credit risk assessment
- Mandatory use of credit risk rating and scoring systems.
- Consistent credit risk assessment criteria.
- Standard content requirements in credit application documents.

Credit risk mitigation

Structuring of transactions
- Includes the use of guarantees, security, seniority and covenants. 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
- We often require obligors to pledge collateral as security when we advance credit. The extent of risk mitigation provided by collateral depends on the amount, type and quality of the collateral taken.

Credit derivatives
- Used as a tool to mitigate industry sector concentration and single-name exposure. The counterparties that we transact with are typically investment-grade banks and broker/dealers. 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 credit risk. For a more detailed description of the types of credit derivatives we enter into and how we manage related credit risk, refer to Note 7 to our 2010 Annual Consolidated Financial Statements.

Product approval
- Proposals for credit products and services are comprehensively reviewed and approved under a risk assessment framework.

Credit portfolio management
- Limits are used to ensure our portfolio is well diversified, reduce concentration risk and remain within our risk appetite.
- Our credit limits are established at the following levels: single name limits (notional and economic capital), underwriting risk limits, geographic (country and region) limits, industry sector limits (notional and economic capital), and product and portfolio limits, where deemed necessary.

Gross credit risk exposure

Gross credit risk exposure is categorized into Lending-related and other, and Trading-related. In the table below, Other exposure, under Lending-related and other credit exposure, includes contingent liabilities such as letters of credit and guarantees, and available-for sale debt securities. For undrawn commitments and contingent liabilities, gross exposure represents an estimated portion of the contractual amount that is expected to be drawn upon at the time of default of an obligor.

Repo-style transactions include repurchase and reverse repurchase agreements and securities lending and borrowing transactions. 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 (OTC), the gross exposure amount represents the credit equivalent amount after factoring in master netting agreements, which is defined by OSFI as the replacement cost plus an add-on amount for potential future credit exposure.

Our credit risk objectives, policies, and methodologies have not changed materially from 2009.

Gross credit risk exposure by portfolio and sector* (2) — Table 39

As at October 31 (C$ millions)	2010						2009					
	Lending-related and other			Trading-related			Lending-related and other			Trading-related		
	Loans and acceptances						Loans and acceptances					
	Outstanding	Undrawn commitments	Other	Repo-style transactions	Over-the-counter derivatives (1)	Total exposure (2)	Outstanding	Undrawn commitments	Other	Repo-style transactions	Over-the-counter derivatives (1)	Total exposure (2)
Residential mortgages	$ 128,832	$ 12	$ 160	$ –	$ –	$ 129,004	$ 122,130	$ 11	$ –	$ –	$ –	$ 122,141
Personal	80,174	61,181	59	–	–	141,414	71,542	51,132	47	–	–	122,721
Credit cards	10,110	30,144	–	–	–	40,254	8,701	20,113	–	–	–	28,814
Small business (3)	2,712	3,136	45	–	–	5,893	2,851	2,382	48	–	–	5,281
Retail	$ 221,828	$ 94,473	$ 264	$ –	$ –	$ 316,565	$ 205,224	$ 73,638	$ 95	$ –	$ –	$ 278,957
Business (3)												
Agriculture	$ 4,815	$ 504	$ 24	$ –	$ 7	$ 5,350	$ 5,090	$ 396	$ 23	$ –	$ 8	$ 5,517
Automotive	3,527	1,747	142	–	321	5,737	3,657	1,608	144	12	248	5,669
Consumer goods	5,912	2,358	483	–	224	8,977	6,141	2,284	435	–	234	9,094
Energy	5,945	9,942	2,173	–	1,429	19,489	7,055	8,302	2,241	18	1,411	19,027
Non-bank financial services	4,769	5,973	6,487	81,008	10,123	108,360	3,541	6,738	6,569	49,837	7,771	74,456
Forest products	792	371	87	–	17	1,267	830	453	89	–	15	1,387
Industrial products	3,731	2,387	426	–	147	6,691	3,972	2,307	340	–	198	6,817
Mining & metals	635	1,565	637	–	198	3,035	1,774	1,275	543	2	335	3,929
Real estate & related	18,358	2,701	1,292	–	275	22,626	21,049	2,853	1,259	–	320	25,481
Technology & media	2,569	3,241	322	–	528	6,660	2,562	2,730	293	–	768	6,353
Transportation and environment	3,759	1,658	483	–	582	6,482	4,413	1,791	419	–	459	7,082
Other	20,253	4,894	6,862	9,625	5,840	47,474	22,572	4,962	6,884	9,835	6,686	50,939
Sovereign (3)	3,765	3,580	28,123	3,770	8,322	47,560	2,779	2,145	20,937	2,830	8,178	36,869
Bank (3)	1,916	622	46,093	58,587	30,908	138,126	2,516	763	37,316	63,514	27,678	131,787
Wholesale	$ 80,746	$ 41,543	$ 93,634	$ 152,990	$ 58,921	$ 427,834	$ 87,951	$ 38,607	$ 77,492	$ 126,048	$ 54,309	$ 384,407
Total exposure	$ 302,574	$ 136,016	$ 93,898	$ 152,990	$ 58,921	$ 744,399	$ 293,175	$ 112,245	$ 77,587	$ 126,048	$ 54,309	$ 663,364

* This table represents an integral part of our 2010 Annual Consolidated Financial Statements.
(1) Credit equivalent amount after factoring in master netting agreements.
(2) Gross credit risk exposure is before allowance for loan losses. 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.
(3) Refer to Note 4 to our 2010 Annual Consolidated Financial Statements for the definition of these terms.

2010 vs. 2009

Total gross credit risk exposure increased $81 billion, or 12%, from a year ago, reflecting increases in both retail and wholesale portfolios.

Retail exposure increased $38 billion, or 14%, primarily driven by the implementation of updated risk parameters for undrawn commitments and the realignment of the retail risk rating system reflecting recent credit experience. Retail exposure also increased as a result of solid volume growth in Canadian home equity and personal lending products. The use of guarantees and collateral represents an integral part of our credit risk mitigation in the retail portfolio. Insured mortgages accounted for 20% of our residential mortgage portfolio in 2010 as compared to 24% in 2009. Secured personal lending represented 56% of personal loans outstanding in 2010 as compared to 54% in 2009.

Wholesale exposure increased $43 billion, or 11%, mainly reflecting increases in most exposure types. Repo-style transactions increased $27 billion, primarily in non-bank financial services, due to higher market activity from the European Government Bond business and increased volume for our primary dealer activities, partially offset by the impact of the stronger Canadian dollar. Other exposure increased $16 billion in bank and sovereign, largely due to higher guarantees and securities exposures. Loans and acceptances decreased $7 billion, mainly in the business portfolio across most sectors largely due to a strategic reduction in our U.S. loan portfolio, maturity and repayments and the impact of the stronger Canadian dollar. Most of the decrease in business exposure was in real estate and related, mining and metals, energy and other services within the other category. The decrease was partially offset by increases in non-bank financial services and sovereign. The loan utilization rate remained stable at 42%.

Loans and acceptances

Loans and acceptances by portfolio and sector (1) — Table 40

(C$ millions)	2010	2009
Residential mortgages	$ 128,832	$ 122,130
Personal	80,174	71,542
Credit cards	10,110	8,701
Small business	2,712	2,851
Retail	$ 221,828	$ 205,224
Business		
Agriculture	4,815	5,090
Automotive	3,527	3,657
Consumer goods	5,912	6,141
Energy	5,945	7,055
Non-bank financial services	4,769	3,541
Forest products	792	830
Industrial products	3,731	3,972
Mining & metals	635	1,774
Real estate & related	18,358	21,049
Technology & media	2,569	2,562
Transportation & environment	3,759	4,413
Other (2)	20,253	22,572
Sovereign	3,765	2,779
Bank	1,916	2,516
Wholesale	$ 80,746	$ 87,951
Total loans and acceptances	$ 302,574	$ 293,175
Total allowance for loan losses	(2,997)	(3,188)
Total loans and acceptances, net of allowance for loan losses	$ 299,577	$ 289,987

(1) Total loans and acceptances do not reflect the impact of credit risk mitigation.
(2) 2010 relates to Other services – $8.1 billion, Financing products – $5.1 billion, Holding and investments – $4.0 billion, Health – $2.7 billion and Other – $.4 billion. Other in 2009 relates to Other services – $10 billion, Financing products – $5.7 billion, Holding and investments – $3.9 billion, Health – $2.4 billion, and Other – $.6 billion.

2010 vs. 2009
Loans and acceptances increased by $9 billion, or 3%, from the prior year, mainly reflecting strong retail growth in Canada, partially offset by decreases in our wholesale portfolio.

Solid retail growth of $17 billion was driven by volume growth in Canadian personal lending and residential mortgages.

Wholesale loans and acceptances decreased by $7 billion mainly due to the same reasons discussed in the gross credit risk exposure section.

Credit quality performance

Provision for (recovery of) credit losses

Table 41

(C$ millions)	2010	2009
Canadian Banking (1)	$ 1,191	$ 1,275
International Banking (1)	743	980
Capital Markets (1)	20	702
Corporate Support and Other (1), (2)	(93)	456
Canada (3)		
Residential mortgages	$ 7	$ 18
Personal	444	467
Credit cards	399	393
Small business	45	55
Retail	895	933
Wholesale	122	436
Specific PCL	1,017	1,369
United States (3)		
Retail	187	267
Wholesale	476	1,096
Specific PCL	663	1,363
Other International (3)		
Retail	31	31
Wholesale	124	61
Specific PCL	155	92
Total specific PCL	$ 1,835	$ 2,824
General provision (2)	26	589
Total PCL (3)	$ 1,861	$ 3,413

(1) Segments with significant PCL have been presented in the table above.
(2) PCL in Corporate Support is comprised of the general provision, an adjustment related to PCL on securitized credit card loans managed by Canadian Banking and an amount related to the reclassification of certain AFS securities to loans in 2009.
(3) Geographic information is based on residence of borrower.

2010 vs. 2009
Total PCL of $1.9 billion decreased $1.6 billion from a year ago, mainly reflecting decreased specific PCL of $1.0 billion. We incurred a general provision of $26 million in the current year, as compared to $589 million in 2009.

Specific PCL in Canadian Banking decreased by $84 million, or 7%, largely due to lower provisions in our business lending, personal and small business portfolios reflecting improved economic conditions. Lower personal lending provisions were driven by lower loss rates in our fixed and variable, and unsecured loans.

Specific PCL in International Banking decreased $237 million, or 24%, primarily reflecting declines in our provision in U.S. banking primarily due to our residential builder finance portfolio, AFS securities reclassified to loans, lot loans and the impact of the stronger Canadian dollar. These factors were partially offset by higher provisions in our commercial portfolios in the Caribbean. Although asset quality has stabilized compared to prior year, PCL remained elevated, reflecting continued weakness in residential and commercial property values.

Specific PCL in Capital Markets decreased $682 million, primarily reflecting a number of provisions in our U.S. and Canadian portfolios in the prior period and recoveries of a few large accounts in the current period. This was offset by provisions in the current year mainly in the U.S. in our real estate and related, and technology and media sectors.

We incurred a lower general provision in the current year reflecting improved credit quality in our commercial U.S. banking and Canadian retail portfolios.

Gross impaired loans

Table 42

(C$ millions)	2010	2009
Canadian Banking (1)	$ 1,406	$ 1,253
International Banking (1)	3,051	3,149
Capital Markets (1)	409	915
Corporate Support and Other (1)	133	140
Canada		
Retail	$ 767	$ 673
Wholesale	771	839
United States		
Retail	222	227
Wholesale	2,462	3,194
Other International		
Retail	251	209
Wholesale	526	315
Total GIL	$ 4,999	$ 5,457

(1) Segments with significant GIL have been presented in the table above.

2010 vs. 2009
Total gross impaired loans (GIL) decreased by $458 million, or 8% from a year ago.

GIL in Canadian Banking increased $153 million, or 12% mainly reflecting higher impaired loans in our residential mortgages and commercial portfolios.

GIL in International Banking decreased $98 million, or 3%, mainly reflecting reductions in our residential builder finance portfolio from higher write-offs and foreclosures, and declines in certain impaired AFS securities reclassified to loans. These factors were partially offset by higher impaired loans in our U.S. commercial portfolio. Both our Caribbean wholesale and retail portfolios remained under pressure from the slow economic recovery and continued weakness in commercial real estate asset values.

GIL in Capital Markets decreased $506 million, or 55%, mainly due to lower new impaired loans in our non-bank financial services, and other portfolios primarily in the U.S.

GIL in Corporate Support and Other decreased slightly by $7 million.

Allowance for credit losses

Table 43

(C$ millions)	2010	2009
Specific ACL		
Canada	$ 360	$ 417
United States	475	667
Other International	276	195
Total specific ACL	1,111	1,279
General allowance		
Retail	1,230	1,095
Wholesale	755	928
Total general allowance	1,985	2,023
Total ACL	$ 3,096	$ 3,302

2010 vs. 2009
Total allowance for credit losses (ACL) decreased $206 million, or 6%, from a year ago, mainly due to a $168 million decrease in the specific allowance, reflecting the same factors as previously discussed. It also includes a $38 million decrease in the general allowance largely as a result of the impact of a stronger Canadian dollar. This was offset by an increased provision relating to our U.S. banking business. Refer to the Supplemental information section for further details.

Market risk

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 to which we are exposed varies depending on market conditions, expectations of future price and yield movements and the composition of our trading portfolio.

Market volatility dissipated in the early part of the year, but increased gradually in the latter half of 2010 due to the European sovereign debt crisis and fiscal austerity measures in Europe.

Trading market risk
Trading market risks associated with securities and related derivatives trading activities are a result of market-making, proprietary, and sales and arbitrage activities in the interest rate, credit, foreign exchange, equity, and commodities markets. Trading market risk reflects the potential adverse impact on our earnings and economic value and is comprised of the following components:

- Interest rate risk arises from the changes in interest rates and is composed of directional risk, yield curve risk, basis risk and option risk. Interest rate risk also captures credit spread risk arising from the changes in issuer spreads.
- Credit specific risk arises from the change in the creditworthiness and default of issuers of our holdings in fixed income products.
- Foreign exchange rate risk arises from the change in currency rates and precious metals price movements and volatilities. In our proprietary positions, we are exposed to the spot, forward and derivative markets.
- Equity risk arises from the movements in individual equity prices or movements in the level of stock market indices.
- Commodities risk arises from commodities price movements and volatilities.
- Market illiquidity risk arises from the inability to liquidate our positions or acquire hedges to neutralize our trading positions.

We conduct trading activities over-the-counter and on exchanges in the spot, forward, futures and options markets, and we offer structured derivative transactions. 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, as defined by OSFI, 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. The breadth of our trading activities is designed to diversify market risk to any particular strategy, and to reduce trading revenue volatility.

