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, 2011, compared to the preceding two years. This MD&A should be read in conjunction with our 2011 Annual Consolidated Financial Statements and related notes and is dated December 1, 2011. 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 2011 Annual Information Form, is available free of charge on our website at rbc.com/investorrelations, on the Canadian Securities Administrators' website at sedar.com and on the EDGAR section of the United States Securities and Exchange Commission's (SEC) website at sec.gov.

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

Caution regarding forward-looking statements
From time to time, we make written or oral forward-looking statements within the meaning of certain securities laws, including the "safe harbour" provisions of the United States Private Securities Litigation Reform Act of 1995 and any applicable Canadian securities legislation. We may make forward-looking statements in this 2011 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., European 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 and the lowering of the U.S. long-term sovereign credit rating by Standard & Poor's; 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; changes to and new interpretations of risk-based capital and liquidity guidelines; the impact of changes in laws and regulations including relating to the payments system in Canada, consumer protection measures and the *Dodd-Frank Wall Street Reform and Consumer Protection Act* and the regulations to be issued thereunder; the effects of competition in the markets in which we operate; our ability to attract and retain employees; 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; development and integration of our distribution networks; and the impact of environmental issues.

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)	2011	2010	2009	2011 vs. 2010 Increase (decrease)	
Continuing operations					
Total revenue	$ 27,430	$ 26,082	$ 26,441	$ 1,348	5.2%
Provision for credit losses (PCL)	975	1,240	2,167	(265)	(21.4)%
Insurance policyholder benefits, claims and acquisition expense (PBCAE)	3,360	3,546	3,042	(186)	(5.2)%
Non-interest expense	14,453	13,469	13,436	984	7.3%
Net income before income taxes and non-controlling interest (NCI) in subsidiaries	8,642	7,827	7,796	815	10.4%
Net income from continuing operations	6,650	5,732	5,681	918	16.0%
Net loss from discontinued operations	(1,798)	(509)	(1,823)	(1,289)	n.m.
Net income	$ 4,852	$ 5,223	$ 3,858	$ (371)	(7.1)%
Segments – net income (loss) from continuing operations					
Canadian Banking	$ 3,492	$ 3,044	$ 2,663	$ 448	14.7%
Wealth Management	809	669	583	140	20.9%
Insurance	601	491	527	110	22.4%
International Banking	173	92	123	81	88.0%
Capital Markets	1,575	1,647	1,768	(72)	(4.4)%
Corporate Support	–	(211)	17	211	n.m.
Net income from continuing operations	$ 6,650	$ 5,732	$ 5,681	$ 918	16.0%
Selected information					
Earnings (loss) per share (EPS) – basic	$ 3.21	$ 3.49	$ 2.59	$ (.28)	(8.0)%
– diluted	$ 3.19	$ 3.46	$ 2.57	$ (.27)	(7.8)%
Return on common equity (ROE) (1)	12.9%	14.9%	11.9%	n.m.	(200) bps
Return on risk capital (RORC) (1)	19.0%	25.4%	19.5%	n.m.	(640) bps
Selected information from continuing operations					
Earnings per share (EPS) – basic	$ 4.47	$ 3.85	$ 3.90	$ .62	16.1%
– diluted	$ 4.45	$ 3.82	$ 3.86	$ .63	16.5%
Return on common equity (ROE) (1)	18.0%	16.5%	17.9%	n.m.	150 bps
Return on risk capital (RORC) (1)	28.9%	31.5%	33.2%	n.m.	(260) bps
Specific PCL as a % of average net loans and acceptances	.34%	.45%	.72%	n.m.	(11) bps
Gross impaired loans (GIL) as a % of loans and acceptances	.78%	.95%	1.02%	n.m.	(17) bps
Capital ratios and multiple					
Tier 1 capital ratio	13.3%	13.0%	13.0%	n.m.	30 bps
Total capital ratio	15.3%	14.4%	14.2%	n.m.	90 bps
Assets-to-capital multiple	16.1X	16.5X	16.3X	n.m.	n.m.
Tier 1 common ratio (2)	10.6%	9.8%	9.2%	n.m.	80 bps
Selected balance sheet and other information					
Total assets	$ 751,702	$ 726,206	$ 654,989	$ 25,496	3.5%
Securities	179,558	183,519	177,298	(3,961)	(2.2)%
Loans (net of allowance for loan losses)	296,284	273,006	258,395	23,278	8.5%
Derivative related assets	100,013	106,155	92,095	(6,142)	(5.8)%
Deposits	444,181	414,561	378,457	29,620	7.1%
Average common equity (1)	35,550	33,250	30,450	2,300	6.9%
Average risk capital (1)	24,150	19,500	18,600	4,650	23.8%
Risk-weighted assets (RWA)	267,780	260,456	244,837	7,324	2.8%
Assets under management (AUM)	308,700	264,700	249,700	44,000	16.6%
Assets under administration (AUA) – RBC	699,800	683,800	648,800	16,000	2.3%
– RBC Dexia IS (3)	2,744,400	2,779,500	2,484,400	(35,100)	(1.3)%
Common share information					
Shares outstanding (000s) – average basic	1,430,722	1,420,719	1,398,675	10,003	0.7%
– average diluted	1,437,904	1,433,754	1,412,126	4,150	0.3%
– end of period	1,438,376	1,424,922	1,417,610	13,454	0.9%
Dividends declared per share	$ 2.08	$ 2.00	$ 2.00	$ .08	4.0%
Dividend yield (4)	3.9%	3.6%	4.8%	n.m.	30 bps
Common share price (RY on TSX) – close, end of period	$ 48.62	$ 54.39	$ 54.80	$ (5.77)	(10.6)%
Market capitalization (TSX)	69,934	77,502	77,685	(7,568)	(9.8)%
Business information from continuing operations (number of)					
Employees (full-time equivalent) (FTE)	68,480	67,147	65,980	1,333	2.0%
Banking branches	1,338	1,336	1,323	2	0.1%
Automated teller machines (ATM)	4,626	4,557	4,544	69	1.5%
Period average US$ equivalent of C$1.00 (5)	$ 1.015	$ .959	$ .858	$ .056	5.8%
Period-end US$ equivalent of C$1.00	$ 1.003	$ .980	$ .924	$ .023	2.3%

(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, ROE 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 one of Canada's largest banks as measured by assets and market capitalization, and are 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 74,000 full- and part-time employees who serve close to 15 million personal, business, public sector and institutional clients through offices in Canada, the U.S. and 56 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."** Our strategic goals are:

- 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.

For our progress in 2011 against these goals, refer to the Business segment results section.

Overview and outlook

Economic, market and regulatory review and outlook – data as at December 1, 2011

Canada

The Canadian economy is estimated to grow at 2.3% during calendar 2011, slower than our estimate of 2.6% as at December 2, 2010. Growth in the early part of the year reflected strong business spending which slowed mid-year as the earthquake in Japan disrupted the automotive supply chain and reduced manufacturing activity. Growth appeared to have moderately improved in the latter half of the year reflecting higher exports and slightly higher consumer spending due to employment gains during the year with the unemployment rate declining to 7.3% in October. Strong housing activity during the year benefited volume growth in our home equity products. While the Canadian economy continued to demonstrate moderate growth, the Bank of Canada (BoC) maintained interest rates at 1% due to continued global economic uncertainty.

In calendar 2012, the Canadian economy is expected to grow by 2.5% as stable labour markets should support moderately higher consumer and business spending. However, given the continued global economic uncertainty, the BoC is expected to delay interest rate increases until the second half of 2012.

United States

The U.S economy is estimated to grow at 1.8% during calendar 2011, down from our estimate of 2.8% as at December 2, 2010 largely reflecting weaker than expected global economic growth impacted by heightened European sovereign debt concerns in the latter part of the year. Growth slowed during the middle of the year as consumer spending weakened due to prolonged elevated levels of unemployment. In response, the Federal Reserve (Fed) maintained interest rates at 0% to 0.25% and applied additional policy stimulus to further reduce long term interest rates to help consumers refinance mortgages at lower rates.

In calendar 2012, growth in the U.S. economy is expected to improve to 2.5% reflecting higher business investment driven by strong corporate balance sheets and the continued low interest rate environment. The Fed has indicated that it expects to maintain interest rates at historically low levels until at least the middle of 2013.

Europe

The Eurozone economy is estimated to grow at 1.7% during calendar 2011. Growth during the year slowed as heightened sovereign debt concerns and fiscal austerity measures weakened consumer and business confidence. Funding costs for European countries increased in the latter half of the year and reduced funding access for global banks, particularly in Europe. In response, the European Union (EU) and Eurozone governments announced policy action through additional Greek debt restructuring, further bank recapitalization and expanded liquidity support in funding markets. During the year, interest rates increased to 1.5%; however, given weaker economic growth, were reduced to 1.25%. We expect interest rates to further decrease to 1.0% by the end of calendar 2011.

In calendar 2012, Eurozone growth is expected to weaken to 0.9% as government and business spending is expected to remain slow reflecting elevated debt levels and weakening access to credit. Although both the EU and the G20 have indicated continued support for additional funding mechanisms, uncertainty remains about the effectiveness of this policy action. As a result, Eurozone growth and funding costs are likely to remain under pressure. The outlook on growth will therefore depend on the severity and duration of the European sovereign debt crisis. While inflation continues to remain elevated, we believe that interest rates will be maintained at 1.0% for the remainder of calendar 2012 to provide continued stimulus to the economy.

Financial markets

Global capital markets improved in the first half of the fiscal year; however they deteriorated significantly in the latter half in response to the weakening global economy and European sovereign debt issues. Challenging market conditions reflected sharp declines in client volumes, increasing trading volatility and widening of credit spreads driven by reduced market liquidity in the latter half of the year. Issuance activity remained strong throughout most of the year although it moderated at the end of the year reflecting the less favourable market environment.

In fiscal 2012, we expect global capital markets to remain under pressure until there is improvement in the global economy and resolution of European sovereign debt issues. Funding costs for global banks are likely to remain heightened given this uncertainty in addition to expected regulatory requirements for higher levels of liquidity.

These 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.

For details on risk factors from general business and economic conditions that may affect our business and financial results, refer to the Overview of other risks section.

Regulatory environment

We continue to respond to global regulatory developments such as liquidity requirements under the Basel Committee on Banking Supervision (BCBS) global standards for capital and liquidity reform (Basel III), Over-the-Counter Derivatives reform, new consumer protection measures and specific financial reforms like the *Dodd-Frank Wall Street Reform and Consumer Protection Act* (Dodd-Frank). We continue to monitor these and other developments and are working to ensure business impacts, if any, are minimized.

For details on risk factors resulting from global regulatory developments that may affect our business and financial results, refer to the Overview of other risks section. For further details on our framework and activities to manage risks, refer to the Risk management 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 we believe 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 used to measure progress against our medium-term TSR objective. We review and revise these financial objectives as economic, accounting, market and regulatory environments change. By focusing on our medium-term objectives in our decision-making, we believe we will be well positioned to provide sustainable earnings growth and solid returns to our shareholders.

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.

On a continuing operations basis, we compared favourably to all of our financial objectives and met our dividend payout ratio target. On a consolidated basis, we did not meet our diluted earnings per share (EPS) growth and return on equity (ROE) objectives and we were outside our dividend payout target due to the loss on the announced sale of our U.S. regional retail banking operations. For further details on our announced sale of our U.S. regional retail banking operations, refer to the Key corporate events of 2011 section.

We have revised our ROE target to 18%+ from 16% – 20% to reflect the reduction in average common equity due to the impact of our adoption of International Financial Reporting Standards (IFRS) effective November 1, 2011. For further details, refer to the Accounting and control matters section.

Our three- and five- year average annual TSR of 5% and 4% respectively, ranked us in the second quartile for the three year period and top quartile for the five year period within our global peer group. The three-year and five-year average annual TSR for our global peer group was 1% and (6)% respectively.

3 and 5 year TSR vs. peer group average — **Table 2**

	3 Year TSR (1)	5 Year TSR (1)
Royal Bank of Canada	5% 2nd Quartile	4% Top Quartile
Peer Group Average (2)	1%	(6)%

(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, 2008 to October 31, 2011 and October 31, 2006 to October 31, 2011 respectively, based on information as disclosed by Bloomberg L.P.
(2) We compare our TSR to that of a global peer group approved by our Board of Directors and 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	2011	2010	2009	2008	2007
Common share price (RY on TSX) – close, end of period	$ 48.62	$ 54.39	$ 54.80	$ 46.84	$ 56.04
Dividends paid per share	2.04	2.00	2.00	2.00	1.72
Increase (decrease) in share price	(10.6)%	(.7)%	17.0%	(16.4)%	12.5%
Total shareholder return	(6.7)%	2.9%	22.7%	(12.8)%	16.2%

Key corporate events of 2011

BlueBay Asset Management plc (BlueBay): On December 17, 2010, we completed the acquisition of BlueBay for GBP959 million (C$1,509 million), which added approximately $39.1 billion in assets under management. Our BlueBay results are reported on a one-month lag. For further details, refer to Note 11 to our 2011 Annual Consolidated Financial Statements.

MBIA Inc. (MBIA) settlement: On December 31, 2010, we concluded a legal settlement with MBIA on the termination of the direct monoline insurance protection provided by them. Both parties also agreed to withdraw from their legal actions against each other. This resulted in a gain of $102 million ($49 million after-tax and compensation adjustments) mainly due to the termination of the credit default swaps insured by MBIA recorded in 2011.

U.S. regional retail banking operations: On June 20, 2011 we announced a definitive agreement to sell our U.S. regional retail banking operations to PNC Financial Services Group, Inc. Our current estimate of the sale price is approximately US$3.6 billion (C$3.6 billion). The transaction is subject to customary closing conditions, including regulatory approval, and is expected to close in March 2012. As a result of this announcement, we classified a significant majority of our U.S. regional retail banking operations as discontinued operations.

We are maintaining a cross-border banking platform that serves the needs of Canadian clients across the U.S. The results of these activities are included in International Banking in continuing operations. For further details, refer to Note 11 to our 2011 Annual Consolidated Financial Statements.

Liberty Life Insurance Company (Liberty Life): On April 29, 2011, we completed the divestiture of Liberty Life Insurance Company (Liberty Life), our U.S. life insurance business, to Athene Holding Ltd. for US$628 million (C$641 million). For further details, refer to Note 11 to our 2011 Annual Consolidated Financial Statements.

Discontinued operations: Our U.S. regional retail banking operations and Liberty Life as discussed above have been classified as discontinued operations for all periods presented unless otherwise specified. For further details, refer to Note 1 to our Annual Consolidated Financial Statements. For a discussion of our net loss from discontinued operations, refer to the Financial performance section.

Overview
2011 vs. 2010
We reported net income of $4,852 million, down $371 million, or 7% from a year ago. Diluted EPS was $3.19 and ROE was 12.9%. Our Tier 1 capital ratio was 13.3% up 30 basis points (bps) from the prior year.

Continuing operations
2011 vs. 2010
Net income from continuing operations was $6,650 million, up $918 million, or 16% from a year ago. Diluted EPS from continuing operations of $4.45 increased $.63 and ROE from continuing operations was 18.0%, up 150 bps from the prior year. Our results reflected strong business growth in Canadian Banking and Insurance, higher average fee-based client assets in Wealth Management as well as growth in our corporate and investment banking businesses in Capital Markets. Lower provision for credit losses (PCL) of $265 million and a decrease in income tax expense of $108 million reflecting a lower effective tax rate also contributed to the increase. These factors were partially offset by higher costs in support of business growth and lower trading revenue reflecting challenging market conditions particularly in the latter half of the year.

Canadian Banking net income was $3,492 million, up $448 million or 15%, from last year, largely reflecting solid volume growth across most businesses and lower PCL. These factors were partially offset by increased staff costs including higher pension expense.

Wealth Management net income of $809 million, increased $140 million, or 21%, from a year ago. Excluding certain accounting and tax adjustments in both periods, net income of $747 million was up $122 million, or 20%, mainly due to higher average fee-based client assets and increased transaction volumes. These factors were partially offset by higher costs in support of business growth. Results excluding adjustments are non-GAAP measures. For a discussion on these adjustments and a reconciliation, refer to the Key performance and non-GAAP measures section.

Insurance net income of $601 million, increased $110 million, or 22%, from a year ago, mainly due to lower claims costs in our reinsurance, auto and disability products, solid volume growth across all businesses and favourable actuarial adjustments. These factors were partially offset by lower net investment gains in the current year.

International Banking net income was $173 million, up $81 million, or 88% compared to the prior year. Results in Caribbean banking mainly reflected lower PCL and a lower effective tax rate, partly offset by lower business loan volumes and spread compression. Higher earnings at RBC Dexia IS mainly driven by increased transaction volumes and higher average fee-based client assets also contributed to the increase. In addition, the prior year included losses on our available-for-sale (AFS) securities, in Caribbean banking, which unfavourably impacted our results in that year.

Capital Markets net income of $1,575 million, decreased $72 million, or 4%, from a year ago, mainly due to significantly lower fixed income trading results reflecting challenging market conditions, higher costs in support of infrastructure investments and business growth, and the unfavourable impact of the stronger Canadian dollar. These factors were partially offset by strong growth in our corporate and investment banking businesses and higher debt origination activity in our global markets businesses. A recovery in PCL as compared to PCL expense in the prior year also partially offset the decrease.

Corporate Support net income of nil included favourable tax adjustments, largely offset by certain unfavourable accounting adjustments.

Discontinued operations
Net loss from discontinued operations was $1,798 million which compares to a net loss of $509 million in the prior year, largely reflecting the loss of $1.6 billion related to the previously announced sale of our U.S. regional retail banking operations, comprised primarily of a write-off of $1.3 billion of goodwill and intangibles. The prior year included a loss on sale of $116 million related to Liberty Life, which has now been re-classified as discontinued operations. Also, included was a net operating loss of $243 million which decreased from a net operating loss of $393 million a year ago largely due to lower PCL in our U.S. commercial portfolio and our builder finance portfolio reflecting stabilizing asset quality.

Assets of discontinued operations related to the announced sale of our U.S. regional retail banking operations were $27,143 million (2010 – $29,035 million; 2009 – $32,156 million) and the liabilities of discontinued operations related to U.S. regional retail banking operations were $20,071 million (2010 – $19,849 million; 2009 – $23,499 million).

Assets of discontinued operations related to Liberty Life were $nil (2010 – $5,329 million; 2009 – $4,565 million) and the liabilities of discontinued operations related to Liberty Life were $nil (2010 – $4,605 million; 2009 – $3,844 million).

Summary of 2010 vs. 2009
In 2010, net income from continuing operations of $5,732 million was up $51 million from 2009.

Canadian Banking net income was $3,044 million, up $381 million or 14% from 2009, reflecting revenue growth in all businesses and lower PCL.

Wealth Management net income was $669 million, up $86 million, or 15%, from 2009, primarily due to higher average fee-based client assets and higher transaction volumes as well as favourable income tax adjustments recorded in 2010. These factors were partially offset by spread compression and the impact of the stronger Canadian dollar.

Insurance net income was $491 million, down $36 million, or 7%, mainly due to higher claims costs in our disability and auto products, and unfavourable life policyholder experience, partially offset by favourable actuarial adjustments and our ongoing focus on cost management.

International Banking net income was $92 million, down $31 million, or 25%, mainly reflecting higher PCL and higher losses on our AFS securities in the Caribbean. The decrease was also due to the unfavourable impact of the stronger Canadian dollar. These factors were partially offset by a $52 million ($39 million after tax) provision recorded in 2009 related to the restructuring of certain Caribbean banking mutual funds of which $11 million ($8 million after tax) was reversed in 2010, and higher earnings at RBC Dexia IS.

Capital Markets net income was $1,647 million, down $121 million or 7%, mainly due to lower trading revenue reflecting less favourable trading conditions, and the unfavourable impact of the stronger Canadian dollar and partially offset by significantly lower losses on certain legacy portfolios and our U.S. assets previously hedged with MBIA. Lower PCL and strong growth in our investment banking businesses also offset the decrease.

Corporate Support net loss of $211 million largely reflected net unfavourable tax and accounting adjustments and losses attributed to an equity accounted for investment.

Estimated impact of foreign currency translation on our consolidated financial results

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

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

Table 4

(C$ millions, except per share amounts)	2011 vs. 2010	2010 vs. 2009
Impact on income from continuing operations *increase (decrease)*:		
Total revenue	$ (375)	$ (915)
PCL	–	25
PBCAE	15	60
Non-interest expense	235	580
Net income	(75)	(185)
Impact on EPS from continuing operations:		
Basic	$ (.05)	$ (.13)
Diluted	$ (.05)	$ (.13)

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

Table 5

(Average foreign currency equivalent of C$1.00) (1)	2011	2010
U.S. dollar	1.015	.959
British pound	0.631	.617
Euro	0.727	.713

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

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

The following provides a discussion of our reported results from continuing operations.

Total revenue

Table 6

(C$ millions)	2011	2010 (1)	2009 (1)
Interest income	$ 18,920	$ 17,746	$ 19,272
Interest expense	8,320	7,408	8,567
Net interest income	$ 10,600	$ 10,338	$ 10,705
Investments (2)	$ 5,304	$ 4,616	$ 4,372
Insurance (3)	4,479	4,485	4,067
Trading	800	1,333	2,380
Banking (4)	3,360	3,071	3,184
Underwriting and other advisory	1,489	1,193	1,049
Other (5)	1,398	1,046	684
Non-interest income	$ 16,830	$ 15,744	$ 15,736
Total revenue	$ 27,430	$ 26,082	$ 26,441
Additional information			
Total trading revenue			
Net interest income	$ 1,343	$ 1,443	$ 2,316
Non-interest income	800	1,333	2,380
Total	$ 2,143	$ 2,776	$ 4,696
Total trading revenue by product			
Interest rate and credit	$ 1,351	$ 1,997	$ 3,078
Equities	436	364	965
Foreign exchange and commodities	356	415	653
Total	$ 2,143	$ 2,776	$ 4,696

(1) Effective Q1 2011, we reclassified certain amounts relating to fair value adjustments on certain RBC debt designated as held-for-trading (HFT) in Capital Markets, which were reported in the Other category, to Trading revenue in Non-interest income to better reflect their nature. Comparative amounts have been reclassified to conform to the current period's presentation.

(2) Includes securities brokerage commissions, investment management and custodial fees, and mutual funds.

(3) Includes premiums and 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 in Corporate Support, the change in fair value of certain derivatives related to economic hedges and securitization revenue.

2011 vs. 2010

Total revenue increased $1,348 million, or 5%, from a year ago, primarily attributable to solid volume growth across most businesses in Canadian Banking, higher average fee-based client assets and higher transaction volumes in Wealth Management, strong growth in our corporate and investment banking businesses, higher debt origination activity in our global markets businesses and solid volume growth in Insurance. These factors were partially offset by significantly lower trading revenue reflecting challenging market conditions in the latter half of the year, and the impact of the stronger Canadian dollar which decreased revenue by approximately $375 million.

Net interest income increased $262 million, or 3%, mainly due to solid volume growth across most businesses in Canadian Banking and higher volume growth in lending in our corporate and investment banking businesses, partially offset by lower trading-related net interest income as discussed below.

Investment-related revenue increased $688 million, or 15%, mainly due to higher average fee-based client assets resulting from capital appreciation and net sales which also drove higher mutual fund distribution fees, the inclusion of our BlueBay acquisition and business growth in RBC Dexia IS. Higher transaction volumes reflecting improved market conditions and investor confidence in the first half of the year also contributed to the increase.

Insurance revenue decreased $6 million. Solid volume growth across all businesses was more than offset by the change in fair value of investments mainly backing our Canadian life policyholder liabilities, lower net investment gains and the impact of the stronger Canadian dollar. The change in fair value of investments mainly backing our Canadian life policyholder liabilities was largely offset in policyholder benefits, claims and acquisition expense (PBCAE).

Trading revenue in Non-interest income decreased $533 million. Total trading revenue, which comprises trading-related revenue recorded in Net interest income and Non-interest income, was $2,143 million, down $633 million, or 23%, mainly due to significantly lower fixed income trading results reflecting challenging market conditions particularly during the latter half of the year due to uncertainty over the weakening global economy and heightened European sovereign debt concerns.

Banking revenue was up $289 million, or 9%, mainly due to higher card service revenue and strong growth in loan syndication.

Underwriting and other advisory revenue increased $296 million, or 25%, mainly due to strong growth in equity and debt originations and higher merger and acquisitions (M&A) activity.

Other revenue increased $352 million, or 34%, mainly due to interest rate risk management activities in Corporate Support, partially offset in net interest income, and higher net gains on certain AFS securities.

2010 vs. 2009

Total revenue decreased $359 million, or 1%, from 2009, primarily attributable to significantly lower Total trading revenue. The impact of the stronger Canadian dollar which reduced revenue by approximately $915 million and lower securitization gains also contributed to the decrease. These factors were partially offset by solid volume growth in Canadian Banking, higher average fee-based client assets and higher transaction volumes in Wealth Management, strong growth in our investment banking businesses, and higher insurance-related revenue.

Total trading revenue, comprised of trading related revenue recorded in Net interest income and Non-interest income, decreased $1.9 billion mainly due to weaker trading revenues in our fixed income, money market and equity businesses, which were impacted by lower client volumes and tighter credit spreads reflecting less favourable trading conditions in 2010.

Net interest income decreased $367 million, or 3%, primarily as a result of lower trading-related net interest income as discussed above. Non-trading net interest income was up $506 million, or 6%, largely due to volume growth in Canadian Banking, partially offset by spread compression in our banking-related and wealth management businesses.

Investments-related revenue increased $244 million, or 6%, mainly due to higher average fee-based client assets and higher transaction volumes in Wealth Management.

Insurance-related revenue increased $418 million or 10%, mainly due to volume growth across all businesses. This factor was partially offset by the change in fair value of investments mainly backing our Canadian life policyholder liabilities, and the impact of the stronger Canadian dollar. The change in fair value of investments was largely offset in PBCAE.

Banking revenue was down $113 million, or 4%, largely reflecting a portion of our credit card interchange fees, previously recorded in Banking revenue, being included with our credit card securitization in Other revenue effective 2010, and a favourable adjustment in 2009 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 2010.

Underwriting and other advisory revenue increased $144 million, or 14%, mainly due to higher debt origination activity and M&A activity.

Other revenue increased $362 million, or 53%, mainly due to gains as compared to losses in 2009 on certain AFS securities, gains on the fair value adjustments on certain RBC debt designated as HFT in 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 2010 due to a higher than historical level of securitization activity in 2009 and higher losses on funding related activities.

Provision for credit losses

2011 vs. 2010

Total PCL in 2011 was $975 million, down $265 million, or 21%, from last year. Specific PCL of $973 million decreased $261 million, largely reflecting lower provisions in our Caribbean and Canadian commercial portfolios, a recovery as compared to PCL last year in our corporate portfolio in Capital Markets, lower write-offs in our Canadian credit card portfolio and lower provisions in our Canadian unsecured personal lending portfolio.

2010 vs. 2009

Total PCL in 2010 was $1,240 million, down $927 million from 2009 largely reflecting lower provisions in our corporate loan portfolio. We incurred a general provision of $6 million during 2010 as compared to $251 million in 2009, mainly reflecting improved credit quality in our wholesale and Canadian retail portfolios.

Insurance policyholder benefits, claims and acquisition expense

2011 vs. 2010

PBCAE decreased $186 million, or 5%, primarily due to the change in fair value of investments mainly backing our Canadian life policyholder liabilities, largely offset in revenue, lower claims costs in our reinsurance, auto and disability products and favourable actuarial adjustments reflecting management actions and assumption changes. These factors were partially offset by higher costs due to solid volume growth across all businesses.

2010 vs. 2009

PBCAE increased $504 million, or 17%, primarily reflecting higher costs due to volume growth across all businesses, partially offset by the change in fair value of investments mainly backing our Canadian life policyholder liabilities. The increase in PBCAE from the change in fair value of investments was largely offset in revenue.

