



ROYAL BANK OF CANADA

Redemption of Non-Cumulative First Preferred Shares Series O

Tax Questions & Answers

These comments are provided for general information purposes only and should not be construed as legal, tax or investment advice to any particular holder. Holders should consult with their own tax advisors regarding the tax treatment with respect to their own particular circumstances arising from the redemption of these shares.

Note that the comments below apply to holders of Series O shares who are individuals (other than trusts) and who hold their Series O shares as capital property for purposes of the Income Tax Act (Canada)

1. *What amount will be paid on redemption?*

On the redemption date of November 24, 2006, the Bank will pay a redemption price of \$25.50 per share for each Series O share. This is comprised of the \$25.00 original issue price plus a \$0.50 redemption premium.

2. *How is the premium on redemption treated for Canadian tax purposes?*

On redemption of the Series O Shares you will be deemed to have received a taxable dividend from a Canadian corporation of \$0.50 per share, being the amount by which the redemption amount (\$25.50 per share) exceeds the "paid-up capital" of the share (\$25.00 per share). The deemed dividend will be subject to the gross-up and dividend tax credit rules normally applicable to dividends from taxable Canadian corporations received by Canadian residents. Note that under the proposed amendments to the Income Tax Act (Canada) the gross-up and dividend tax credit rules are proposed to be enhanced, in certain circumstances. Depending on your province of residence, there may also be corresponding changes for provincial tax purposes. Please see your tax advisor regarding the impact of the proposed amendments.

3. Will there be a capital gain or capital loss for Canadian tax purposes as a result of the redemption?

The redemption will be a disposition of the Series O shares. This disposition may give rise to a capital gain or capital loss, depending on the cost of your shares for tax purposes (the “adjusted cost base”). The capital gain or capital loss is determined by calculating the difference between your proceeds of disposition and your adjusted cost base. Your proceeds of disposition will be \$25.50 per share less the deemed dividend of \$0.50 per share.

Illustrative Example: Assuming you purchased the Series O shares at \$25.50 per share, including acquisition costs, a capital loss would arise as follows:

Redemption Amount	\$25.50
less deemed dividend	<u>\$ 0.50</u>
Proceeds of Disposition	\$25.00
less Adjusted Cost Base	<u>\$25.50</u>
Capital gain (loss)	\$(0.50)

Generally, one-half of a capital loss (an “allowable capital loss”) is deductible only against one-half of capital gains (“taxable capital gains”) in accordance with the detailed provisions of the Income Tax Act (Canada). An allowable capital loss may only be claimed against taxable capital gains realized in that year, any subsequent year, or the three preceding years.

4. What if I sell my preferred shares before the redemption date?

If you sell your Series O shares before the November 24, 2006 redemption date, you will realize a capital gain or loss, with no deemed dividend. Your proceeds of disposition will be the sale price of the shares, net of any reasonable disposition costs (e.g., brokerage commissions).

5. Will non-resident withholding tax apply to the deemed dividend?

Yes. If you are not a resident of Canada for Canadian tax purposes you will be subject to Canadian withholding tax at a rate of 25% on the amount of the deemed dividend paid to you, unless such rate is reduced pursuant to a tax convention between Canada and your jurisdiction of residence. For example, the rate of withholding tax applicable to holders who are residents of the United States for purposes of the *Canada – United States Income Tax Convention* (1980) is generally reduced to 15%. The withholding tax will be deducted from the total cash payment (\$25.50 per share) paid to non-resident holders of the Series O shares on the redemption date.