Risk measurement
We employ risk measurement tools such as Value-at-Risk (VaR), sensitivity analysis and stress testing to assess 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 requirements calculated under an Internal Models Approach (VaR based), while some structured credit derivatives, structured rate products including bank-owned life insurance stable value contracts (BOLI), mortgage-backed securities, and equity derivatives have capital requirements calculated under the Standardized Approach prescribed by OSFI. Also calculated under the Standardized Approach for credit specific risk are a limited set of interest rate products. These products and risks under the standardized approach are not included in our VaR, as discussed below.

Refer to Table 51 for market risk RWA under the internal models and standardized approaches. For management purposes, we calculate VaR for all of our trading positions, including those under the standardized approach.

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 specific risk, 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 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. The historical scenarios used to calculate VaR may not capture extreme market volatility. 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. The VaR scenario model has incorporated market events from much of 2010, while the higher volatility levels witnessed during late 2008 and early 2009 remain in the model.

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.

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.

In order 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 tests, including historical stress events such as the 1987 stock market crash, and the unprecedented market volatility in 2008 and early 2009, as well as hypothetical “what-if” stress events that represent potential future events that are plausible but have a very low probability of occurring. In light of the current market environment, we supplemented existing market risk measures by frequent updates to the historical scenario window used in VaR and risk factors were refined to accurately reflect the current market conditions in the calculations. 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

A comprehensive market risk framework governs trading-related risks and activities and provides guidance to 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. Market risk limit approval authorities are established by the Board of Directors, upon recommendation of the Risk Committee, and delegated to senior management. GRM – Market and Trading Credit Risk provides independent oversight of trading market risk management activities through establishing market risk policies and limits and developing, vetting and maintaining our various quantitative techniques and systems. Enterprise-wide reports are provided to the CRO and senior management to monitor compliance against VaR and stress limits approved by the Board of Directors. Limits on measures such as notional size, term and overall risk are monitored at the trading desk and at the portfolio and business levels.

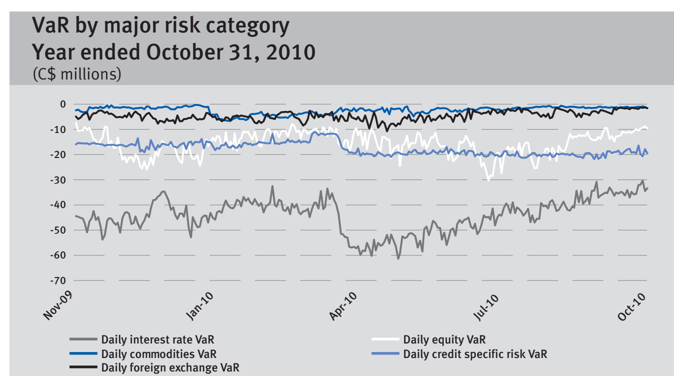
The following table shows our VaR for total trading activities under our models based approach for capital by major risk category and also shows the diversification effect, which is calculated as the difference between the VaR and the sum of the separate risk factor VaRs.

VaR by major risk category* **Table 44**

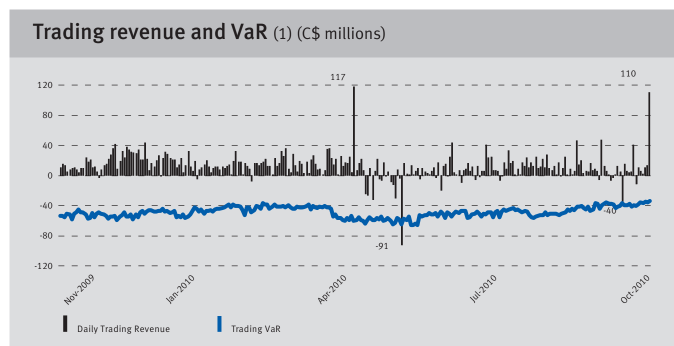
	2010				2009			
		For the year ended October 31				For the year ended October 31		
(C$ millions)	As at Oct. 31	Average	High	Low	As at Oct. 31	Average	High	Low
Equity	$ 10	$ 16	$ 30	$ 7	$ 9	$ 10	$ 21	$ 6
Foreign exchange	2	5	11	1	4	4	13	2
Commodities	2	2	7	–	2	1	4	–
Interest rate	33	44	61	30	48	49	69	20
Credit specific	20	18	22	11	16	11	17	7
Diversification	(34)	(37)	(51)	(22)	(26)	(22)	(33)	(7)
VaR	$ 33	$ 48	$ 66	$ 33	$ 53	$ 53	$ 70	$ 26

* This table represents an integral part of our 2010 Annual Consolidated Financial Statements.

VaR by major risk category
Year ended October 31, 2010
(C$ millions)

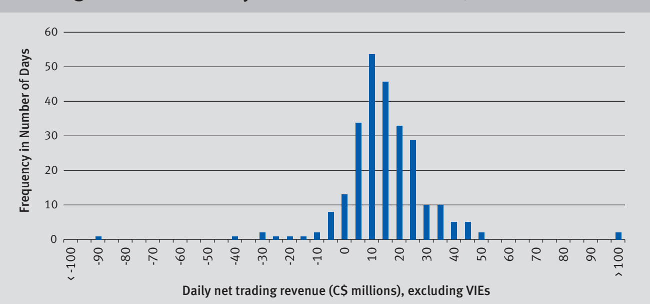


Trading revenue and VaR (1) (C$ millions)



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

Trading revenue for the year ended October 31, 2010 (teb)



VaR

2010 vs. 2009

Average VaR of $48 million for the year was down $5 million compared to a year ago. This was largely due to the impact of the stronger Canadian dollar on foreign-denominated portfolios and an increase in diversification from 29% to 44%. These factors were partially offset by the increases in Credit Specific and Equity VaR. The increase in Credit Specific VaR is attributed to the Credit Specific VaR model incorporating higher probabilities of credit events. The increase in Equity VaR was largely driven by a combination of business activity and market volatility.

Trading revenue

Trading revenue includes all positions included in VaR as well as those under the standardized approach for regulatory capital treatment. Also included in trading revenue are gains and losses associated with changes in our credit valuation adjustment (CVA) for derivatives. CVA, including that with monoline insurer MBIA Inc. (MBIA), is not included in VaR, and is not included in the standardized approach for regulatory capital. The breadth of our trading activities is designed to diversify market risk to any particular strategy, and to reduce trading revenue volatility.

2010 vs. 2009

During the year, we experienced 30 days of net trading losses compared to 13 days in 2009. Two of the losses in 2010 exceeded VaR. The volatility in daily trading revenue during the second and third quarters reflected the increased volatility in the market driven by the European sovereign debt crisis. The largest loss occurred on May 31, 2010, totalling $91 million, exceeding the VaR for that day. This loss as well as two large profit days on April 30, 2010 and October 29, 2010, were primarily due to a month-end credit valuation adjustment on a certain MBIA exposure.

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 the target level. The key sources of interest rate risk include exposures due to maturity and re-pricing characteristics of bank loans, investments, liabilities, derivatives, off-balance sheet items, as well as embedded options such as interest rate caps and floors, and prepayment options in products.

For additional information regarding interest rate risk and the use of derivatives in asset and liability management, refer to the Off-balance sheet arrangements section and Notes 7 and 26 to our 2010 Annual Consolidated Financial Statements.

Risk measurement

We continually evaluate opportunities to adopt leading practices in instrument valuation, econometric modeling and hedging techniques. Assessment of our practices ranges from the evaluation of traditional asset/liability management processes to 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 one of the tools utilized 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.

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 process, the effectiveness of our interest rate risk mitigation activity is assessed on value and earnings bases, and model assumptions are validated against actual client behaviour.

Risk control

The Asset Liability Committee (ALCO) provides oversight over non-trading market risk policies, limits, and operating standards. Interest rate risk reports are reviewed regularly by ALCO, GRC and the Board of Directors. The structural interest rate risk policy defines the management standards and acceptable limits within which risks to net interest income over a 12-month horizon, and the economic value of equity, are to be contained. These ranges are based on immediate and sustained ±100 basis points (bps) parallel shifts 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 3.75% of shareholder's equity. Interest rate risk limits are reviewed and approved annually by the Board of Directors.

The following 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 actions. Over the course of 2010, our interest rate risk exposure was well within our target level.

Market risk measures – Non-trading banking activities* **Table 45**

	2010						2009		2008	
	Economic value of equity risk			Net interest income risk (2)						
(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 (2)	Economic value of equity risk	Net interest income risk
Before-tax impact of:										
100bp increase in rates	$ (491)	$ 7	$ (484)	$ 57	$ 36	$ 93	$ (230)	$ 339	$ (508)	$ 45
100bp decrease in rates	445	(20)	425	(86)	(12)	(98)	214	(112)	448	(90)
Before-tax impact of:										
200bp increase in rates	(994)	(9)	(1,003)	132	100	232	(487)	619	(1,050)	62
200bp decrease in rates	733	2	735	(81)	(14)	(95)	323	(169)	838	(279)

* This table represents an integral part of our 2010 Annual Consolidated Financial Statements.
(1) Represents the impact on the non-trading portfolios held in our U.S. banking operations.
(2) Represents the 12-month net interest income exposure to an instantaneous and sustained shift in interest rates.

Non-trading foreign exchange rate risk

Foreign exchange rate risk is the potential adverse impact on earnings and economic value due to changes in foreign currency rates. Our revenue, expenses and income denominated in currencies other than the Canadian dollar are subject to fluctuations as a result of changes in the value of the average Canadian dollar relative to the average value of those currencies. 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. We are also exposed to the British pound and the Euro due to our activities conducted internationally in these currencies. A strengthening or weakening of the Canadian dollar compared to the U.S. dollar, British pound and the Euro could reduce or increase, as applicable, the translated value of our foreign currency denominated revenue, expenses and earnings and could have a significant effect on the results of our operations. We are also exposed to foreign exchange rate risk arising from our investments in foreign operations. For un-hedged equity investments, when the Canadian dollar appreciates against other currencies, the unrealized translation losses on net foreign investments decreases our shareholders' equity through the cumulative translation account and decreases the translated value of the RWA of the foreign currency-denominated operations. The reverse is true when the Canadian dollar depreciates against other currencies. Consequently, we consider these impacts in selecting an appropriate level of our investments in foreign operations to be hedged.

Our overall market risk objectives, policies and methodologies have not changed materially from 2009.

Liquidity and funding management

Liquidity and funding risk (liquidity risk) is the risk that we may be unable to generate or obtain sufficient cash or its equivalent in a timely and cost-effective manner to meet our commitments as they come due.

Our liquidity position is established to satisfy our current and prospective commitments while also contributing, in conjunction with our capital position, to our safety and soundness in times of stress. To achieve these goals, we operate under a comprehensive liquidity management framework and employ key liquidity risk mitigation strategies that include the maintenance of:

- An appropriate balance between the level of risk we undertake and the cost of its mitigation that takes into account the potential impact of extreme but plausible events.
- Broad funding access, including preserving and promoting a reliable base of core client deposits, continual access to diversified sources of wholesale funding and demonstrated capacities to monetize specific asset classes.
- A comprehensive enterprise-wide liquidity contingency plan that is supported by an earmarked pool of unencumbered marketable securities that provide assured access to cash in a crisis.
- Appropriate and transparent liquidity transfer pricing and cost allocation.

Our liquidity management policies, practices and processes reinforce these risk mitigation strategies. In managing liquidity risk, we favour a centralized management approach but various considerations outlined in this section influence the extent to which this can be pursued.

Risk measurement
A variety of limit-based measures and metrics have been established to monitor and control risk within appropriate tolerances using a variety of time horizons and severity of stress levels. Risk methodologies and underlying assumptions are periodically reviewed and validated to ensure alignment with our operating environment, expected economic and market conditions, rating agency preferences, regulatory requirements and accepted practices. We measure and manage our liquidity position from three risk perspectives as follows:

Structural (longer-term) liquidity risk
We use cash capital and other structural metrics, which focus on mismatches in effective maturity between all assets and liabilities, to measure and control balance sheet risk and to assist in the determination of our term funding strategy. Stressed conditions are considered, including a protracted loss of unsecured wholesale deposits that fund illiquid assets.

Tactical (shorter-term) liquidity risk
We apply net cash flow limits in Canadian dollar and foreign currencies for key short-term time horizons (overnight to nine weeks) under various stages of stress and assign a risk-adjusted limit to our aggregate pledging exposure and individual limits by types of pledging activities to measure our shorter-term liquidity exposures. Net cash flow positions reflect known and anticipated cash flows for all material unencumbered assets, liabilities and off-balance sheet activities. Pledged assets are not considered a source of available liquidity. We also control this risk by adhering to various prescribed regulatory standards.

Contingency liquidity risk
Contingency liquidity risk management assesses the impact of and our intended responses to sudden stressful events. Our liquidity contingency plan, maintained and administered by Corporate Treasury, guides our actions and responses to liquidity crises. The Liquidity Crisis Team, consisting of senior representatives with relevant subject matter expertise from key business segments and Corporate Support, contributes to the development of stress tests and funding plans and meets regularly to conduct stress tests and review liquidity contingency preparedness.

Our stress testing exercises, which include elements of scenario and sensitivity testing, are based on models that measure our potential exposure to global, country-specific or RBC-specific events (or a combination thereof), consider both historical and hypothetical events and cover a nine week period consistent with our key tactical liquidity risk measure and our view of the most critical time span for such events. Different levels of severity are considered for each type of crisis. Key tests are run monthly, while others are run quarterly. Frequency is determined by considering a combination of likelihood and impact. After reviewing test results, the liquidity contingency plan and other liquidity and funding risk management practices and limits may be modified. The risk of more prolonged crises is addressed through our measures of structural liquidity risk that assume a stressed environment.

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 sized through models we have developed or by the scenario analyses and stress tests 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 governance and control
The Board of Directors approves delegation of liquidity risk approval authorities annually to senior management. The Audit Committee and the Conduct Review and Risk Policy Committee of the Board annually approve the liquidity management framework and are responsible for its oversight. The Board of Directors and these committees also review, on a regular basis, reporting on RBC's enterprise-wide liquidity position and status. Group Risk Committee (GRC) and ALCO share management oversight responsibility and review all liquidity documents prepared for the Board of Directors or its committees. ALCO annually approves the liquidity management framework's key supporting documents and provides strategic direction and primary management oversight to Corporate Treasury, other functions and business platforms in the area of liquidity risk management. To maximize funding and operational efficiencies, we monitor and manage our liquidity position on a consolidated basis and for key units and consider market, legal, regulatory, tax, operational and any other applicable restrictions. This includes analyzing our ability to lend or borrow funds between branches, branches and subsidiaries, and subsidiaries, and converting funds between currencies.

Policies
Our principal liquidity policies define risk tolerance parameters. They authorize senior management committees or Corporate Treasury to approve more detailed policies and limits that govern management, measurement and reporting requirements for specific businesses and products.

Authorities and limits
Limits for our structural liquidity risk positions are approved at least annually and measured and monitored, monthly or quarterly. Net cash flow limits are approved at least annually. Depending on the materiality of each reporting entity, net cash flow limits are monitored daily or weekly by major currency, branches, subsidiaries and geographic locations. Any potential exceptions to established limits are reported immediately to Corporate Treasury, which provides or arranges for approval after reviewing a remedial action plan.