Non-interest expense

Table 7

(C$ millions)	2011	2010	2009
Salaries	$ 4,072	$ 3,777	$ 3,817
Variable compensation	3,300	3,335	3,505
Benefits	1,398	1,132	1,085
Stock-based compensation	188	186	73
Human resources	$ 8,958	$ 8,430	$ 8,480
Equipment	1,011	944	958
Occupancy	1,027	960	934
Communications	745	750	686
Professional and other external services	951	850	767
Other expenses	1,761	1,535	1,611
Non-interest expense	$ 14,453	$ 13,469	$ 13,436

2011 vs. 2010

Non-interest expense increased $984 million, or 7%, mainly due to higher costs in support of business growth including the initiatives in our corporate and investment banking businesses, our BlueBay acquisition, and increased staff levels in most segments. Infrastructure investment in Capital Markets, higher pension expense largely driven by a significantly lower discount rate used to value our pension liability, higher variable compensation in Wealth Management driven by increased commission-based revenue, higher professional fees and sundry losses also contributed to the increase. These factors were partially offset by lower variable compensation in Capital Markets reflecting weaker trading results in the latter part of the year, and the impact of a stronger Canadian dollar which reduced non-interest expense by approximately $235 million.

2010 vs. 2009

Non-interest expense increased $33 million, mainly due to higher costs in support of our business growth, an increase in marketing costs largely for our Olympic sponsorship in 2010, higher professional fees, and higher stock-based compensation partly reflecting the increase in fair value of our U.S. Wealth Management stock-based compensation plan liability. These factors were partially offset by the favourable impact of the stronger Canadian dollar which reduced non-interest expense by approximately $580 million. Lower variable compensation reflecting lower trading results and our focus on cost management also offset the increase.

Taxes

Table 8

(C$ millions, except percentage amounts)	2011	2010	2009
Income taxes	$ 1,888	$ 1,996	$ 2,015
Other taxes			
Goods and services and sales taxes	$ 338	$ 250	$ 180
Payroll taxes	354	317	318
Capital taxes	74	133	159
Property taxes	109	105	103
Insurance premium taxes	49	46	42
Business taxes	16	9	16
	$ 940	$ 860	$ 818
Total income and other taxes	$ 2,828	$ 2,856	$ 2,833
Net income before income taxes from continuing operations	$ 8,642	$ 7,827	$ 7,796
Effective income tax rate from continuing operations	21.8%	25.5%	25.8%
Effective total tax rate (1)	29.5%	32.9%	32.9%

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

Our operations are subject to a variety of taxes, including taxes on income and capital assessed by Canadian federal and provincial governments and taxes on income assessed by the governments of international jurisdictions where we operate. Taxes are also assessed on expenditures and supplies consumed in support of our operations.

2011 vs. 2010

Income tax expense decreased $108 million, or 5%, from a year ago despite higher earnings before income taxes in 2011. The effective tax rate of 21.8% decreased 3.7% from 25.5% a year ago, mainly due to a reduction in Canadian corporate income tax rates, and more favourable tax adjustments in 2011.

Other taxes increased by $80 million from 2010, due to the full year impact of the Harmonized Sales Tax (HST) in Ontario and British Columbia introduced on July 1, 2010 and higher payroll taxes. The increase was 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 $461 million in 2011 (2010 – $685 million) in shareholders' equity, a decrease of $224 million, primarily reflecting decreased unrealized foreign currency translation gains, net of hedging activities and unrealized losses in our AFS portfolio, net of increased gains on derivatives designated as cash flow hedges.

2010 vs. 2009

Income tax expense decreased $19 million, or 1%, from 2009 despite higher earnings before income taxes in 2010. The effective tax rate of 25.5% decreased .3% from 25.8% in 2009 mainly due to a reduction in Canadian corporate income tax rates, net of other tax adjustments.

Other taxes increased by $42 million from 2009, due to the introduction of the HST and the favourable resolution of a goods and services tax audit in 2009, partially offset by lower capital taxes, reflecting lower capital tax rates.

Business segment results

Results by business segment — **Table 9**

(C$ millions, except for percentage amounts)	2011 Canadian Banking	2011 Wealth Management	2011 Insurance	2011 International Banking	2011 Capital Markets (1)	2011 Corporate Support (1)	2011 Total	2010 Total	2009 Total
Net interest income	$ 7,922	$ 368	$ –	$ 620	$ 2,620	$ (930)	$ 10,600	$ 10,338	$ 10,705
Non-interest income	3,251	4,339	4,484	934	3,311	511	16,830	15,744	15,736
Total revenue	$ 11,173	$ 4,707	$ 4,484	$ 1,554	$ 5,931	$ (419)	$ 27,430	$ 26,082	$ 26,441
PCL	980	–	–	91	(20)	(76)	975	1,240	2,167
PBCAE	–	–	3,360	–	–	–	3,360	3,546	3,042
Non-interest expense	5,342	3,589	504	1,250	3,696	72	14,453	13,469	13,436
Net income before income taxes and NCI in net income of subsidiaries	$ 4,851	$ 1,118	$ 620	$ 213	$ 2,255	$ (415)	$ 8,642	$ 7,827	$ 7,796
Net income from continuing operations	$ 3,492	$ 809	$ 601	$ 173	$ 1,575	$ –	$ 6,650	5,732	$ 5,681
Net loss from discontinued operations							(1,798)	(509)	(1,823)
Net income (loss)	$ 3,492	$ 809	$ 601	$ 173	$ 1,575	$ –	$ 4,852	$ 5,223	$ 3,858
ROE	32.7%	15.3%	33.4%	4.5%	16.0%	n.m.	12.9%	14.9%	11.9%
ROE from continuing operations							18.0%	16.5%	17.9%
RORC	40.9%	57.5%	36.2%	10.7%	17.8%	n.m.	19.0%	25.4%	19.5%
RORC from continuing operations							28.9%	31.5%	33.2%
Average assets	$ 295,900	$ 21,000	$ 10,600	$ 26,600	$ 369,400	$ (13,200)	$ 740,400	$ 683,000	$ 695,300

(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 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 mainly backing our Canadian life 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 Technology & Operations 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 section.

On November 1, 2010, we revised our economic capital methodology, prospectively, to include an additional pro-rata allocation to the business segments of previously unallocated capital. The revised allocation methodology further aligns our capital allocation processes with the new higher capital requirements of Basel III.

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.

Net interest margin

We report net interest margin (NIM) for Canadian Banking based on average earning assets which includes only those assets that give rise to net interest income including deposits with other banks, certain securities and loans.

Changes made in 2011

The following highlights the key changes we made to our business segments during 2011. Unless otherwise specifically stated, comparative amounts have been revised and did not have an impact on our consolidated results.

We reclassified certain amounts relating to fair value adjustments on certain RBC debt designated as HFT in Capital Markets, which were reported in the Other category, to the Trading revenue category of Non-interest income to better reflect their nature.

We made a number of organizational changes in Wealth Management to better align our operating structure with our goals and to accelerate our global growth strategy.

We realigned the reporting lines in Capital Markets to better reflect how we manage our businesses. For a description of our business lines, refer to the Capital Markets section.

Following the classification of our U.S. regional retail banking operations as discontinued operations, International Banking includes Caribbean banking, RBC Dexia Investor Services, of which we have a 50% ownership interest, and certain U.S. banking businesses including our existing cross-border banking platform.

Following the classification of the sale of Liberty Life as discontinued operations, Insurance is reported on a continuing operations basis and has been realigned into two lines of business, Canadian Insurance and International & Other. The U.S. travel insurance business is included in Canadian Insurance.

For further details on the announced sale of our U.S. banking business and sale of Liberty Life, refer to Note 11 and Note 31 to our 2011 Annual Consolidated Financial Statements.

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.

Performance measures

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 business. The business segment ROE and RORC measures are viewed as useful measures for supporting investment and resource allocation decisions because they adjust for certain items that may affect comparability between business segments and certain competitors. RORC does not have a 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.

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:

Calculation of ROE and RORC **Table 10**

	2011							2010	2009
(C$ millions, except percentage amounts) (1)	Canadian Banking	Wealth Management	Insurance	International Banking	Capital Markets	Corporate Support	Total	Total	Total
Net income available to common shareholders	$ 3,417	$ 773	$ 588	$ 149	$ 1,506	$ (41)	$ 4,594	$ 4,965	$ 3,625
Net income available to common shareholders from continuing operations	3,417	773	588	149	1,506	(41)	6,392	5,474	5,448
Average risk capital from continuing operations (2)	$ 8,350	$ 1,350	$ 1,600	$ 1,400	$ 8,450	$ 1,000	$ 22,150	$ 17,400	$ 16,400
add: Goodwill and intangible capital	2,100	3,700	150	1,900	950	650	9,450	8,400	8,800
Under attribution of capital	–	–	–	–	–	900	900	3,650	600
Average common equity from discontinued operations							3,050	3,800	4,650
Total average common equity (3)	$ 10,450	$ 5,050	$ 1,750	$ 3,300	$ 9,400	$ 2,550	$ 35,550	$ 33,250	$ 30,450
ROE	32.7%	15.3%	33.4%	4.5%	16.0%	n.m.	12.9%	14.9%	11.9%
ROE from continuing operations							18.0%	16.5%	17.9%
RORC	40.9%	57.5%	36.2%	10.7%	17.8%	n.m.	19.0%	25.4%	19.5%
RORC from continuing operations							28.9%	31.5%	33.2%

(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

Tier 1 common ratio (consolidated basis)

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 11**

(C$ millions, except percentage amounts)	2011	2010	2009
Tier 1 capital	**$ 35,713**	$ 33,972	$ 31,774
Less:			
Qualifying other NCI in subsidiaries	**30**	351	353
Innovative Tier 1 capital instruments (1)	**2,582**	3,327	3,991
Non-cumulative First Preferred shares (1)	**4,810**	4,810	4,811
Tier 1 common capital	**$ 28,291**	$ 25,484	$ 22,619
Risk-weighted assets	**$ 267,780**	$ 260,456	$ 244,837
Tier 1 common ratio	**10.6%**	9.8%	9.2%

(1) Net of treasury shares.

Embedded value

Embedded value is a measure of shareholder value embedded in the balance sheet of our Insurance segment, excluding any value 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

Economic profit on a continuing operations basis

Economic profit is net income from continuing operations excluding the after-tax effect of amortization of other intangibles less a capital charge for use of attributed capital. It measures the return generated by our businesses in excess of our cost of capital, thus enabling users to identify relative contributions to shareholder value. Economic profit is a non-GAAP measure and 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 summary of our Economic profit on a continuing basis:

Economic profit from continuing operations — **Table 12**

	2011							2010	2009
(C$ millions)	Canadian Banking	Wealth Management	Insurance	International Banking	Capital Markets	Corporate Support	Total	Total	Total
Net income from continuing operations	$ 3,492	$ 809	$ 601	$ 173	$ 1,575	$ –	$ 6,650	$ 5,732	$ 5,681
After-tax effect of amortization of other intangibles	–	68	–	49	4	2	123	128	142
Cash net income	$ 3,492	$ 877	$ 601	$ 222	$ 1,579	$ 2	$ 6,773	$ 5,860	$ 5,823
Capital charge	(1,129)	(546)	(191)	(356)	(1,017)	(243)	(3,482)	(3,318)	(3,046)
Economic profit (loss) from continuing operations	$ 2,363	$ 331	$ 410	$ (134)	$ 562	$ (241)	$ 3,291	$ 2,542	$ 2,777

Results excluding adjustments in Wealth Management

Our Wealth Management results have been impacted by certain adjustments as noted in the following table. We believe that excluding these adjustments is more reflective of ongoing operating results and will provide readers with a better understanding of management's perspective on our performance for the fiscal year ended October 31, 2011 with the prior year. These measures are non-GAAP, do not have a standardized meaning under GAAP and may not be comparable to similar measures disclosed by other financial institutions.

Wealth Management - Non–GAAP adjustment measures — **Table 13**

	2011 Adjustments				2010 Adjustments		
(C$ millions)	As Reported	Deferred compensation liability (1)	Tax accounting adjustment	Adjusted	As Reported	Tax accounting adjustment	Adjusted
Net Income before income taxes	$ 1,118	$ (73)	$ –	$ 1,045	$ 890	$ –	$ 890
Income taxes	309	(24)	13	298	221	44	265
Net Income (loss)	$ 809	$ (49)	$ (13)	$ 747	$ 669	$ (44)	$ 625

(1) Non-interest expense was reduced by $69 million and non-interest income increased by $4 million.

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 11 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.

Economic and market review

During the year, the Canadian economy grew moderately driven by business spending and stable labour markets. These factors combined with a low interest rate environment generated strong housing activity and moderately increased consumer spending, leading to solid volume growth within Canadian Banking. Credit conditions remained stable throughout the year resulting in improved credit loss rates in both personal and business portfolios.

Year in review

- We became the first Canadian bank to launch fully integrated mobile banking applications for Blackberry®, iPhone®, and Android devices allowing our clients to access a full range of services including personal and business banking.
- We continue to open new branches and invest in our new retail store concept, a dramatically new retail banking environment with merchandising areas and interactive digital technologies which redesigns and simplifies the customer shopping experience.
- We expanded hours and days of business in over 70% of our branch network and are now ranked second overall for average hours open per week in Canada.
- We lead Canadian banks in overall volume growth through innovative product launches, distribution expansion and successful marketing.

Outlook and priorities

While volume growth is expected to continue across most products, we anticipate slowing growth in home equity products and personal lending reflecting lower housing activity, increasing competition and higher consumer debt ratios. Deposit growth is likely to remain solid and business lending is expected to improve, reflecting increased business investment. Net interest margin is likely to remain challenged reflecting the sustained low interest rate environment and competitive pressures. For further details on our general economic review and outlook, refer to the Economic, market and regulatory review and outlook section.

Key strategic priorities for 2012

- 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.

Canadian Banking financial highlights **Table 14**

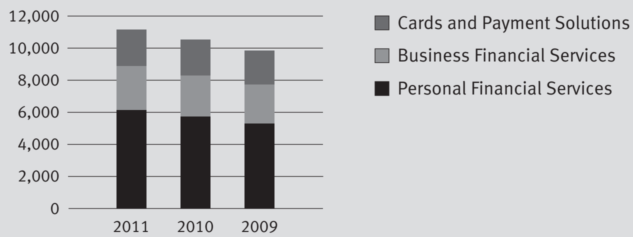
(C$ millions, except number of and percentage amounts)	2011	2010	2009
Net interest income	$ 7,922	$ 7,488	$ 6,947
Non-interest income	3,251	3,067	2,943
Total revenue	$ 11,173	$ 10,555	$ 9,890
PCL	$ 980	$ 1,191	$ 1,275
Non-interest expense	5,342	4,995	4,729
Net income before income taxes	$ 4,851	$ 4,369	$ 3,886
Net income	$ 3,492	$ 3,044	$ 2,663
Key ratios			
ROE	32.7%	35.6%	35.9%
RORC	40.9%	46.9%	48.4%
NIM (1)	2.76%	2.75%	2.76%
Operating leverage	(1.1)%	1.1%	3.8%
Selected average balance sheet information			
Total assets (2)	$ 295,900	$ 279,900	$ 258,900
Total earning assets (2)	287,300	272,100	251,600
Loans and acceptances (2)	287,500	269,500	249,600
Deposits	208,600	191,400	176,000
Attributed capital	10,450	8,350	7,250
Risk capital	8,350	6,350	5,400
Other information			
AUA	$ 158,000	$ 148,200	$ 133,800
Number of employees (FTE) (3)	31,607	31,900	31,847
Credit information			
Gross impaired loans as a % of average net loans and acceptances	.44%	.52%	.50%
Specific PCL as a % of average net loans and acceptances	.34%	.44%	.51%

(1) NIM is calculated as Net interest income divided by Average earning assets.

(2) Includes average securitized residential mortgage and credit card loans for the year of $42 billion and $4 billion, respectively (2010 – $37 billion and $3 billion; 2009 – $37 billion and $4 billion).

(3) FTE numbers have been restated to account for the transfer of Canadian Banking Operations from Corporate Support into Canadian Banking during 2011.

Revenue by business line (C$ millions)



Financial performance
2011 vs. 2010
Net income increased $448 million or 15%, from last year, largely reflecting solid volume growth across most businesses and lower PCL. These factors were partially offset by increased staff costs including higher pension expense.

Total revenue increased $618 million, or 6%, from the previous year largely reflecting solid volume growth in home equity products, personal loans and personal deposits. Higher mutual fund distribution fees mostly reflecting net sales of long-term funds and higher credit card transaction volumes also contributed to the increase.

Net interest margin remained relatively flat from a year ago as the favourable impact of changes in product mix was largely offset by increased competitive pricing on mortgages.

PCL decreased $211 million, or 18% mainly due to lower write-offs in our credit card portfolio reflecting fewer bankruptcies and lower provisions in our business lending and unsecured personal lending portfolios. For further details, refer to the Credit quality performance section.

Non-interest expense increased $347 million, or 7%, driven by higher staff costs including higher pension expense due to a significantly lower discount rate used to value our pension liability, increased costs in support of business growth and the impact from the implementation of the HST in Ontario and British Columbia in July 2010.

Average loans and acceptances increased $18 billion, or 7%, largely due to continued growth in home equity, personal and business lending products. Average deposits were up $17 billion, or 9%, reflecting solid growth in personal and business deposits.

2010 vs. 2009
Net income increased $381 million or 14% from 2009, reflecting revenue growth in all businesses and lower PCL.

Total revenue increased $665 million, or 7%, from 2009 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. These factors were partially offset by a favourable adjustment to our credit card customer loyalty reward program in 2009.

Net interest margin remained flat from 2009 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.

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, higher occupancy costs and the introduction of the HST in Ontario and British Columbia on July 1, 2010. These factors were partly offset by our continued focus on efficiency and cost reduction initiatives.

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 1,214 branches and 4,293 ATMs.

Financial performance
Total revenue increased $408 million, or 7%, compared to the prior year reflecting solid volume growth in residential mortgages and personal loans and deposits. Higher mutual fund distribution fees mostly reflecting net sales of long-term funds also contributed to the increase. These factors were partially offset by lower spreads on residential mortgages and personal loans.

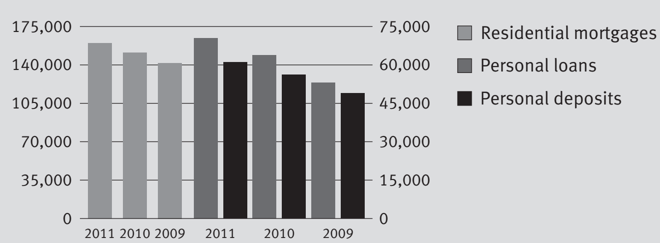
Average residential mortgages were up 6% over last year, supported by continued low interest rates and a solid housing market. Average personal loans grew by 11% from last year largely due to strong growth in our secured lines of credit. Average personal deposits grew by 9% from last year as net new accounts and clients shifted to savings and other deposit products due to uncertainty in global capital markets.

Selected highlights — **Table 15**

(C$ millions, except number of)	2011	2010	2009
Total revenue	$ 6,168	$ 5,760	$ 5,305
Other information (average)			
Residential mortgages	159,900	151,000	141,800
Personal loans	70,500	63,700	53,000
Personal deposits	60,900	56,100	49,000
Personal GICs	52,700	55,500	58,000
Branch mutual fund balances (1)	74,500	70,100	63,300
AUA – Self-directed brokerage (1)	45,500	42,400	35,500
New deposit accounts opened (thousands)	1,158	968	990
Number of:			
Branches	1,214	1,209	1,197
ATM	4,293	4,227	4,214

(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, medium-sized and commercial businesses, agriculture and agribusiness clients across Canada. Our extensive business banking network includes over 100 business banking centers and over 2,000 business account managers. Our strong commitment to our clients has resulted in our leading market share in business loans and deposits.

Financial performance

Total revenue increased $173 million, or 7%, compared to the prior year largely reflecting solid volume growth in business deposits and continued improvement in the growth of our business lending portfolio. Higher deposit spreads were offset by lower lending spreads.

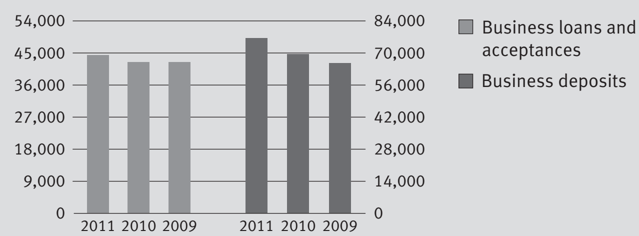
Average business deposits were up 10% over the last year, as business liquidity levels continued to increase; average loans increased by 4% with stronger growth experienced in the second half of the year.

Selected highlights — **Table 16**

(C$ millions)	2011	2010	2009
Total revenue	$ 2,730	$ 2,557	$ 2,457
Other information (average)			
Business loans and acceptances	44,200	42,400	42,400
Business deposits (1)	76,500	69,400	65,400

(1) Includes GIC balances.

Average business loans and acceptances and business deposits (C$ millions)



Cards and Payment Solutions

Cards and Payment Solutions provides a wide array of convenient and customized credit cards and related payment products and solutions. We have over 5.9 million credit card accounts and have approximately 21% market share of Canada's credit card purchase volume.

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

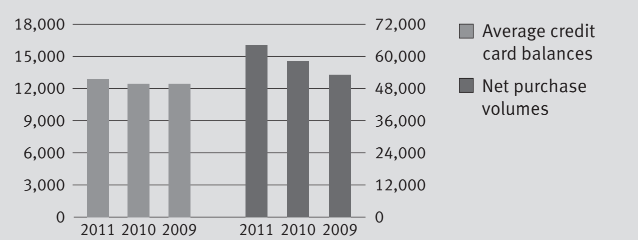
Total revenue increased $37 million, or 2%, compared to last year primarily reflecting higher credit card transaction volumes, largely offset by lower spreads from promotional pricing and the impact of new card regulations.

Strong purchase volume growth of 10% was driven by an overall increase in spending by existing clients and an increase in our client base. Average credit card balances increased $400 million, or 3%, largely reflecting strength in our business and premium markets.

Selected highlights — **Table 17**

(C$ millions)	2011	2010	2009
Total revenue	$ 2,275	$ 2,238	$ 2,128
Other information			
Average credit card balances	12,900	12,500	12,500
Net purchase volumes	64,300	58,400	53,200

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, high net worth and ultra high net worth clients in Canada, the United States, the United Kingdom, Asia, Europe, the Middle East and Africa (EMEA) and Latin America with a full suite of investment, trust and other wealth management solutions. We also provide asset management products and services directly to institutional and individual clients as well as through RBC distribution channels and third-party distributors. Our competitive environment is discussed below in each business.

Economic and market review

During the first half of the year, global capital markets improved, driving higher average fee-based client assets and transaction fees. However, global capital market conditions deteriorated substantially in the latter half of the year reflecting uncertainty over the weakening global economy and heightened European sovereign debt concerns. These uncertain market conditions negatively impacted our transaction volumes, as investor confidence significantly declined, as well as reducing the value of our fee-based client assets. The low interest rate environment throughout the year also continued to result in spread compression and money market fee waivers which unfavourably impacted our businesses.

Year in review

- Effective November 1, 2010, we reorganized our Wealth Management businesses to better align our operating structure with our long-term goals, enabling us to execute on our global growth strategy. Our reorganization included moving from four business units to six, with four geographic wealth businesses

(Canada, U.S., U.K., and Emerging Markets) and two global solutions businesses (Global Asset Management and Global Trust).
- On December 17, 2010, we acquired BlueBay, a leading fixed income manager based in the U.K. In April 2011, BlueBay expanded its distribution capability in Asia with the opening of an office in Hong Kong.
- In 2011, we were recognized as a top 10 global wealth manager, ranking 6th globally by assets in Scorpio Partnership's 2011 Global Private Banking KPI Benchmark. We also ranked first in our retail asset management (overall and long-term funds) and full service wealth management businesses in Canada. We received numerous Canadian, U.S. and international awards, reflecting the strength of our commitment to client service and our solutions including our investment performance.
- In September 2011, we launched the RBC Wealth Management brand globally with our first major global advertising campaign. The multi-year campaign targets high net worth individuals and their advisors, through print and online channels.

Outlook and priorities

Global capital markets will likely remain fragile in the near term and improvements will be dependent on the fiscal policies and decisions relating to the resolution of European sovereign debt issues which should provide investors with more confidence about the state of the global economy. As market and economic conditions stabilize, we expect a favourable impact to transaction volumes as investor confidence returns. Improved market conditions should also benefit fee-based client assets through capital appreciation and net sales. As the low interest rate environment is expected to continue in 2012, we anticipate continuing money market fund fee waivers in the U.S. and ongoing spread compression. For further details on our general economic review and outlook, refer to the Economic, market and regulatory review and outlook section.

Key strategic priorities for 2012
- Continue to build a global high-performing asset management business that is further leveraged by our geographic wealth businesses.
- Focus on additional key areas including: (i) growing our industry-leading share of high net worth client assets in Canada and expanding share of high and ultra high net worth assets globally; (ii) improving advisor productivity and business efficiencies in our U.S. business; (iii) growing and improving the efficiency of our Global Trust business; and (iv) expanding our geographic footprint to attract high and ultra high net worth clients from the U.K. and emerging markets, particularly in Hong Kong and Singapore as well as Latin America and EMEA.
- Deliver best-in-class service and support to our client-facing professionals through our global support teams, accelerate our operations and technology investments to achieve global operating efficiencies, leverage segment and enterprise capabilities to deliver value to our clients and maintain a disciplined approach to cost management.

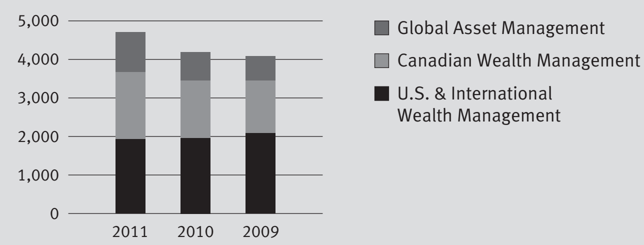
Wealth Management financial highlights — **Table 18**

(C$ millions, except number of and percentage amounts)	2011	2010	2009
Net interest income	$ 368	$ 305	$ 397
Non-interest income			
Fee-based revenue	2,821	2,362	2,154
Transaction and other revenue	1,518	1,521	1,529
Total revenue	$ 4,707	$ 4,188	$ 4,080
PCL	$ -	$ 3	$ –
Non-interest expense	3,589	3,295	3,262
Net income before income taxes	$ 1,118	$ 890	$ 818
Net income	$ 809	$ 669	$ 583
Key ratios			
ROE	15.3%	17.6%	14.2%
RORC	57.5%	64.6%	49.2%
Pre-tax margin (1)	23.8%	21.3%	20.0%
Selected average balance sheet information			
Total assets	$ 21,000	$ 18,400	$ 20,500
Loans and acceptances	8,200	6,800	5,800
Deposits	28,200	29,000	31,500
Attributed capital	5,050	3,650	3,900
Risk capital	1,350	1,000	1,100
Other information			
Revenue per advisor (000s) (2)	$ 783	$ 703	$ 670
AUA	527,200	521,600	502,300
AUM	305,700	261,800	245,700
Average AUA	532,300	505,300	485,300
Average AUM	302,800	251,900	232,900
Number of employees (FTE) (3)	10,564	10,107	10,225
Number of advisors (4)	4,281	4,188	4,413

Estimated impact of US$ translation on key income statement items	**2011 vs. 2010**
Impact on income increase *(decrease)*:	
Total revenue	$ (95)
Non-interest expense	80
Net income	(15)
Percentage change in average US$ equivalent of C$1.00	6%

(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) FTE numbers have been restated to account for the transfer of Wealth Management Operations from Wealth Management into Corporate Support during 2011.
(4) Represents client-facing advisors across all our wealth management businesses.

Revenue by business line (C$ millions)



Financial performance

2011 vs. 2010

Net income increased $140 million, or 21%, from a year ago. Excluding certain accounting and tax adjustments in both periods, net income of $747 million was up $122 million, or 20%, mainly due to higher average fee-based client assets and increased transaction volumes. These factors were partially offset by higher costs in support of business growth.

Total revenue increased $519 million, or 12%, mainly due to higher average fee-based client assets resulting from capital appreciation, net sales and the inclusion of our BlueBay acquisition. Higher transaction volumes reflecting improved market conditions and investor confidence in the first half of the year also contributed to the increase. These factors were partially offset by the impact of a stronger Canadian dollar.