The liquidity factors for cash flow assets and liabilities under varying conditions are reviewed periodically by Corporate Treasury in concert with GRM and the business segments to determine if they remain valid or changes to assumptions and limits are required. Through this process, we ensure that a close link is maintained between the management of liquidity and funding risk, market liquidity risk and credit risk, including GRM approval of credit lines between entities. In response to our experience during the volatile markets of the past two years, we have modified the liquidity treatment of certain asset classes to reflect our expectations that market liquidity for these products will remain impaired for some time. Where required, limits have been reduced in consideration of the results of updated stress tests. During the fiscal year, OSFI introduced a regulatory enterprise liquidity metric, which we formally report to OSFI on a monthly basis and monitor intra-month.

Funding
Funding strategy
Core funding, comprising capital, longer-term liabilities and a diversified pool of personal and, to a lesser extent, commercial and institutional deposits, is the foundation of our structural liquidity position. Our wholesale funding activities are well diversified by geographic origin, investor segment, instrument, currency, structure and maturity. We maintain an ongoing presence in different funding markets, which allows us to constantly monitor market developments and trends, identify opportunities and risks and take appropriate and timely actions. We operate longer-term debt issuance programs in Canada, the U.S., Europe, Australia and Japan. Expansion into new markets and untapped investor segments is constantly evaluated against relative issuance costs since diversification expands our wholesale funding flexibility and minimizes funding concentration and dependency, and generally reduces financing costs. Maintaining competitive credit ratings is also critical to cost-effective funding.

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. There can be no assurance that our credit ratings and rating outlooks will not be lowered or that rating agencies will not issue adverse commentaries about us, potentially resulting in adverse consequences for our funding capacity or 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. However, 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. For a discussion on the potential impact of a downgrade on certain derivative instruments, see Note 31, Reconciliation of the application of Canadian and United States generally accepted accounting principles – Fair value of derivatives by major types of products.

On September 14, 2010 we were placed on review for possible downgrade by Moody's. During its review Moody's will focus on gaining a better understanding of our capital markets business and our growth plans for the business. Moody's is expected to announce the results of its review in mid-December 2010.

The following table presents our major credit ratings and outlook as at December 2, 2010:

Credit ratings* **Table 46**

	As at December 2, 2010 (1)		
	Short-term debt	Senior long-term debt	Outlook
Moody's	P-1	Aaa	UR (neg)
S&P	A-1+	AA-	positive
Fitch	F1+	AA	stable
DBRS	R-1(high)	AA	stable

* This table represents an integral part of our 2010 Annual Consolidated Financial Statements.

(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.

Deposit profile

Our personal deposit franchise constitutes the principal source of reliable 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 were unchanged during the year at 63% of our total deposits.

Term funding sources* **Table 47**

(C$ millions)	2010	2009	2008
Long-term funding outstanding	$ 61,224	$58,831	$ 70,906
Total mortgage-backed securities sold	28,238	28,815	15,196
Commercial mortgage-backed securities sold	1,705	1,916	2,159
Credit card receivables financed through notes issued by a securitization special purpose entity	2,850	2,913	3,163

* This table represents an integral part of our 2010 Annual Consolidated Financial Statements.

During 2010, we continued to expand our long-term funding base by selectively issuing, either directly or through our subsidiaries, $21.5 billion of senior deposit notes in various currencies and markets. Total long-term funding outstanding increased by $3.2 billion. Outstanding senior debt containing ratings triggers, which would accelerate repayment, constitutes a very small proportion of our overall outstanding debt of $62 billion.

Other liquidity and funding sources

We use residential mortgage, commercial 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 decreased year over year by $577 million. Our credit card receivables, which are financed through notes issued by a securitization special purpose entity, decreased year over year by $63 million. For further details, refer to the Off-balance sheet arrangements section and Note 5 to our 2010 Annual Consolidated Financial Statements.

Impact of global market developments on liquidity management

During 2010, public sector initiatives introduced to facilitate bank financing requirements during late 2008 and 2009 that were relevant to our funding activities were all discontinued as term market access for non-government guaranteed bank names improved materially. While bank financing markets generally improved, we continued to experience more favourable wholesale funding access and pricing compared both to peers and to the prior year and opportunistically executed longer-term issues into this much better funding environment. We also continued to focus on aggressively building our core deposit base. Regulatory reforms, including global minimum liquidity standards, directed at strengthening the global banking system were announced and refined during the year and will be implemented over the coming years. The liquidity measures are subject to monitoring or observation periods prior to becoming minimum standards.

We maintained a liquidity and funding position that we continue to believe is appropriate to execute our strategy, and levels of liquidity and funding risk remain well within our risk appetite.

Our liquidity and funding risk objectives, policies and methodologies have not changed materially from 2009. However, certain limits and strategies have been revised as a result of the market conditions and evolving regulatory standards.

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 following table provides a summary of our future contractual funding commitments.

Contractual obligations* **Table 48**

	2010					2009	2008
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	$17,563	$18,222	$ 8,789	$ 9,469	$54,043	$52,416	$58,615
Covered bonds	207	3,025	3,334	1,890	8,456	5,740	5,248
Subordinated debentures	108	–	199	6,482	6,789	6,564	8,258
Obligations under leases (2)	572	965	700	1,123	3,360	3,362	3,196
	$18,450	$22,212	$13,022	$18,964	$72,648	$68,082	$75,317

* This table represents an integral part of our 2010 Annual Consolidated Financial Statements.

(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

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.

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. The two options available to us under Basel II are the Advanced Measurement Approach (AMA) and the Standardized Approach. We continued to adopt the Standardized Approach for operational risk and expect to implement the Advanced Measurement Approach in 2013.

Operational risk is managed through our infrastructure, controls, systems and people, complemented by central groups focusing on enterprise-wide management of specific operational risks such as fraud, privacy, outsourcing, and business disruption, as well as people and systems risks. Specific programs, policies, standards and methodologies have been developed to support the management of Operational risk. These programs are (i) Risk and control assessment, (ii) Operational event data collection and analysis, (iii) Industry loss analysis, and (iv) Key risk indicators.

Strategic risk

Strategic risk is the risk that the enterprise or particular business areas will make inappropriate strategic choices, or will be unable to successfully implement selected strategies or related plans and decisions. For example, failure to successfully integrate and retain clients and key employees from our strategic acquisitions or joint ventures may adversely affect our financial performance.

Oversight of strategic risk is the responsibility of the heads of the business segments, the Enterprise Strategy Office, Group Executive, and the Board of Directors. Management of strategic risk is supported by the Enterprise Strategy Group through the use of an enterprise strategy framework that synthesizes business portfolio strategies with the enterprise vision.

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.

Laws and regulations are in place to protect the financial and other interests of our clients, investors and the public. Changes to laws, including tax laws, regulations or regulatory policies, as well as the changes in how they are interpreted, implemented or enforced, could adversely affect us, for example by lowering barriers to entry in the businesses in which we operate or increasing our costs of compliance. Further, there is no assurance that we always will be or will be deemed to be in compliance with laws, regulations or regulatory policies. 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 licenses or registrations that would damage our reputation and negatively impact on our earnings. In addition, we are subject to litigation arising in the ordinary course of our business and the adverse resolution of any litigation could have a material adverse effect on our results or could give rise to significant reputational damage, which in turn could impact our future business prospects.

Global Compliance 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. Within the ECM framework there are five elements that drive the management of regulatory risk. The first element sets the cycle in motion by defining the nature of our business activities and operations. The second element ensures compliance programs are designed in a manner to most effectively meet regulatory requirements. The third and fourth elements relate to the design and implementation of specific controls and the associated monitoring and oversight of the effectiveness of those controls. This approach allows us to take an enterprise-wide and holistic view of all compliance programs. The fifth element ensures the timely escalation and resolution of issues, and clear and transparent reporting. This is a critical step in enabling senior management and the Board of Directors to effectively perform their management and oversight responsibilities.

We have a strong ethical and compliance culture grounded in our Code of Conduct which broadly addresses a variety of ethical and legal concerns that face our employees on a day-to-day basis. We regularly review and update the Code 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.

Our Code of Conduct is supported by a number of global and regional compliance policies, training programs, online tools, job aids, and new employee orientation materials. We also have several other core ethics and compliance courses that apply enterprise wide or to a significant number of businesses globally including anti-money laundering and anti-terrorist financing, anti-bribery and anti-corruption, privacy and information risk management.

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.

The following principles guide our 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.

Insurance risk

Insurance risk is the exposure to potential financial loss arising from payments that are different than anticipated (e.g. number, amount or timing) under an insurance policy or reinsurance treaty. Insurance risk is primarily associated with adverse experience with respect to mortality, morbidity, longevity, claim frequency, claim severity, policyholder behaviour, and expense. Insurance risk is further categorized into the following sub-risks:

Claims Risk

Claims risk represents the risk that the actual severity, frequency or timing of claims differs from the levels assumed in pricing calcu-

lations or reserves. Claims risk may be realized in two ways: 1) Pricing risk – the mis-estimation of expected claims activities relative to actual activities or, 2) Underwriting risk – the strategy and/or criteria for underwriting the risk are not aligned with the estimate for the amount, frequency, and/or timing of claims. Types of claims risk include mortality risk, longevity risk, morbidity risk, home and auto risk, and travel risk.

Policyholder Behaviour Risk (Lapse Risk)
The risk that the actual behaviour of policyholders relating to premium payments, policy withdrawals or loans, policy lapses, surrenders, and the exercise of other policy options differ from the behaviour assumed in pricing calculations or reserves.

Expense Risk
The risk that the expense of acquiring or administering policies, or of processing claims, exceeds the costs assumed in pricing calculations.

We have policies and procedures that support the management of insurance risk through the establishment of risk approval authorities and limits, independent risk oversight and approval by GRM-Insurance and risk mitigation, which include identifying, assessing and managing insurance risk through a risk review and approval process.

Environmental risk

Environmental risk is the risk of loss to financial, operational or reputational 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. Operational and legal risks may arise from environmental issues at our branches, offices or data processing centres.

Corporate Environmental Affairs (CEA) sets enterprise-wide policy requirements for the identification, assessment, control, monitoring and reporting of environmental risk. Oversight is provided by Group Executive and the Corporate Governance and Public Policy Committee of the Board of Directors. Business segments and Corporate Support groups are responsible for incorporating environmental risk management requirements and controls within their operations. The CEA Group also provides advisory services and support to business segments on the management of specific environmental risks in business transactions.

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. We manage environmental risk by maintaining an environmental management system, including policies, management and mitigation strategies, training, communication, and reporting. Our Corporate Environmental Policy articulates our overarching environmental commitments.

We maintain a suite of environmental credit risk management policies including sector-specific and business-segment-specific policies and guidelines. For example, we have a Policy on Social and Environmental Review in Project Finance to reflect our commitment to the Equator Principles. Periodically, we verify that our environmental risk management policies and processes are operating as intended. On an annual basis, and more frequently as required, environmental risk management activities, issues, and trends are reported to GE and to the CG&PPC of the Board of Directors. In addition, CEA maintains ongoing communication on environmental risk management issues with stakeholders, both internal and external to the organization. We report on the full extent of environmental management annually in the Corporate Responsibility Report and Public Accountability Statements.

Other risk factors

In addition to the risks described above, there are numerous other risk factors as described below, that could cause our results to differ significantly from our plans, objectives and estimates. Forward-looking statements in this document include, but are not limited to, statements relating to our financial performance objectives, our vision and strategic goals, the Economic, market and regulatory review and outlook for the Canadian, U.S. and global economies, the outlook and priorities for each of our business segments and in our Liquidity and funding risk section, and are presented for the purpose of assisting the holders of our securities 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 vision and strategic goals and objectives, and may not be appropriate for other purposes.

We caution that the discussion of risk factors, many of which are beyond our control, 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 and following 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.

General business and economic conditions in Canada, the U.S. and other countries in which we conduct business
Our earnings are significantly affected by the general business and economic conditions in the geographic regions in which we operate. These conditions include 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 and inflation. For example, an economic downturn in a country may result in high unemployment and lower family income, corporate earnings, business investment and consumer spending, and could adversely affect the demand for our loan and other products. In addition, our provision for credit losses would likely increase, resulting in lower earnings.

Changes in accounting standards and accounting policies and estimates
From time to time, the Accounting Standards Board (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. Significant accounting policies are described in Note 1 to our 2010 Annual Consolidated Financial Statements.

We are required to adopt International Financial Reporting Standards (IFRS) commencing November 1, 2011. For further details on our future adoption of IFRS refer to the Accounting and control matters section.

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 U.S. and other U.S. government authorities, as well as those adopted by international regulatory authorities and agencies, in jurisdictions in which we operate. 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 markets in which we operate is intense. Client loyalty and retention can be influenced by a number of factors, including relative service levels, the prices and attributes of our products or services, our reputation and actions taken by our competitors. Other financial 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.

Ability to attract and to retain employees
Competition for qualified employees is intense within the financial services industry and from non-financial industries looking to recruit. If we are unable to retain and attract qualified employees, our results of operations and financial condition, including our competitive position, may be materially adversely affected.

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 whom we rely do not comply with GAAP or are materially misleading.

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 U.S. and internationally, if we are not able to develop or integrate these distribution networks effectively, our results of operations and financial condition may be negatively affected.

Other factors
Other factors that may affect actual results include changes in government trade policy, the timely and successful development of new products and services, 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.

Capital management

We actively manage our capital to maintain strong capital ratios and high ratings while providing high returns to our shareholders. We consider the requirements of regulators, rating agencies, depositors and shareholders, our business plans, peer comparisons and our internal capital ratio targets. Our goal is to optimize our capital usage and structure, and provide support for our business segments and clients and better returns for our shareholders, while protecting depositors and senior creditors.

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

Within our capital management framework, we have an internal capital adequacy assessment process (ICAAP) that sets internal capital targets and defines strategies for achieving those targets consistent with our Risk Appetite, business plans 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 are a key input into our capital planning process and are used in setting appropriate internal capital targets.

The Board of Directors is responsible for ultimate oversight of capital management, including the annual review and approval of our Capital Plan and ICAAP. The Audit Committee is responsible for the governance of capital management, which includes; approval of capital management policies, regular review of our capital position and management processes, approval of ICAAP, and ongoing review of internal controls over financial reporting.

The ALCO and Group Executive share management oversight responsibility for capital management and receive regular reports detailing compliance with established limits and guidelines.

Basel II
The top corporate entity to which Basel II applies at the consolidated level is Royal Bank of Canada.

Under Basel II, banks select from among alternative approaches to calculate their minimum regulatory capital required to underpin credit, market and operational risks.

Effective November 1, 2007, we adopted the Basel II Advanced Internal Ratings Based (AIRB) approach to calculate credit risk capital for consolidated regulatory reporting purposes.

While the majority of our exposures are reported under the AIRB Approach, certain portfolios considered non-material from a consolidated perspective continue to use the Basel II Standardized Approach for credit risk (for example, our Caribbean Banking operations). In addition, the Standardized Approach will continue to be used for specific portfolios until fiscal 2012 for RBC Bank (USA), and RBC Dexia IS, of which we have a 50% ownership interest.

We continue to use the Standardized Approach for consolidated regulatory reporting of capital for operational risk.

For consolidated regulatory reporting of market risk capital, we use both Internal Model and Standardized Approaches.

Regulatory capital, risk weighted assets and capital ratios — Table 49

As at October 31 (C$ millions, except percentage and multiple amounts)	2010	2009
Capital		
Tier 1 capital	$ 33,972	$ 31,774
Total capital	37,625	34,881
Risk-weighted assets		
Credit risk	$ 197,195	$ 185,051
Market risk	24,828	23,321
Operational risk	38,433	36,465
Total risk-weighted assets	$ 260,456	$ 244,837
Capital ratios		
Tier 1 capital	13.0%	13.0%
Total capital	14.4%	14.2%
Assets-to-capital multiple	16.5X	16.3X

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 on Banking Supervision. Regulatory capital is allocated to two tiers: Tier 1 and Tier 2. Tier 1 capital comprises the highest quality capital and is a core measure of a bank's financial strength. Tier 1 capital consists of more permanent components of capital, is free of mandatory fixed charges against earnings and has a subordinate legal position to the rights of depositors and other creditors of the financial institution. Tier 2 capital is composed of supplementary capital instruments that contribute to the overall strength of a financial institution as a going concern. Total capital is defined as the sum of Tier 1 and Tier 2 capital. The components of Tier 1 and Tier 2 capital are listed in Table 50. For further details on the terms and conditions of the various capital components, refer to the Selected share data section and Notes 16, 17 and 18 to our 2010 Annual Consolidated Financial Statements.

Regulatory capital ratios are calculated by dividing Tier 1 and Total capital by RWA. OSFI formally establishes risk-based capital targets for deposit-taking institutions in Canada. These targets are currently a Tier 1 capital ratio greater than or equal to 7% and a Total capital ratio of greater than or equal to 10%. Canadian banks are also 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.

Basel III regulatory capital and capital ratios

As noted in the Economic, market and regulatory review and outlook section, the capital reforms known as Basel III will redefine Tier 1 capital to consist of predominantly common shares and retained earnings. There will be new deductions from common equity – including intangible assets, defined benefit pension fund assets and investments in common equity of other financial institutions. Also changes in counterparty credit risk and treatment of securitization related exposures will result in higher RWA.

Further, the Basel Committee proposes to increase the minimum capital requirements for common equity and Tier 1 capital from 2% to 4.5% and 4% to 6% respectively.

In addition, banks will be required to hold capital buffers to help withstand future periods of stress. A capital conservation buffer of 2.5% (to be met with common equity) will bring total common equity requirements to 7%. A countercyclical buffer of up to 2.5% of common equity or other fully loss absorbing capital may also be required in periods of excess aggregated credit growth. This buffer will be implemented according to national circumstances and subject to national supervisory discretion. The minimum Total capital requirement will be 8%, with a capital conservation buffer of 2.5%.

A framework requiring systemically important financial institutions to have additional loss absorption capacity beyond the Basel III standards has also been proposed.

The common equity and Tier 1 capital rules are expected to be phased-in from January 2013, with the capital conservation buffer phased-in between January 2016 and January 2019.

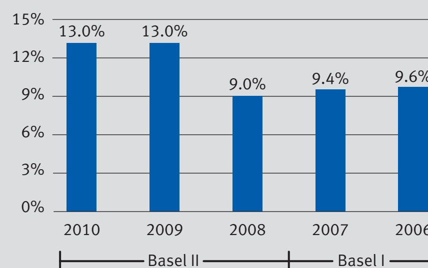
Based on our current strong capital position, we expect to meet the Basel III requirements within the established timelines. We will continue to be proactive and make the optimal decisions to mitigate the impact these requirements will have on our business.

Capital — **Table 50**

As at October 31 (C$ millions)	2010	2009
Tier 1 regulatory capital		
Common shares	$ 13,287	$ 12,959
Contributed surplus	236	246
Retained earnings	22,706	20,585
Net after tax fair value losses arising from changes in institutions' own credit risk	(17)	(9)
Foreign currency translation adjustments	(1,685)	(1,374)
Net after tax unrealized holding loss on available-for-sale equity securities	–	(68)
Non-cumulative preferred shares	4,810	4,811
Innovative capital instruments	3,327	3,991
Other non-controlling interests in subsidiaries	351	353
Goodwill	(8,064)	(8,368)
Substantial investments	(101)	(148)
Securitization-related deductions	(810)	(1,172)
Investment in insurance subsidiaries	(29)	(13)
Expected loss in excess of allowances – AIRB Approach	(39)	(19)
Total Tier 1 capital	$ 33,972	$ 31,774
Tier 2 regulatory capital		
Permanent subordinated debentures	$ 863	$ 878
Non-permanent subordinated debentures (1)	5,778	5,583
Net after tax unrealized gain on available-for-sale equity securities	12	–
Trust subordinated notes	1,023	1,017
General allowance	517	575
Substantial investments	(101)	(147)
Investment in insurance subsidiaries	(3,607)	(3,628)
Securitization-related deductions	(792)	(1,150)
Expected loss in excess of allowances – AIRB Approach	(39)	(20)
Other	(1)	(1)
Total Tier 2 capital	$ 3,653	$ 3,107
Total regulatory capital	$ 37,625	$ 34,881

(1) 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.

Tier 1 capital ratio (1)



(1) Basel I and Basel II Tier 1 capital ratios are not directly comparable.

Our capital position remained strong in 2010 primarily through internal capital generation from earnings and the issuance of additional regulatory capital for general business purposes. Our capital ratios remain well above OSFI regulatory capital targets.

As at October 31, 2010, our Tier 1 capital ratio was 13.0% and our Total capital ratio was 14.4%.

Our Tier 1 capital ratio was unchanged from the previous year, as additional capital from earnings generation and lower securitization related deductions were largely offset by higher RWA and the redemption of innovative Tier 1 capital instruments.

Our Total capital ratio was up 20bps primarily due to the factors discussed under Tier 1 capital and the net issuance of subordinated debentures.

As at October 31, 2010, our assets-to-capital multiple was 16.5 times compared to 16.3 times a year ago. Our assets-to-capital multiple remains below the maximum level prescribed by OSFI.

Risk-weighted assets
Under Basel II, 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. RWA is calculated for each of these risk types and added together to determine total RWA.

During the year, RWA increased by $15.6 billion, mainly due to credit migration and risk parameter revisions primarily in our wholesale and retail portfolios. This increase was partially offset by the impact of the stronger Canadian dollar on our foreign currency-denominated assets and a decrease in our securitized assets portfolio.

Risk-weighted assets – Basel II **Table 51**

	2010						2009
		Average of risk weights	Risk-weighted assets				
As at October 31 (C$ millions, except percentage amount)	Exposure (1)	(2)	Standardized approach	Advanced approach	Other	Total	Total
Credit risk							
Lending-related and other							
Residential mortgages	$ 112,696	7%	$ 1,489	$ 6,299		$ 7,788	$ 6,350
Other retail	193,396	21%	7,514	33,629		41,143	32,821
Business	136,089	60%	30,290	51,356		81,646	84,084
Sovereign	35,468	6%	394	1,725		2,119	2,272
Bank	48,631	6%	1,686	1,455		3,141	2,375
Total lending-related and other	$ 526,280	26%	$ 41,373	$ 94,464	$ –	$ 135,837	$ 127,902
Trading-related							
Repo-style transactions	$ 152,990	1%	$ 380	$ 972		$ 1,352	$ 1,113
Over-the-counter derivatives	58,921	34%	2,232	18,004		20,236	17,173
Total trading-related	$ 211,911	10%	$ 2,612	$ 18,976	$ –	$ 21,588	$ 18,286
Total lending-related and other and trading-related	$ 738,191	21%	$ 43,985	$ 113,440		$ 157,425	$ 146,188
Bank book equities	1,686	87%	–	1,465		1,465	1,896
Securitization exposures	45,753	13%	825	5,154		5,979	8,628
Regulatory scaling factor	n.a.	n.a.	n.a.	7,203		7,203	6,619
Other assets	39,088	64%	n.a.	n.a.	$ 25,123	25,123	21,720
Total credit risk	$ 824,718	24%	$ 44,810	$ 127,262	$ 25,123	$ 197,195	$ 185,051
Market risk							
Interest rate			$ 4,588	$ 2,282		$ 6,870	$ 8,136
Equity			497	1,752		2,249	1,418
Foreign exchange			698	13		711	470
Commodities			797	3		800	430
Specific risk			6,304	7,894		14,198	12,867
Total market risk			$ 12,884	$ 11,944		$ 24,828	$ 23,321
Operational risk			$ 38,433	n.a.	n.a.	$ 38,433	$ 36,465
Total risk-weighted assets	$ 824,718		$ 96,127	$ 139,206	$ 25,123	$ 260,456	$ 244,837

(1) 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.
(2) Represents the average of counterparty risk weights within a particular category.

Selected capital management activity **Table 52**

	2010		
(C$ millions, except number of shares)	Issuance or redemption date	Number of shares (000s)	Amount
Tier 1			
Common shares issued			
Dividend reinvestment plan (DRIP) (1)		2,862	$ 161
Stock option exercised (2)		4,450	142
Redemption of innovative capital instruments			
RBC TruCS Series 2010 (3)	June 30, 2010		650
Tier 2			
Redemption of January 25, 2015 subordinated debentures (3)	January 25, 2010		500
Redemption of June 24, 2015 subordinated debentures (3)	June 24, 2010		800
Issuance of June 15, 2020 subordinated debentures (3)	June 15, 2010		1,500

(1) For the first quarter of 2010, shares were issued from treasury at a 3% discount from the average closing price of the five trading days preceding the dividend payment date. For the last three quarters of 2010, we funded our DRIP through open market share purchases.
(2) Amount included cash received for stock options exercised during the period, the fair value adjustments to stock options and the exercise of stock options from tandem stock appreciation rights (SARS) awards and from renounced tandem SARS.
(3) For further details, refer to Note 16 to our 2010 Annual Consolidated Financial Statements.

During 2010, we did not repurchase any common shares under our normal course issuer bid (NCIB), which expired on October 31, 2010. We did not renew our NCIB for 2011.

Subsequent to October 31, 2010, the following capital transaction occurred:

On November 1, 2010, we issued $1.5 billion of subordinated debentures Series 14 through our Canadian Medium Term Note Program.

Dividends
Our common share dividend policy reflects our earnings outlook, payout ratio objective and the need to maintain adequate levels of capital to fund business opportunities. Our dividend payout ratio target is 40% to 50%. In 2010, the dividend payout ratio was 57%, down from 78% in 2009, as last year's earnings were impacted by the goodwill impairment charge and a higher level of credit losses. Common share dividends paid during the year were $2.8 billion, relatively flat from a year ago.

Selected share data (1)									Table 53
	2010			2009			2008		
(C$ millions, except number of shares and per share amounts)	Number of shares (000s)	Amount	Dividends declared per share	Number of shares (000s)	Amount	Dividends declared per share	Number of shares (000s)	Amount	Dividends declared per share
Common shares outstanding	1,424,922	$ 13,378	$ 2.00	1,417,610	$ 13,075	$ 2.00	1,341,260	$ 10,384	$ 2.00
First preferred shares outstanding									
Non-cumulative Series N	–	$ –	$ –	–	$ –	$ –	–	$ –	$ .88
Non-cumulative Series W (2)	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	1.11
Non-cumulative Series AB	12,000	300	1.18	12,000	300	1.18	12,000	300	1.18
Non-cumulative Series AC	8,000	200	1.15	8,000	200	1.15	8,000	200	1.15
Non-cumulative Series AD	10,000	250	1.13	10,000	250	1.13	10,000	250	1.13
Non-cumulative Series AE	10,000	250	1.13	10,000	250	1.13	10,000	250	1.13
Non-cumulative Series AF	8,000	200	1.11	8,000	200	1.11	8,000	200	1.11
Non-cumulative Series AG	10,000	250	1.13	10,000	250	1.13	10,000	250	1.13
Non-cumulative Series AH	8,500	213	1.41	8,500	213	1.41	8,500	213	.81
Non-cumulative Series AJ (3)	16,000	400	1.25	16,000	400	1.49	16,000	400	–
Non-cumulative Series AL (3)	12,000	300	1.40	12,000	300	1.48			
Non-cumulative Series AN (3)	9,000	225	1.56	9,000	225	1.50			
Non-cumulative Series AP (3)	11,000	275	1.56	11,000	275	1.34			
Non-cumulative Series AR (3)	14,000	350	1.56	14,000	350	1.27			
Non-cumulative Series AT (3)	11,000	275	1.56	11,000	275	1.11			
Non-cumulative Series AV (3)	16,000	400	1.56	16,000	400	1.01			
Non-cumulative Series AX (3)	13,000	325	1.53	13,000	325	.87			
Treasury shares – preferred	(86)	(2)		(65)	(2)		(260)	(5)	
Treasury shares – common	(1,719)	(81)		(2,127)	(95)		(2,258)	(104)	
Exchangeable shares of									
RBC PH&N Holdings Inc.	6,413	324		6,413	324		6,750	324	
Stock options									
Outstanding	15,659			17,877			21,773		
Exercisable	10,170			12,806			17,247		
Dividends									
Common		2,843			2,819			2,624	
Preferred		258			233			101	

(1) For further details about our capital management activity, refer to Note 18 to our 2010 Annual Consolidated Financial Statements.
(2) Effective February 24, 2010, we have the right to convert into common shares at our option, subject to certain restrictions.
(3) Dividend rate will reset every five years.

As at November 29, 2010, the number of outstanding common shares and stock options were 1,425,184,000 and 15,487,000, respectively. As at November 29, 2010, the number of Treasury shares – preferred and Treasury shares – common were 131,000 and 1,532,000, respectively. For further information about our share capital, refer to Notes 18 and 21 to our 2010 Annual Consolidated Financial Statements.

Economic capital

Economic capital is our internal quantification of risks associated with business activities which is the capital required to remain solvent under extreme market conditions, reflecting our objective 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 as described in the Key performance and non-GAAP measures section and also aids senior management in determining resource allocation in conjunction with other factors.

Economic capital is also used to assess the adequacy of our capital base. Our policy is to maintain a level of available capital, defined as common equity and other capital instruments with equity-like permanence and loss absorption features such as preferred shares and Innovative Tier 1 instruments that exceed 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. Economic capital is calculated based on credit, market (trading and non-trading), operational, business and fixed asset, and insurance risks and includes capital attribution for goodwill and other intangibles.

- 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.

For further discussion on credit, market, operational and insurance risks, refer to the relevant Risk management, and Overview of other risks sections.