Non-interest expense increased $294 million, or 9%, mainly due to higher costs in support of business growth, largely reflecting the inclusion of our BlueBay acquisition and higher variable compensation driven by higher commission-based revenue. These factors were partially offset by certain accounting adjustments related to our deferred compensation liability noted above and the impact of a stronger Canadian dollar.

Results excluding certain accounting and tax adjustments are non-GAAP measures. For a detailed discussion and reconciliation, refer to the Key performance and Non-GAAP measures section.

2010 vs. 2009

Net income increased $86 million, or 15%, from 2009, primarily due to higher average fee-based client assets and higher transaction volumes as well as favourable income tax adjustments recorded in 2010. 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 and higher transaction volumes. 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 related to our U.S. 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 our support agreement for clients of the Ferris, Baker Watts Inc. invested in the Reserve Primary Fund.

Business line review

Canadian Wealth Management

Canadian Wealth Management includes our full-service Canadian retail brokerage, which is the market leader as measured by AUA, with over 1,500 investment advisors providing advice-based, wide-ranging comprehensive financial solutions to affluent, and high and ultra 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 also serve international clients through a team of over 25 private bankers in key centers across Canada.

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

Financial performance

Revenue increased $222 million, or 15%, compared to the prior year, mainly due to higher average fee-based client assets resulting from capital appreciation and net sales. Higher transaction volumes reflecting improved market conditions and investor confidence in the first half of the year also contributed to the increase.

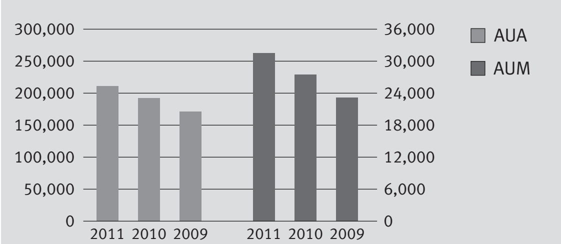
Assets under administration increased 4% from a year ago, mainly due to net sales and capital appreciation.

Selected highlights Table 19

(C$ millions)	2011	2010	2009
Total revenue	**$ 1,724**	$ 1,502	$ 1,365
Other information			
AUA	**209,700**	201,200	182,000
AUM	**31,700**	29,700	25,000
Average AUA	**210,900**	191,600	170,300
Average AUM	**31,500**	27,400	23,100
Total assets under fee-based programs (1)	**109,000**	102,000	90,000

(1) Prior period amounts have been restated to reflect the organizational changes effective November 1, 2010.

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. Wealth Management includes our private client group, which is the 6th largest full-service retail brokerage firm in the U.S., with more than 2,000 financial advisors. It also includes our international wealth – U.S. business which provides services to international clients, through a team of more than 70 financial advisors and private bankers. Additionally, our correspondent and advisor services businesses deliver clearing and execution services for small to mid-sized independent broker-dealers and registered investment advisor firms (RIAs). In the U.S., we operate in a fragmented and extremely competitive industry. There are approximately 4,500 registered broker-dealers in the U.S., comprising independent, regional and global players.

International Wealth Management includes Global Trust, Wealth Management – U.K., and Wealth Management – Emerging Markets. We provide customized and integrated trust, banking, credit, and investment solutions to high and ultra high net worth clients and corporate clients with over 1,500 employees located in 18 countries around the world. 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 $4 million. In U.S. dollars, revenue increased $98 million, or 5%, mainly due to higher average fee-based client assets largely in the U.S. resulting from net sales and capital appreciation.

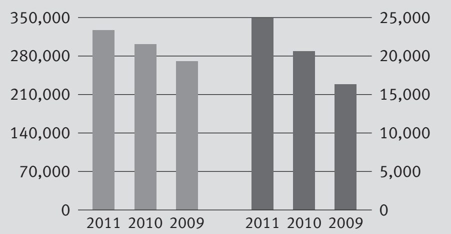
In U.S. dollars, assets under administration increased 1% from a year ago.

Selected highlights — **Table 20**

(C$ millions)	2011	2010	2009
Total revenue	**$ 1,945**	$ 1,949	$ 2,081
Other information (US$ millions)			
Total revenue	**1,976**	1,878	1,794
Total loans, guarantees and letters of credit (1)	**8,800**	7,500	6,400
Total deposits (1)	**17,400**	17,500	18,100
AUA	**318,600**	314,000	296,000
AUM	**26,900**	22,500	19,500
Average AUA	**326,500**	300,700	270,200
Average AUM	**24,900**	20,600	16,300
Total assets under fee-based programs (2), (3)	**66,900**	62,900	52,200

(1) Represents an average amount, which is calculated using methods intended to approximate the average of the daily balances for the period.
(2) Represents amounts related to our U.S. wealth management businesses.
(3) Prior period amounts have been restated to reflect the organizational changes effective November 1, 2010.

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 provides global investment management services and solutions for individual and institutional investors in Canada, the U.S., U.K., Asia, and EMEA. We provide a broad range of investment management services through mutual, pooled and hedge 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 third party advisors and directly to retail clients. We also provide investment solutions directly to institutional clients, including pension plans, endowments and foundations.

We are the largest fund company in Canada with a 15% market share as measured by AUM as recognized by the Investment Funds Institute of Canada. 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.

In the U.S., our asset management business offers investment management solutions and services primarily to institutional investors and competes with independent asset management firms, as well as those that are part of national and international banks, insurance companies and boutique asset managers.

Our acquisition of BlueBay further expanded our global reach by increasing our product and distribution capabilities, bringing new institutional clients and a sales team with established relationships across the U.K., Europe and Japan. Internationally, we face competition from asset managers that are part of international banks as well as national, regional and boutique asset managers in the geographies where we serve clients.

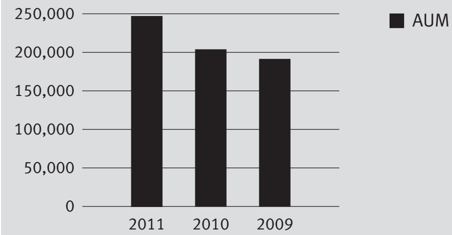
Financial performance
Total revenue increased $301 million, or 41%, from a year ago, mainly due to higher average fee-based client assets resulting from the inclusion of our BlueBay acquisition as well as capital appreciation and net sales.

AUM increased 18% from a year ago mainly due to the inclusion of BlueBay.

Selected highlights			Table 21
(C$ millions)	2011	2010	2009
Total revenue (1)	$ 1,038	$ 737	$ 634
Other information			
Canadian net long-term mutual fund sales	7,300	6,400	2,100
Canadian net money market mutual fund (redemptions) sales	(3,400)	(8,700)	(2,000)
AUM	247,200	209,200	199,700
Average AUM	246,700	203,000	190,600

(1) Includes BlueBay results which are reported on a one-month lag.

Average AUM (1) (C$ millions)



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

Insurance

Insurance comprises Canadian Insurance and International & Other. In Canada, we offer our products and services through our growing proprietary channels including retail insurance branches, call centers, 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 below in each business.

Subsequent to the completion of the divestiture of Liberty Life on April 29, 2011, the results of Liberty Life for all prior periods is now classified as discontinued operations. As a result, we have also realigned our businesses into two lines – Canadian Insurance and International & Other. For further details, refer to the Key corporate events of 2011 section and Note 1, Note 11 and Note 31 to our 2011 Annual Consolidated Financial Statements.

Economic and market review

Our investment returns continue to be impacted by the low interest rate environment. Volume growth in both our Canadian and international insurance businesses remains solid despite increased price competition in our property and casualty products.

Year in review

- The Ontario auto reform which was passed in late 2010, along with our pricing activities resulted in the anticipated improvement in auto claims experience.
- In Canada, we continued to improve our distribution efficiency through shared and streamlined processes, while deepening our client relationships and simplifying the way we do business.
- We successfully launched new products including guaranteed standard issue, simplified term, and payout annuities and continued to bring sustainable, relationship building products to our clients.
- Internationally, we continued to develop our reinsurance businesses with solid business growth and new partner developments throughout the year.

Outlook and priorities

We expect continued volume growth driven by new and improved client focused products delivered primarily through our growing proprietary channels. In support of this, we expect to continue to expand and improve our Canadian retail insurance network, giving our clients more convenient access to insurance services . We anticipate the positive auto claims trend will continue. For further details on our general economic review and outlook, refer to the Economic, market and regulatory review and outlook section.

Key strategic priorities for 2012

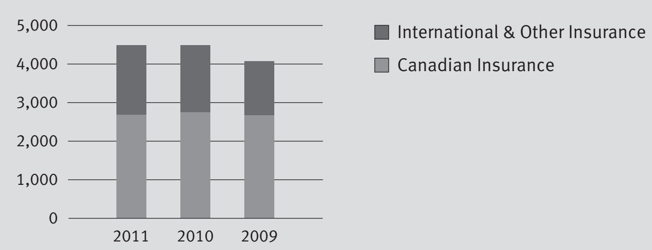
- Improve distribution efficiency by delivering a variety of insurance products and services to our clients through advice based cross-sell strategies.
- Deepen client relationships by continuing to provide our customers with a comprehensive suite of our Insurance products and services based on their unique needs.
- Simplify the way we do business by further enhancing and streamlining all business processes to ensure that clients find it easy to do business with us, while diligently managing our expenses.
- Pursue select international niche opportunities with the aim of continuing to grow our core reinsurance business.

Insurance financial highlights			Table 22
(C$ millions, except number of and percentage amounts)	2011	2010	2009
Non-interest income			
Net earned premiums	$ 3,535	$ 3,313	$ 2,882
Investment income (1)	705	928	940
Fee income	244	248	241
Total revenue	$ 4,484	$ 4,489	$ 4,063
Insurance policyholder benefits and claims (1)	$ 2,759	$ 2,989	$ 2,520
Insurance policyholder acquisition expense	601	557	522
Non-interest expense	504	468	457
Net income before income taxes	$ 620	$ 475	$ 564
Net income	$ 601	$ 491	$ 527
Key ratios			
ROE	33.4%	37.2%	45.7%
RORC	36.2%	42.7%	53.9%
Selected average balance sheet information			
Total assets	$ 10,600	$ 9,900	$ 8,500
Attributed capital	1,750	1,300	1,150
Risk capital	1,600	1,150	950
Other information			
Premiums and deposits (2)	$ 4,703	$ 4,457	$ 3,880
Insurance claims and policy benefit liabilities	$ 6,875	$ 6,273	$ 5,223
Fair value changes on investments backing policyholder liabilities (1)	214	389	458
Embedded value (3)	5,482	5,613	5,162
AUM	300	300	200
Number of employees (full-time equivalent)	2,859	2,724	2,542

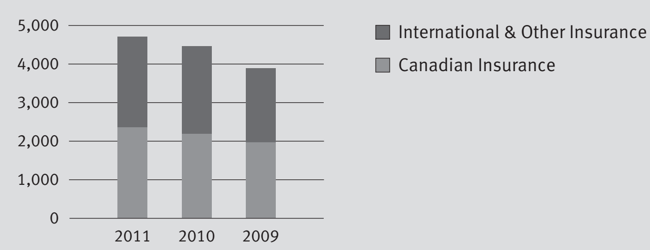
Estimated impact of US$ and British pound translation on key income statement items	2011 vs. 2010
Impact on income *increase (decrease)*:	
Total revenue	$ (15)
PBCAE	15
Non-interest expense	–
Net income	–
Percentage change in average US$ equivalent of C$1.00	6%
Percentage change in average British pound equivalent of C$1.00	2%

(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) Premiums and deposits include premiums on risk-based insurance and annuity products, and individual and group segregated fund deposits, consistent with insurance industry practices.
(3) Embedded value is defined as the sum of 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.

Revenue by business line (C$ millions)



Premiums and deposits by business line (C$ millions)



Financial performance

2011 vs. 2010

Net income increased $110 million, or 22%, from a year ago, mainly due to lower claims costs in our reinsurance, auto and disability products, solid volume growth across all businesses and favourable actuarial adjustments. These factors were partially offset by lower net investment gains in the current year.

Total revenue decreased $5 million as solid volume growth across all businesses was more than offset by the change in fair value of investments mainly backing our Canadian life policyholder liabilities, lower net investment gains and the impact of the stronger Canadian dollar. The change in fair value of investments was largely offset in PBCAE.

PBCAE decreased $186 million, or 5%, primarily due to the change in fair value of investments as noted above, lower claims costs in our reinsurance, auto and disability products and favourable actuarial adjustments reflecting management actions and assumption changes. These factors were partially offset by higher costs due to solid volume growth across all businesses.

Non-interest expense increased $36 million, or 8%, mainly in our Canadian businesses in support of business growth and strategic initiatives.

Premiums and deposits were up $246 million, or 6%, reflecting volume growth and strong client retention across all businesses, primarily in Canadian Insurance.

Embedded value decreased $131 million, or 2%, largely due to the transfer of capital from our insurance businesses through dividend payments partially offset by growth from new sales and favourable actuarial adjustments. For further details, refer to the Key performance and non-GAAP measures section.

2010 vs. 2009
Net income decreased $36 million, or 7%, mainly due to higher claims costs in our disability and auto products, and unfavourable life policyholder experience, partially offset by favourable actuarial adjustments and our ongoing focus on cost management.

Total revenue increased $426 million, or 10%, mainly reflecting volume growth across all businesses. This was partially offset by the change in fair value of investments mainly backing our Canadian life policyholder liabilities, and the impact of the stronger Canadian dollar. The change in fair value of investments mainly backing our Canadian life policyholder liabilities was largely offset in PBCAE.

PBCAE increased $504 million, or 17%, primarily reflecting higher costs due to volume growth across all businesses, higher claims costs in our disability and auto products, and unfavourable life policyholder experience. These factors were partially offset by the change in fair value of investments as noted above, the impact of the stronger Canadian dollar, and favourable actuarial adjustments.

Non-interest expense was up $11 million, or 2%, mainly due to higher costs in support of business growth partially offset by our ongoing focus on cost management.

Business line review

Canadian Insurance

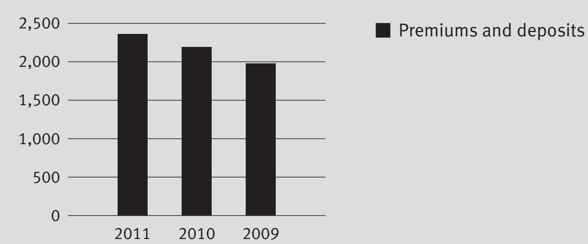
We offer life, health, property and casualty insurance products as well as wealth accumulation solutions, to individual and group clients across Canada, and certain individual travel insurance products in the U.S. Our life and health portfolio includes universal life, critical illness, disability, long-term 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.

In Canada, we compete against approximately 250 insurance companies, with the majority 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.

Selected highlights **Table 23**

(C$ millions)	2011	2010	2009
Total revenue	**$ 2,680**	$ 2,756	$ 2,664
Other information			
Premiums and deposits			
Life and health	**1,275**	1,249	1,210
Property and casualty	**962**	859	721
Annuity and segregated fund deposits	**120**	83	46
Fair value changes on investments backing policyholder liabilities	**209**	382	452

Premiums and deposits (C$ millions)



Financial performance
Total revenue decreased $76 million, or 3%, mainly due to the change in fair value of investments backing our policyholder liabilities, which was largely offset in PBCAE. Lower net investment gains also contributed to the decrease. These factors were partially offset by volume growth in all products.

Premiums and deposits increased $166 million, or 8%, reflecting sales growth in home, auto, life, health and wealth products and continued strong client retention.

International & Other Insurance

International & Other Insurance is primarily comprised of our reinsurance businesses which insure risks of other 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.

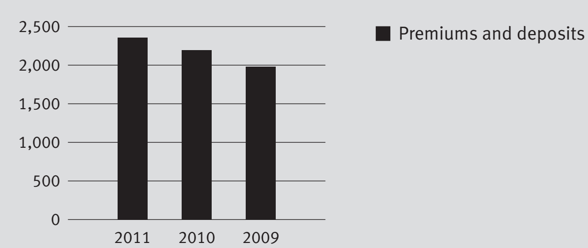
Financial performance
Total revenue increased $71 million, or 4%, mainly due to volume growth, partially offset by the impact of the stronger Canadian dollar.

Premiums and deposits increased $80 million, or 4%, reflecting volume growth in our major reinsurance product lines.

Selected highlights **Table 24**

(C$ millions)	2011	2010	2009
Total revenue	**$ 1,804**	$ 1,733	$ 1,399
Other information			
Premiums and deposits			
Life and health	**1,969**	1,895	1,643
Property and casualty	**38**	50	41
Annuity	**339**	321	219

Premiums and deposits (C$ millions)



International Banking comprises Banking and our joint venture, RBC Dexia Investor Services (RBC Dexia IS). Banking includes our banking businesses in the Caribbean, which offer a broad range of financial products and services to individuals, business clients and public institutions in their respective markets. Following the announced sale of our U.S. regional retail banking operations, we classified a significant majority of our U.S. regional retail banking operations as discontinued operations. However, we have maintained certain of our U.S. banking operations that serve the needs of Canadian clients across the U.S. The results of these cross border banking activities are included in International Banking in continuing operations. RBC Dexia IS is a global custody business that offers an integrated suite of products described below to institutional investors worldwide. Our competitive environment is discussed in each business.

Economic and market review
Asset stabilization continued to result in lower PCL in our banking businesses. However, unfavourable economic conditions continued to negatively impact revenue through spread compression and lower business loan volumes reflecting weak economic recovery in the Caribbean region.

In RBC Dexia IS, improved client activity and capital appreciation due to improved market conditions in the first half of the year drove higher average fee-based client assets and transaction volumes.

Year in review

- In the Caribbean, we continued to integrate our operations to a common banking platform for growth and expansion in the region.
- At RBC Dexia IS, we continued to enhance and broaden our suite of product offerings to deliver a globally integrated client experience.

Outlook and priorities
Improvement in Caribbean economic conditions is expected to be gradual and result in mild lending volume growth. Credit quality is expected to continue to improve with economic growth. Our ongoing activities to integrate our Caribbean banking platform will increase expenses in the short-term.

In RBC Dexia IS, continued growth in average fee-based client assets is expected although uncertain market conditions, particularly equity markets may negatively impact client volumes. While the ongoing restructuring of the Dexia group is creating some uncertainty for clients of RBC Dexia, we believe that RBC Dexia is well positioned to benefit from the long-term demographic trends that point to growth in wealth management businesses around the world. For further details on our general economic review and outlook, refer to the Economic, market and regulatory review and outlook section.

Key strategic priorities for 2012

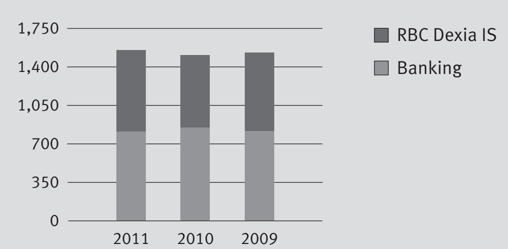
- Leverage our brand as we drive towards a common operating model in the Caribbean to deliver relationship based advice and continue to strengthen our suite of products and services while gaining share across products, markets and key customer segments.
- Expand RBC Dexia IS and evolve our product and service capabilities, increase our broad geographic coverage to support our top global asset managers and deliver a globally integrated and differentiated client experience.
- Provide support for our U.S. growth strategy by retaining and growing our high value cross border business and serving the banking product needs of our U.S. wealth management client base.

International Banking financial highlights (1)			Table 25
(C$ millions, except number of and percentage amounts)	**2011**	2010	2009
Net interest income	**$ 620**	$ 669	$ 803
Non-interest income	**934**	834	724
Total revenue	**$ 1,554**	$ 1,503	$ 1,527
PCL	**$ 91**	$ 142	$ 72
Non-interest expense	**1,250**	1,210	1,281
Net income before income taxes and NCI in subsidiaries	**$ 213**	$ 151	$ 174
Net income	**$ 173**	$ 92	$ 123
Key ratios			
ROE	**4.5%**	2.2%	3.0%
RORC	**10.7%**	6.4%	9.1%
Selected average balance sheet information			
Total assets	**$ 26,600**	$ 25,600	$ 27,200
Loans and acceptances	**8,200**	8,900	9,900
Deposits	**26,400**	26,900	29,200
Attributed capital	**3,300**	3,050	3,250
Risk capital	**1,400**	1,050	1,050
Other information			
AUA (2)	**$ 2,752,300**	$2,787,300	$2,492,100
AUM (2)	**2,700**	2,600	3,800
Average AUA	**2,832,600**	2,552,100	2,332,300
Average AUM	**2,600**	2,800	3,700
Number of employees (FTE)	**6,609**	6,428	6,491
Credit information			
Gross impaired loans as a % of average net loans and acceptances	**9.58%**	8.19%	4.49%
Specific PCL as a % of average net loans and acceptances	**1.11%**	1.59%	.72%

Estimated impact of US$, Euro and TTD translation on key income statement items	2011 vs. 2010
Impact on income increase *(decrease)*:	
Total revenue	$ (55)
PCL	–
Non-interest expense	40
Net income	(5)
Percentage change in average US$ equivalent of C$1.00	6%
Percentage change in average Euro equivalent of C$1.00	2%
Percentage change in average TTD equivalent of C$1.00	6%

(1) RBTT Financial Group (RBTT) and RBC Dexia IS are reported on a one-month lag.
(2) These represent the AUA and AUM of RBTT and total AUA of RBC Dexia IS our joint venture of which we have a 50% ownership interest.

Revenue by business line (C$ millions)



Financial performance

2011 vs. 2010

Net income increased $81 million, or 88%, compared to the prior year. Results in Caribbean banking mainly reflected lower PCL and a lower effective tax rate, partly offset by lower business loan volumes and spread compression. Higher earnings at RBC Dexia IS mainly driven by increased transaction volumes and higher average fee-based client assets also contributed to the increase. In addition, the prior year included losses on our AFS securities, in Caribbean banking, which unfavourably impacted our results in that year.

Total revenue increased $51 million, or 3%, largely reflecting business growth at RBC Dexia IS and losses on our AFS securities in the prior year. This was partially offset by lower business loan volumes and spread compression in Caribbean banking and the unfavourable impact of the stronger Canadian dollar.

PCL decreased $51 million, or 36%, largely reflecting lower provisions in our Caribbean commercial portfolio. For further details, refer to the Credit quality performance section.

Non-interest expense increased $40 million, or 3%, mainly due to higher costs in support of business growth at RBC Dexia IS and increased initiative spend and higher staff costs in Caribbean banking. These factors were partially offset by the impact of the stronger Canadian dollar and net favourable stamp tax and accounting adjustments in Caribbean banking.

2010 vs. 2009

Net income decreased $31 million, or 25%, from 2009, mainly reflecting higher PCL and higher losses on our AFS securities in the Caribbean. The decrease was also due to the unfavourable impact of the stronger Canadian dollar. These factors were partially offset by a $52 million ($39 million after tax) provision recorded in 2009 related to the restructuring of certain Caribbean banking mutual funds of which $11 million ($8 million after tax) was reversed in 2010, and higher earnings at RBC Dexia IS.

Total revenue decreased $24 million, or 2%, primarily reflecting the impact of the stronger Canadian dollar. The decrease was also due to higher losses on our AFS securities in our Caribbean banking portfolio. These factors were partially offset by the provision recorded in 2009 related to the restructuring of certain Caribbean banking mutual funds noted above, by higher foreign exchange revenue in the Caribbean, higher revenue at RBC Dexia IS and U.S. retail banking.

PCL increased $70 million, or 97%, largely as a result of higher provisions in our commercial portfolio in the Caribbean.

Non-interest expense was down $71 million, or 6%, primarily due to the impact of the stronger Canadian dollar, partially offset by increased infrastructure investments and higher staff costs in Caribbean banking and higher expenses in support of business growth in RBC Dexia IS.

Business line review

Banking

Banking consists of our banking operations primarily in the Caribbean. 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 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 123 branches in 19 countries and territories.

Our U.S. regional retail banking operations include our cross border banking business which serves the needs of our Canadian clients as noted above.

Financial performance

Total revenue decreased $36 million, or 4%, from the prior year, mainly due to lower volumes in business loans reflecting unfavourable economic conditions and spread compression in Caribbean banking. The unfavourable impact of the stronger Canadian dollar also contributed to the decrease. The decrease was partially offset by losses on our AFS securities included in the prior year.

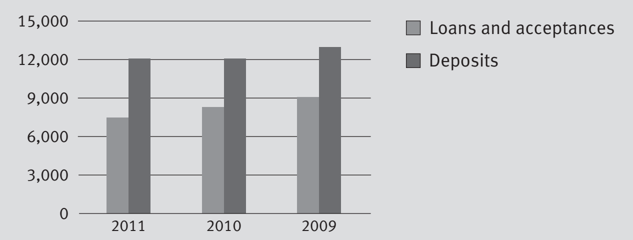
Average loans and acceptances decreased $800 million, or 10%, mainly due to the unfavourable impact of the stronger Canadian dollar and reduced business investments in an uncertain economic environment. Average deposits were relatively flat, reflecting the unfavourable impact of the stronger Canadian dollar which was mostly offset by a client shift to increased cash savings.

Selected highlights (1) **Table 26**

(C$ millions, except number of and percentage amounts)	2011	2010	2009
Total revenue	$ 810	$ 846	$ 817
Other information			
Net interest margin	5.35%	5.60%	5.33%
Average loans and acceptances	$ 7,500	$ 8,300	$ 9,100
Average deposits	12,100	12,100	13,000
AUA	7,900	7,800	7,700
AUM	2,700	2,600	3,800
Average AUA	7,500	7,600	9,100
Average AUM	2,600	2,800	3,700
Number of:			
Branches	123	127	125
ATM	333	330	330

(1) RBTT reports on a one-month lag.

Average loans and deposits (C$ millions)



RBC Dexia IS

RBC Dexia IS, of which we have a 50% ownership interest, offers global custody, fund and pension administration, shareholder services, distribution support, securities lending and borrowing, reconciliation services, compliance monitoring and reporting, investment analytics and treasury services to institutional investors.

RBC Dexia IS, with its world wide network of 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. RBC Dexia IS ranks among the top 10 global custodians with award winning European transfer agency capabilities and consistently achieves top ratings for client service in industry client satisfaction surveys.

Financial performance

Total revenue increased by $87 million, or 13%, compared to last year, mainly reflecting higher transaction volumes, higher average fee-based client assets resulting from capital appreciation and business growth. Improved spreads on client cash deposits due to improved central bank overnight rates in Canada and Europe also contributed to the increase. These factors were partially offset by the unfavourable impact of the stronger Canadian dollar.

Average assets under administration increased 11%, due to improved market conditions mostly in the first half of the year and business growth, partially offset by the unfavourable impact of the stronger Canadian dollar.

Selected highlights (1) **Table 27**

(C$ millions)	2011	2010	2009
Total revenue	$ 744	$ 657	$ 710
Other information			
AUA (2)	2,744,400	2,779,500	2,484,400
Average AUA	2,825,100	2,544,500	2,323,200

(1) RBC Dexia IS results are 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.

Capital Markets comprises our global wholesale banking businesses providing public and private companies, institutional investors, governments and central banks with a wide range of products and services. In North America, we offer a full suite of products and service capabilities. Outside of North America, we have a select but diversified set of global capabilities, which includes origination and distribution, structuring and trading, and corporate and investment banking. Capital Markets is comprised of our two main business lines, Global Markets and Corporate and Investment Banking, and Other. Our competitive environment is discussed below in each business.

Economic and market review

Stable market conditions in the first half of the year contributed to strong trading and corporate and investment banking results. Market conditions deteriorated significantly throughout the latter half of the year reflecting uncertainty over the weakening global economy and heightened European sovereign debt concerns which negatively impacted our trading businesses. Our fixed income, currencies and commodities trading business was significantly impacted as client volumes declined sharply, trading volatility increased and credit spreads widened reflecting reduced market liquidity. Our European and U.S. businesses were particularly impacted given our substantial presence as a market-maker of fixed income products. Higher corporate client activity and the low interest rate environment led to strong issuance activity throughout most of the year with our corporate and investment banking businesses performing well across all geographies driven by higher debt and equity origination, loan syndication, lending and M&A for most of the year. Our performance was driven by key investments made in recent years, particularly in the U.S. to increase activities from our corporate client and origination mandates to drive higher fee-based revenue. However, issuance activity moderated in the last quarter in response to the less favourable market environment.