The calculation and attribution of economic capital involves a number of assumptions and judgments by management which are monitored to ensure that the economic capital framework remains comprehensive and consistent. The models are benchmarked to leading industry practices via participation in surveys, reviews of methodologies and ongoing interaction with external risk management industry professionals.

Economic capital		Table 54
(C$ millions, average balances)	2010	2009
Credit risk	$ 9,950	$ 10,100
Market risk (trading and non-trading)	3,400	2,450
Operational risk	3,350	3,550
Business and fixed asset risk	2,400	2,350
Insurance risk	400	150
Risk capital	$ 19,500	$ 18,600
Goodwill and intangibles	10,100	11,250
Economic capital	$ 29,600	$ 29,850
Under attribution of capital	3,650	600
Average common equity	$ 33,250	$ 30,450

Economic capital decreased $250 million from a year ago mainly due to lower goodwill and intangibles reflecting the impact of the goodwill impairment charge in the prior year and the stronger Canadian dollar on the translation of foreign currency-denominated goodwill. Lower operational risk due to lower revenue also contributed to the decrease. These factors were partially offset by higher market risk reflecting methodology changes for both credit valuation adjustments and modeled market risk, and higher insurance specific risk resulting from methodology changes and a lower diversification factor.

We remain well capitalized with current levels of available capital exceeding the economic capital required to underpin all of our material risks.

Subsidiary capital

Our capital management framework includes the management of our subsidiary capital. We invest capital across the enterprise to meet local regulators' capital adequacy requirements and maximize returns to our shareholders. We invest in our subsidiaries as appropriate during the year. We set guidelines for defining capital investments in our subsidiaries and manage the relationship between capital invested in subsidiaries and our consolidated capital base to ensure that we can access capital recognized in our consolidated regulatory capital measurements.

Each of our subsidiaries has responsibility for maintaining its 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 management across all subsidiary entities.

Other considerations affecting capital

Capital treatment for equity investments in other entities is determined by a combination of accounting and regulatory 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 are fully consolidated on our Consolidated Balance Sheets, and Joint ventures are consolidated on a pro rata basis.
- 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.

Additional financial information

Total RBC available-for-sale portfolio

As at October 31, 2010, all AFS securities that had unrealized losses were assessed for other-than-temporary impairment. For those debt instruments 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 written down to their fair value. For equity securities, where management believes that the fair value will not recover prior to their disposition or where there has been unrealized losses for a protracted period of time, these securities were 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 will continue to hold them until their value recovers, they mature or they are redeemed. For further details regarding the assessment of other-than-temporary impairment, refer to Note 3 to our 2010 Annual Consolidated Financial Statements.

Total RBC available-for-sale portfolio — **Table 55**

	2010				2009			
(C$ millions)	Amortized cost (1)	Fair value (1)	Net unrealized gains (losses)	Net gains (losses) recognized in income	Amortized cost (1)	Fair value (1)	Net unrealized gains (losses)	Net gains (losses) recognized in income
Government and agency	$ 25,800	$ 26,248	$ 448	$ 73	$ 22,166	$ 22,622	$ 456	$ (17)
Mortgage-backed securities	1,079	1,027	(52)	(27)	2,057	1,852	(205)	(173)
Asset-backed securities	3,599	3,499	(100)	(6)	4,516	4,427	(89)	(45)
Corporate debt and other debt	10,985	11,010	25	(47)	14,718	14,711	(7)	(198)
Equities	1,719	1,764	45	48	2,437	2,412	(25)	(207)
Loan substitute securities	256	228	(28)	–	256	186	(70)	–
Total (1)	$ 43,438	$ 43,776	$ 338	$ 41	$ 46,150	$ 46,210	$ 60	$ (640)

(1) Includes held-to-maturity of $225 million (2009 – $156 million) that is grouped with AFS on the balance sheet.

The total amortized cost of the AFS portfolio was $43.4 billion as at October 31, 2010, down $2.7 billion, or 6% from the prior year. The decrease largely reflected the reduction in holdings of certain AFS securities including certificate of deposits, and U.S. agency mortgage-backed securities (MBS), exiting of positions held in U.S. student loan auction rate securities (ARS) and U.S. non-agency MBS in order to manage our exposures as well as the impact of the stronger Canadian dollar. The decrease was partially offset by an increase in RBC originated MBS resulting from securitization activities as well as purchases of Canadian government bonds.

We recognized $41 million of net gains in income this year, as compared to $640 million of net losses in the prior year. The net gains in the current year largely reflected net gains of $309 million on the sale of certain U.S. agency MBS classified as government and agency and listed common shares as well as gains from capital distributions from private equities. These gains were largely offset by net losses of $268 million primarily on securities that were deemed to be impaired such as corporate trust preferred securities which are included in corporate debt and other debt, certain listed common shares, private equities and U.S. non-agency MBS. The prior year net losses of $640 million were largely due to losses on Canadian bank common shares, U.S. non-agency MBS and corporate debt and other debt.

As at October 31, 2010, the portfolio had net unrealized gains of $338 million compared to net unrealized gains of $60 million a year ago. This largely reflected the reduction in unrealized losses due to price improvements on U.S. non-agency MBS and other non-government securities primarily due to tightening of spreads and lower interest rates. The MBS portfolio mainly consists of high quality super-senior tranches of U.S. Alt A and U.S. prime securities. There were also fair value improvements for loan substitute securities which are predominantly perpetual preferred shares of highly rated Canadian entities as well as equities which include listed common shares and listed preferred shares.

Exposures to selected financial instruments

Exposure to U.S. subprime and Alt-A RMBS, CDOs and mortgages

Certain activities and transactions we enter into expose us to the risk of default of U.S. subprime and Alt-A residential mortgages. Our net exposures to U.S. subprime and Alt-A represent less than .3% of our total assets as at October 31, 2010, compared to .4% the prior year.

Of our total holdings of residential mortgage-backed securities (RMBS), holdings with a fair value of $145 million, net of MBIA hedging of $250 million, may be exposed to U.S. subprime risk. U.S.

subprime RMBS exposures increased $59 million from last year. Of this potential exposure, over 55% of our related holdings are rated A and above, compared to over 66% in the prior year. As at October 31, 2010, U.S. subprime RMBS holdings rated AAA, on a net basis, comprised 17% of total U.S. subprime RMBS holdings, compared to 37% in 2009. Exposure to U.S. subprime loans was $319 million as at October 31, 2010, representing .04% of total assets, $170 million lower than last year, partly due to principal pay downs and the stronger Canadian dollar.

Of our total holdings of RMBS, holdings with a fair value of $557 million, net of hedging, may be exposed to U.S. Alt-A risk. U.S. Alt-A exposures decreased $431 million from the prior year mainly due to the sale of holdings. Less than 49% of these RMBS were issued during 2006 and onwards. Our exposure to U.S. Alt-A loans was $973 million as at October 31, 2010, representing .1% of total assets and a decrease of $314 million from the prior year partly due to principal pay downs and the stronger Canadian dollar.

Of our total holdings of collateralized debt obligations (CDOs), holdings of $21 million, net of MBIA hedging of $4 million, may be exposed to U.S. subprime or Alt-A risk, a decrease of $1 million from 2009. The fair value of our Corporate CDOs, net of hedging of $312 million as at October 31, 2010, increased $34 million from last year.

Net exposure to U.S. subprime and Alt-A through RMBS, CDOs and mortgages — **Table 56**

	2010			
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	$ 395	$ 557	$ 25	$ 977
Fair value of securities net of hedging by rating				
AAA	$ 24	$ 53	$ –	
AA	56	46	–	
A	–	26	–	
BBB	13	73	–	
Below BBB- (1)	52	359	21	
Total	$ 145	$ 557	$ 21	$ 723
Fair value of securities net of hedging by vintage				
2003 (or before)	$ 29	$ 32	$ –	
2004	43	49	–	
2005	29	204	21	
2006	33	92	–	
2007 and greater	11	180	–	
Total	$ 145	$ 557	$ 21	$ 723
Amortized cost of subprime/Alt-A mortgages (whole loans)	$ 180	$ 722	$ –	$ 902
Amortized cost of subprime/Alt-A RMBS securities transferred to loans under Section 3855	$ 139	$ 251	$ –	$ 390
Total subprime and Alt-A exposures, net of hedging	$ 464	$ 1,530	$ 21	$ 2,015
Sensitivities of fair value of securities, net of hedging, to changes in assumptions:				
100bp increase in credit spread	$ (4)	$ (35)		
100bp increase in interest rates	(4)	(38)		
20% increase in default rates	(4)	(38)		
25% decrease in pre-payment rates	(2)	(32)		

(1) The subprime RMBS exposures rated below BBB- represents our net bought protection position.

Off-balance sheet arrangements

For our off-balance sheet arrangements including multi-seller conduits, structured investment vehicles and other variable interest entities as at October 31, 2010, refer to the Off-balance sheet arrangements section.

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, combined funded and unfunded, as at October 31, 2010 were $4,343 million which was .6% of our total assets, unchanged from prior year.

Direct and indirect monoline insurance

We have direct and indirect monoline insurance on subprime and non-subprime assets as presented below:

Direct monoline insurance — **Table 57**

	As at October 31, 2010	
(C$ millions)	Principal/ notional	Fair value
MBIA	$ 3,656	$ 327
Assured Guaranty Municipal Corp. (Formerly FSA)	270	14
Syncora Holdings Ltd. (Formerly XL Capital Ltd.)	244	11
AMBAC Financial Group (AMBAC)	102	–
Total	$ 4,272	$ 352

As at October 31, 2010, we held monoline insurance protection of $4,272 million against default of the issuer or counterparty on both subprime and non-subprime trading assets with a recorded fair value of $352 million, net of credit valuation adjustments. Our valuation methodology related to our MBIA exposure is consistent with the prior year while we have updated our parameter estimates to reflect current market conditions.

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, interest rate swaps, and public infrastructure bonds. In these cases, we obtain a benefit from the insurance protection. The principal/notional value of these assets as at October 31, 2010 is $1,605 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. In addition, we provide liquidity facilities of $295 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 $nil was drawn as of October 31, 2010.

Commercial mortgage-backed securities disclosure

The fair value of our total direct holdings of CMBS was $316 million as at October 31, 2010.

Assets and liabilities measured at fair value

There were no material transfers in or out of levels 1, 2 or 3 in the current year, as classified by the fair value hierarchy set out in Section 3862, *Financial Instruments – Disclosures*. For further details, refer to Note 2 to our 2010 Annual Consolidated Financial Statements.

Critical accounting policies and estimates

Application of critical accounting policies and estimates

Our significant accounting policies are described in Note 1 to our 2010 Annual 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 judgment 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, securitization, allowance for credit losses, variable interest entities, goodwill and other intangible assets, 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.

Financial instruments – recognition and measurement

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), AFS, HTM, loans and receivables or other financial liabilities. A financial instrument can be designated as HFT (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 HFT, 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). AFS 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 AFS that do not have a quoted market price in an active market, which are measured at cost. Financial assets HTM, loans and receivables, and other financial liabilities are measured at amortized cost using the effective interest method.

As at October 31, 2010, approximately $353 billion, or 52%, of our financial assets and $257 billion, or 38%, of our financial liabilities were carried at fair value ($299 billion, or 48%, of financial assets and $202 billion, or 34%, of financial liabilities as at October 31, 2009).

CICA Section 3862, *Financial Instruments – Disclosures*, establishes a three-level hierarchy for disclosure of financial instruments measured at fair value, which is essentially the same as the hierarchy under U.S. GAAP. The classification of assets and liabilities within the hierarchy is based on whether the inputs to the measurement valuation methodology are observable or unobservable. Observable inputs reflect market-derived or market-based information obtained from independent sources, while unobservable inputs reflect our estimates about market data. The following three-level fair value hierarchy is based on the transparency of the inputs used to measure the fair value of the financial instruments:

- Level 1 – inputs are unadjusted quoted prices of identical instruments in active markets.
- Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 – one or more significant inputs used in a valuation technique are unobservable in determining fair values of the instruments.

Note 2 to our 2010 Annual Consolidated Financial Statements discloses the fair values of our financial instruments as at October 31, 2010.

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 use 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 HFT, other than derivatives and financial assets classified as AFS, 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 HFT 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 G7 interest-rate-yield curves, currency rates and volatility of certain prices or rates. 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 or loss 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 2010 Annual Consolidated Financial Statements.

To determine the fair value adjustments on RBC debt designated as HFT, 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 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 and Finance are

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, capital and liquidity management section for further details on the sensitivity of financial instruments used in trading and non-trading activities.

Controls over valuations of financial instruments
An independent control infrastructure is critical to ensure that our financial instruments fair value measurements are reliable, consistently determined and appropriately valued at market exit price levels. Our valuation control infrastructure has senior management oversight and is independent of business functions that trade or invest in financial instruments. Valuations are governed by policies and controls, including independent price verification, review of daily profit and loss, and determination of valuation adjustments for non-readily observable market prices or parameters, by staff with appropriate knowledge and expertise of the instruments and markets in which we transact. These policies and controls include a review of all new business initiatives to ensure minimum standards are met prior to approval.

Other-than-temporary impairment of available-for-sale and held-to-maturity securities
AFS 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 for AFS securities, we consider several factors including: (i) the length of time and extent to which the fair value has been less than its amortized cost; (ii) the severity of the impairment; (iii) the cause of the impairment and the financial condition and near-term prospects of the issuer; and (iv) our intent and ability to hold the investment for a period of time sufficient to allow for any anticipated recovery of 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 AFS securities previously recognized in accumulated other comprehensive income (AOCI) are reclassified to net income during that period. We assess our HTM securities for impairment using the same impairment model for Loans. For further details, refer to Notes 1 and 3 to our 2010 Annual 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 2010 Annual 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 2010 Annual 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 2010 Annual Consolidated Financial Statements, we concluded that none of the SPEs used to securitize our financial assets should be consolidated.

Allowance for credit losses
The allowance for credit losses is maintained at levels that management considers appropriate to cover estimated identified credit related losses in the portfolio as well as losses that have been incurred, but are not yet identifiable as at the balance sheet date. The allowance relates to on-balance sheet exposures, such as loans and acceptances, and off-balance sheet items such as letters of credit, guarantees and unfunded commitments.

The allowance is determined based on management's identification and evaluation of problem accounts for estimated losses that exist on the remaining portfolio, and on other factors including the composition and credit quality of the portfolio, and changes in economic and business conditions. The allowance for credit losses consists of specific allowances and the general allowance.

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 allowances
Specific allowances are recorded to recognize estimated losses on both retail and wholesale loans that have become impaired. The losses relating to retail portfolios are managed on a pooled basis and are based on net write-off experience. For credit cards, no specific allowance is maintained as balances are written off when a payment is 180 days in arrears. Personal loans are generally written off at 150 days past due. Write-offs for other loans are generally recorded when there is no realistic prospect of full recovery. The losses relating to wholesale borrowers are estimated using management's judgment relating to the timing of future cash flow amounts that can be reasonably expected from the borrowers, financially responsible guarantors and the realization of collateral. The amounts expected to be recovered are reduced by estimated collection costs and discounted at the effective interest rate of the obligation.