Year in review

- Throughout 2011, and particularly in the latter half of the year, we took steps to optimize our balance sheet by lowering risk, particularly in our fixed income, currencies and commodities business, including reducing inventory positions, and deploying capital in more traditional investment banking businesses where we continued to grow market share and win significant mandates.
- In Canada, we continued to be the largest investment bank by fees and are ranked the 11th largest in the world by fees *(Bloomberg)*, up from 14th in the prior year. We were also ranked top underwriter in debt capital markets *(Bloomberg)*, number one in M&A (*Dealogic*) and Dealmaker of the Year in Canada *(Financial Post)* for this year and for eight of the last nine years.
- In the U.S., we grew our corporate and investment banking businesses, increasing the number of client facing professionals by 19%, expanding our industry sector coverage and developing more client lending relationships. We continued to increase the number of mandates and won several significant mandates including joint bookrunner on General Motor Co's $20.1 billion equity offering, the largest initial public offering (IPO) in history.
- In Europe, our role as a primary dealer in several countries continued to support our long term growth strategy in key markets. We continued to expand our investment banking businesses, winning new mandates including joint bookrunner and joint lead arranger on Cumulus Media Inc's $3 billion debt offering on their acquisition of Citadel Broadcasting Group.
- In Asia Pacific, we expanded our distribution capability of global fixed income and structured products, supported by the launch of our new trading floor in Hong Kong. We continued to selectively build our M&A and origination businesses.
- We launched THOR™, our new equity electronic trading product, designed to increase fill order efficiency and reduce costs for institutional clients. In the U.S., our electronic trading business is ranked #1 for client service and product knowledge (*Greenwich Survey*).

Outlook and priorities

Improvement in global capital markets in 2012 will be dependent on higher investor confidence in the global economy and further resolution of European sovereign debt issues which should result in a more stable trading environment reflecting higher market liquidity, higher client volumes and tighter credit spreads. Regulatory changes including Basel III and Over-the-counter (OTC) derivatives reform may also impact our trading businesses resulting in potentially higher capital requirements and funding costs and increased use of electronic trading and central counterparty clearing. As a result of strategic investments in our investment banking businesses in the U.S. and Europe, we anticipate continued growth in our equity origination and advisory businesses while debt origination volumes are expected to moderate from the strong levels of 2011. For further details on our general economic review and outlook, refer to the Economic, market and regulatory review and outlook section.

Key strategic priorities for 2012

- Remain the undisputed market leader in Canada with a leading global franchise by leveraging our global capabilities to originate and distribute global products for Canadian clients.
- Sustain our momentum in the U.S. by leveraging our investments to increase our industry sector coverage and market share in equity origination, syndicated finance, M&A, sales and trading and research.
- Continue to grow in Europe by building more corporate client relationships in origination, equity sales and trading and research.
- Selectively grow in Asia by extending our M&A strengths in the energy, mining and infrastructure sectors and extending our fixed income and currencies trading capabilities in local currencies.
- Leverage the breadth and diversification of our segment to adapt and rebalance as market and regulatory conditions change, drive growth in contribution from our fee-based businesses including advisory and origination, and increase investment in our electronic trading platforms.
- Maintain 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.

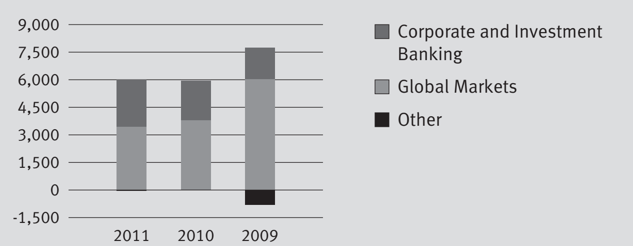
Capital Markets financial highlights — Table 28

(C$ millions, except number of and percentage amounts)	2011	2010	2009
Net interest income (1)	$ 2,620	$ 2,719	$ 3,399
Non-interest income	3,311	3,168	3,524
Total revenue (1)	$ 5,931	$ 5,887	$ 6,923
PCL	$ (20)	$ 20	$ 702
Non-interest expense	3,696	3,420	3,628
Net income before income taxes and NCI in subsidiaries	$ 2,255	$ 2,447	$ 2,593
Net income	$ 1,575	$ 1,647	$ 1,768
Key ratios			
ROE	16.0%	19.5%	21.0%
RORC	17.8%	22.3%	24.3%
Selected average balance sheet information			
Total assets	$ 369,400	$ 327,500	$ 347,900
Trading securities	143,900	130,700	121,100
Loans and acceptances	29,600	29,600	39,500
Deposits	112,100	94,800	108,100
Attributed capital	9,400	8,100	8,100
Risk capital	8,450	7,100	7,000
Other information			
Number of employees (FTE)	3,622	3,399	3,092
Credit information			
Gross impaired loans as a % of average net loans and acceptances	.89 %	1.38 %	2.32 %
Specific PCL as a % of average net loans and acceptances	(.07)%	.07 %	1.78 %

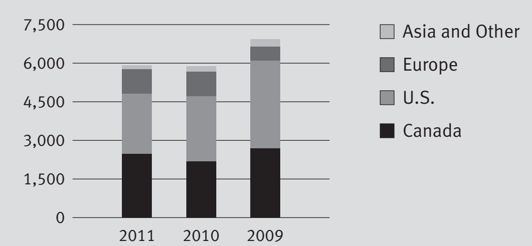
Estimated impact of US$, British pound and Euro translation on key income statement items (1)	2011 vs. 2010
Impact on income increase *(decrease)*:	
Total revenue	$ (195)
Non-interest expense	110
Net income	(45)
Percentage change in average US$ equivalent of C$1.00	6 %
Percentage change in average British pound equivalent of C$1.00	2 %
Percentage change in average Euro equivalent of C$1.00	2 %

(1) Taxable equivalent basis. The teb adjustment for 2011 was $460 million (2010 – $489 million, 2009 – $366 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

2011 vs. 2010

Net income decreased $72 million, or 4%, from a year ago, mainly due to significantly lower fixed income trading results reflecting challenging market conditions, higher costs in support of infrastructure investments and business growth and the unfavourable impact of the stronger Canadian dollar. These factors were partially offset by strong growth in our corporate and investment banking businesses and higher debt origination activity in our global markets businesses. A recovery in PCL as compared to PCL expense in the prior year also partially offset the decrease.

Total revenue increased $44 million, or 1%, largely due to strong growth in our corporate and investment banking businesses driven by higher origination in Canada and the U.S., higher loan syndication mainly in the U.S., stronger M&A activity across most geographies and growth in our lending portfolio. In our global markets businesses, stronger origination activity and higher volumes from our cash equities business also contributed to the increase. These factors were mostly offset by significantly lower fixed income trading revenue in the U.S. and Europe and the unfavourable impact of the stronger Canadian dollar.

During the year, we had a recovery in PCL of $20 million mainly comprised of recoveries on several accounts as compared to a provision of $20 million last year. For further details, refer to the Credit quality performance section.

Non-interest expense increased $276 million, or 8%, primarily in support of infrastructure investments, and business growth reflecting initiatives in our corporate and investment banking businesses in the U.S., Europe and Asia. In addition, last year benefitted from the release of the remaining Enron-related litigation provision of $53 million. These factors were partially offset by lower variable compensation reflecting weaker trading results, and the favourable impact of the stronger Canadian dollar.

2010 vs. 2009
Net income decreased $121 million or 7% from 2009, mainly due to lower fixed income trading results reflecting less favourable trading conditions and the unfavourable impact of the stronger Canadian dollar, partially offset by significantly lower losses on certain legacy portfolios and our U.S. assets previously hedged with MBIA. Lower PCL and strong growth in our corporate and investment banking business also offset the decrease.

Total revenue decreased $1,036 million or 15%, mainly reflecting weaker trading revenues particularly in the latter part of 2010 and the unfavourable impact of the stronger Canadian dollar. This was partially offset by strong revenue growth in our corporate and investment banking business and lower losses on certain legacy portfolios and our U.S. assets previously hedged with MBIA.

PCL decreased $682 million, primarily reflecting a number of provisions in our portfolio in 2009 and recoveries of a few large accounts in 2010.

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.

Business line review

Global Markets

Global Markets comprises our fixed income, foreign exchange, equity sales and trading, treasury and funding and commodities businesses, our proprietary trading operations and remaining portfolio of corporate collaterized debt obligations. For debt and equity origination, revenues are allocated between Global Markets and Corporate and Investment Banking based on the contribution of each group in accordance with an established agreement.

In Canada, our Global Markets businesses primarily compete with Canadian banks where we are a market leader, ranking first or second in most products. In the U.S. and Europe, we compete with global and regional investment banks. We continue to focus on an origination-led strategy and leveraging our investments through expanding our sector coverage and number of corporate client relationships. In Asia, we compete in select markets including fixed income and currencies trading with global and regional investment banks.

Financial performance
Total revenue of $3,448 million, decreased $354 million, or 9%, as compared to the prior year.

Revenue in our Fixed income, currencies and commodities business decreased $377 million, or 18% largely due to significantly lower fixed income trading revenue in the U.S. and Europe which was negatively impacted by lower client volumes, widening credit spreads and reduced market liquidity particularly in the latter half of 2011, driven by uncertainty over the weakening global economy and heightened European sovereign debt concerns. These factors were partially offset by the favourable impact relating to credit valuation adjustments on certain derivative contracts as compared to losses in the prior year and strong growth in debt origination primarily in Canada and the U.S. driven by increased client activity and a higher number of debt mandates.

Revenue in our Global equities business increased $64 million, or 7% largely reflecting volume growth in our cash equities and electronic trading businesses. Equity origination was slightly higher, reflecting stronger issuance activity in the first half of the year which moderated in the latter half due to a weaker issuance environment.

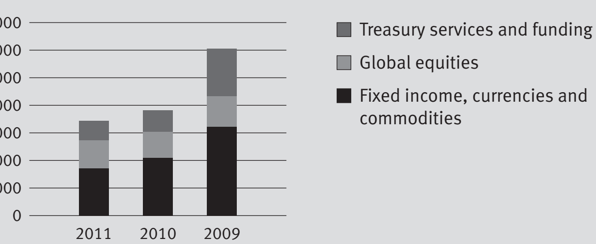
Revenue in our Treasury services and funding business decreased $50 million, or 7% mainly reflecting lower trading revenue that was negatively impacted by widening credit spreads and an increase in funding costs.

Selected highlights — **Table 29**

(C$ millions, except number of amounts)	2011	2010	2009
Total revenue (1)	**$ 3,448**	$ 3,802	$ 6,039
Breakdown of revenue (1)			
Fixed income, currencies and commodities	**1,708**	2,085	3,220
Global equities	**1,032**	968	1,095
Treasury services and funding	**707**	757	1,723
Other information			
Average assets	**324,500**	276,200	281,400
FTE	**1,537**	1,510	1,380

(1) Taxable equivalent basis. The teb adjustment for 2011 was $439 million (2010 – $465 million, 2009 – $353 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 debt and equity origination, advisory services including M&A, loan syndication, corporate lending, client securitization, global credit, research, private equity and commercial and correspondent banking businesses.

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 continue to build on an origination-led strategy and selectively use our loan portfolio to build high quality client relationships. During the year, a number of our global competitors returned after reducing their presence in prior years. Competition has also increased in certain areas, including fee-based businesses expected to have relatively lower capital requirements.

Financial performance
Corporate and Investment Banking revenue of $2,534 million increased $426 million, or 20%, as compared to the prior year.

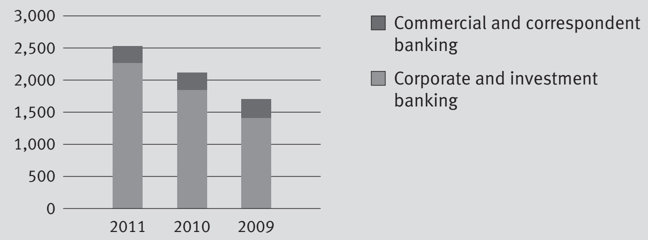
Corporate and investment banking revenue increased $435 million, or 24%, mainly due to continued strength in investment banking and increased lending activity across most geographies reflecting higher volumes. In the U.S., growth was driven mainly by stronger syndicated finance, equity origination and M&A activity. In Canada, growth primarily reflected higher debt and equity origination and M&A activity. In Europe, growth was largely due to higher M&A activity. Gains instead of losses in the prior year on credit default swaps used to economically hedge our corporate loan portfolio also contributed to the increase.

Commercial and correspondent banking revenue decreased $9 million, or 3%.

Selected highlights **Table 30**

(C$ millions, except number of amounts)	2011	2010	2009
Total revenue	**$ 2,534**	$ 2,108	$ 1,697
Breakdown of revenue			
Corporate and Investment Banking	**2,273**	1,838	1,409
Commercial and Correspondent Banking	**261**	270	288
Other information			
Average assets	**22,900**	20,500	30,000
FTE	**1,866**	1,665	1,503

Breakdown of total revenue (C$ millions)



Other

Other comprises our legacy businesses and portfolios. In recent years, we have significantly reduced our legacy portfolios including our bank-owned life insurance (BOLI) stable value products, U.S. commercial mortgage-backed securities and U.S. auction rate securities.

Financial performance

A loss of $51 million compared to a loss of $23 million last year. The loss mainly reflected losses on BOLI as compared to gains in the prior year, partially offset by gains on commercial mortgage-backed securities as compared to losses last year.

Selected highlights **Table 31**

(C$ millions)	2011	2010	2009
Total revenue	**$ (51)**	$ (23)	$ (813)

Corporate Support

Corporate Support comprises Technology & Operations and Functions. Our Technology & Operations teams provide the technological and operational foundation required to effectively deliver products and services to our clients, while Functions includes our 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.

Corporate Support financial highlights **Table 32**

(C$ millions, except number of employees)	2011	2010	2009
Net interest income (loss) (1)	**$ (930)**	$ (843)	$ (841)
Non-interest income	**511**	303	799
Total revenue (1)	**$ (419)**	$ (540)	$ (42)
PCL (2)	**$ (76)**	$ (116)	$ 118
Non-interest expense	**72**	81	79
Net loss before income taxes and NCI in subsidiaries (1)	**$ (415)**	$ (505)	$ (239)
Income taxes (recoveries) (1)	**(508)**	(386)	(348)
Non-controlling interest	**93**	92	92
Net income (loss)	**$ –**	$ (211)	$ 17
Securitization			
Total securitizations sold and outstanding (3)	**$ 34,705**	$ 31,503	$ 32,685
New securitization activity in the period (4)	**9,343**	5,818	18,689
Other information			
Number of employees (FTE) (5)	**13,219**	12,589	11,783

(1) Teb adjusted.
(2) PCL in Corporate Support is presented on a continuing basis and primarily comprises the general provision and an adjustment related to PCL on securitized credit card loans managed by Canadian Banking. For further information, refer to the How we measure and report our business segments section.
(3) Total securitizations sold and outstanding comprises credit card loans and residential mortgages.
(4) 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 2011 Annual Consolidated Financial Statements. This amount does not include Canadian residential mortgage and commercial mortgage securitization activity of Capital Markets.
(5) FTE numbers have been restated to account for the transfer with Canadian Banking and Wealth Management.

Due to the nature of activities and consolidated adjustments reported in this segment, we believe that a year-over-year analysis is not relevant.

Net interest income (loss) and income taxes (recoveries) in each period in Corporate Support include the deduction of the teb adjustments related to the gross-up of income from Canadian taxable corporate dividends recorded in Capital Markets. The amount deducted from net interest income (loss) was offset by an equivalent increase in income taxes (recoveries). The amount for the year ended October 31, 2011 was $459 million as compared to $489 million in the prior year and $366 million for the year ended October 31, 2009. For further discussion, refer to the How we measure and report our business segments section.

In addition to the teb impacts noted above, the following identifies the other material items affecting the reported results in each period.

2011
Net income of nil included favourable tax adjustments, largely offset by certain unfavourable accounting adjustments.

2010
Net loss of $211 million largely reflected net unfavourable tax and accounting adjustments and losses attributed to an equity accounted for investment.

2009
Net income of $17 million included securitization gains inclusive of new and re-investment related activity, net of economic hedging activities, mainly due to a higher than historical level of securitization activity from our participation in government-sponsored funding programs. These factors were largely offset by losses on certain AFS securities, including a loss on certain Canadian bank common shares, and a general provision for credit losses. Losses on fair value adjustments of certain RBC debt designated as HFT, reflected the tightening of our credit spreads also offset the income.

Quarterly Financial Information

Fourth quarter 2011 performance

Q4 2011 vs. Q4 2010
Fourth quarter net income was $1,599 million, up $478 million, or 43% from the prior year.

Continuing operations
Fourth quarter net income from continuing operations of $1,631 million was up $259 million or 19% from last year driven by strong business growth in Canadian Banking and Insurance, higher average fee-based client assets in Wealth Management and growth in our corporate and investment banking businesses in Capital Markets. The current quarter also benefitted from lower PCL, primarily in Canadian Banking and a lower effective tax rate. Challenging market conditions reflecting lower client activity and reduced market liquidity negatively impacted our fixed income trading businesses, particularly in the U.S. and Europe and led to lower transaction volumes in Wealth Management.

Total revenue increased $20 million, mainly due to strong volume growth in Canadian Banking, and higher average fee-based client assets in Wealth Management resulting from the inclusion of our BlueBay acquisition, capital appreciation and net sales. Higher volumes on lending activities in our corporate and investment banking business, and lower losses on funding related activities also contributed to the increase. These factors were largely offset by significantly lower trading revenue reflecting challenging trading conditions.

Total PCL decreased $48 million, or 17%, from a year ago primarily due to lower provisions in our Canadian and Caribbean commercial portfolios reflecting improved economic conditions, fewer write-offs in our Canadian credit card portfolio and lower provisions in our Canadian personal lending portfolio. These factors were partially offset by PCL in our corporate loan portfolio as compared to recoveries in the prior year.

PBCAE decreased $179 million, or 17%, primarily due to the change in fair value of investments mainly backing our Canadian life policyholder liabilities, largely offset in revenue. Lower claims costs on our auto and disability products and favourable actuarial adjustments reflecting management actions and assumption changes also contributed to the decrease.

Non-interest expense increased $22 million. Higher costs in support of business growth across all segments, including our BlueBay acquisition and increased staff costs, and higher pension expense driven by a significantly lower discount rate used to value our pension liability were largely offset by lower variable compensation reflecting lower trading results and our ongoing focus on cost management.

Net loss from discontinued operations
Net loss from discontinued operations was $32 million which compared to a net loss of $251 million in the prior year. The prior year included a loss on sale of $116 million related to Liberty Life last year, which is now classified as discontinued operations. Also, included was a net operating loss of $38 million which decreased from a net operating loss of $135 million a year ago largely due to lower PCL in our U.S. commercial portfolio and our builder finance portfolio reflecting stabilizing asset quality.

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 (the period).

Quarterly results								Table 33
	2011				2010			
(C$ millions, except percentage amounts)	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Continuing operations								
Net interest income	$ 2,742	$ 2,707	$ 2,549	$ 2,602	$ 2,610	$ 2,588	$ 2,528	$ 2,612
Non-interest income	4,056	4,080	4,199	4,495	4,168	3,562	3,853	4,161
Total revenue	$ 6,798	$ 6,787	$ 6,748	$ 7,097	$ 6,778	$ 6,150	$ 6,381	$ 6,773
PCL	235	275	241	224	283	277	334	346
PBCAE	868	1,082	843	567	1,047	978	721	800
Non-interest expense	3,604	3,497	3,628	3,724	3,582	3,146	3,344	3,397
Net income before income taxes and NCI in subsidiaries	$ 2,091	$ 1,933	$ 2,036	$ 2,582	$ 1,866	$ 1,749	$ 1,982	$ 2,230
Income taxes	434	347	452	655	467	344	538	647
NCI in net income of subsidiaries	26	22	27	29	27	26	23	23
Net income from continuing operations	$ 1,631	$ 1,564	$ 1,557	$ 1,898	$ 1,372	$ 1,379	$ 1,421	$ 1,560
Net loss from discontinued operations	(32)	(1,656)	(51)	(59)	(251)	(103)	(92)	(63)
Net income	$ 1,599	$ (92)	$ 1,506	$ 1,839	$ 1,121	$ 1,276	$ 1,329	$ 1,497
EPS – basic	$ 1.07	$ (.11)	$ 1.01	$ 1.25	$ .74	$ .85	$ .89	$ 1.01
– diluted	$ 1.07	$ (.11)	$ 1.00	$ 1.24	$ .74	$ .84	$ .88	$ 1.00
EPS from continuing operations – basic	$ 1.09	$ 1.04	$ 1.05	$ 1.29	$ .92	$ .93	$ .96	$ 1.05
– diluted	$ 1.09	$ 1.04	$ 1.04	$ 1.28	$ .91	$ .92	$ .95	$ 1.04
Segment net income (loss) from continuing operations								
Canadian Banking	$ 904	$ 855	$ 851	$ 882	$ 765	$ 766	$ 736	$ 777
Wealth Management	189	179	220	221	175	185	90	219
Insurance	196	142	124	139	124	148	106	113
International Banking	12	31	45	85	(7)	36	51	12
Capital Markets	278	277	407	613	373	201	502	571
Corporate Support	52	80	(90)	(42)	(58)	43	(64)	(132)
Net income from continuing operations	$ 1,631	$ 1,564	$ 1,557	$ 1,898	$ 1,372	$ 1,379	$ 1,421	$ 1,560
Net income	$ 1,599	$ (92)	$ 1,506	$ 1,839	$ 1,121	$ 1,276	$ 1,329	$ 1,497
Effective income tax rate from continuing operations	20.8%	18.0%	22.2%	25.4%	25.0%	19.7%	27.1%	29.0%
Period average US$ equivalent of C$1.00	$ .992	$ 1.039	$ 1.039	$ .992	$ .963	$ .957	$ .973	$ .945

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 third quarter of 2011 we recorded a net loss from discontinued operations of $1,658 million due to the announced sale of our U.S. regional retail banking operations.
- In the fourth quarter of 2010 we recorded a loss of $116 million relating to the sale of Liberty Life.
- Certain market and credit related items adversely affected our results, mainly in the third quarter of 2010.
- Fluctuations in the Canadian dollar relative to other foreign currencies have affected our consolidated results over the period.

Continuing operations
Trend analysis
Economic conditions have generally improved over the period, although capital market conditions have been very volatile. Global capital markets which had improved in the first half of 2010 and first half of 2011, deteriorated in the latter half of both years particularly in the latter half of 2011 reflecting uncertainty over the weakening global economy and heightened European sovereign debt concerns.

Net income generally trended up, although performance in Capital Markets fluctuated over the period. Solid volume growth in Canadian Banking, improved results in Insurance and lower PCL contributed to the increase.

Revenue generally fluctuated consistent with fluctuations in trading. Revenue was positively impacted by solid volume growth in Canadian Banking, improvement in our investment banking businesses and lower losses on funding related activities. Trading revenue trended downward since the strong performance in the first quarter of 2011 mainly due to lower fixed income trading revenue arising from difficult market conditions. Spread compression in our banking and wealth management businesses unfavourably impacted revenue throughout most of the period due to the continuing low interest rate environment.

PCL has decreased over the period, reflecting continued stabilizing asset quality.

PBCAE has been subject to quarterly fluctuations. Generally over the period there have been changes in the fair value of investments backing our policyholder liabilities which can cause volatility quarter to quarter, higher costs due to volume growth, actuarial liability adjustments and generally lower claims costs during the period.

Non-interest expense has been generally trending upward mainly due to increased costs in support of business growth, higher pension expense largely in Canadian Banking driven by a significantly lower discount rate used to value our pension liability, the inclusion of our BlueBay acquisition and higher variable compensation driven by higher commission-based revenue, partially offset by lower variable compensation in Capital Markets due to weaker trading results mostly in the latter half of 2011.

Our effective income tax rate has generally trended down 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 reduction in statutory Canadian corporate income tax rates over the period has also lowered our effective income tax rate.

Results by geographic segment (1) **Table 34**

(C$ millions)	2011 Canada	2011 U.S.	2011 Other International	2011 Total	2010 Canada	2010 U.S.	2010 Other International	2010 Total	2009 Canada	2009 U.S.	2009 Other International	2009 Total
Continuing operations												
Net interest income	$8,870	$ 1,123	$ 607	$10,600	$ 8,417	$1,106	$ 815	$10,338	$ 7,880	$ 1,323	$ 1,502	$10,705
Non-interest income	9,732	2,845	4,253	16,830	8,910	3,080	3,754	15,744	9,463	3,772	2,501	$15,736
Total revenue	18,602	$ 3,968	$ 4,860	$27,430	$17,327	$4,186	$ 4,569	$26,082	$17,343	$ 5,095	$ 4,003	$26,441
PCL	872	$ (11)	$ 114	975	1,026	57	157	1,240	1,479	575	113	2,167
PBCAE	2,126	21	1,213	3,360	2,343	20	1,183	3,546	2,100	4	938	3,042
Non-interest expense	8,639	3,177	2,637	14,453	7,981	3,211	2,277	13,469	7,663	3,531	2,242	13,436
Income taxes and NCI	1,693	281	18	1,992	1,736	268	91	2,095	1,805	308	2	2,115
Net income from continuing operations	$5,272	$ 500	$ 878	$ 6,650	$ 4,241	$ 630	$ 861	$ 5,732	$ 4,296	$ 677	$ 708	$ 5,681
Net loss from discontinued operations	–	(1,798)	–	(1,798)	–	(509)	–	(509)	–	(1,823)	–	(1,823)
Net income	$5,272	$(1,298)	$ 878	$ 4,852	$ 4,241	$ 121	$ 861	$ 5,223	$ 4,296	$(1,146)	$ 708	$ 3,858

(1) For geographic reporting, our segments are grouped into Canada, United States and Other International. Transactions are primarily recorded in the location that best reflects the risk due to negative changes in economic conditions and prospects for growth due to positive economic changes. This location frequently corresponds to the location of the legal entity through which the business is conducted and the location of our clients. Transactions are recorded in the local currency and are subject to foreign exchange rate fluctuations with respect to the movement in the Canadian dollar. For further details, refer to Note 28 to our 2011 Annual Consolidated Financial Statements.

Continuing operations
2011 vs. 2010

Net income in Canada increased $1,031 million, or 24%, compared to last year. The increase was largely due to solid volume growth across most businesses in Canadian Banking and higher average-fee based client assets in Wealth Management. Strong growth in origination and M&A activity in Capital Markets, lower PCL and a lower effective tax rate also contributed to the increase. These factors were partially offset by increased staff costs including higher pension expense and higher costs in support of business growth.

U.S. net income decreased $130 million, or 21%, from the previous year, primarily due to significantly lower trading results in our fixed income businesses. The unfavourable impact of a stronger Canadian dollar and higher costs in support of infrastructure investments and business growth in Capital Markets also contributed to the decrease. These factors were partially offset by strong growth in our corporate and investment banking businesses including M&A and lower PCL.

Other international net income increased $17 million, mainly due to higher earnings at RBC Dexia IS driven by increased transaction volumes and higher average fee-based client assets, strong growth in our corporate and investment banking businesses including M&A. Lower reinsurance claim costs and lower PCL in Caribbean banking also contributed to the increase. These factors were mostly offset by higher costs in support of business growth and lower trading results in our fixed income businesses.

U.S. net loss from discontinued operations

Net loss from discontinued operations was $1,798 million which compares to a net loss of $509 million in the prior year, largely reflecting the loss of $1.6 billion related to the previously announced sale of our U.S. regional retail banking operations, comprised primarily of a write-off of $1.3 billion of goodwill and intangibles. The prior year included a loss on sale of $116 million related to Liberty Life, which is now classified as discontinued operations. Also, included was a net operating loss of $243 million which decreased from a net operating loss of $393 million a year ago largely due to lower PCL in our U.S. commercial portfolio and our builder finance portfolio reflecting stabilizing asset quality.

Continuing operations
2010 vs. 2009

Net income in Canada of $4,241 million was essentially flat compared to 2009. Lower securitization gains, higher costs in support of business growth and spread compression in our banking-related businesses 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 2009.

U.S. net income of $630 million compares to a net income of $677 million, mainly reflecting lower PCL in our capital markets businesses. These factors were largely offset by lower trading revenue reflecting lower client volumes and tighter credit spreads and the unfavourable impact of the stronger Canadian dollar.

Other international net income of $861 million was up $153 million, largely reflecting significantly lower losses on market and credit related items compared to 2009. 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.

Financial condition

Condensed balance sheets (1) (2) **Table 35**

As at October 31 (C$ millions)	2011	2010
Assets		
Cash and due from banks	$ 13,247	$ 8,440
Interest-bearing deposits with banks	12,181	13,254
Securities	179,558	183,519
Assets purchased under reverse repurchase agreements and securities borrowed	84,947	72,698
Loans (net of allowance for loan losses)		
Retail loans	227,375	213,770
Wholesale loans	68,909	59,236
Other – Derivatives	100,013	106,155
– Other	65,472	69,134
Total assets	$ 751,702	$ 726,206
Liabilities and shareholders' equity		
Deposits	$ 444,181	$ 414,561
Other – Derivatives	101,437	108,908
– Other	154,687	154,122
Subordinated debentures	7,749	6,681
Trust capital securities	–	727
NCI in subsidiaries	1,941	2,256
Total liabilities	$ 709,995	$ 687,255
Total shareholders' equity	41,707	38,951
Total liabilities and shareholders' equity	$ 751,702	$ 726,206

(1) Foreign currency denominated assets and liabilities are translated to Canadian dollars. Refer to Note 1 to our 2011 Annual Consolidated Financial Statements.
(2) Refer to Table 1 for period-end Canadian/U.S. dollar spot exchange rates.

2011 vs. 2010
Total assets were up $25 billion, or 4%, from the previous year as solid business growth was largely offset by our effective balance sheet management efforts. Our consolidated balance sheet was impacted by foreign currency translation which reduced our total assets and our total liabilities by approximately $4 billion due to the strengthening of the Canadian dollar compared to last year.

Securities were down $4 billion, or 2% compared to the prior year, primarily due to a reduction in our government debt instruments as part of our management of interest rate risk.

Assets purchased under reverse repurchase agreements (reverse repos) and securities borrowed increased $12 billion, or 17%, mainly attributable to new business activity and higher client activity in certain businesses.

Loans were up $23 billion, or 9%, predominantly due to solid retail lending volume growth mainly in Canadian home equity and personal lending products and wholesale loans.

Derivative assets decreased $6 billion, or 6%, mainly attributable to increased positions with a central counterparty and lower fair values on foreign exchange contracts due to the depreciation of the U.S. dollar against other major currencies. This decrease was partially offset by increased fair values on interest rate swaps.

Other assets were down $4 billion, or 5%, primarily due to a reduction in the assets held for sale reflecting the completion of the divesture of Liberty Life which was classified as discontinued operations.

Total liabilities were up $23 billion, or 3%, from the previous year.

Deposits increased $30 billion, or 7%, mainly reflecting an increase in fixed term deposits due to an increase in our internal funding requirements, to support our loan growth and demand for our high-yield savings and other products offerings in our retail business.

Derivative liabilities decreased $7 billion, or 7%, mainly due to the same reasons as above in derivative assets.

Subordinated debentures increased $1 billion, or 16% mainly due to the net issuance of subordinated debt.

Shareholders' equity increased $3 billion, or 7%, 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 2011 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 in accordance with the policies set out and approved by Group Risk Management and our Reputation Risk Oversight Committee.

With the adoption of IFRS for periods commencing November 1, 2011, most of our securitization transactions do not qualify for derecognition and will therefore be recorded on the balance sheet. Additionally, certain SPEs which are not consolidated under Canadian GAAP will be consolidated under IFRS and others which are consolidated will be deconsolidated. Refer to Adoption of International Financial Reporting Standards for further details on the impacts of our adoption of IFRS.

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 2011 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 36
As at October 31 (C$ millions)	2011	2010
Securitized assets		
Credit cards	$ 3,930	$ 3,265
Commercial and residential mortgages	42,290	38,886
Bond participation certificates (1)	735	935
Total	$46,955	$ 43,086
Retained		
Residential mortgages		
Mortgage-backed securities retained (2)	$11,955	$ 10,687
Retained rights to future excess interest	1,362	1,397
Credit cards		
Asset-backed securities purchased (3)	183	421
Retained rights to future excess interest	29	15
Subordinated loan receivables	10	9
Commercial mortgages		
Asset-backed securities purchased (3)	–	2
Bond participation certificates retained	6	19
Total	$13,545	$ 12,550

(1) Includes securitization activities prior to the acquisition of RBTT where we continue to service the underlying bonds sold to third-party investors.
(2) All residential mortgages securitized are Canadian mortgages and are government guaranteed.
(3) Securities purchased during the securitization process.

Securitization activities during 2011
During the year, we securitized $19.2 billion of residential mortgages, of which $8.8 billion were sold and the remaining $10.4 billion (notional value) were retained. Our securitization activity this year was higher compared to the prior year due to increased participation in the Canada Mortgage Bond program and an increase in mortgage-backed securities created and held for liquidity purposes. We also securitized and sold $2.1 billion in credit card loans. We did not securitize bond participation certificates or commercial mortgages during the year. Refer to Note 5 to our 2011 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 years, 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, 2011 and October 31, 2010, we held residual interests of $1 million in each of Trust II and Trust III. We had loan receivables of $3 million (2010 – $3 million) and $30 million (2010 – $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 (2010 – $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 2011 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 (2010 – $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 2011 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 2011 Annual Consolidated Financial Statements.

Variable interest entities														Table 37
	2011												2010	
			Total assets by credit ratings (3)			Total assets by average maturities				Total assets by geographic location of borrowers				
As at October 31 (C$ millions)	Total assets (1)	Maximum exposure (1),(2)	Investment grade (4)	Non-investment grade (4)	Not rated	Under 1 year	1-5 years	Over 5 years	Not applicable	Canada	U.S.	Other International	Total assets (1)	Maximum exposure (1),(2)
Unconsolidated VIEs in which we have significant variable interests:														
Multi-seller conduits (5)	$ 24,271	$ 24,614	$ 24,112	$ 159	$ –	$2,200	$19,795	$ 2,276	$ –	$ 3,180	$17,617	$ 3,474	$ 21,847	$ 22,139
Structured finance VIEs	4,393	2,014	4,283	88	22	11	–	4,382	–	–	4,393	–	4,669	2,030
Credit investment product VIEs	253	17	–	253	–	–	–	253	–	–	–	253	502	19
Investment funds	111	30	–	–	111	–	–	–	111	26	–	85	249	61
Other	382	159	–	–	382	–	–	–	382	44	335	3	165	39
	$ 29,410	$ 26,834	$ 28,395	$ 500	$ 515	$2,211	$19,795	$ 6,911	$ 493	$ 3,250	$22,345	$ 3,815	$ 27,432	$ 24,288
Consolidated VIEs:														
Structured finance VIEs	$ 4,025		$ 4,025	$ –	$ –	$ –	$ –	$ 4,025	$ –	$ –	$ 4,025	$ –	$ 2,998	
Investment funds	1,447		–	–	1,447	–	–	–	1,447	185	149	1,113	1,012	
Compensation vehicles	29		–	–	29	–	–	–	29	29	–	–	53	
Other	1		–	–	1	–	–	–	1	–	1	–	3	
	$ 5,502		$ 4,025	$ –	$1,477	$ –	$ –	$ 4,025	$ 1,477	$ 214	$ 4,175	$ 1,113	$ 4,066	

(1) Total assets and maximum exposure to loss correspond to disclosures provided in Note 6 to our 2011 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 that we administer.

Over 94% of assets in unconsolidated VIEs in which we have significant variable interests and over 72% of assets in consolidated VIEs were internally rated A or above. For multi-seller conduits and unconsolidated structured finance VIEs, over 97% of assets were internally rated A or above. All transactions funded by the unconsolidated VIEs are internally rated using a rating system which is largely consistent with that of the external rating agencies.

Approximately 76% of the assets in unconsolidated VIEs were originated in the U.S. compared to 76% in the prior year. Approximately 11% of the assets in unconsolidated VIEs were originated in Canada compared to 14% 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, 2011 have varying maturities and a remaining expected weighted average life of approximately 3.8 years.

Securitization of client financial assets

We previously administered six multi-seller ABCP conduit programs (multi-seller conduits or conduits) – three in each of Canada and the U.S.. During the first quarter of 2011, one of the three Canadian multi-seller conduits transferred all of its assets to the remaining two Canadian conduits and we currently administer the remaining five conduits. 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% (2010 – 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 3.0 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 has decreased to $147 million in 2011 from $181 million in 2010, due to 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 2011 Annual Consolidated Financial Statements.

Liquidity and credit enhancement facilities — **Table 38**

	2011				2010			
As at October 31 (C$ millions)	Notional of committed amounts (1)	Allocable notional amounts	Outstanding loans (2)	Total maximum exposure to loss	Notional of committed amounts (1)	Allocable notional amounts	Outstanding loans (2)	Total maximum exposure to loss
Backstop liquidity facilities	$ 24,726	$ 20,874	$ 1,413	$ 22,287	$ 22,251	$ 18,429	$ 1,517	$ 19,946
Credit enhancement facilities	2,327	2,327	–	2,327	2,193	2,193	–	2,193
Total	$ 27,053	$ 23,201	$ 1,413	$ 24,614	$ 24,444	$ 20,622	$ 1,517	$ 22,139

(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 39**

	2011			2010		
As at October 31 (millions)	(US$)	(C$)	Total (C$)	(US$)	(C$)	Total (C$)
Outstanding securitized assets						
Credit cards	$ 5,898	$ 510	$ 6,389	$ 6,213	$ 510	$ 6,849
Auto loans and leases	6,596	1,668	8,242	3,656	2,052	5,782
Student loans	2,435	–	2,427	2,637	–	2,690
Trade receivables	2,188	112	2,293	2,300	255	2,601
Asset-backed securities	1,601	–	1,596	1,890	–	1,928
Equipment receivables	1,020	–	1,017	820	475	1,312
Consumer loans	765	–	762	–	–	–
Electricity market receivables	–	255	255	–	255	255
Dealer floor plan receivables	586	576	1,160	76	255	333
Fleet finance receivables	225	122	346	102	102	206
Corporate loans receivables	127	–	127	162	–	165
Residential mortgages	–	–	–	–	18	18
Total	$21,441	$3,243	$24,614	$17,856	$3,922	$ 22,139
Canadian equivalent	$21,371	$3,243	$24,614	$18,217	$3,922	$ 22,139

Our overall exposure increased 11% compared to the prior year reflecting improved business conditions which led to an expansion of the outstanding securitized assets of the multi-seller conduits. As 87% of the assets of the multi-seller conduits are U.S. denominated assets, our total maximum exposure to loss reported in Table 39 is impacted by changes to the Canadian and U.S. exchange rate. Applying the exchange rate as at October 31, 2010, our maximum exposure to loss would have increased by approximately 13% to $25.1 billion in 2011 from the prior year, rather than 11% as highlighted above.

The maximum assets that may have to be purchased by the conduits under purchase commitments outstanding as of October 31, 2011 were $24.3 billion (2010 – $21.8 billion). The changes from year to year are as follows: U.S. dollar assets increased by US $3.5 billion from the prior year, mainly in the Auto and Consumer loans asset classes; Canadian dollar assets decreased $664 million from the prior year, mainly in the Auto loans and Equipment asset classes. Of the total purchase commitments outstanding, the multi-seller conduits have purchased financial assets totalling $16.3 billion as at October 31, 2011 (2010 – $14.0 billion).

As of September 30, 2011, the weighted first loss credit protection provided by the sellers of the financial assets was 42% of total assets (2010 – 49%), providing a coverage multiple of 21.6 times (2010 – 13.1 times) the weighted average annual expected loss rate on the client asset portfolio of 2% (2010 – 3.8%). The short term nature of many of the conduit transactions allows for adjustments to 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 96% of the securitized assets as at October 31, 2011 (2010 – 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 $16.3 billion, an increase of $2.3 billion or 17% since the prior year due to increased client usage. The rating agencies that rate the ABCP rated 68% (2010 – 67%) 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 41.1 and 30.1 days and Canadian conduits 35.6 and 38.2 days as at October 31, 2011 and October 31, 2010, 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, 2011, the fair value of our inventory was $111 million (2010 – $4 million), classified as Securities – Trading.

The U.S. multi-seller conduits include $1.7 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 $1.4 billion (2010 – $1.5 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 2011 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 $758 million as at October 31, 2011 (2010 – $1.5 billion), of which none were consolidated as at October 31, 2011 and October 31, 2010. As at October 31, 2011, our investments in the funded notes, the derivative-related receivables, and the notional amounts of the unfunded notes related to the unconsolidated SPEs were $17 million (2010 – $19 million), $nil (2010 – $nil) and $nil (2010 – $nil), respectively.

Structured finance
We invest in U.S. auction rate securities (ARS) from entities which fund their long-term investments in student loans by issuing short-term senior and subordinated notes. As at October 31, 2011, the total assets of the unconsolidated ARS VIEs in which we have significant investments were $3.2 billion (2010 – $3.5 billion). Our maximum exposure to loss in these ARS VIEs was $813 million (2010 – $834 million). The total assets of these ARS VIEs and our maximum exposure to loss decreased from the prior year due to normal amortization of the underlying assets. As at October 31, 2011, approximately 77% of these investments were AAA rated. Interest income from the ARS investments, which is reported in Net-interest income, amounted to $24 million during the year (2010 – $36 million, 2009 – $78 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 2011 Annual Consolidated Financial Statements. As at October 31, 2011, the total assets of unconsolidated ARS TOB programs in which we have significant investments were $709 million (2010 – $743 million). We did not hold any floating-rate certificates as market maker for the ARS TOB programs as at October 31, 2011 or October 31, 2010. 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 (2010 –$1 million, 2009 –$3 million).

We sold ARS to an unaffiliated and unconsolidated entity at fair market value in a prior year. 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, 2011, total assets of this entity and our maximum exposure to loss were $435 million (2010 – $450 million) and $414 million (2010 – $426 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 $1 million during the year (2010 – $3 million, 2009 – $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 $1 million for the year (2010 – $5 million, 2009 – $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, decreased by $31 million to $30 million as at October 31, 2011. In addition, the total assets held in the unconsolidated referenced funds also decreased by $138 million to $111 million as at October 31, 2011 due to negative performance of the reference funds and redemptions of capital by RBC and third-party investors in the funds.

Trusts, mutual, pooled and segregated 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 2011 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. We also manage assets in segregated funds on which we provide minimum death benefit and maturity value guarantees and earn fees at market rates from these funds.

Guarantees, retail and commercial commitments
We issue guarantee products, as described in Note 25 to our 2011 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, 2011, amounted to $71.5 billion (2010 – $72.6 billion). The decline relates primarily to fewer credit derivatives and stable-value products. In addition, as at October 31, 2011, RBC Dexia IS securities lending indemnifications totalled $52.6 billion (2010 – 52.1 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, 2011, our maximum potential amount of future payments for our

backstop liquidity facilities related to ABCP programs were $22.0 billion (2010 – $19.1 billion) of which 95% (2010 – 96%) 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 2011 Annual Consolidated Financial Statements for details regarding our guarantees and commitments.

Retail and commercial commitments (1) **Table 40**

(C$ millions)	Within 1 year	1 to 3 years	Over 3 to 5 years	Over 5 years	Total
Documentary and commercial letters of credit	$ 191	$ –	$ –	$ –	$ 191
Commitments to extend credit and liquidity facilities	5,559	54,533	36,302	3,315	99,709
Uncommitted amounts (2)	–	166,488	–	–	166,488
	$ 5,750	$ 221,021	$ 36,302	$ 3,315	$ 266,388

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

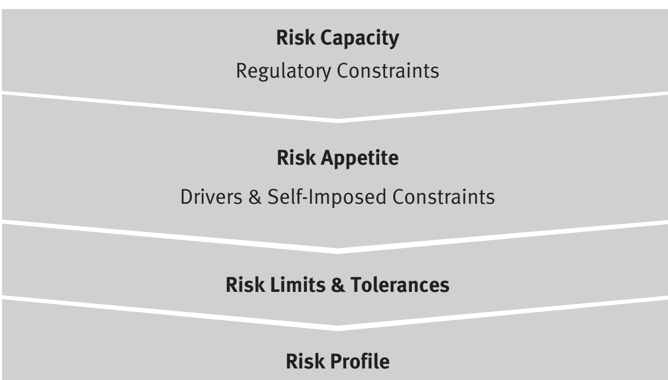
Risk management

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 RBC, 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 RBC, through adherence to our Enterprise Risk Appetite Framework.

Risk Appetite
Our Risk Appetite is the amount and type of risk we are able and willing to accept in the pursuit of our business objectives. Our Risk Appetite Framework has four major components as illustrated below:



The 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, comprised of **Drivers** that are the business objectives which include risks we must accept to generate desired financial returns, and **Self-Imposed Constraints** that limit or otherwise influence the amount of risk undertaken. Our Self-Imposed Constraints include:
   - maintaining a "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 sound management of regulatory compliance risk and operational risk, and
   - maintaining a Risk Profile that is no riskier than that of our average peer.
3. Set **Risk Limits and Tolerances** to ensure that risk taking activities are within Risk Appetite.
4. Regularly measure and evaluate our **Risk Profile**, representing the risks we are exposed to, relative to our Risk Appetite, and ensure appropriate action is taken prior to Risk Profile surpassing Risk Appetite.

The Risk Appetite Framework is structured in such a way that it can be applied at the enterprise, business segment, business unit, and legal entity levels. We continue to articulate risk appetite at the business segment level, and confirm constraints for the key risks of our business segments.

Risk Appetite is integrated into our business strategies and capital plan. During 2011, the concept of "Risk Posture" was introduced to summarize the anticipated impact of strategic priorities on Risk Profile. Risk Posture is analyzed along with growth objectives and planned changes to understand potential impacts on business Risk Profile. We also ensure that the business strategy aligns with the enterprise and business segment level risk appetite.

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 functions 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 all products and transactions 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 Risk Committee's oversight role is designed to ensure that the risk management function is adequately independent from the businesses whose activities it reviews, and that the policies, procedures and controls used by management are sufficient to keep risks within our risk framework and appetite.

The Group Executive (GE) is our senior management team and is led by the President and Chief Executive Officer (CEO) and is responsible for our strategy and its execution by establishing the "tone at the top". The GE actively shapes and then recommends Risk Appetite for approval to the Risk Committee of the Board. 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 our strategic objectives and risk appetite 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; monitor risk profile relative to risk appetite; and maintain our enterprise-wide program for identifying, measuring, controlling and reporting the significant risks that we face;
- The Chief Compliance Officer and Compliance which are responsible for our policies and processes designed to mitigate and manage regulatory compliance 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 in the following pages.

We further enhanced our risk governance throughout 2011. We continued to align our compensation programs with our Enterprise Risk Management Framework and appropriately balance between risk and reward. In addition, during 2011 we further enhanced our Regional Corporate Governance Committees. They provide a mechanism through which risk and governance issues are escalated to the GE in support of their oversight and monitoring role. We have established the Corporate Governance Committee for the U.S., Europe and Asia Pacific.

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 withstand these unexpected losses, should they occur. For further information, refer to the Capital management section.

Stress testing
Stress testing is a risk management technique that involves consideration of the impact of adverse movements in one or more risk factors. Stress testing helps ensure the risks we take remain within our Risk Appetite, and is a key component of our capital management and capital adequacy assessment processes. Stress testing outcomes are regularly reviewed by senior management, and in many cases, by the Risk Committee of the Board.

Our enterprise-wide stress testing program utilizes stress scenarios featuring a range of severities based on exceptional, but plausible 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 severe recession, sovereign debt crisis, hard landing in emerging markets, and U.S. inflation. Our evaluations indicate that the resulting capital and financial impacts of these stress scenarios are within our ability to manage.

In addition to the enterprise-wide program, we engage in a broad range of stress testing activities that are specific to a particular line of business, portfolio or risk type including market risk, liquidity risk, structural interest rate risk, retail and wholesale credit risk and insurance risk. Test results are used in a variety of decision-making processes including adjustments to certain risk limits, specific portfolios, and business implementation strategies. Augmenting established stress testing programs, we also perform ad hoc stress testing on an as-needed basis to assist in the evaluation of emerging risk issues.

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 engaged 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 roles 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 and 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 the risk involved. In general, the risk review and approval process involves a formal review and approval by an individual, group or committee that is independent from the originator. The approval responsibilities are governed by delegated authorities based on the following 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 CEO 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.

The Board of Directors also delegates Liquidity risk authorities to the President and CEO, Chief Administrative Officer and Chief Financial Officer, and the CRO. These limits act as a key risk control designed to ensure that reliable and cost-effective sources of cash are available to satisfy our current and prospective commitments.

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, we provide to senior management and the Board of Directors the Enterprise Risk Report which includes a comprehensive review of our Risk Profile relative to our Risk Appetite and focuses on a range of risks we face along with analysis of the related issues and trends. In addition to our regular risk monitoring, other risk specific presentations are provided to and discussed with senior management and the Board of Directors on emerging risk issues or significant changes in our level of risk. Examples of additional presentations during the year included Operational Controls & Governance Program within Capital Markets, Information Security – Risks and Mitigation and European Stress Scenario Analysis.

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 2011 Annual Consolidated Financial Statements for the years ended October 31, 2011 and October 31, 2010.

Credit risk

Credit risk is the risk of loss associated with an obligor's potential 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 RBC and all our 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 credit quality is not compromised for growth.
- Diversifying credit risks in transactions, relationships and portfolios.
- Using our credit risk rating and scoring systems or other approved credit risk assessment or rating methodologies, 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.
- Ongoing credit risk monitoring and administration.

Risk measurement

We quantify credit risk, at both the individual obligor and portfolio levels, to manage 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, sovereigns, public sector entities, financial institutions, funds, asset backed securitizations, certain individuals, other wealth management exposures 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 and setting regulatory capital 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 is our internal quantification of risks, 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 exposure.
- 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 recovery 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.

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 during 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 41**

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 sector 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.

These ratings and risk measurements are used in the determination of our expected losses and unexpected losses as well as economic and regulatory capital, setting of risk limits, portfolio management and product pricing.

Retail credit portfolio

Credit scoring is the primary risk rating system for assessing obligor and transaction risk for retail exposures. Credit scores along with decision strategies are employed in the acquisition of new clients (acquisition) and management of existing clients (behavioural).

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 and mitigate 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. We further stress test our portfolio in order to assess vulnerability of the portfolios under a set of severe economic scenarios.

Criteria used to pool exposures for risk quantification include behavioural score, product type (mortgages, 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 credit risk parameters (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 42**

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

Risk Control

The Board of Directors and its committees, GE, GRC and other management risk committees work together to ensure a Credit Risk Framework and supporting policies, processes and procedures exist to manage credit risk and approve related credit risk limits. 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

- Specific credit policies and procedures set out the requirements for structuring transactions. Risk mitigants include the use of guarantees, seniority, loan to value requirements 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. 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 2011 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.

Our credit risk objectives, policies, and methodologies have not changed materially from 2010.

Gross credit risk exposure

Gross credit risk exposure is calculated based on the definitions provided under the Basel II framework. Under this method, risk exposure is calculated **before taking into account any collateral and inclusive of an estimate of potential future changes to that credit exposure.** Gross credit risk is categorized into Lending-related and other, and Trading-related.

Lending-related and other includes:

- Loans and acceptances outstanding, undrawn commitments, and other exposures including contingent liabilities such as letters of credit and guarantees, AFS debt securities and deposits with financial institutions. Undrawn commitments represent an estimate of the contractual amount that may be drawn upon at the time of default of an obligor.

Trading-related credit includes:

- Repo-style transactions include repurchase and reverse repurchase agreements and securities lending and borrowing transactions. For repo-style transactions, gross exposure represents the amount at which securities were initially financed, before taking into account collateral.
- Over-the-counter (OTC) derivatives gross exposure amount represents the credit equivalent amount, which is defined by OSFI as the replacement cost plus an amount for potential future credit exposure.

Gross (excluding allowance for loan losses) credit risk exposure by portfolio and sector* **Table 43**

As at October 31 (C$ millions)	2011						2010					
	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	$ 136,701	$ 13	$ 9	$ –	$ –	$ 136,723	$ 128,832	$ 12	$ 160	$ –	$ –	$ 129,004
Personal	86,498	75,314	49	–	–	161,861	80,174	61,181	59	–	–	141,414
Credit cards	9,221	27,079	–	–	–	36,300	10,110	30,144	–	–	–	40,254
Small business (3)	2,481	4,168	42	–	–	6,691	2,712	3,136	45	–	–	5,893
Retail	$ 234,901	$ 106,574	$ 100	$ –	$ –	$ 341,575	$ 221,828	$ 94,473	$ 264	$ –	$ –	$ 316,565
Business (3)												
Agriculture	$ 4,990	$ 609	$ 26	$ –	$ 19	$ 5,644	$ 4,815	$ 504	$ 24	$ –	$ 7	$ 5,350
Automotive	3,344	2,500	176	–	380	6,400	3,527	1,747	142	–	321	5,737
Consumer goods	6,064	3,053	504	–	179	9,800	5,912	2,358	483	–	224	8,977
Energy	6,638	14,363	2,333	36	1,688	25,058	5,945	9,942	2,173	–	1,429	19,489
Non-bank financial services	3,953	6,100	8,521	88,900	7,383	114,857	4,769	5,973	6,487	81,008	10,123	108,360
Forest products	775	437	102	–	19	1,333	792	371	87	–	17	1,267
Industrial products	3,930	2,399	314	–	157	6,800	3,731	2,387	426	–	147	6,691
Mining & metals	1,152	1,880	667	114	109	3,922	635	1,565	637	–	198	3,035
Real estate & related	19,851	3,376	1,055	–	320	24,602	18,358	2,701	1,292	–	275	22,626
Technology & media	3,034	3,294	175	335	425	7,263	2,569	3,241	322	–	528	6,660
Transportation and environment	5,145	2,131	1,151	–	613	9,040	3,759	1,658	483	–	582	6,482
Other	22,407	7,226	5,727	15,030	5,235	55,625	20,253	4,894	6,862	9,625	5,840	47,474
Sovereign (3)	4,650	3,606	27,875	10,474	9,392	55,997	3,765	3,580	28,123	3,770	8,322	47,560
Bank (3)	2,444	398	51,536	75,582	32,043	162,003	1,916	622	46,093	58,587	30,908	138,126
Wholesale	$ 88,377	$ 51,372	$100,162	$ 190,471	$ 57,962	$ 488,344	$ 80,746	$ 41,543	$93,634	$ 152,990	$ 58,921	$ 427,834
Total exposure	$ 323,278	$ 157,946	$100,262	$ 190,471	$ 57,962	$ 829,919	$ 302,574	$ 136,016	$93,898	$ 152,990	$ 58,921	$ 744,399

* This table represents an integral part of our 2011 Annual Consolidated Financial Statements.

(1) Credit equivalent amount after factoring in master netting agreements. Derivative exposures are measured at fair value.

(2) Gross credit risk exposure is before allowance for loan losses and represents consolidated (combined continuing and discontinued) operations. 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 of our 2011 Annual Consolidated Financial Statements for the definition of these terms.

2011 vs. 2010

Total gross credit risk exposure increased $86 billion, or 11%, from the prior year, reflecting increases in both our wholesale and retail portfolios.

Retail exposure increased $25 billion, or 8%, primarily as a result of solid volume growth in Canadian home equity and personal lending products, partially offset by a decrease in our credit card portfolio due to higher securitization activities during the year. The use of guarantees and collateral represents an integral part of our credit risk mitigation in our retail portfolio. Insured mortgages accounted for 19% of our residential mortgage portfolio in 2011 as compared to 20% in 2010. Secured personal lending represented 56% of personal loans outstanding in 2011, unchanged from 2010.

Wholesale exposure increased $61 billion, or 14%, reflecting increases in most exposure types. Repo-style transactions increased $37 billion, primarily in bank, non-bank financial services and sovereign, mainly attributable to new business activity and higher client activity in certain businesses. Undrawn commitments increased $10 billion across most sectors with the largest increase in the energy sector. Loans and acceptances outstanding increased $8 billion, largely in real estate and related, transportation and environment, and health and other services within the other sector group. Other exposure increased $6 billion mostly in banks largely due to higher deposits with governments or financial institutions. The loan utilization of 41% decreased 1% from the prior year.