General allowance
A general allowance is established to cover estimated credit losses incurred in the lending portfolio that have not yet been specifically identified as impaired. For wholesale portfolios the determination of the general allowance is based on the application of estimated probability of default, gross exposure at default and loss factors, which are determined by historical loss experience and delineated by loan type and rating. For retail portfolios the determination of the general allowance is based on the application of historical loss rates. In determining the general allowance level, management also considers the current portfolio credit quality trends, business and economic conditions, the impact of policy and process changes, and other supporting factors.

Total allowance for credit losses
Based on the procedures discussed above, management believes that the total allowance for credit losses of $3,096 million is adequate to absorb estimated credit losses incurred in the lending portfolio as at October 31, 2010. This amount includes $99 million classified in other liabilities, which relates to letters of credit and guarantees and unfunded commitments.

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 that 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 2010 Annual 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 2010 Annual Consolidated Financial Statements. Also refer to the "Goodwill Impairment Assessment" later in this section.

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 2010 Annual 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 us 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 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 2010
Canadian GAAP
We did not adopt any new significant accounting policies during the year.

U.S. GAAP
Fair value measurement and disclosures on non-financial assets and liabilities
Guidance on fair value measurement and disclosures (Topic 820, *Fair Value Measurements and Disclosures*) for nonfinancial assets and liabilities became effective for us on November 1, 2009. The new standards require additional disclosure on inputs and valuation techniques used to measure assets and liabilities that are measured at fair value on a nonrecurring basis in periods subsequent to initial recognition. Refer to the section entitled "Framework on fair value measurement" in Note 31 to our 2010 Annual Consolidated Financial Statements for expanded disclosures.

Investments in Certain Entities that Calculate Net Asset Value Per Share
Financial Accounting Standard Board (FASB) issued Accounting Standards Update (ASU) 2009-12, *Fair Value Measurements and Disclosures* (ASC Topic 820) – *Investments in Certain Entities that Calculate Net Asset Value Per Share (or its Equivalent),* which provides guidance on measuring fair value of certain alternative investments, and permits entities to use net asset value as a practical expedient to measure the fair value of its investments in certain investment funds. We adopted this standard on November 1, 2009.

Our alternative investments primarily include hedge funds held in connection with hedging of exposure related to fee-based equity derivative transactions with third parties. Fair value of these investments are based on the net asset value of the hedge funds. Refer to Note 31 to our 2010 Annual Consolidated Financial Statements for additional disclosures and information.

Improving Disclosures about Fair Value Measurements
FASB issued ASU 2010-06, *Fair Value Measurements and Disclosures* which amends and adds new disclosure requirements to Topic 820 *Fair Value Measurement and Disclosures – Overall*. New requirements are applicable for transfers into and out of Levels 1 and 2 and separate disclosures are required for purchases, sales, issuances, and settlements relating to Level 3 financial instruments. Clarifications are also provided on existing fair value disclosures on level of disaggregation and on inputs and valuation techniques used to measure fair value. This guidance became effective for us on February 1, 2010. Refer to Note 2 to our 2010 Annual Consolidated Financial Statements for the expanded fair value hierarchy disclosures. Additional disclosures are also required regarding the nature and risk of such investments; these are provided in the "Framework on fair value measurement section" of Note 2 to our 2010 Annual Consolidated Financial Statements.

Non-controlling interest
In December 2007, the FASB issued guidance under ASC Topic 810, *Consolidation*, which was effective for us on November 1, 2009. Significant requirements include:
- Ownership interests in subsidiaries held by parties other than the parent must be reclassified to equity and presented separately from the parent's equity;
- The amount of consolidated net income attributable to the parent and to the non-controlling interest must be clearly identified and presented on the consolidated statement of income;
- Non-controlling interest should continue to be attributed its share of losses even if that attribution results in a deficit non-controlling interest balance;
- After control is obtained, a change in ownership interests that does not result in a loss of control should be accounted for as an equity transaction; and
- A change in ownership of a consolidated subsidiary that results in a loss of control and deconsolidation will trigger recognition of a gain or loss and any retained non-controlling equity investment in the former subsidiary will be initially measured at fair value.

Business combinations
FASB issued guidance under Topic 805, Business Combinations (Statement No. 141 (revised 2007), *Business Combinations)*, which replaces previous guidance under Topic 805 (Statement No. 141, *Business Combinations*). The new guidance includes the following changes in requirements: more assets acquired and liabilities assumed must be measured at fair value at the acquisition date, liabilities related to contingent consideration must be remeasured at fair value and each subsequent reporting period, and all acquisition related costs must be expensed.

There is no impact to our 2010 Annual Consolidated Financial Statements as we did not close any acquisitions during the year.

In addition, several new U.S. GAAP accounting pronouncements issued by FASB became effective for us on November 1, 2009 but the impact of adopting these pronouncements is not material to our consolidated financial position or results of operations. For further details about the new U.S. GAAP pronouncements, refer to Note 31 to our 2010 Annual Consolidated Financial Statements.

Future changes in accounting policies and disclosure
Canadian GAAP
There is no significant future accounting change applicable for us.

U.S. GAAP
Amendments to Guidance on Accounting for Transfers of Financial Assets
In June 2009, the FASB issued Statement No. 166, *Accounting for Transfers of Financial Assets – an amendment of FASB Statement No. 140* (FAS 166), which will be effective for us prospectively on November 1, 2010. FAS 166 eliminates the concept of qualifying special purpose entities (QSPEs) and provides additional criteria and clarifies certain principles of the derecognition requirement in FAS 140 that the transferor must use to assess transfers of financial assets. It also eliminates the exception that permitted sale accounting for certain mortgage securitizations when control has not been completely surrendered by the transferor.

Amendments to Consolidation Guidance
In June 2009, the FASB issued Statement No. 167, *Amendments to FASB Interpretation No. 46(R)* (FAS167) which will be effective for us retrospectively on November 1, 2010. FAS167 modifies the characteristics that identify a variable interest entity, provides new criteria for determining the primary beneficiary and increases the frequency of required assessments to determine whether an entity is the primary beneficiary of a variable interest entity. We are currently in the process of assessing the impact of adopting this new standard on our consolidated financial position and results of operations.

Refer to Note 31 to our 2010 Annual Consolidated Financial Statements for more information about these and other future accounting standards.

Future adoption of International Financial Reporting Standards

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

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

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

We also initiated a series of ongoing activities which include:

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

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

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

Impact of Adopting International Financial Reporting Standards

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

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

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

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

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

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

Critical Accounting Policies

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

Financial instruments – Recognition and measurement

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

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

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

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

Loans – Allowance for credit losses

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

Special Purpose Entities (Variable Interest Entities under Canadian GAAP)

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

Goodwill and Intangibles

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

The goodwill that is attributable to a CGU is generally that which arose upon the acquisition of the entities that comprise that CGU. Our International Banking reporting unit will reside in two CGUs, U.S. Banking and Caribbean Banking. The goodwill that arose upon the acquisition of RBTT will be attributed to the Caribbean Banking CGU with the remainder residing in the U.S. Banking CGU, resulting in approximately equal balances.

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

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

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

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

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

Income Taxes

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

Other Significant Accounting Policies

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

Interests in Joint Ventures

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

Goodwill Impairment Assessment

GAAP requires us to test goodwill for impairment at least annually or more often if events or circumstances indicate that it may be impaired. For further details, refer to ‘Goodwill and other intangible assets’ in the Critical accounting policies and estimates section described above and to Note 1 to our 2010 Annual Consolidated Financial Statements. The results of our annual test for possible impairment of goodwill as at August 1, 2010, indicated that the fair values of all of our reporting units except International Banking exceeded their carrying values. As a result, further analysis was required to determine if the $2.9 billion of goodwill allocated to the International Banking reporting unit, of which approximately half relates to our U.S. banking operations and the remainder to our Caribbean banking operations, was impaired. This further analysis compares the fair value of goodwill to its carrying value, with any shortfall indicating impairment. The fair value of goodwill is imputed by reference to the fair value of the reporting unit over the fair value of its net identifiable assets.

The fair value of our International Banking reporting unit was estimated using an earnings-based approach which incorporated internal forecasts of revenues and expenses. Given the inability to rely on recent performance as evidence supporting the probability that our U.S. banking operations will achieve its forecast under the earnings based approach, which is exacerbated by the uncertainties and challenges created by the current market environment, we modelled various scenarios reflecting different reasonably possible outcomes within the current market environment. The estimated fair value of the reporting unit also contains other significant judgments and assumptions, one of the most significant of which is the discount rate applied to the cash flows supporting our earnings based valuation approach. In determining the range of possible discount rates, we considered various factors including our ability to raise capital in the current market, the risk premium associated with the specific entities, and the potential impact of the Dodd-Frank Wall

Street Reform and Consumer Protection Act on interchange revenue. We decided that the appropriate range was between 10.5% and 11.5%, reflecting our internally generated cost of equity, uncertainty in achieving forecasted results and our ability to raise capital relative to our peers. We also considered the impact of higher market observable discount rates within our U.S. Banking peer group which we determined to be of lower relevance as most of these discount rates reflected some level of TARP financing, which we had not received.

The outcome of our analysis was also highly sensitive to the valuation of the loan portfolios, which required significant management judgement regarding key assumptions including the probability of default, liquidity premiums, and exit prices in distressed markets. The selection of these assumptions was particularly challenging in the current market conditions, given the relative lack of market-observable data in the U.S. and Caribbean.

After considering the weight of evidence available to us, our conclusion regarding the goodwill of our International Banking reporting unit was that it was not impaired. This conclusion was based on our review of various scenarios where we adjusted certain factors to identify the range of reasonably possible outcomes. Given that the goodwill testing process is a complex one, requiring management to make numerous assumptions and judgments, based in many cases on uncertain information about future periods, the ultimate margin between a decision of impairment and non-impairment could change significantly if any one of these assumptions or judgments changes. Prolonged weakness or deterioration in economic market conditions, or additional regulatory changes, may result in declines in business performance beyond management expectations, which could lead to a significantly different outcome, including a material impairment charge to earnings, in a future period related to some portion of the associated goodwill.

Pension obligations

Through a number of defined benefit and defined contribution plans we 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 measured our benefit obligations and pension plan assets as at September 30, 2010. During the year, corporate bond yields, which impact the selection of a discount rate we use to measure our benefit obligations, have decreased across all maturities, mainly in the mid and long ranges of the curve. This has resulted in an actuarial loss of $1,118 million in our benefit obligation, which more than offsets our pension plan asset gains of $644 million and increased 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 strengthening of the Canadian dollar at year end resulted in a decrease of our pension liability for our U.S. and international plans. 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. For our principal pension plans, the most recent actuarial valuation performed for funding purposes was completed on January 1, 2010. Based on the result of this valuation, we increased our pension plan contributions for 2010 for an amount that is in excess of the minimum funding requirement set by pension regulators. Total contributions to our defined benefit pension plans for 2010 were $1,288 million. For further information, refer to Note 20 to our 2010 Annual Consolidated Financial Statements.

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 the Chief Administrative Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

As of October 31, 2010, management evaluated, under the supervision of and with the participation of the President and Chief Executive Officer and the Chief Administrative Officer and Chief Financial Officer, the effectiveness of our disclosure controls and procedures as defined under rules adopted by the United States Securities and Exchange Commission. Based on that evaluation, the President and Chief Executive Officer and the Chief Administrative Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of October 31, 2010.

Internal control over financial reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. However, because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements on a timely basis. 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, 2010, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Performance measures

Tier 1 common ratio

We use the Tier 1 common ratio in conjunction with regulatory capital ratios to evaluate our capital adequacy specifically related to common equity. We believe that it is a useful supplemental measure of capital adequacy. The Tier 1 common ratio does not have a standardized meaning under GAAP and may not be comparable to similar measures disclosed by other financial institutions. The following table provides a calculation of our Tier 1 common ratio:

Tier 1 common ratio — **Table 58**

(C$ millions, except percentage amounts)	2010	2009	2008
Tier 1 capital	$ 33,972	$ 31,774	$ 25,031
Less:			
Qualifying other NCI in subsidiaries	351	353	357
Innovative Tier 1 capital instruments (1)	3,327	3,991	3,857
Non-cumulative First Preferred shares (1)	4,810	4,811	2,657
Tier 1 common capital	$ 25,484	$ 22,619	$ 18,160
Risk-weighted assets	$ 260,456	$ 244,837	$ 278,579
Tier 1 common ratio	9.8%	9.2%	6.5%

(1) Net of treasury shares.

Return on common 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, ROE and return on risk capital (RORC). We use ROE and RORC, at both the consolidated and business 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 by management for supporting investment and resource allocation decisions because they adjust for certain items that may affect comparability between business segments and certain competitors. 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 our 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 59**

	2010							2009	2008
(C$ millions, except percentage amounts) (1)	Canadian Banking	Wealth Management	Insurance	International Banking	Capital Markets	Corporate Support	Total	Total	Total
Net income (loss) available to common shareholders	$ 2,979	$ 640	$ 393	$ (369)	$ 1,584	$ (262)	$ 4,965	$ 3,625	$ 4,454
Average risk capital (2)	$ 6,350	$ 1,000	$ 1,300	$ 3,000	$ 7,100	$ 750	$19,500	$18,600	$15,050
add: Under/(over) attribution of capital	–	–	–	–	–	3,650	3,650	600	1,900
Goodwill and intangible capital	2,000	2,650	200	3,650	1,000	600	10,100	11,250	7,700
Average common equity (3)	$ 8,350	$ 3,650	$ 1,500	$ 6,650	$ 8,100	$ 5,000	$33,250	$30,450	$24,650
add: Impact of goodwill impairment charge	–	–	–	–	–	–	–	550	–
Average common equity, excluding goodwill	$ 8,350	$ 3,650	$ 1,500	$ 6,650	$ 8,100	$ 5,000	$33,250	$31,000	$24,650
ROE	35.6%	17.6%	26.6%	(5.5)%	19.5%	n.m.	14.9%	11.9%	18.1%
add: Impact of goodwill impairment charge	–	–	–	–	–	–	–	3.0%	–
ROE	35.6%	17.6%	26.6%	(5.5)%	19.5%	n.m.	14.9%	14.9%	18.1%
RORC	46.9%	64.6%	30.1%	(12.2)%	22.3%	n.m.	25.4%	19.5%	29.6%

(1) Average risk capital, Goodwill and intangible capital, and Average common equity represent rounded figures. ROE and RORC are based on actual balances before rounding. These are calculated using methods intended to approximate the average of the daily balances for the period.
(2) Average risk capital includes Credit, Market (trading and non-trading), Operational and Business and fixed assets, and Insurance 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

Embedded value

Embedded value is a measure of shareholder value embedded in the balance sheet of our Insurance segment, excluding any value associated from future new sales. We use the change in embedded value between reporting periods as a measure of the value created by the insurance operations during the period.