Gross (excluding allowance for loan losses) credit risk exposure by geography* **Table 44**

	2011						2010					
	Lending-related and other			Trading-related			Lending-related and other			Trading-related		
	Loans and acceptances						Loans and acceptances					
As at October 31 (C$ millions)	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)
Canada	$ 270,061	$ 127,423	$ 34,684	$ 60,893	$ 11,695	$ 504,756	$ 254,581	$ 113,860	$49,384	$ 48,006	$ 10,954	$ 476,785
USA	34,085	20,874	21,635	60,220	11,929	148,743	31,973	15,490	9,448	43,763	14,973	115,647
Europe	6,880	7,324	28,195	59,271	27,542	129,212	4,255	4,758	23,255	49,272	25,735	107,275
Other International	12,252	2,325	15,748	10,087	6,796	47,208	11,765	1,908	11,811	11,949	7,259	$ 44,692
Total exposure (3)	$ 323,278	$ 157,946	$100,262	$ 190,471	$ 57,962	$ 829,919	$ 302,574	$ 136,016	$93,898	$ 152,990	$ 58,921	$ 744,399

* This table represents an integral part of our 2011 Annual Consolidated Financial Statements.
(1) Credit equivalent amount after factoring in master netting agreements. Derivative exposures are measured at fair value.
(2) Gross credit risk exposure is before allowance for loan losses and represents consolidated (combined continuing and discontinued) operations. 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) Geographic profile is based on country of residence.

2011 vs. 2010

The geographic mix of our gross credit risk exposure did not change significantly from the prior year with Canada, U.S., Europe and Other international reflecting 61%, 18%, 15% and 6% of our exposure respectively.

Growth in our gross credit risk exposure mainly reflected higher exposure in the U.S. of $33 billion, higher exposure in Canada of $28 billion and higher exposure in Europe of $22 billion. Growth in the U.S. was largely driven by higher levels of repo-style transactions and other balances with financial institutions. Growth in Canada reflected increased exposure from loans outstanding and undrawn commitments in the retail portfolio, and repo-style style transactions, partially offset by declines in letters of credit and guarantees and other balances in the wholesale portfolio. Growth in Europe reflected increases across all exposure types with the largest increase in collaterized repo-style transactions.

European Exposure **Table 45**

	2011							
	Loans and Acceptances		Other					
As at October 31 (C$ millions)	Outstanding	Undrawn commitments	Securities (1)	Letters of credit and guarantees	Other	Repo-style transactions	Over-the-counter derivatives (2)	Total European exposure
Gross exposure to Europe	$ 6,880	$ 7,324	$ 18,167	$ 8,292	$1,736	$ 59,271	$ 27,542	$ 129,212
Less: Collateral held against repo-style transactions	–	–	–	–	–	58,379	–	58,379
Potential future credit exposure amount	–	–	–	–	–	–	18,329	18,329
Undrawn commitments	–	7,324	–	8,292	–	–	–	15,616
Gross drawn exposure to Europe (3)	$ 6,880	$ –	$ 18,167	$ –	$1,736	$ 892	$ 9,213	$ 36,888
Less: Collateral applied against derivatives	–	–	–	–	–	–	5,461	5,461
Add: Trading securities	–	–	11,826	–	–	–	–	11,826
Net Exposure to Europe (4)	$ 6,880	$ –	$ 29,993	$ –	$1,736	$ 892	$ 3,752	$ 43,253

(1) Securities include $9.5 billion of AFS securities, $11.8 billion of trading securities and $8.7 billion of deposits.
(2) Derivative exposures are measured at fair value.
(3) Based on our interpretation of gross funded exposures as reported by certain U.S. banks, which excludes undrawn commitments, potential future credit exposure amount and collateral.
(4) Excludes $1.5 billion (2010 – $.7 billion) of exposures to supra-national agencies.

As noted above, our gross credit risk exposure is calculated based on the definitions provided under the Basel II framework whereby risk exposure is calculated before taking into account any collateral and inclusive of an estimate of potential future changes to that credit exposure. On that basis, our total European exposure as at October 31, 2011 was $129 billion. For the same period, our gross drawn exposure to Europe was $37 billion, after taking into account collateral held against repo-style transactions of $58 billion, undrawn commitments for loans and letters of credit of $16 billion and potential future credit exposure to OTC derivatives of $18 billion. Our net exposure to Europe was $43 billion, after taking into account $5 billion of collateral (primarily cash) we hold against OTC derivatives and the addition of trading securities of $12 billion held in our trading book, as these are addressed through market risk. Our net exposure to Europe also reflects $1.1 billion of mitigation through credit default swaps, which are largely used to hedge single name exposure and market risk. This net exposure also includes our proportionate share of RBC Dexia IS exposures.

Net European Exposure (1) — Table 46

	2011						2010
As at October 31 (C$ millions)	Loans outstanding	Securities (2)	Other	Repo-style transactions	Over-the-counter derivatives (3)	Total	Total
U.K.	$ 4,118	$ 8,615	$ 281	$ 661	$ 1,664	$15,339	$ 13,453
Germany	143	5,941	125	1	708	6,918	3,946
France	376	3,534	–	1	278	4,189	8,185
Total U.K., Germany, France	$ 4,637	$ 18,090	$ 406	$ 663	$ 2,650	$26,446	$ 25,584
Greece	$ –	$ 13	$ –	$ –	$ –	$ 13	$ 5
Ireland	222	53	40	41	100	456	672
Italy	20	165	34	–	22	241	167
Portugal	–	19	–	–	9	28	40
Spain	198	250	215	–	38	701	1,107
Total Peripheral	$ 440	$ 500	$ 289	$ 41	$ 169	$ 1,439	$ 1,991
Belgium	$ 43	$ 1,551	$ –	$ –	$ 216	$ 1,810	$ 1,840
Luxembourg	484	1,018	537	–	47	2,086	4,315
Netherlands	323	3,216	33	32	185	3,789	2,943
Sweden	–	2,120	–	109	31	2,260	559
Switzerland	723	1,834	94	24	112	2,787	1,159
Other	230	1,664	377	23	342	2,636	1,397
Total Other Europe	$ 1,803	$ 11,403	$1,041	$ 188	$ 933	$15,368	$ 12,213
Total Europe (4)	$ 6,880	$ 29,993	$1,736	$ 892	$ 3,752	$43,253	$ 39,788

(1) All numbers presented reflect our proportionate share of RBC Dexia IS exposures, including updated 2010 amounts for Peripheral Europe.
(2) Securities include $9.5 billion of AFS securities, $11.8 billion of trading securities and $8.7 billion of deposits.
(3) Derivative exposures are measured at fair value.
(4) Excludes $1.5 billion (2010 – $.7 billion) of exposures to supra-national agencies.

With respect to country exposure, our net exposure to larger European countries, including the U.K., Germany and France, represents over 60% of our net European exposure and primarily relates to our Capital Markets and global Wealth Management businesses, in particular fixed income, treasury services, derivatives, and corporate and individual lending. These are client-driven businesses where we transact with a range of European financial institutions, corporations and individuals. In addition, we engage in primary dealer activities in a number of jurisdictions, including the U.K., Germany and France, where we participate in auctions of government debt and act as a market maker and provide liquidity to clients. Our exposure to European banks is generally short-term in nature and / or supported by collateral agreements.

Our net exposure to Greece, Ireland, Italy, Spain and Portugal remained minimal with total outstanding exposure of $1.4 billion as at October 31, 2011, which was down $552 million compared to the prior year. These exposures include lending, as well as trading inventory and derivative positions. It is predominantly investment grade, with limited direct sovereign exposure.

Our largest net exposure to other European countries primarily includes the Netherlands, Switzerland, Sweden, Luxemburg and Belgium, with no other country representing greater than 2% of total net European exposure.

Loans outstanding of $7 billion are largely to investment grade entities including large multinationals, with the majority of these corporate loans in the U.K. Our European corporate loan book is run on a global basis and the underwriting standards for this loan book reflect the same conservative approach to the use of our balance sheet as we have applied in both Canada and the U.S. The portfolio quality of this loan book remains sound and we have had nominal credit losses on this portfolio of $24 million for the year ended October 31, 2011. The specific PCL ratio and GIL ratio of this loan book were 0.42% and 1.24%, respectively.

Securities consist of AFS securities of $9.5 billion largely reflecting our holdings of Organisation of Economic Co-operation and Development (OECD) securities for regulatory requirement and liquidity management and our trading securities related to both client market making activities and our funding and liquidity management needs. Deposits primarily include deposits with central banks or financial institutions, and also include deposits related to our Wealth Management business in the Channel Islands. All of our trading securities are marked to market on a daily basis.

Repo-style transactions are primarily collateralized funding transactions which facilitate client activities. We manage our exposure by actively managing the collateral at the client level, which includes daily monitoring of the fair value of the collateral received and, as necessary, requesting additional collateral to ensure such transactions remain adequately over-collateralized. The degree of over-collateralization is determined by the underlying collateral, which is dominated by cash and government securities. In addition, we actively monitor the collateral for excess concentrations and change the collateral we hold as required.

As a market-maker we also provide clients over-the-counter derivatives products, such as interest rate, foreign exchange and other derivative products, in order to provide liquidity and to facilitate the transfer and hedging of risk. In this capacity, we typically act as principal and are consequently required to commit capital to provide execution. To manage counterparty credit risk, we use collateral and master netting agreements, which provides us with the right to a single net settlement of all financial obligations in the event of default. Our counterparties on these transactions include well-rated financial institutions, with the vast majority domiciled in the U.K., Germany and France. Over 80% of the collateral for these transactions is in the form of cash. Our net mark to market exposure to Europe is $3.8 billion, primarily made up of exposure to the U.K., France and Germany, where we conduct business with highly rated banks, sovereigns and large corporations.

Net European Exposure — Table 47

	2011												2010
As at October 31 (C$ millions)	U.K.	Germany	France	Total U.K., Germany, France	Greece	Ireland	Italy	Portugal	Spain	Total Peripheral	Other Europe	Total Europe	Total Europe
Financials	$ 9,426	$ 5,092	$1,563	$ 16,081	$ –	$ 185	$144	$ 11	$ 397	$ 737	$10,438	$27,256	$ 23,020
Sovereign	1,162	1,482	1,887	4,531	–	144	42	1	55	242	2,377	7,150	9,451
Corporate	4,751	344	739	5,834	13	127	55	16	249	460	2,553	8,847	7,317
Total net European exposure	$15,339	$ 6,918	$4,189	$ 26,446	$ 13	$ 456	$241	$ 28	$ 701	$ 1,439	$15,368	$43,253	$ 39,788

Loans and acceptances

Table 48

(C$ millions)	2011	2010
Residential mortgages	$134,804	$126,790
Personal	82,192	75,519
Credit cards	9,007	9,916
Small business	2,481	2,712
Retail	$228,484	$214,937
Business		
Agriculture	4,880	4,705
Automotive	3,025	3,228
Consumer goods	5,341	5,202
Energy	6,545	5,869
Non-bank financial services	3,857	4,593
Forest products	698	726
Industrial products	3,381	3,143
Mining & metals	1,122	587
Real estate & related	15,569	12,651
Technology & media	2,712	2,257
Transportation & environment	4,927	3,546
Other (1)	18,296	15,290
Sovereign	4,650	3,765
Bank	2,444	1,916
Wholesale	$ 77,447	$ 67,478
Total loans and acceptances	$305,931	$282,415
Total allowance for loan losses	$ (1,958)	$ (2,038)
Total loans and acceptances, net of allowance for loan losses	$303,973	$280,377

(1) 2011 relates to Other services – $6.0 billion, Financing products – $4.1 billion, Holding and investments – $4.2 billion, Health – $3.1 billion and Other – $.9 billion. Other in 2010 relates to Other services – $5.4 billion, Financing products – $4.3 billion, Holding and investments – $3.3 billion, Health – $2.0 billion and Other – $.3 billion.

2011 vs. 2010

Loans and acceptances on a continuing basis increased by $24 billion, or 8%, from the prior year, mainly reflecting solid retail growth in Canada and strong growth in our wholesale portfolio across most geographies.

Retail growth of $14 billion, or 6%, was driven by solid volume growth mainly in our Canadian residential mortgages and personal lending portfolios.

Our personal loan portfolio which includes our home equity lines of credit is reported primarily in Canadian Banking. For these home equity lines of credit, as the residential mortgage is paid down, the client's authorized credit limit on the line of credit automatically increases such that the combined mortgage and the authorized credit limit of the line of credit amount to 80% of the assessed value of the home. As at October 31, 2011, $41 billion of our portfolio as compared to $37 billion in 2010, was comprised of home equity lines of credit. More than 95% of home equity lines of credit are secured by a first lien on real estate. Home equity lines of credit account for approximately 50% of the $82 billion of total personal loans in 2011. Of the clients that have home equity lines of credit, less than 7%, pay the scheduled interest payment only.

Wholesale loans and acceptances increased by $10 billion mainly driven by strong volumes in the U.S. in our corporate portfolio in Capital Markets and growth in our Canadian commercial portfolio.

Credit quality performance – continuing basis

Provision for (recovery of) credit losses

Table 49

(C$ millions)	2011	2010
Canadian Banking (1)	$ 980	$ 1,191
International Banking (1)	91	142
Capital Markets (1)	(20)	20
Corporate Support (1), (2)	(76)	(113)
Canada (3)		
Residential mortgages	$ 3	$ 7
Personal	398	444
Credit cards	364	399
Small business	34	45
Retail	799	895
Wholesale	73	122
Specific PCL	872	1,017
United States (3)		
Retail	$ 4	$ –
Wholesale	(13)	62
Specific PCL	(9)	62
Other International (3)		
Retail	$ 33	$ 31
Wholesale	77	124
Specific PCL	110	155
Total specific PCL	973	1,234
General provision (2)	2	6
Total PCL	$ 975	$ 1,240

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

2011 vs. 2010

Total PCL of $975 million decreased $265 million, or 21%, from last year primarily due to a decrease in specific PCL of $261 million.

Specific PCL in Canadian Banking decreased $211 million, or 18%, largely due to lower write-offs in our credit card portfolio, driven by fewer bankruptcies and lower provisions in our business lending and unsecured personal lending portfolios reflecting improved economic conditions.

Specific PCL in International Banking decreased $51 million, or 36%, largely due to lower provisions in our Caribbean commercial portfolio as the prior year reflected provisions on several accounts.

During the current period, we had a recovery of PCL in Capital Markets of $20 million mainly comprised of recoveries on several accounts during the year, partially offset by provisions. This compared to a provision of $20 million in the prior year.

Gross impaired loans

Table 50

(C$ millions)	2011	2010
Canadian Banking (1)	$ 1,270	$ 1,406
International Banking (1)	784	731
Capital Markets (1)	264	409
Corporate Support (1)	69	133
Canada (2)		
Retail	$ 795	$ 767
Wholesale	513	771
United States (2)		
Retail	6	–
Wholesale	176	364
Other International (2)		
Retail	247	251
Wholesale	650	526
Total GIL	$ 2,387	$ 2,679

(1) Segments with significant GIL have been presented in the table above.
(2) Geographic information is based on residence of borrower.

2011 vs. 2010
Total gross impaired loans (GIL) decreased $292 million, or 11%, from a year ago.

GIL in Canadian Banking decreased $136 million, or 10% largely due to lower impaired loans in our business lending portfolio reflecting fewer new impaired loans.

GIL in International Banking increased $53 million, or 7%, largely due to higher impaired loans in our Caribbean commercial portfolios primarily related to the other, agriculture and industrial products sectors.

GIL in Capital Markets decreased $145 million, or 35%, primarily due to lower impaired loans related to clients in the real estate, industrial products and automotive sectors primarily reflecting loan sales and repayments. This was partially offset by new impaired loans in the transportation and environment and other services sectors.

Allowance for credit losses

Table 51

(C$ millions)	2011	2010
Specific ACL		
Canada (1)	$ 326	$ 360
United States (1)	70	85
Other International (1)	250	276
Total specific ACL	646	721
General allowance		
Retail	878	931
Wholesale	525	474
Total general allowance	1,403	1,405
Total ACL	$ 2,049	$ 2,126

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

2011 vs. 2010
Total allowance for credit losses (ACL) decreased $77 million, or 4%, from a year ago, mainly due to a $75 million decrease in the specific allowance, reflecting overall improved asset quality and the same factors as noted above in the PCL section.

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 activities 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.

Trading market risk
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 Office of the Superintendent of Financial Institutions (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.

Trading market risk reflects the potential adverse impact on our earnings and economic value of our trading activities 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 an issuer's 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 market implied 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.

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-based approach (VaR based), for which we have been granted approval by OSFI. Regulatory capital for market risk is allocated based on VaR only for those activities that have approval to use the internal models based approach. VaR for credit valuation adjustments and for products that are not considered part of the trading book are not captured under the internal models-based 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 value-at-risk (VaR) scenario model has incorporated market events from late 2009 through much of 2011.

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 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, 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 VaR for total trading activities under the internal 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.

Internal Models-Based Approach VaR by major risk category* — **Table 52**

	2011				2010			
		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	$ 4	$ 16	$ 28	$ 3	$ 10	$ 16	$ 30	$ 7
Foreign exchange	5	2	8	1	2	5	11	1
Commodities	3	2	4	–	2	2	7	–
Interest rate	22	27	41	19	33	44	61	30
Credit specific	15	19	24	15	20	18	22	11
Diversification	(23)	(30)	(52)	(21)	(34)	(37)	(51)	(22)
VaR	$ 26	$ 36	$ 49	$ 22	$ 33	$ 48	$ 66	$ 33

* This table represents an integral part of our 2011 Annual Consolidated Financial Statements.

VaR (Internal Models-Based Approach)

2011 vs. 2010

Average VaR of $36 million decreased by $12 million compared to the prior year, largely as a result of the decrease in interest rate risk driven by the runoff of the volatile scenarios from late 2008 and early 2009 from the VaR model. The decrease is also due to lower foreign exchange risk as a result of reduced business activity and partially offset by the increase of credit specific risk from certain high yield positions. As well, there were some risk reduction activities in global fixed income trading portfolios during the last half of the year.

Management VaR

For management purposes we also calculate VaR for all of our trading positions, including those under the standardized approach for capital as prescribed by OSFI. Products under the standardized approach for capital that are captured under Management VaR include Agency and non-Agency mortgage-backed securities, BOLI, certain commodity positions and certain structured equity and interest rate derivatives. VaR for these positions, and the diversification effects with the rest of the portfolio, can be subject to additional limitations and may not be calculated with the same techniques applied to positions under the internal models-based approach. Management VaR, therefore, includes all of our trading activities, regardless of capital treatment. It is being disclosed to ensure alignment between external disclosure and internal management measures that incorporate all trading activities.

As in the case of the internal models-based approach, VaR for credit valuation adjustments and for products that are not considered part of the trading book are not captured under the Management VaR.

Management VaR — **Table 53**

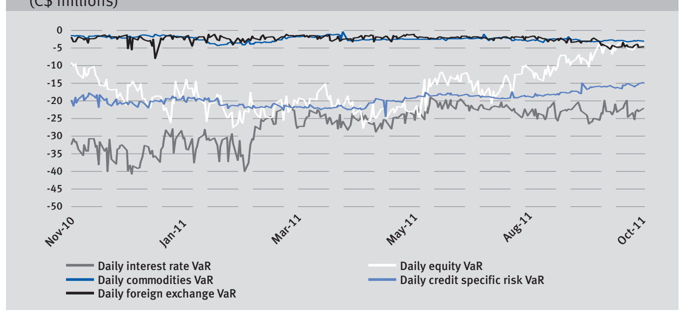
	2011				2010			
		For the year ended October 31				For the year ended October 31		
(C$ millions)	As at Oct. 31	Average	High	Low	As at Oct. 31	Average	High	Low
Equity	$ 7	$ 11	$ 21	$ 5	$ 18	$ 15	$ 27	$ 7
Foreign exchange	5	2	8	1	2	5	10	1
Commodities	3	3	6	1	4	4	8	–
Interest rate	36	45	61	32	52	59	74	46
Credit specific	15	19	24	15	20	18	22	11
Diversification	(22)	(27)	(40)	(20)	(38)	(41)	(57)	(25)
VaR	$ 44	$ 53	$ 67	$ 36	$ 58	$ 60	$ 77	$ 42

VaR (Management VaR)

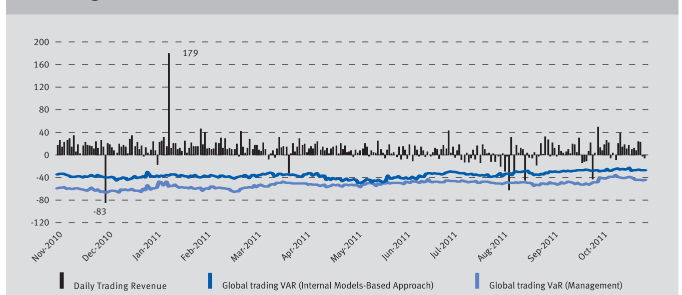
2011 vs. 2010

Average management VaR of $53 million was down $7 million compared to a year ago, mainly due to the decrease in interest rate risk, as well as equity risk and foreign exchange risk. The interest rate VaR decrease was largely driven by the runoff of the historical scenarios from late 2008 and early 2009 from the VaR model as noted above as well as risk reductions in global fixed income trading portfolios during the latter half of the year. Average equity VaR decreased mainly due to the sale of residual positions from underwriting activities in the first half of the year. The decrease was partially offset by a decrease in diversification from 41% to 34%, which is driven by the overall reduction of risk.

Internal Models-Based Approach VaR by major risk category
Year ended October 31, 2011
(C$ millions)

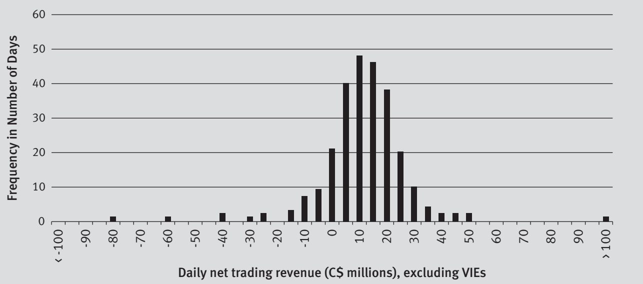


Trading revenue and VaR (1) (C$ millions)



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

Trading revenue for the year ended October 31, 2011 (teb)



Trading revenue

Trading revenue includes all positions included in internal models VaR as well as those under the standardized approach regulatory capital treatment. Also included in trading revenue are gains and losses associated with changes in our credit valuation adjustment for derivatives. The breadth of our trading activities is designed to diversify market risk to any particular strategy, and to reduce trading revenue volatility.

2011 vs. 2010

During the year, there were 48 days with net trading losses, compared to 30 days in 2010. The largest loss occurred on November 30, 2010, totalling $83 million. This loss was primarily due to a month-end credit valuation adjustment on our exposure to MBIA. On December 31, 2010, a legal settlement was concluded regarding the termination of the direct monoline insurance protection provided by MBIA. Revenue related to this settlement was recognized on January 7, 2011. The second largest loss took place on August 8, 2011, which was largely driven by market volatility as a result of the lowering of the U.S. long-term sovereign credit rating by Standard & Poor's. The increased volatility in daily trading revenue during the latter half of the year, particularly in the early part of the fourth quarter and stabilizing in the remainder, was due to market concerns relating to the European sovereign debt crisis and the downgrade of the U.S. credit rating.

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 2011 Annual Consolidated Financial Statements.

Risk measurement

We continually evaluate opportunities to adopt leading practices in instrument valuation, econometric modelling 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, the Risk Committee of the Board 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 2011, our interest rate risk exposure was well within our target level.

Market risk measures – Non-trading banking activities * **Table 54**

	2011						2010		2009	
	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	$ (486)	$ 32	$(454)	$ 254	$ 53	$ 307	$ (484)	$ 93	$ (230)	$ 339
100bp decrease in rates	448	(36)	412	(136)	(25)	(161)	425	(98)	214	(112)
Before-tax impact of:										
200bp increase in rates	(976)	51	(925)	562	146	708	(1,003)	232	(487)	619
200bp decrease in rates	619	(4)	615	(160)	(29)	(189)	735	(95)	323	(169)

* This table represents an integral part of our 2011 Annual Consolidated Financial Statements.
(1) Represents the impact on the non-trading portfolios held in our U.S. banking operations, including both continuing and discontinued 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 trading and non-trading market risk objectives, policies and methodologies have not changed significantly from 2010.

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 assess our liquidity status, 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. The frequency of review 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 maximize ready access to cash in emergencies, including their eligibility for central bank advances.

Risk control

The Board of Directors annually approves delegation of liquidity risk authorities to senior management. The Risk Committee of the Board annually approves the liquidity management framework and is responsible for its oversight. The Board of Directors and the Risk Committee also review, on a regular basis, reporting on our 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 while considering market, legal, regulatory, tax, operational and any other applicable restrictions. This includes analyzing our ability to lend or borrow funds between branches and subsidiaries, and convert 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 monitored regularly. Net cash flow limits are approved at least annually. Depending on the significance 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, who provides or arranges for approval after reviewing remedial action plans.

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 four years, we have modified the liquidity treatment of certain asset classes to reflect that market liquidity for these products has significantly changed. Where required, limits have been reduced in consideration of the results of updated stress tests. In 2010, OSFI introduced a regulatory enterprise liquidity metric, for which we submit a formal compliance report on a weekly basis.

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. A lowering of our credit rating may have potentially adverse consequences for our funding capacity or access to the capital markets, 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 significantly 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 December 13, 2010, Moody's revised our senior long-term debt rating to Aa1 from Aaa and our outlook from negative to stable. On October 6, 2011, S&P revised our rating outlook from positive to stable, citing the current economic and market uncertainty. We view these as minor rating changes that do not have a material impact on our liquidity and funding access or liability composition. Otherwise, our ratings and outlooks remain unchanged from December 2, 2010.

The following table presents our major credit ratings and outlook as at December 1, 2011:

Credit ratings* **Table 55**

	As at December 1, 2011 (1)		
	Short-term debt	Senior long-term debt	Outlook
Moody's	P-1	Aa1	stable
Standard & Poor's	A-1+	AA-	stable
Fitch Ratings	F1+	AA	stable
Dominion Bond Rating Services	R-1(high)	AA	stable

* This table represents an integral part of our 2011 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 our 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 have increased by 7% during the year and represent 63% of our total deposits, unchanged from last year.

Term funding sources* **Table 56**

(C$ millions)	2011	2010	2009
Long-term funding outstanding	$71,080	$61,069	$ 58,371
Total mortgage-backed securities sold	30,775	28,238	28,815
Commercial mortgage-backed securities sold	1,531	1,705	1,916
Credit card receivables financed through notes issued by a securitization special purpose entity	3,753	2,850	2,913

* This table represents an integral part of our 2011 Annual Consolidated Financial Statements.

During 2011, we continued to expand our long-term funding base by selectively issuing, either directly or through our subsidiaries, $36.5 billion of senior deposit notes in various currencies and markets. Total long-term funding outstanding increased by $10 billion. Outstanding senior debt containing ratings triggers, which would accelerate repayment, constitutes a very small proportion of our overall outstanding debt of $71 billion.

Other liquidity and funding sources

We use residential mortgage and credit card receivable-backed securitization programs as alternative sources of funding and for liquidity and asset/liability management purposes. We hold retained interests in our residential mortgage and credit card securitization programs. Our total outstanding mortgage backed securities sold increased year over year by $2.5 billion. Our credit card receivables, which are financed through notes issued by a securitization special purpose entity increased year over year by $903 million. For further details, refer to the Off-balance sheet arrangements section and Note 5 to our 2011 Annual Consolidated Financial Statements.

Impact of global market developments on liquidity management

During 2011, we continued to experience more favourable wholesale funding access and pricing compared to global peers. We accelerated the timing of our longer-term issuance plans completing most of our planned issuance during the first half of 2011 when better market conditions prevailed. The increase in our spreads during the second half of 2011 was relatively modest compared to most global peers and had a limited impact on our annual plan given our issuances earlier in the year. We also continued to focus on aggressively building our core deposit base in Canada.

Prospective regulatory reforms (Basel III) were confirmed during the year. by the Basel Committee on Banking Supervision (BCBS). Guidelines for liquidity risk include two new regulatory measures, the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) scheduled for implementation between 2015 and 2018. We currently monitor LCR and NSFR for internal and regulatory reporting purposes.

We continue to maintain liquidity and funding that is appropriate for the execution of our strategy. Liquidity and funding risk remain well within our risk appetite.

Our liquidity and funding risk objectives, policies and methodologies have not changed materially from 2010. However, certain limits and risk practices have been modified as a result of market conditions and to align with local regulatory developments and to position ourselves for the prospective Basel III regulatory liquidity 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 57**

	2011					2010	2009
(C$ millions) (1)	Within 1 year	1 to 3 years	3 to 5 years	Over 5 years	Total	Total	Total
Unsecured long-term funding	$14,580	$19,554	$18,897	$ 9,771	$62,802	$53,888	$ 51,956
Covered bonds	212	2,914	3,270	3,583	9,979	8,456	5,740
Subordinated debentures	130	–	249	7,500	7,879	6,789	6,564
Obligations under leases (2)	638	979	640	1,027	3,284	3,183	3,199
	$15,560	$23,447	$23,056	$21,881	$83,944	$72,316	$ 67,459

* This table represents an integral part of our 2011 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.

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.

An Operational Risk Framework which is founded on the principles of our Enterprise Risk Management Framework and sets out the elements that support these principles with respect to management of operational risk is in place. This framework is dynamic, articulating our strategy regarding management, measurement and reporting of operational risk. This encompasses the practices, requirements, roles and responsibilities for a fully comprehensive, coordinated enterprise-wide approach for the management of operational 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 and monitoring, (ii) Operational event data collection and analysis, (iii) Industry loss analysis, (iv) Scenario analysis and (v) Key risk indicators.

Legal and regulatory compliance risk

Legal and regulatory compliance 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 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.

Compliance has developed a comprehensive regulatory compliance management (RCM) framework that is consistent with regulatory guidance from OSFI and other regulators. The framework is designed to promote the proactive, risk-based management of regulatory compliance 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 controls for mitigating regulatory compliance risk. Within the RCM framework there are five elements that form a cycle by which all regulatory compliance risk management programs are developed, implemented and maintained. The first element ensures our regulatory compliance programs evolve alongside our business activities and operations. The second element ensures regulatory compliance risks are identified and assessed appropriately so regulatory compliance programs are designed in a manner to most effectively meet regulatory requirements. The third element relates to the design and implementation of specific controls. The fourth element ensures appropriate monitoring and oversight of the effectiveness of the controls. Lastly, 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, and privacy and information risk management.

Insurance risk

Insurance risk refers to the potential financial loss that may arise where the amount, timing and/or frequency of benefit payments under insurance contracts exceeds that expected. Insurance risk does not include other risks covered by other parts of our risk management framework (e.g., credit, market and operational risk) where those risks are ancillary to the risk transfer.

An Insurance Risk Framework that provides an overview of our program for identifying, managing, and reporting on the insurance risks that face the organization is in place. Insurance risk is managed through our infrastructure, systems, controls, and monitoring. Specific risk management policies, methodologies, and programs have been developed to support the management of risk including: delegated risk approval authorities and limits, and a product risk review and approval process, and experience study analysis.

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 credit risk, regulatory, legal and operational risks. Operational failures and non-compliance with laws and regulations can have a significant reputational impact on us.

A Reputation risk framework which provides an overview of our approach to the management of this risk is in place. It focuses on our organizational responsibilities, and controls in place to mitigate reputation risks.

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.

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.

Responsibility for selecting and successfully implementing business strategies is mandated to the individual heads of the businesses. 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.

Overview of other risks

In addition to the risks described in the Risk Management section, there are other risk factors, described below, which may adversely affect our businesses and financial results. In this section, we have also included our assessment of certain regulatory reform initiatives that relate to financial institutions and have been proposed in the wake of the global financial crisis, as their outcome may have an impact on our businesses. The following discussion is not exhaustive as other factors could also adversely affect our results.

General business and economic conditions

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 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 and result in higher provision for credit losses. Given the importance of our Canadian operations, an economic downturn in Canada or in the U.S. impacting Canada would largely affect our personal and business lending activities in Canadian Banking, and could significantly impact our results of operations

Our earnings are also sensitive to changes in interest rates. A continued low interest rate environment in Canada, the U.S. and globally would result in net interest income being unfavourably impacted by spread compression largely in Canadian Banking and Wealth Management. While an increase in interest rates would benefit our businesses that are currently impacted by spread compression, a significant increase in interest rates could also adversely impact household balance sheets. This could result in credit deterioration which might negatively impact our financial results, particularly in some of our Canadian Banking businesses. For further details on economic and market factors which may impact our financial performance, refer to the Canadian Banking and Wealth Management section.

Our European and U.S. trading businesses within Capital Markets have been negatively impacted by global capital markets which remain challenged by heightened concerns over the European sovereign debt crisis resulting in significantly lower client volumes and trading volatility. In Wealth Management, weaker investor confidence and market conditions have led to lower average fee-based client assets and transaction volumes. A worsening of financial and credit market conditions, may adversely affect our ability to access capital markets on favourable terms and could negatively affect our liquidity, resulting in increased funding costs and lower transaction volumes in our Capital Markets business. For further details on economic and market factors which may impact our financial performance, refer to the Wealth Management and Capital Markets section.

Changes in accounting standards and accounting policies and estimates

We adopted IFRS on November 1, 2011. For further details on our adoption of IFRS, including the impact on our capital position, refer to the Accounting and control matters section.

From time to time, the International Accounting Standards Board may change 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.

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.

Regulatory Developments

The following discussion relating to regulatory developments is not exhaustive and other developments, including in relation to the regulations to be issued under *Dodd-Frank Wall Street Reform and Consumer Protection Act* (Dodd-Frank) in the U.S. could also affect our results.

Basel Committee on Banking Supervision (BCBS) global standards for capital and liquidity reform (Basel III)

In response to the global financial crisis, the BCBS has been reviewing standards for capital and liquidity. The Basel Committee's aim is to improve the banking sector's ability to absorb shocks from financial and economic stress through more stringent capital requirements and new liquidity standards. Banks around the world are preparing to implement the new standards (commonly referred to as Basel III) in accordance with prescribed timelines.

BCBS guidelines for capital include new minimum requirements for common equity, increased capital requirements for counterparty credit exposures, the introduction of a global leverage ratio and measures to promote the build up of capital that can be drawn down in periods of stress.

We currently monitor our Basel III capital ratios and are well positioned to meet the regulatory requirements when the Basel III rules are implemented commencing in 2013. OSFI expects deposit taking institutions to meet the minimum 2019 Basel III capital requirements early in the transition period. We are well capitalized by global standards, our capital position is strengthening and based on our current interpretations we already meet the 2013 Basel III requirements.

We continue to modify our risk practices to align with applicable regulatory developments in the jurisdictions in which we operate and to position ourselves for the prospective Basel III regulatory liquidity standards planned for implementation between 2015 and 2018.

The Payments System in Canada

In Canada, an independent task force appointed by the Federal government is reviewing Canada's payments system. The Task Force has a broad mandate to address a wide range of issues such as efficiency, competition, safety and security, innovation, privacy, legislative/regulatory framework, and whether the interests of Canadians are being met. As will be the case for other Canadian financial institutions, the eventual outcome of the Task Force's recommendations could alter the way in which we process payment transactions on behalf of consumers. This carries implications for the use of technology, degree of regulatory oversight, and our interactions with global payment systems.

In addition, challenges to payment network rules before the Competition Tribunal, class actions in British Columbia and Ontario regarding the setting of interchange, and class actions in Quebec regarding the application of Quebec's *Consumer Protection Act* to certain credit card practices, also have the potential to negatively impact the business practices and revenues of Canadian financial institutions, and could have an adverse impact on our financial performance.

Over-the-Counter Derivatives Reform

Over-the-counter derivatives markets, globally, are facing profound changes in the capital regimes, national regulatory frameworks and market infrastructures in which they operate. Similar to the other Canadian banks' wholesale banking businesses, the impact of these changes on Capital Markets' client and trading related derivatives revenues is uncertain.

We are monitoring international developments and proposed reforms, and will take action to mitigate any impact on our business. The changes may result in significant systems changes, less flexible trading options, higher capital requirements, more onerous regulatory requirements and with some potential benefits as a result of reduced risk through central counterparty clearing.

Consumer Protection Measures

There is increased focus by regulators globally to enhance consumer protection measures. This includes such things as increasing disclosure requirements and regulating fees and pricing. In Canada, changes to negative options billing, mortgage pre-payment penalties, four day cheque holds, and current dispute resolution processes, along with expanded powers for the Financial Consumer Agency of Canada, were introduced as part of the 2010 Federal Budget. Further changes have been proposed to regulations for mortgage insurance, the Electronic Transaction Code, rules relating to insurance on bank websites, and electronic documents regulations. In addition, the 2011 Federal Budget included announcements about new rules for prepaid cards and for unsolicited credit card cheques. As will be the case for all of the Canadian banks, these and other developments are likely to impact current practices in Canadian Banking and Insurance, including disclosure, documentation, process and system changes.

In the U.S., various consumer protection measures were introduced as part of Dodd-Frank. Following the sale of RBC Bank (USA) in March 2012 the consumer protection reforms under *Dodd-Frank* as currently drafted are expected to have minimal impact on our remaining U.S. banking activities. Prior to this sale, we do not anticipate the impact of the *Dodd-Frank* consumer protection reforms to be material to our financial results.

Dodd-Frank – Volcker rule

U.S. federal financial regulators recently proposed, for public comment, regulations to implement Dodd Frank's Volcker Rule prohibition on proprietary trading and hedge or private equity fund investments by banking entities. The proposed regulations, which also include conditions for engaging in certain "permitted" trading activities, would apply to our Capital Markets activities. The proposed regulations would also require banking entities to adopt a compliance regime designed to monitor trading activities and generate data for recordkeeping and reporting purposes. The proposed regulations are complex and many aspects of the Volcker Rule remain unclear.

We are continuing to analyze our trading activities, compliance and risk management programs, with a view to ensuring that we can comply with whatever final regulations may be adopted. Because implementation rules have not been finalized, we are unable to determine the extent to which our capital markets activities, including activities outside of the United States will be impacted by the Volcker Rule's prohibition on proprietary trading and hedge or private equity fund investments and which activities may be deemed to be permitted activities in their current form, which may be permitted to continue if conducted by different entities, in different locations or in a different manner, and which, if any, may not be permitted to continue. Depending on the manner in which the Volcker Rule is ultimately implemented, these prohibitions may have an adverse impact on our results of operations.

Regulatory Reform in the U.K.
The regulatory framework in the United Kingdom and Europe is going through significant reform and reorganization which may impact regulated entities. Consideration is also being given to the findings of the Independent Commission on Banking (ICB) which most significantly proposed the separation of retail banking from investment banking. The ICB's recommendations do not come into force until 2019. The financial industry is currently reviewing and seeking clarification on the ICB's proposals to fully understand their potential impact.

Given the relatively small size of our U.K. retail banking operations, these changes are not expected to materially impact our global operations or financial results and may lead to some potential benefits for us as U.K. banks restructure and retrench from the investment banking business.

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 new technology used or services offered by our competitors, 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. Although our goal is to retain and attract qualified employees, there is no assurance that we will be able to do so.

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.

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 centers.

Corporate Environmental Affairs (CEA) sets enterprise-wide policy requirements for the identification, assessment, control, monitoring and reporting of environmental risk. Oversight is provided by GE and the CG&PPC of the Board of Directors. Business segments and Corporate Functions 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.

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. Failure to adequately manage environmental risk could adversely impact our results and/or significantly impact our reputation.

We report on the full extent of environmental management annually in the Corporate Responsibility Report and Public Accountability Statements.

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.

We caution that the foregoing discussion of risk factors, many of which are beyond our control, is not exhaustive and other factors could also adversely affect our results. 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 European economies, the outlook and priorities for each of our business segments and in our Liquidity and funding risk section. When relying on our forward-looking statements to make decisions with respect to us, investors and others should carefully consider the foregoing factors, other uncertainties and potential events, and other industry- and bank-specific factors that may adversely affect our future results and the market valuation placed on our common shares. Unless required by law, we do not undertake to update any forward-looking statement, whether written or oral, that may be made from time to time by us or on our behalf.

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 GE 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 credit risk exposures are reported under the Basel II AIRB Approach for regulatory capital purposes, 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 Basel II Standardized Approach will continue to be used for specific portfolios for RBC Bank (USA) until the announced sale is closed, which is expected in March 2012 and RBC Dexia IS, of which we have a 50% ownership interest, until it is required (pursuant to IFRS) to move to an equity basis for joint venture reporting effective the first quarter of 2014.

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.

The following provides a discussion on our regulatory capital, risk-weighted assets (RWA) and capital ratios on a consolidated basis.

Regulatory capital, risk-weighted assets and capital ratios — **Table 58**

As at October 31 (C$ millions, except percentage and multiple amounts)	2011	2010
Capital		
Tier 1 capital	$ 35,713	$ 33,972
Total capital	41,021	37,625
Risk-weighted assets		
Credit risk	$205,182	$ 197,195
Market risk	21,346	24,828
Operational risk	40,283	38,433
Transitional Adjustment prescribed by OSFI (1)	969	–
Total risk-weighted assets	$267,780	$ 260,456
Capital ratios and multiples		
Tier 1 capital ratio	13.3%	13.0%
Total capital ratio	15.3%	14.4%
Assets-to-capital multiple	16.1X	16.5X
Tier 1 common ratio (2)	10.6%	9.8%

(1) Transitional adjustment as prescribed by the OSFI Capital Adequacy Requirements guideline Section 1.7.

(2) 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. For further details, refer to the Key performance and non-GAAP measure section.

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. 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. It 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 these two tiers. The components of Tier 1 and Tier 2 capital are listed in Table 59. 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 2011 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 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.

Commencing in the first quarter of fiscal 2012, OSFI will implement changes to the trading book capital rules as outlined in the BCBS, "*Revisions of the Basel II market risk framework* (July 2009)" and changes to capital requirements for securitization transactions as outlined in the BCBS "*Enhancements to the Basel II framework* (July 2009)". The capital impact of these changes, commonly referred to as Basel 2.5, are dependent upon calculation factors to be prescribed by OSFI.

Also effective in the first quarter of fiscal 2012 is the application of the Basel II 50% Tier 1 and 50% Tier 2 capital deduction for investments in insurance entities held since prior to January 1, 2007. As a Basel II transition measure, OSFI delayed the implementation of this rule change until fiscal 2012 and allowed banks to deduct investments in insurance from Tier 2 capital only. The implementation of this change will reduce our Tier 1 capital with no impact to Total capital.

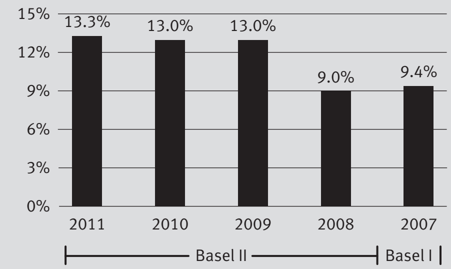
As required by OSFI, we will implement the Basel III capital rules commencing in the first quarter of 2013. For further details, refer to the Overview of other risks section.

Capital — **Table 59**

As at October 31 (C$ millions)	2011	2010
Tier 1 common and Tier 1 regulatory capital		
Common shares	$ 13,977	13,287
Contributed surplus	212	236
Retained earnings	24,282	22,706
Net after tax fair value losses arising from changes in institutions' own credit risk	(47)	(17)
Foreign currency translation adjustments	(1,663)	(1,685)
Net after-tax unrealized loss on available-for-sale equity securities	–	–
Goodwill	(7,703)	(8,064)
Substantial investments	(101)	(101)
Securitization-related deductions	(517)	(810)
Investment in insurance subsidiaries	(67)	(29)
Expected loss in excess of allowance - AIRB Approach	(72)	(39)
Other	(10)	–
Total Tier 1 common	28,291	25,484
Non-cumulative preferred shares	4,810	4,810
Innovative Capital Instruments	2,582	3,327
Other non-controlling interests in subsidiaries	30	351
Total Tier 1 regulatory capital	35,713	33,972
Tier 2 regulatory capital		
Permanent subordinated debentures	837	863
Non-permanent subordinated debentures (1)	6,832	5,778
Innovative Capital Instruments (excess over 15% of Tier 1)	–	–
Excess of non-cumulative preferred shares	–	–
Net after-tax unrealized gain on available-for-sale equity securities	11	12
Trust subordinated notes	1,027	1,023
General allowance	430	517
Excess Allowance (re IRB Approach)	–	–
Substantial investments	(101)	(101)
Investment in insurance subsidiaries	(3,154)	(3,607)
Securitization-related deductions	(490)	(792)
Expected loss in excess of allowance - AIRB approach	(72)	(39)
Other	(12)	(1)
Total Tier 2 regulatory capital	$ 5,308	$ 3,653
Total regulatory capital	$ 41,021	$ 37,625

(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 throughout the year primarily through internal capital generation. Our capital ratios remain well above OSFI regulatory capital targets.

As at October 31, 2011, our Tier 1 capital ratio was 13.3% and our Total capital ratio was 15.3%.

Our Tier 1 capital ratio was up 30 bps from last year largely due to internal capital generation, common share issuance through our dividend reinvestment and employee savings and share ownership plans, the exercise of stock options and a lower capital deduction for securitization exposures resulting from the sale of investment securities. These items were partially offset by higher RWA and the redemption of innovative capital instruments in the current year.

Our Total capital ratio was up 90 bps due to the factors noted above, as well as the net issuance of subordinated debentures and a lower capital deduction for Insurance resulting from the sale of Liberty Life.

As at October 31, 2011, our assets-to-capital multiple was 16.1 times compared to 16.5 times a year ago due to higher capital, partially offset by higher gross adjusted assets. Our assets-to-capital multiple remains below the maximum level prescribed by OSFI.

Risk-weighted assets (RWA)

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. Moreover, as a Basel II transitional arrangement, OSFI requires the minimum risk-based capital to be no less than 90% of the capital requirements as calculated under the Basel I standards. If the capital requirement is less than 90%, a transitional adjustment to RWA must be applied as prescribed by OSFI Capital Adequacy Requirements.

During the year, RWA increased by $7.3 billion or 3%, mainly due to higher Credit risk RWA, primarily due to an increase in wholesale exposures, higher Operational risk RWA due to revenue growth, and a RWA transitional adjustment partially offset by lower Market risk RWA largely due to a reduction of trading exposures.

Risk-weighted assets – Basel II **Table 60**

	2011						2010
			Risk-weighted assets				
As at October 31 (C$ millions, except percentage amount)	Exposure (1)	Average of risk weights (2)	Standardized approach	Advanced approach	Other	Total	Total
Credit risk							
Lending-related and other							
Residential mortgages	$118,926	6%	$ 1,419	$ 5,450	$ –	$ 6,869	$ 7,788
Other retail	212,365	20%	7,785	34,644	–	42,429	41,143
Business	153,912	60%	26,915	65,335	–	92,250	81,646
Sovereign	36,131	5%	446	1,353	–	1,799	2,119
Bank	54,378	9%	2,238	2,485	–	4,723	3,141
Total lending-related and other	$575,712	26%	$ 38,803	$109,267	$ –	$148,070	$ 135,837
Trading-related							
Repo-style transactions	$190,471	1%	$ 530	$ 1,779	$ –	$ 2,309	$ 1,352
Over-the-counter derivatives	57,962	28%	1,563	14,423	–	15,986	20,236
Total trading-related	$248,433	7%	$ 2,093	$ 16,202	$ –	$ 18,295	$ 21,588
Total lending-related and other and trading-related	$824,145	20%	$ 40,896	$125,469	$ –	$166,365	$ 157,425
Bank book equities	1,519	88%	–	1,336	–	1,336	1,465
Securitization exposures	48,794	14%	726	6,225	–	6,951	5,979
Regulatory scaling factor	n.a.	n.a.	n.a.	7,982	–	7,982	7,203
Other assets	36,809	61%	n.a.	n.a.	22,548	22,548	25,123
Total credit risk	$911,267	23%	$ 41,622	$141,012	$22,548	$205,182	$ 197,195
Market risk							
Interest rate			$ 3,310	$ 1,048	$ –	$ 4,358	$ 6,870
Equity			562	1,088	–	1,650	2,249
Foreign exchange			849	17	–	866	711
Commodities			882	14	–	896	800
Specific risk			6,312	7,264	–	13,576	14,198
Total market risk			$ 11,915	$ 9,431	$ –	$ 21,346	$ 24,828
Operational risk			$ 40,283	n.a.	n.a.	$ 40,283	$ 38,433
Transitional Adjustment prescribed by OSFI					$ 969	$ 969	$ –
Total risk-weighted assets	$911,267		$ 93,820	$150,443	$23,517	$267,780	$ 260,456

(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 61

(C$ millions, except number of shares)	2011 Issuance or redemption date	2011 Number of shares (000s)	2011 Amount
Tier 1			
Common shares issued			
Business acquisitions related (1)		6,412	$ 324
Dividend reinvestment plan (DRIP) (2)		2,951	162
Stock option exercised (3)		2,953	90
Employee savings and share ownership plans (4)		1,138	63
Redemption of innovative capital instruments			
RBC TRuCS Series 2011(5)	June 30, 2011		750
Tier 2			
Issuance of November 2, 2020 subordinated debentures (6)	November 1, 2010		1,500
Redemption of April 12, 2016 subordinated debentures (6)	April 12, 2011		400

(1) On May 2, 2011, we exercised our call right on the Class B exchangeable shares of RBC PH&N Inc. and issued RBC common shares in exchange. For further details, refer to Note 11 to our Annual Consolidated Financial Statements.
(2) Our DRIP was funded through open market share purchases for the first quarter of 2011 and through treasury shares for the last three quarters of 2011.
(3) Amounts include 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.
(4) Shares were issued from treasury under the employee savings and share ownership plans. For further details, refer to Note 21 to our 2011 Annual Consolidated Financial Statements.
(5) For further details, refer to Note 17 to our 2011 Annual Consolidated Financial Statements.
(6) For further details, refer to Note 16 to our 2011 Annual Consolidated Financial Statements.

On May 2, 2011, in accordance with the purchase agreement of Phillips, Hager & North Investment Management Ltd. (PH&N) in 2008, we exercised our call right on all the outstanding Class B exchangeable shares of RBC PH&N Inc. (Class B shares) and in exchange issued to Class B shareholders 6.4 million RBC common shares. As the Class B shares were included in our Tier 1 capital under other non-controlling interest in subsidiaries, the transaction had no impact on Tier 1 or Total capital. Prior to the exchange, an accumulated dividend of $38.5 million was paid on these shares.

We redeemed all of our outstanding $750 million Trust Capital Securities-Series 2011 (RBC TruCS – Series 2011) at the redemption price plus indicated distribution on June 30, 2011.

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 2011, on a continuing operations basis, our dividend payout ratio was 47%, which met our dividend payout ratio target. The dividend payout ratio on a consolidated basis was 65%, up from 57% in 2010, primarily due to the loss on the announced sale of our U.S. regional retail banking operations. In the third quarter of 2011, we increased our common share dividend by 4 cents per share or 8% to $.54 per share. Common share dividends paid during the year were $2.9 billion.

Selected share data (1) — Table 62

(C$ millions, except number of shares and per share amounts)	2011 Number of shares (000s)	2011 Amount	2011 Dividends declared per share	2010 Number of shares (000s)	2010 Amount	2010 Dividends declared per share	2009 Number of shares (000s)	2009 Amount	2009 Dividends declared per share
Common shares outstanding	1,438,376	$14,017	$ 2.08	1,424,922	$13,378	$ 2.00	1,417,610	$13,075	$ 2.00
First preferred shares outstanding									
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	1.41
Non-cumulative Series AJ (3)	16,000	400	1.25	16,000	400	1.25	16,000	400	1.49
Non-cumulative Series AL (3)	12,000	300	1.40	12,000	300	1.40	12,000	300	1.48
Non-cumulative Series AN (3)	9,000	225	1.56	9,000	225	1.56	9,000	225	1.50
Non-cumulative Series AP (3)	11,000	275	1.56	11,000	275	1.56	11,000	275	1.34
Non-cumulative Series AR (3)	14,000	350	1.56	14,000	350	1.56	14,000	350	1.27
Non-cumulative Series AT (3)	11,000	275	1.56	11,000	275	1.56	11,000	275	1.11
Non-cumulative Series AV (3)	16,000	400	1.56	16,000	400	1.56	16,000	400	1.01
Non-cumulative Series AX (3)	13,000	325	1.53	13,000	325	1.53	13,000	325	.87
Treasury shares — preferred	(6)	–		(86)	(2)		(65)	(2)	
Treasury shares — common	146	8		(1,719)	(81)		(2,127)	(95)	
Exchangeable shares of									
RBC PH&N Holdings Inc. (4)	–	–		6,750	324		6,750	324	
Stock options									
Outstanding	14,413			15,659			17,877		
Exercisable	8,688			10,170			12,806		
Dividends									
Common		2,979			2,843			2,819	
Preferred		258			258			233	

(1) For further details about our capital management activity, refer to Note 18 to our 2011 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.
(4) On May 2, 2011, we exercised our call right on the Class B exchangeable shares of RBC PH&N Holdings Inc. and issued RBC common shares in exchange.

As at November 25, 2011, the number of outstanding common shares and stock options were 1,439,828,034 and 14,290,936, respectively. As at November 25, 2011, the number of Treasury shares – preferred and Treasury shares – common were 19,179 and (511,681), respectively. For further information about our share capital, refer to Notes 18 and 21 to our 2011 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 Risk management section.

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.

We revised our economic capital methodology, prospectively, effective November 1, 2010. For further details, refer to the How we measure and report our business segments section.

The following provides a discussion of our Economic capital from continuing operations.

Economic capital — **Table 63**

(C$ millions, average balances)	2011	2010
Credit risk	$ 10,100	$ 8,250
Market risk (trading and non-trading)	4,200	3,300
Operational risk	4,350	3,250
Business and fixed asset risk	2,950	2,250
Insurance risk	550	350
Risk capital	$ 22,150	$ 17,400
Goodwill and intangibles	9,450	8,400
Economic capital	31,600	25,800
Under attribution of capital	900	3,650
Average common equity from discontinued operations	3,050	3,800
Average common equity	**$ 35,550**	$ 33,250

Economic capital increased $5.8 billion from a year ago, mainly due to the change in the capital allocation methodology noted above of which $4.7 billion was attributed across different risk types and business segments. The remaining $1.1 billion was largely due to higher goodwill and intangibles from the acquisition of BlueBay and higher Operational & Business risk due to revenue growth. These factors were partially offset by lower Credit risk mainly due to a reduction in the capital rate for non accrual loans and the impact of a stronger Canadian dollar.

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.

Exposure 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 .2% of our total assets as at October 31, 2011 compared to .3% in the prior year.

Of our total holdings of residential mortgage-backed securities (RMBS), holdings with a fair value of $237 million, net of hedging, may be exposed to U.S. subprime risk. U.S. subprime RMBS exposures were previously hedged with credit default swaps insured by MBIA. The increase in our U.S. subprime RMBS exposure of $92 million compared to last year was primarily due to the termination of swaps in the early part of 2011, net of hedging and the sale of securities. Of this potential exposure, 35% of our related holdings are rated A and above, compared to over 55% in the prior year. The decrease was primarily due to the termination of swaps as discussed above. As at October 31, 2011, U.S. subprime RMBS holdings rated AAA, on a net basis, comprised 3% of total U.S. subprime RMBS holdings, compared to 17% in 2010. Exposure to U.S. subprime loans was $207 million as at October 31, 2011, representing .03% of total assets, $112 million lower than last year, partly due to principal pay downs and the impact of the stronger Canadian dollar.

Of our total holdings of RMBS, holdings with a fair value of $276 million, net of hedging, may be exposed to U.S. Alt-A risk. U.S. Alt-A exposures decreased $281 million from the prior year mainly due to the sale of holdings and the impact of the stronger Canadian dollar. Less than 49% of these RMBS were issued during 2006 and onwards. Our exposure to U.S. Alt-A loans was $675 million as at October 31, 2011, representing .1% of total assets and a decrease of $298 million from the prior year partly due to the impact of the stronger Canadian dollar and the sale of our holdings.