We define embedded value as the value of equity held in our Insurance segment and the value of in-force business (existing policies). The value of in-force business is calculated as the present value of future expected earnings on in-force business less the present value of capital required to support in-force business. We use discount rates that are consistent with other insurance companies. Required capital uses the capital frameworks in the jurisdictions in which we operate.

Key drivers affecting the change in embedded value from period to period are new sales, investment performance, claims and policyholder experience, change in actuarial assumptions, changes in foreign exchange rates and changes in shareholder equity arising from transfers in capital.

Embedded value does not have a standardized meaning under GAAP and may not be directly comparable to similar measures disclosed by other companies. Given that this measure is specifically used for our Insurance segment and involves the use of discount rates to present value the future expected earnings and capital required for the in-force business, reconciliation to financial statements information is not applicable.

Non-GAAP measures

Overview

Given the nature and purpose of our management reporting framework, we use and report certain non-GAAP financial measures which are not defined nor do they have a standardized meaning under GAAP. As a result, these reported amounts and related ratios are not necessarily comparable with similar information disclosed by other financial institutions. We believe that excluding the items noted below should enhance the comparability of our financial performance compared to prior periods and will provide readers with a better understanding of management's perspective on our 2010 and 2009 performance.

2010 results excluding the loss on Liberty Life

In October 2010, we announced our intention to sell Liberty Life, our U.S. life insurance business, to Athene Holding Ltd. for US$628 million. We recorded a loss of $116 million (US $114 million) on both a before-and after-tax basis in the fourth quarter of 2010.

2009 results excluding the goodwill impairment charge

In the second quarter of 2009, we recorded a goodwill impairment charge of $1 billion on both a before-and after-tax basis.

The following table provides a reconciliation of our results excluding the loss on Liberty Life and the goodwill impairment charge for the years ended October 31, 2010 and October 31, 2009, respectively.

Table 60

(C$ millions, except percentage and per share amounts)	2010	2009
Income before income taxes and NCI	$ 6,968	$ 5,526
Add: Goodwill impairment charge	–	1,000
Loss on Liberty Life	116	–
Income before income taxes and NCI, excluding the items noted above	$ 7,084	$ 6,526
Income taxes	1,646	1,568
Net income before NCI excluding the items noted above	$ 5,438	$ 4,958
NCI in net income of subsidiaries	99	100
Net income excluding the items noted above	$ 5,339	$ 4,858
Preferred dividends	258	233
Net income available to common shareholders excluding the items noted above	$ 5,081	$ 4,625
Average number of common shares (thousands)	1,420,719	1,398,675
Basic EPS	$ 3.49	$ 2.59
Add: Goodwill impairment charge	–	.71
Loss on Liberty Life	.08	–
Basic EPS excluding the items noted above (1)	$ 3.57	$ 3.31
Average number of diluted common shares (thousands)	1,433,754	1,412,126
Diluted EPS	$ 3.46	$ 2.57
Add: Goodwill impairment charge	–	.71
Loss on Liberty Life	.08	–
Diluted EPS excluding the items noted above	$ 3.54	$ 3.28
Average common equity	33,250	30,450
ROE (1)	14.9%	11.9%
Average common equity excluding the items noted above	33,250	31,000
ROE (1) excluding the items noted above	15.3%	14.9%
Effective income tax rate	23.6%	28.4%
Effective income tax rate excluding the items noted above	23.2%	24.0%

(1) Based on actual balances before rounding.

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 2010 Annual Consolidated Financial Statements.

Supplemental information

Net interest income on average assets and liabilities — Table 61

(C$ millions, except percentage amounts)	Average balances 2010	2009	2008	Interest (1) 2010	2009	2008	Average rate 2010	2009	2008
Assets									
Deposits with other banks									
Canada	$ 1,060	$ 2,692	$ 1,837	$ 14	$ 37	$ 45	1.32%	1.37%	2.45%
United States	4,167	4,674	4,168	12	11	137	0.29	.24	3.29
Other International	4,846	3,976	7,802	33	114	316	0.68	2.87	4.05
	10,073	11,342	13,807	59	162	498	0.59	1.43	3.61
Securities									
Trading (3)	151,724	136,963	149,098	3,729	4,041	4,862	2.46	2.95	3.26
Available–for–sale	42,589	50,686	39,626	1,041	1,905	1,800	2.44	3.76	4.54
	194,313	187,649	188,724	4,770	5,946	6,662	2.45	3.17	3.53
Asset purchased under reverse repurchase agreements and securities borrowed	57,508	44,476	68,356	474	931	2,889	0.82	2.09	4.23
Loans									
Canada									
Retail (3)	204,592	185,318	170,300	9,138	8,660	7,446	4.47	4.67	4.37
Wholesale	30,716	35,074	38,558	1,035	1,179	2,443	3.37	3.36	6.34
	235,308	220,392	208,858	10,173	9,839	9,889	4.32	4.46	4.73
United States	34,739	42,227	35,096	1,376	1,777	2,161	3.96	4.21	6.16
Other International	15,243	17,559	15,623	1,821	1,923	2,939	11.95	10.95	18.81
	285,290	280,178	259,577	13,370	13,539	14,989	4.69	4.83	5.77
Total interest–earning assets	547,184	523,645	530,464	18,673	20,578	25,038	3.41	3.93	4.72
Non–interest–bearing deposits with other banks	5,923	5,895	3,702	–	–	–	–	–	–
Customers' liability under acceptances	7,984	10,247	11,274	–	–	–	–	–	–
Other assets	121,909	155,513	104,860	–	–	–	–	–	–
Total assets	$683,000	$695,300	$650,300	$18,673	$20,578	$25,038	2.73%	2.96%	3.85%
Liabilities and shareholders' equity									
Deposits (2), (3)									
Canada	$177,830	$172,736	$165,400	$ 2,646	$ 2,946	$ 4,423	1.49%	1.71%	2.67%
United States	54,483	58,679	56,234	334	778	1,758	0.61	1.33	3.13
Other International	126,460	143,736	150,564	2,111	3,038	5,977	1.67	2.11	3.97
	358,773	375,151	372,198	5,091	6,762	12,158	1.42	1.80	3.27
Obligations related to securities sold short	47,689	37,597	45,367	1,749	1,286	1,525	3.67	3.42	3.36
Obligations related to assets sold under repurchase agreements and securities loaned	42,941	36,647	36,558	374	409	1,613	0.87	1.12	4.41
Subordinated debentures	6,321	7,377	7,183	307	350	354	4.86	4.74	4.93
Other interest–bearing liabilities	1,849	3,943	3,962	175	230	334	9.46	5.83	8.43
Total interest–bearing liabilities	457,573	460,715	465,268	7,696	9,037	15,984	1.68	1.96	3.44
Non–interest–bearing deposits (3)	51,906	46,807	38,843	–	–	–	–	–	–
Acceptances	7,984	10,247	11,274	–	–	–	–	–	–
Other liabilities	127,578	142,964	108,116	–	–	–	–	–	–
Total liabilities	$645,041	$660,733	$623,501	$ 7,696	$ 9,037	$15,984	1.19%	1.37%	2.56%
Shareholders' Equity									
Preferred	4,718	4,130	1,795	–	–	–	–	–	–
Common	33,241	30,437	25,004	–	–	–	–	–	–
Total liabilities and shareholders' equity	$683,000	$695,300	$650,300	$ 7,696	$ 9,037	$15,984	1.13%	1.30%	2.46%
Net interest income and margin	$683,000	$695,300	$650,300	$10,977	$11,541	$ 9,054	1.61%	1.66%	1.39%
Net interest income and margin (average earning assets)									
Canada	$333,546	$311,715	$308,574	$ 8,405	$ 7,863	$ 6,935	2.52%	2.52%	2.25%
United States	98,193	107,131	108,733	1,718	2,134	1,132	1.75	1.99	1.04
Other International	115,445	104,799	113,157	854	1,544	987	0.74	1.47	.87
Total	$547,184	$523,645	$530,464	$10,977	$11,541	$ 9,054	2.01%	2.20%	1.71%

(1) Interest income includes loan fees of $410 million (2009 – $398 million; 2008 – $343 million).

(2) Deposits include savings deposits with average balances of $90 billion (2009 – $72 billion; 2008 – $56 billion), interest expense of $.4 billion (2009 – $.4 billion; 2008 – $.6 billion) and average rates of .5% (2009 – .5%; 2008 – 1.0%). Deposits also include term deposits with average balances of $236 billion (2009 – $271 billion; 2008 – $287 billion), interest expense of $3.9 billion (2009 – $5.6 billion; 2008 – $10.1 billion) and average rates of 1.65% (2009 – 2.07%; 2008 – 3.53%).

(3) Comparative amounts have been reclassified from those previously reported.

Change in net interest income (1) **Table 62**

(C$ millions)	2010 vs. 2009 Increase (decrease) due to changes in Average volume (2)	Average rate (2)	Net change	2009 vs. 2008 Increase (decrease) due to changes in Average volume (2)	Average rate (2)	Net change
Assets						
Deposits with other banks						
Canada	$ (22)	$ (1)	$ (23)	$ 16	$ (24)	$ (8)
U.S.	(1)	2	1	15	(141)	(126)
Other international	21	(102)	(81)	(127)	(75)	(202)
Securities						
Trading (3)	407	(719)	(312)	(378)	(443)	(821)
Available-for-sale	(272)	(592)	(864)	448	(343)	105
Asset purchased under reverse repurchase agreements and securities borrowed	219	(676)	(457)	(801)	(1,157)	(1,958)
Loans						
Canada						
Retail (3)	873	(395)	478	682	532	1,214
Wholesale	(147)	3	(144)	(204)	(1,060)	(1,264)
U.S.	(301)	(100)	(401)	385	(769)	(384)
Other international	(267)	165	(102)	330	(1,346)	(1,016)
Total interest income	$ 510	$(2,415)	$(1,905)	$ 366	$(4,826)	$ (4,460)
Liabilities						
Deposits (3)						
Canada	$ 85	$ (385)	$ (300)	$ 188	$(1,665)	$ (1,477)
U.S.	(52)	(392)	(444)	73	(1,053)	(980)
Other international	(337)	(590)	(927)	(260)	(2,679)	(2,939)
Obligations related to securities sold short	365	98	463	(265)	26	(239)
Obligations related to assets sold under repurchase agreements and securities loaned	64	(99)	(35)	4	(1,208)	(1,204)
Subordinated debentures	(51)	8	(43)	9	(13)	(4)
Other interest-bearing liabilities	(158)	103	(55)	–	(104)	(104)
Total interest expense	$ (84)	$(1,257)	$(1,341)	$ (251)	$(6,696)	$ (6,947)
Net interest income	$ 594	$(1,158)	$ (564)	$ 617	$ 1,870	$ 2,487

(1) Geographic classification for selected assets and liabilities is based on the domicile of the booking point of the subject assets and liabilities.
(2) Volume/rate variance is allocated on the percentage relationship of changes in balances and changes in rates to the total net change in net interest income.
(3) Comparative amounts have been reclassified from those previously reported.

Loans and acceptances by geography **Table 63**

As at October 31 (C$ millions)	2010	2009	2008	2007	2006
Canada					
Residential mortgages	$124,064	$117,292	$117,690	$107,453	$ 94,272
Personal	69,291	60,493	48,780	42,506	37,946
Credit cards	9,704	8,285	8,538	8,142	6,966
Small business	2,712	2,851	2,804	2,652	2,318
Retail	205,771	188,921	177,812	160,753	141,502
Business	$ 45,217	$ 47,110	$ 53,775	$ 51,237	$ 44,353
Sovereign	2,785	1,394	1,544	585	553
Bank	808	1,096	978	521	160
Wholesale	48,810	49,600	56,297	52,343	45,066
	$254,581	$238,521	$234,109	$213,096	$186,568
United States					
Retail	$ 11,121	$ 11,678	$ 12,931	$ 6,804	$ 7,652
Wholesale	20,852	25,387	30,943	18,548	13,847
	31,973	37,065	43,874	25,352	21,499
Other International					
Retail	$ 4,936	$ 4,625	$ 4,712	$ 1,905	$ 1,896
Wholesale	11,084	12,964	20,345	10,862	9,084
	16,020	17,589	25,057	12,767	10,980
Total loans and acceptances	$302,574	$293,175	$303,040	$251,215	$219,047
Total allowance for loan losses	(2,997)	(3,188)	(2,215)	(1,493)	(1,409)
Total loans and acceptances, net of allowance for loan losses	$299,577	$289,987	$300,825	$249,722	$217,638

Loans and acceptances by portfolio and sector — Table 64

As at October 31 (C$ millions)	2010	2009	2008	2007	2006
Residential mortgages	$ 128,832	$ 122,130	$ 122,991	$ 109,745	$ 96,675
Personal	80,174	71,542	60,727	48,743	44,902
Credit cards	10,110	8,701	8,933	8,322	7,155
Small business	2,712	2,851	2,804	2,652	2,318
Retail	221,828	205,224	195,455	169,462	151,050
Business					
Agriculture	$ 4,815	$ 5,090	$ 5,305	$ 5,367	$ 5,435
Automotive	3,527	3,657	3,999	3,285	2,958
Consumer goods	5,912	6,141	7,389	5,206	4,553
Energy	5,945	7,055	8,146	7,632	6,010
Non-bank financial services	4,769	3,541	8,788	6,959	4,459
Forest products	792	830	1,152	1,349	1,126
Industrial products	3,731	3,972	5,033	4,119	3,659
Mining & metals	635	1,774	3,947	2,301	1,072
Real estate & related	18,358	21,049	22,978	19,187	16,145
Technology & media	2,569	2,562	3,206	2,423	2,326
Transportation & environment	3,759	4,413	4,239	2,656	2,400
Other (1)	20,253	22,572	25,623	17,583	15,586
Sovereign	3,765	2,779	2,496	932	887
Bank	1,916	2,516	5,284	2,754	1,381
Wholesale	80,746	87,951	107,585	81,753	67,997
Total loans and acceptances	$ 302,574	$ 293,175	$ 303,040	$ 251,215	$ 219,047
Total allowance for loan losses	(2,997)	(3,188)	(2,215)	(1,493)	(1,409)
Total loans and acceptances, net of allowance for loan losses	$ 299,577	$ 289,987	$ 300,825	$ 249,722	$ 217,638

(1) Other in 2010 related to other services, $8.1 billion; financing products, $5.1 billion; holding and investments, $4.0 billion; health, $2.7 billion; and other, $.4 billion.