Of our total holdings of collateralized debt obligations (CDOs), holdings of $17 million, may be exposed to U.S. subprime or Alt-A risk. Our CDO's were previously hedged with credit default swaps insured by MBIA. Our exposure reflects a decrease of $4 million from the prior year, net of hedging. The fair value of our Corporate CDOs, net of hedging of $2.2 billion as at October 31, 2011, increased $1.9 billion from last year mainly due to the termination of the direct monline insurance protection provided by MBIA. For further details on the termination of the credit default swaps insured by MBIA refer to the Key corporate events of 2011 section.

Net exposure to U.S. subprime and Alt-A through RMBS, CDOs and mortgages — Table 64

As at October 31 (C$ millions)	2011 Subprime RMBS	Alt-A RMBS	CDOs that may contain subprime or Alt-A	Total
Fair value of securities before hedging	$ 237	$276	$ 17	$ 530
Fair value of securities net of hedging by rating				
AAA	$ 7	$ 46	$ –	
AA	50	14	–	
A	26	40	–	
BBB	18	27	–	
Below BBB-	136	149	17	
Total	$ 237	$276	$ 17	$ 530
Fair value of securities net of hedging by vintage				
2003 (or before)	$ 22	$ 8	$ –	
2004	47	62	–	
2005	128	72	17	
2006	40	36	–	
2007 and greater	–	98	–	
Total	$ 237	$ 276	$ 17	$ 530
Amortized cost of subprime/Alt-A mortgages (whole loans)	$ 161	$ 664	$ –	$ 825
Amortized cost of subprime/Alt-A RMBS securities transferred to loans under Section 3855	$ 46	$ 11	$ –	$ 57
Total subprime and Alt-A exposures, net of hedging	$ 444	$ 951	$ 17	$ 1,412
Sensitivities of fair value of securities, net of hedging, to changes in assumptions:				
100bp increase in credit spread	$ (6)	$ (8)		
100bp increase in interest rates	(1)	(2)		
20% increase in default rates	(1)	(12)		
25% decrease in pre-payment rates	(3)	(2)		

(table continued on the next column)

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, 2011, 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, 2011 were $6,097 million which was .8% of our total assets, unchanged from the prior year.

Commercial mortgage-backed securities disclosure
The fair value of our total direct holdings of CMBS was $202 million as at October 31, 2011.

Assets and liabilities measured at fair value
There were significant 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 2011 Annual Consolidated Financial Statements.

Assets and liabilities measured at fair value — Table 65

(C$ millions, except percentage amounts)	As at October 31, 2011 Fair value (1)	Level 1(1)	Level 2(1)	Level 3(1)	Total
Financial assets					
Held-for-trading other than derivatives	$ 145,274	37%	62%	1%	100%
Available-for-sale	33,235	15%	67%	18%	100%
Loans - Wholesale	2,992	0%	81%	19%	100%
Derivatives	119,453	2%	97%	1%	100%
Other assets	516	66%	34%	0%	100%
Financial liabilities					
Deposits	$ 69,570	0%	90%	10%	100%
Derivatives	120,350	2%	96%	2%	100%

(1) Fair value of assets and liabilities as a percentage of total assets and liabilities measured at fair value on a recurring basis for categories presented in the table above and does not reflect the impact of netting.

Critical accounting policies and estimates

Application of critical accounting policies and estimates

Our significant accounting policies are described in Note 1 to our 2011 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 judgments about matters that are inherently uncertain and because of the likelihood that significantly different amounts could be reported under different conditions or using different assumptions. Our critical accounting policies and estimates relate to the fair value of financial instruments, other-than-temporary impairment of AFS and 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, 2011, approximately $352 billion, or 47%, of our financial assets and $252 billion, or 35%, of our financial liabilities were carried at fair value ($350 billion, or 48%, of financial assets and $257 billion, or 37%, of financial liabilities as at October 31, 2010).

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 2011 Annual Consolidated Financial Statements discloses the fair values of our financial instruments as at October 31, 2011.

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 2011 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 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 as for Loans. For further details, refer to Notes 1 and 3 to our 2011 Annual Consolidated Financial Statements.

Securitization
We periodically securitize Canadian residential mortgages, credit card receivables and commercial mortgage loans by selling them to 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 2011 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 2011 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 2011 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, 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, we record the allowance and the write-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 $2,049 million is

adequate to absorb estimated credit losses incurred in the lending portfolio as at October 31, 2011 ($2,126 million as at October 31, 2010). This amount includes $91 million ($88 million as at Ocotber 31, 2010) 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 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 2011 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 2011 Annual Consolidated Financial Statements.

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 2011 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 2011

Canadian GAAP

We did not adopt any new significant accounting policies during the year.

U.S. GAAP

Amendments to Consolidation Guidance and Accounting for Transfer of Financial Assets

On November 1, 2010, updates to Accounting Standards Codification (ASC) Topic 860, *Transfers and Servicing*, (FAS 166 – *Accounting for Transfers of Financial Assets* – an amendment of FASB Statement No. 140) and ASC Topic 810-10-15 (FAS 167 – *Amendments to FASB Interpretation No. 46(R)*) became effective for us.

ASC topic 860, which we applied prospectively as required by the standard, eliminates the concept of QSPEs for accounting purposes thereby bringing all QSPEs within the scope of ASC Topic 810-10-15. This guidance also provides additional criteria and clarifies certain principles of sale accounting requirements that transferors must use to assess transfers of financial assets. The impact of adopting this new standard is not material to our consolidated financial position or results of operations.

ASC Topic 810-10-15, which became retrospectively effective for us on November 1, 2010, replaces the quantitative approach for determining the primary beneficiary of a variable interest entity with an approach focused on identifying which reporting entity has the power to direct the activities of the variable interest entity that most significantly impacts the entity's performance, and the obligation to absorb losses of the entity that could potentially be significant to the variable interest entity or the right to receive benefits from the entity. The scope of the new guidance includes entities that were previously designated as QSPEs. We now consolidate a QSPE and certain variable interest entities that we previously did not and have deconsolidated other variable interest entities. As a result of applying this guidance, both our total assets and total liabilities have increased by approximately $2.2 billion, net of our retained interests in the entities. It also reduced our opening retained earnings by $220 million, net of taxes, to reflect the cumulative transition impact related to prior periods and decreased the AOCI by $29 million, net of taxes.

Disclosure about the credit quality of financing receivables and the allowance for credit losses
FASB guidance Accounting Standard Update (ASC) 2010-20, *Disclosure about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*, became effective for us on November 1, 2010 with prospective application. This update requires an entity to provide additional disclosures about loans and the related allowances for credit losses disaggregated by impairment methodology. Information about loans that are collectively assessed and individually assessed for impairment is also required along with qualitative and quantitative information about the credit quality of financing receivables.

A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring
ASU 2011- 02, *A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructuring* was issued by FASB to clarify when a restructuring constitutes a troubled debt restructuring (TDR). This standard requires an entity to provide qualitative and quantitative information about TDRs which occurred during the year. The standard became effective for us on August 1, 2011 and is applicable retrospectively to restructurings which occurred during the fiscal year. Refer to Note 31 to our 2011 Annual Consolidated Financial Statement.

In addition, several new U.S. GAAP accounting pronouncements issued by FASB became effective for us on November 1, 2010 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 2011 Annual Consolidated Financial Statements.

Future changes in accounting policies and disclosure
Canadian GAAP
We adopted IFRS for periods commencing November 1, 2011. Canadian GAAP for publicly accountable enterprises has been replaced with IFRS. Refer to the "Adoption of International Financial Reporting Standards" section below.

U.S. GAAP
As a result of adopting IFRS for periods commencing November 1, 2011, we will no longer be required to reconcile our results to U.S. GAAP; accordingly, we have not included a summary of future changes to U.S. GAAP standards.

Adoption of International Financial Reporting Standards

Pursuant to the decision made by the Canadian Accounting Standards Board, we will prepare our financial statements in accordance with IFRS for periods commencing November 1, 2011, with comparative financial information provided for 2011.

We managed our transition to IFRS by implementing a comprehensive enterprise-wide program that focused on the key areas of impact including financial reporting, systems and processes, as well as communications and training. Our changeover to IFRS is substantially complete and our comparative (transition) year began November 1, 2010 (Transition date).

We began our transition process in 2008 by completing a thorough organization diagnostic to assess the scope and complexity of our conversion to IFRS. This process identified the areas with significant differences between IFRS and Canadian GAAP. The key areas that we expected to have the greatest financial and capital impacts on us are included below in Principal exemptions under IFRS 1 and Critical accounting policies.

Throughout our transition, 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 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 were 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 assessment of accounting impacts;
- Identifying external communication requirements for the investor and analyst community; and
- Internal education seminars, business impact assessments and other readiness activities for key stakeholders in various businesses and functional groups across RBC in terms of how our adoption and our clients' adoption of IFRS impacts our financial reporting, business activities, and risk management.

In 2010, in addition to these activities, we initiated:
- 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.

In 2011, we completed the modifications to our policies, processes, and systems that we identified as critical in order to report our financial results under IFRS beginning in 2012, with 2011 comparatives. We also continued the following activities:
- Regularly updated our Board of Directors and Audit Committee regarding our transition progress, including the application of an appropriate control environment, potential transition impacts and expected ongoing financial and business impacts as well as IFRS accounting and related regulatory developments; and
- Provided education and training sessions for personnel involved in the conversion process and those who have on-going financial reporting responsibilities to address specifically identified needs.

Impact of Adopting International Financial Reporting Standards
We are required to prepare an opening IFRS Consolidated Balance Sheet as at the Transition date, which forms the starting point for our financial reporting in accordance with IFRS. Any differences between the carrying values of assets, liabilities and equity determined in accordance with Canadian GAAP and IFRS, as at the Transition date, will be recorded as an adjustment to opening Retained earnings. There are two broad categories of IFRS transition adjustments impacting the opening Consolidated Balance Sheet:
(a) Principal exemptions under IFRS 1, First Time Adoption of IFRS (IFRS 1); and
(b) Critical accounting policy differences between IFRS and Canadian GAAP.

The table below shows the reconciliations from Canadian GAAP to IFRS for our Consolidated Balance Sheets as at November 1, 2010.

Reconciliation of opening IFRS Condensed Balance Sheets to Canadian GAAP **Table 66**

	As at November 1, 2010 (Unaudited)											
		IFRS 1 Elections			Other Critical Accounting Policies							
(C$ millions)	Canadian GAAP	Classification of financial instruments (Ref. 1)	Employee benefits (Ref. 2)	Cumulative translation differences (Ref. 3)	Goodwill (Ref. 4)	Securitization (Derecognition) (Ref. 5)	Special purpose entities (Ref. 6)	Insurance contracts (Ref. 7)	Discontinued operations (Ref. 8)	Hedging and other (Ref. 9)	Total impact	IFRS
Assets												
Cash and due from banks	$ 8,440	$ –	$ –	$ –	$ –	$ –	$ (30)	$ –	$ 888	$ –	$ 858	$ 9,298
Interest-bearing deposits with banks	13,254	–	–	–	–	–	–	–	(2)	–	(2)	13,252
Securities	183,519	521	–	–	–	(11,733)	1,436	–	5,200	140	(4,436)	179,083
Assets purchased under reverse repurchase agreements and securities borrowed	72,698	–	–	–	–	–	–	–	–	–	–	72,698
Loans (net of allowances for loan losses)												
Retail loans	213,770	–	–	–	–	48,311	1,920	–	6,551	(182)	56,600	270,370
Wholesale loans	59,236	(596)	–	–	–	–	(793)	–	12,172	(2)	10,781	70,017
Assets from segregated funds	–	–	–	–	–	–	–	279	(22)	–	257	257
Assets of discontinued operations	34,364	–	–	–	–	–	–	–	(28,641)	–	(28,641)	5,723
Other – Derivatives	106,155	–	–	–	–	(24)	(90)	–	68	–	(46)	106,109
– Other	34,770	(19)	(1,266)	–	(1,261)	116	(22)	977	3,786	1,484	3,795	38,565
Total assets	$726,206	$ (94)	$ (1,266)	$ –	$ (1,261)	$ 36,670	$ 2,421	$ 1,256	$ –	$ 1,440	$ 39,166	$765,372
Liabilities												
Deposits	$414,561	$ –	$ –	$ –	$ –	$ 42,820	$ 2,568	$ –	$ 18,472	$ (10)	$ 63,850	$478,411
Liabilities from segregated funds	–	–	–	–	–	–	–	279	(22)	–	257	257
Liabilities of discontinued operations	24,455	–	–	–	–	–	–	–	(19,443)	–	(19,443)	5,012
Other – Derivatives	108,908	–	–	–	–	(843)	10	–	2	–	(831)	108,077
– Other	129,667	(40)	98	–	–	(4,819)	(1,642)	977	991	1,605	(2,830)	126,837
Subordinated debentures	6,681	–	–	–	–	–	995	–	–	–	995	7,676
Trust capital securities	727	–	–	–	–	–	900	–	–	–	900	1,627
Total liabilities	$684,999	$ (40)	$ 98	$ –	$ –	$ 37,158	$ 2,831	$ 1,256	$ –	$ 1,595	$ 42,898	$727,897
Equity attributable to Shareholders												
Preferred and common shares	$ 18,344	$ –	$ –	$ –	$ –	$ –	$ –	$ –	$ –	$ –	$ –	$ 18,344
Retained earnings	22,706	(57)	(1,364)	(1,664)	(1,261)	(415)	(226)	–	–	(668)	(5,655)	17,051
Accumulated other comprehensive income (loss)	(2,099)	3	–	1,664	–	(73)	(29)	–	–	520	2,085	(14)
	38,951	(54)	(1,364)	–	(1,261)	(488)	(255)	–	–	(148)	(3,570)	35,381
Non-controlling interest in subsidiaries	2,256	–	–	–	–	–	(155)	–	–	(7)	(162)	2,094
Total equity	$ 41,207	$ (54)	$ (1,364)	$ –	$ (1,261)	$ (488)	$ (410)	$ –	$ –	$ (155)	$ (3,732)	$ 37,475
Total liabilities and equity	$726,206	$ (94)	$ (1,266)	$ –	$ (1,261)	$ 36,670	$ 2,421	$ 1,256	$ –	$ 1,440	$ 39,166	$765,372

References below in parentheses (Ref. X) refer to the corresponding column in our Consolidated Balance Sheets Reconciliation between Canadian GAAP and IFRS presented above. All estimates noted above are subject to continuing change and monitoring.

Principal exemptions under IFRS 1

IFRS 1 provides guidance to first-time adopters of IFRS on how to account for items on transition to IFRS. Generally, IFRS 1 requires an entity to retrospectively apply IFRS upon transition. However, it also offers and requires certain exceptions from retrospective application.

Our first-time adoption decisions regarding the exemptions are discussed below. Other options available under IFRS 1, which are not discussed here, are either not material or not relevant to our business.

Designation of previously recognized financial instruments (Ref. 1)

On adoption of IFRS, an entity is required to retrospectively apply International Accounting Standard (IAS) 39, *Financial Instruments: Recognition and Measurement*, and classify its financial instruments as of the date that the financial instrument was originally acquired. Alternatively, an entity is permitted to designate a previously recognized financial asset or financial liability as a financial asset or financial liability at fair value through profit or loss (FVTPL) or a financial asset as AFS at the Transition date. Differences between the fair value and carrying value will be recorded in opening Retained earnings. We will apply this election and designate the following financial assets and financial liabilities at transition.

Financial instrument designation changes from previous Canadian GAAP **Table 67**

(C$ millions)	Fair value at transition date	Classification as previously reported	Carrying value as previously reported
Financial liabilities designated at fair value through profit or loss	$ 128	Non-trading liabilities	$ 138
Financial assets designated as available-for-sale	564	Loans and receivables	629
Financial assets designated as available-for-sale	3,232	Held-for-trading using fair value option	3,232
Financial assets designated as available-for-sale	7,297	Held-for-trading	7,297

Employee benefits (Ref. 2)
IFRS 1 provides the option to recognize cumulative actuarial gains and losses on employee benefit plans that are deferred under Canadian GAAP in opening Retained earnings at the Transition date. We have elected this option for our employee defined pension benefit plans and other post-retirement benefits plans at the Transition date which will result in a decrease to our opening Retained earnings of approximately $1.4 billion. Although this election significantly impacts our opening IFRS balance sheet and reduces our opening Retained earnings, the impacts of previously-deferred actuarial losses at the Transition date will not affect the net income of future periods. Our cumulative actuarial gains and losses is the sum of our unrecognized net actuarial loss, transitional (asset) obligation and prior service cost.

Cumulative translation differences (Ref. 3)
IFRS 1 provides the option to reset the cumulative translation gains and losses recorded in OCI related to foreign subsidiaries to zero at Transition date. We have elected this option and will reset all the cumulative foreign currency translation gains and losses arising from translation of our foreign operations to zero at the Transition date, with the impact recognized as a decrease to our opening Retained earnings of approximately $1.6 billion.

Business combinations
IFRS 1 provides the option to apply IFRS 3, *Business Combinations* (IFRS 3), from any date up to and including the Transition date. Applying IFRS 3 from a date prior to the Transition date would require restatement of all business combinations that occurred between that date and the Transition date. We have elected to apply IFRS 3 prospectively from the Transition date; accordingly, business combinations completed prior to the Transition date will not be restated. This election has no impact on our opening Retained earnings.

Insurance contracts
IFRS 1 provides the option to apply the transitional provisions in IFRS 4, *Insurance Contracts* (IFRS 4), which restricts changes in accounting policies for insurance contacts, including changes made by a first-time adopter of IFRS. We have decided to apply the transitional provisions in IFRS 4 which allow us to follow our existing accounting policies related to our insurance–related activities. This election has no impact on our opening Retained earnings.

Critical Accounting Policies
We expect that substantially all of our significant accounting policies under IFRS will be the same as our current policies under Canadian GAAP. A summary of the key areas that cause the most significant transition impacts is presented below.

Item	Canadian GAAP	IFRS	Impact on Transition
Goodwill (Ref. 4)	Goodwill is allocated to reporting units (RUs) that are expected to benefit from the synergies of the business combination from which it arose. An RU is defined as an identified operating segment or one level below an identified operating segment. We currently have 8 RUs under Canadian GAAP. For impairment testing purposes, goodwill is assessed first by comparing a RU's carrying value to its fair value. If the carrying value of a RU exceeds its fair value, the fair value of the RU's goodwill is imputed by determining the fair value of the assets and liabilities of the RU and allocating the residual fair value to goodwill. An impairment loss is recorded to the extent that the carrying value of a RU's goodwill exceeds its imputed fair value. There is no reversal of an impairment loss.	Goodwill is allocated to cash generating units or groups of cash generating units (CGUs) that are expected to benefit from the synergies of the business combination from which it arose. We expect to have 10 CGUs under IFRS. Goodwill is impaired when the carrying value of a CGU exceeds its recoverable amount. Impairment cannot be reversed. An impairment test must be performed as at the date of transition to IFRS.	Our current goodwill allocation, which is presented in Note 10 to our 2011 Annual Consolidated Financial Statements, will be realigned to the new CGUs we have identified. Our International Banking reporting unit will reside in two CGUs, U.S. Banking and Caribbean Banking. Our Global Asset Management reporting unit will also reside in two CGUs: Canadian Wealth Management and Global Asset Management. We performed our impairment test as at the Transition date on the basis of the CGUs identified. The results indicated that the goodwill of our U.S. Banking CGU was impaired and accordingly was written down to zero. This will reduce our opening Retained earnings by approximately $1.26 billion.

Item	Canadian GAAP	IFRS	Impact on Transition
Securitization (Derecognition) (Ref. 5)	Derecognition of financial assets is primarily based on the legal form of the transaction and an analysis of whether the seller retains control of the assets and whether the assets are legally isolated from the seller and its creditors, even in the event of a bankruptcy.	Derecognition is based on transfer of risks and rewards; control is only considered when substantially all risks and rewards have been neither transferred nor retained.	Most assets transferred in our securitization transactions will not qualify for derecognition. As a result, the assets and associated liabilities will be recognized on our Consolidated Balance Sheets. The gains previously recognized will be recorded as a transition adjustment which will decrease our opening Retained earnings by approximately $400 million. Although this policy change significantly impacts our opening IFRS balance sheets and reduces our opening Retained earnings, we will recognize the net income generated by the assets over their remaining lives. Information regarding our securitization activities as at October 31, 2011 is presented in Note 5 to our 2011 Annual Consolidated Financial Statements.
Consolidation of Special Purpose Entities (Ref. 6)	Consolidation is based on a controlling financial interest model. For variable interest entities (VIEs), consolidation is assessed based on an analysis of economic risks and rewards, and is consolidated by the party that absorbs a majority of the entity's expected losses or has the right to receive a majority of the expected residual returns.	Special Purpose Entities (SPEs) created to accomplish a narrow and well-defined objective are consolidated based on a control model, which is broader than the concepts applied under Canadian GAAP. Control encompasses both decision making ability and the economic consequence of those abilities (i.e. benefits and risks). IFRS does not have a concept of VIEs.	Certain entities which we previously did not consolidate will be consolidated and others which we consolidated will be deconsolidated. The associated assets and liabilities will be adjusted in our Consolidated Balance Sheets and the profits (losses) previously recognized or unrecognized will be included as a transition adjustment which will decrease our opening Retained earnings by approximately $200 million.
Insurance (Ref. 7)	Financial statements of an insurance company must exclude the assets, liabilities, revenues and expenses of segregated funds, but include the fee income earned and the cost of any guarantees or other contract holder benefits borne by the insurer from the administration of those accounts. Life and health insurance providers are required to net reinsurance premiums, reinsurance paid claims and reinsurance recoverable against the premium incomes, paid claims and actuarial liabilities.	Investments held in segregated funds are recognized as assets of the insurance company as they are legally owned and are kept in a separate account. The insurance company also has a liability to the policy holders to sell the underlying assets and repay the policyholders when they redeem the segregated accounts. Insurers should not offset reinsurance assets against the-related insurance liabilities, and similarly, should not offset income/ expense from reinsurance against the expense/income from related insurance contracts.	Investments held in segregated funds, which are currently not recognized under Canadian GAAP, will be recorded on our Consolidated Balance Sheets with a corresponding liability to the policy holders. Reinsurance recoverable and the related policy benefit liabilities, which are currently offset under Canadian GAAP, will be presented separately as assets and liabilities, respectively, on our Consolidated Balance Sheets. These policy changes affect the presentation of assets and liabilities on our Consolidated Balance Sheets but do not impact our opening Retained earnings.
Discontinued Operations (Ref. 8)	The results of discontinued operations are reported as a separate component of income or loss for both current and prior periods. The assets and liabilities of a disposal group classified as held for sale or that has been sold, are presented separately in the asset and liability sections, respectively, of the balance sheet for the current and all comparative periods.	Restatement of prior period balance sheets as a result of discontinued operations is not permitted. Balance sheet adjustments related to discontinued operations are made prospectively from the date of classification as discontinued operations. The results of discontinued operations are reported as a separate component of income or loss for both current and all comparative periods.	In order to reconcile our opening IFRS Consolidated Balance Sheets to Canadian GAAP as at November 1, 2010, we have reversed the impact of discontinued operations related to the sale of our US Retail Banking operations announced during the third quarter of 2011 for which prior period results were adjusted in accordance with Canadian GAAP at the time of the sale. Under IFRS, the classification of our US Retail Banking operations as discontinued operations will be reflected in our Consolidated Balance Sheets beginning in the quarter ending July 31, 2011. The sale of Liberty Life Insurance Company announced in October 2010 and reflected as discontinued operations for Canadian GAAP beginning in Q4 2011, will be reflected as discontinued operations under IFRS from the Transition date.

Hedging and Other (Ref. 9)	In a qualifying hedge relationship, all or a portion of a recognized asset or liability can be designated as the hedged item. A portion of the hedge item is defined as either (a) a percentage of the entire recognized asset or liability, (b) all or a percentage of one or more selected cash flows, or (c) an embedded derivative that is not accounted for separately.	A portion of the cash flows of a financial asset or liability can be designated as the hedged item only if the selected cash flows are less than the total cash flows of the asset or liability. For liabilities whose effective interest rate is below the benchmark interest rate, we are not permitted to select benchmark-based cash flows as the hedged item because these cash flows would be greater than the total cash flows of the liability.	Hedge accounting has been applied only to hedging relationships that satisfy the hedge accounting criteria in IAS 39 at the Transition date. Certain cash flow hedges which qualify for hedge accounting under Canadian GAAP do not qualify under IFRS because the hedged items are portions of deposit liabilities whose cash flows are below the benchmark interest rate. The amounts accumulated in OCI relating to these hedges have been reduced to zero with the impact recognized as a reduction to our opening Retained earnings of approximately $350 million. Although this policy change significantly impacts our opening IFRS balance sheet and reduces our opening Retained earnings, the amortization of losses previously deferred in OCI will no longer be recognized in net income in future periods.

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.

Impact to Tier 1 capital

Regulatory capital reporting under IFRS commences with our conversion to IFRS on November 1, 2011. Per OSFI's Capital Adequacy Guidelines, financial institutions may elect a phase-in of the impact of the conversion to IFRS on their regulatory capital reporting. We expect to make use of this election and phase-in the IFRS conversion impact over a five quarter period starting with Q1 2012. This phase-in amount is based on the impact to Retained earnings of our IFRS conversion as at November 1, 2011, and is recognized on a straight-line basis. Our estimate of the Retained earnings impact as at November 1, 2011 is not complete but the phase-in is expected to reduce the IFRS conversion impact on our Tier 1 capital by approximately $2 billion, from $2.5 billion to $500 million in Q1 2012.

The following table gives our current estimate of the impact on Shareholders' equity and regulatory capital for the major differences between IFRS and Canadian GAAP. The table also shows the impact to Tier 1 capital over the phase-in period.

Estimated Impact on Tier 1 capital impact over the permitted phase-in period **Table 68**

			Estimated Tier 1 capital Impact with Phase-in (subject to change) (3)				
			As at				
(C$ millions)	Reduction to Shareholders' Equity (1)	Proforma Reduction Tier 1 Capital (2)	January 31 2012	April 30 2012	July 31 2012	October 31 2012	January 31 2013
Employee Benefits	$ 1,400	$ 1,400	$ 250	$ 550	$ 800	$ 1,100	$ 1,400
Securitization	500	400	100	150	250	300	400
Special Purpose Entities	250	200	40	80	120	160	200
Goodwill	1,260	–	–	–	–	–	–
All other transition impacts	160	500	110	220	330	440	500
Total	**$ 3,570**	**$ 2,500**	**$ 500**	**$ 1,000**	**$ 1,500**	**$ 2,000**	**$ 2,500**

(1) Under IFRS, Total Equity is comprised of Equity attributable to shareholders and Non-controlling interest in subsidiaries. The impact reflected in this column relates to the reduction to Equity attributable to shareholders.
(2) The one-time phase-in calculation will be based on the IFRS – Canadian GAAP differences in effect at November 1, 2011, which are not completed at this time, adjusted for known differences, and are subject to change.
(3) All Tier 1 capital amounts shown are under Basel II. We anticipate that the January 31, 2013 impact will be determined under Basel III which, as indicated in the Regulatory environment section, is still being formulated.

All estimates noted above are subject to continuing change and monitoring.

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. All new full-time employees in Canada hired on or after January 1, 2012 will join the defined contribution pension plan after six months of service.

We measured our benefit obligations and pension plan assets as at September 30, 2011. During the year, corporate bond yields, which determine the selection of the discount rate we use to measure our benefit obligations, have remained flat relative to last year. This has resulted in a minor $1 million actuarial loss in our benefit obligation, which was less than our pension plan asset gains of $140 million and decreased 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. 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, provincial, and applicable foreign regulations. For our principal pension plans, the most recent actuarial valuation performed for funding purposes was completed on January 1, 2011. Based on the result of this valuation, our pension plan funding contributions for 2011 were based on the minimum funding requirements set by pension regulators. Total contributions to our defined benefit pension plans for 2011 were $178 million. For further information, refer to Note 20 to our 2011 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, 2011, 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 SEC. 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, 2011.

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, 2011, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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 2011 Annual Consolidated Financial Statements.