Impaired loans by portfolio and geography — Table 65

As at October 31 (C$ millions except percentage amounts)	2010	2009	2008	2007	2006
Residential mortgages	$ 808	$ 641	$ 340	$ 180	$ 165
Personal	383	409	348	189	205
Small business	49	59	40	19	13
Retail	1,240	1,109	728	388	383
Business					
Agriculture	$ 77	$ 82	$ 95	$ 65	$ 45
Automotive	111	41	20	5	8
Consumer goods	132	145	57	83	85
Energy	112	107	80	3	6
Non-bank financial services	70	227	25	14	15
Forest products	56	53	25	29	12
Industrial products	142	172	194	29	17
Mining & metals	12	22	7	4	5
Real estate & related	1,627	1,625	1,137	353	74
Technology & media	70	115	45	10	49
Transportation & environment	69	29	10	19	19
Other (1)	1,238	1,658	500	116	108
Sovereign	9	10	–	–	–
Bank	34	62	–	–	–
Wholesale	3,759	4,348	2,195	730	443
Total impaired loans (2)	$ 4,999	$ 5,457	$ 2,923	$ 1,118	$ 826
Canada					
Residential mortgages	$ 544	$ 441	$ 238	$ 149	$ 127
Personal	174	173	150	152	183
Small business	49	59	40	19	13
Retail	767	673	428	320	323
Business					
Agriculture	$ 71	$ 77	$ 95	$ 64	$ 45
Automotive	87	27	17	4	5
Consumer goods	53	53	43	81	73
Energy	65	5	5	1	4
Non-bank financial services	1	1	3	3	2
Forest products	11	20	22	28	11
Industrial products	99	140	174	28	14
Mining & metals	4	6	6	4	5
Real estate & related	177	232	50	53	26
Technology & media	55	88	10	10	9
Transportation & environment	42	17	10	19	6
Other	106	173	94	82	66
Sovereign	–	–	–	–	–
Bank	–	–	–	–	–
Wholesale	771	839	529	377	266
Total	$ 1,538	$ 1,512	957	697	589
United States					
Residential mortgages	$ 117	$ 108	$ 52	$ 6	$ 8
Personal	105	119	81	21	7
Retail	222	227	133	27	15
Business					
Agriculture	$ 3	$ 3	$ –	$ 1	$ –
Automotive	22	14	3	1	3
Consumer goods	41	34	14	2	12
Energy	43	100	73	–	–
Non-bank financial services	54	213	8	–	–
Forest products	26	33	3	1	1
Industrial products	40	32	20	1	3
Mining & metals	6	16	1	–	–
Real estate & related	1,162	1,365	1,087	300	48
Technology & media	10	20	35	–	40
Transportation & environment	17	9	–	–	13
Other	1,038	1,355	282	16	23
Sovereign	–	–	–	–	–
Bank	–	–	–	–	–
Wholesale	2,462	3,194	1,526	322	143
Total	$ 2,684	$ 3,421	$ 1,659	$ 349	$ 158
Other International					
Retail	$ 251	$ 209	$ 167	$ 41	$ 45
Wholesale	526	315	140	31	34
Total	$ 777	$ 524	$ 307	$ 72	$ 79
Total impaired loans	$ 4,999	$ 5,457	$ 2,923	$ 1,118	$ 826
Specific allowance for loan losses	(1,111)	(1,279)	(767)	(351)	(263)
Net impaired loans	$ 3,888	$ 4,178	$ 2,156	$ 767	$ 563
Gross impaired loans as a % of loans and acceptances					
Residential mortgages	.63%	.52%	.28%	.16%	.17%
Personal	.48%	.57%	.57%	.39%	.46%
Small business	1.81%	2.07%	1.43%	.72%	.56%
Retail	.56%	.54%	.37%	.23%	.25%
Wholesale	4.66%	4.94%	2.04%	.89%	.65%
Total	1.65%	1.86%	.96%	.45%	.38%
Specific allowance for loan losses as a % of gross impaired loans	22.22%	23.44%	26.24%	31.40%	31.84%

(1) Other in 2010 is related to other, $108 million; financing products, $865 million; other services, $157 million; holding and investments, $75 million; and health, $33 million.

(2) Past due loans greater than 90 days not included in impaired loans were $202 million in 2010 (2009 – $359 million; 2008 – $347 million; 2007 – $280 million; 2006 – $305 million).

Provision for (recovery of) credit losses by portfolio and geography (1)					Table 66
(C$ millions, except percentage amounts)	2010	2009	2008	2007	2006
Residential mortgages	$ 60	$ 73	$ 16	$ 5	$ 6
Personal	595	701	445	364	306
Credit cards	413	402	270	223	163
Small business	45	55	46	34	29
Retail	1,113	1,231	777	626	504
Business					
Agriculture	$ 19	$ 20	$ 5	$ 2	$ (1)
Automotive	21	21	10	2	4
Consumer goods	37	61	19	27	7
Energy	(6)	16	21	(7)	(53)
Non–bank financial services	(30)	266	–	–	4
Forest products	5	13	2	10	2
Industrial products	3	67	95	10	4
Mining & metals	–	7	2	1	–
Real estate & related	512	587	345	78	1
Technology & media	5	96	21	(2)	(5)
Transportation & environment	12	11	3	7	1
Other	129	408	130	28	14
Sovereign	–	–	–	–	–
Bank	15	20	–	–	–
Wholesale	722	1,593	653	156	(22)
Total specific provision	$ 1,835	$ 2,824	$ 1,430	$ 782	$ 482
Canada					
Residential mortgages	$ 7	$ 18	$ 8	$ 5	$ 6
Personal	444	467	352	334	296
Credit cards	399	393	266	220	161
Small business	45	55	46	34	29
Retail	895	933	672	593	492
Business					
Agriculture	18	18	5	2	(1)
Automotive	15	17	10	2	4
Consumer goods	17	26	13	26	6
Energy	3	(4)	(3)	(4)	(10)
Non–bank financial services	(1)	36	–	–	–
Forest products	3	9	2	10	1
Industrial products	(4)	36	78	10	4
Mining & metals	2	2	1	1	–
Real estate & related	35	52	12	15	2
Technology & media	(6)	33	4	4	1
Transportation & environment	10	7	3	8	2
Other (1)	30	204	27	28	6
Sovereign	–	–	–	–	–
Bank	–	–	–	–	–
Wholesale	122	436	152	102	15
Total	$ 1,017	$ 1,369	$ 824	$ 695	$ 507
United States					
Residential mortgages	$ 35	$ 51	$ 6	$ 1	$ –
Personal	138	207	74	22	10
Credit cards	14	9	4	3	2
Small business	–	–	–	–	–
Retail	187	267	84	26	12
Business					
Agriculture	$ 1	$ 2	$ –	$ –	$ –
Automotive	6	4	–	–	–
Consumer goods	8	23	6	1	1
Energy	(7)	20	24	(3)	(43)
Non–bank financial services	(29)	230	–	–	4
Forest products	2	4	–	–	1
Industrial products	7	31	17	–	–
Mining & metals	(2)	5	1	–	–
Real estate & related	419	527	333	63	–
Technology & media	11	60	17	(6)	(6)
Transportation & environment	2	3	–	–	(1)
Other	58	187	96	3	6
Sovereign	–	–	–	–	–
Bank	–	–	–	–	–
Wholesale	476	1,096	494	58	(38)
Total	$ 663	$ 1,363	$ 578	$ 84	$ (26)
Other International					
Retail	$ 31	$ 31	$ 21	$ 7	$ –
Wholesale	124	61	7	(4)	1
Total	155	92	28	3	1
Total specific provision	$ 1,835	$ 2,824	$ 1,430	$ 782	$ 482
Total general provision	26	589	165	9	(53)
Total provision for credit losses	$ 1,861	$ 3,413	$ 1,595	$ 791	$ 429
Specific provision as a % of average net loans and acceptances	.63%	.97%	.53%	.33%	.23%

(1) Other in 2010 is related to financing products, nil; other services, $50 million; health, $8 million; holdings and investments, $28 million; and other, $43 million.

Allowance for credit losses by portfolio and geography — Table 67

(C$ millions, except percentage amounts)	2010	2009 (1)	2008	2007	2006
Allowance at beginning of year	$ 3,302	$ 2,438	$ 1,572	$ 1,486	$ 1,568
Provision for credit losses	1,861	3,413	1,595	791	429
Write–offs by portfolio					
Residential mortgages	(46)	(52)	(9)	(5)	(5)
Personal	(690)	(732)	(504)	(446)	(379)
Credit cards	(477)	(455)	(319)	(268)	(204)
Small business	(56)	(54)	(44)	(42)	(36)
Retail	(1,269)	(1,293)	(876)	(761)	(624)
Business	$ (949)	$ (1,373)	$ (435)	$ (107)	$ (89)
Sovereign	–	–	–	–	–
Bank	–	–	–	–	–
Wholesale	(949)	(1,373)	(435)	(107)	(89)
Total write–offs by portfolio	$ (2,218)	$ (2,666)	$ (1,311)	$ (868)	$ (713)
Recoveries by portfolio					
Residential mortgages	$ 2	$ 1	$ 1	$ 1	$ –
Personal	91	74	76	75	64
Credit cards	64	53	49	46	41
Small business	7	5	7	7	7
Retail	164	133	133	129	112
Business	$ 72	$ 140	$ 29	$ 41	$ 93
Sovereign	–	–	–	–	–
Bank	–	–	–	–	–
Wholesale	72	140	29	41	93
Total recoveries by portfolio	$ 236	$ 273	$ 162	$ 170	$ 205
Net write–offs	$ (1,982)	$ (2,393)	$ (1,149)	$ (698)	$ (508)
Adjustments (2)	(85)	(156)	281	(7)	(3)
Total allowance for credit losses at end of year	$ 3,096	$ 3,302	$ 2,299	$ 1,572	$ 1,486
Specific allowance for loan losses					
Canada					
Residential mortgages	$ 47	$ 39	$ 23	$ 13	$ 11
Personal	88	94	79	79	88
Small business	18	22	17	9	9
Retail	153	155	119	101	108
Business					
Agriculture	$ 14	$ 10	$ 13	$ 9	$ 8
Automotive	27	6	5	2	3
Consumer goods	20	18	12	45	32
Energy	10	1	2	–	2
Non–bank financial services	1	–	9	9	10
Forest products	4	8	4	10	2
Industrial products	36	63	49	9	8
Mining & metals	1	1	1	1	1
Real estate & related	36	44	9	18	10
Technology & media	12	32	6	5	5
Transportation & environment	6	7	5	7	7
Other	40	72	23	38	24
Sovereign	–	–	–	–	–
Bank	–	–	–	–	–
Wholesale	207	262	138	153	112
	$ 360	$ 417	$ 257	$ 254	$ 220
United States					
Residential mortgages	$ 12	$ 10	$ 5	$ 1	$ 1
Personal	29	34	16	5	2
Small business	–	–	–	–	–
Retail	41	44	21	6	3
Business					
Agriculture	$ 1	$ 1	$ –	$ –	$ 1
Automotive	8	5	–	–	2
Consumer goods	8	9	6	–	3
Energy	12	42	27	–	–
Non–bank financial services	5	62	–	–	1
Forest products	2	2	–	–	–
Industrial products	8	17	8	–	–
Mining & metals	–	5	1	–	–
Real estate & related	162	241	241	56	1
Technology & media	6	3	13	–	–
Transportation & environment	2	3	–	–	–
Other	220	233	79	6	4
Sovereign	–	–	–	–	–
Bank	–	–	–	–	–
Wholesale	434	623	375	62	12
	$ 475	$ 667	$ 396	$ 68	$ 15
Other International					
Retail	$ 83	$ 74	$ 68	$ 13	$ 12
Wholesale	193	121	46	16	16
	276	195	114	29	28
Total specific allowance for loan losses	$ 1,111	$ 1,279	$ 767	$ 351	$ 263
General allowance					
Residential mortgages	$ 77	$ 50	$ 20	$ 16	$ 19
Personal	709	671	461	349	365
Credit cards	384	327	270	193	195
Small business	60	47	47	37	37
Retail	1,230	1,095	798	595	616
Wholesale	656	814	650	370	349
General allowance for off–balance sheet items and other items	99	114	84	256	258
Total general allowance	$ 1,985	$ 2,023	$ 1,532	$ 1,221	$ 1,223
Total allowance for credit losses	$ 3,096	$ 3,302	$ 2,299	$ 1,572	$ 1,486
Key ratios					
Allowance for credit losses as a % of loans and acceptances	1.02%	1.13%	.76%	.63%	.68%
Net write–offs as a % of average net loans and acceptances	.68%	.82%	.42%	.30%	.25%

(1) Opening allowance for credit losses as at November 1, 2008 has been restated due to the implementation of amendments to CICA section 3855.

(2) 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; and Flag Bank $21 million in 2007.

Credit quality information by Canadian province — Table 68

(C$ millions)	2010	2009	2008	2007	2006
Loans and acceptances					
Atlantic provinces (1)	$ 13,942	$ 12,709	$ 11,446	$ 11,556	$ 10,256
Quebec	31,396	28,739	32,908	35,168	32,723
Ontario	112,559	106,957	105,410	90,242	81,968
Prairie provinces (2)	51,563	47,654	43,884	40,956	32,598
B.C. and territories (3)	45,121	42,462	40,461	35,174	29,023
Total loans and acceptances in Canada	$ 254,581	$ 238,521	$ 234,109	$ 213,096	$ 186,568
Gross impaired loans					
Atlantic provinces (1)	$ 72	$ 57	$ 66	$ 53	$ 53
Quebec	162	190	122	118	68
Ontario	598	647	504	322	286
Prairie provinces (2)	429	300	158	112	107
B.C. and territories (3)	277	318	107	92	75
Total gross impaired loans in Canada	$ 1,538	$ 1,512	$ 957	$ 697	$ 589
Specific provision					
Atlantic provinces (1)	$ 50	$ 56	$ 43	$ 40	$ 33
Quebec	85	90	63	66	47
Ontario	659	942	610	490	344
Prairie provinces (2)	146	138	60	51	38
B.C. and territories (3)	77	143	48	48	45
Total specific provision for credit losses in Canada	$ 1,017	$ 1,369	$ 824	$ 695	$ 507

(1) Comprises Newfoundland and Labrador, Prince Edward Island, Nova Scotia and New Brunswick.
(2) Comprises Manitoba, Saskatchewan and Alberta.
(3) Comprises British Columbia, Nunavut, Northwest Territories and Yukon.

Small business loans and acceptances in Canada by sector — Table 69

As at October 31 (C$ millions)	2010	2009	2008	2007	2006
Agriculture	$ 332	$ 304	$ 261	$ 271	$ 248
Automotive	643	666	636	650	601
Consumer goods	2,367	2,261	2,234	2,350	2,043
Energy	393	367	384	370	284
Non-bank financial services	73	66	84	88	73
Forest products	305	316	346	351	366
Industrial products	1,712	1,696	1,672	1,543	1,377
Mining & metals	113	102	100	98	88
Real estate & related	3,205	3,053	3,052	2,822	2,565
Technology & media	318	318	316	314	300
Transportation & environment	941	961	940	901	774
Other (1)	5,360	5,013	4,687	4,488	4,098
Total small business loans	$ 15,762	$ 15,123	$ 14,712	$ 14,246	$ 12,817

(1) Other sector in 2010 related primarily to other services, $3.2 billion; health, $1.6 billion; holding and investment, $474 million; financing products, $73 million; and other, $46 million.