

Management's Discussion and Analysis

Overview

Management evaluates the bank's performance on a core basis (i.e., excluding one-time items) as well as on a reported basis (i.e., as reported in its consolidated financial statements on pages 53A to 77A). One-time items are viewed by management as transactions that are not part of normal day-to-day business operations or are unusual in nature,

thereby obscuring management's analysis of trends. There were some one-time items in 1999 (shown in Table 4 on page 24A), but no significant one-time items in 2000. Throughout management's discussion and analysis, comparisons to 1999 will be based on core 1999 numbers.

Highlights

- Fully diluted earnings per share of \$3.47, up 30% from 1999
- Economic Profit of \$767 million, up 101%
- Revenues of \$12.0 billion, up 14%
- Other income 56% of total revenues, up from 51% in 1999
- Non-interest expenses of \$7.6 billion, up 10%, and base non-interest expenses of \$5.5 billion, down 1%
- Gross impaired loans down \$26 million and total provision for credit losses down \$69 million or 9% from 1999
- Total allowance for credit losses up \$75 million to \$1,975 million
- Repurchase of 19.7 million common shares for \$660 million
- Capital ratios up and common share dividends of \$1.14 per share, up 21%
- International net income 30% of total net income

Financial Priorities

Revenue Growth and Diversification

In 2000, revenues increased 14%, substantially higher than the bank's objective of growth in the mid-single digits. Net interest income increased 3% and other income was 25% higher.

Cost Control

The efficiency ratio was 63.0% in 2000 versus 65.2% in 1999, and the operating efficiency ratio (i.e., excluding costs and revenues of strategic initiatives, costs of Stock Appreciation Rights and one-time expenses and revenues) improved to 60.0% from 64.0%. The bank took \$580 million out of its cost base by the end of 2000, as detailed on page 34A, and reached an operating efficiency ratio of 59.5% in the fourth quarter of 2000 – in line with stated objectives.

Strong Credit Quality

Gross impaired loans decreased by \$26 million from last year. The provision for credit losses was \$691 million, down from \$760 million in 1999.

The allowance for credit losses was \$1,975 million at October 31, 2000, up \$75 million from 1999. During the year, net write-offs (write-offs, net of recoveries) were \$677 million or .38% of average loans and acceptances, versus \$958 million or .55% in 1999. During 1999, the bank had accelerated the rate of writing off problem corporate loans to be consistent with U.S. practice, while still adhering to Canadian GAAP.

Balance Sheet and Capital Management

Using the guidelines provided by the Superintendent of Financial Institutions Canada and Canadian GAAP financial information, the Tier 1 capital ratio was 8.6%, up from 8.1% a year ago. The Total capital ratio was 12.0%, up from 11.2%. Both ratios met the bank's medium-term (3–5 year) capital ratio goals of 8% for Tier 1 capital and 11–12% for Total capital.

Table 1: Earnings by Geographic Segment

(\$ millions, taxable equivalent basis)	2000			1999		
	Canada	International	Total	Canada	International	Total
Net interest income	\$ 4,796	\$ 511	\$ 5,307	\$ 4,405	\$ 750	\$ 5,155
Other income	5,311	1,421	6,732	4,284	1,196	5,480
Gross revenues	10,107	1,932	12,039	8,689	1,946	10,635
Provision for credit losses	703	(12)	691	672	88	760
Non-interest expenses	6,423	1,158	7,581	5,973	1,087	7,060
Income taxes (1)	1,387	106	1,493	895	163	1,058
Net income	\$ 1,594	\$ 680	\$ 2,274	\$ 1,149	\$ 608	\$ 1,757
Core net income (2)	\$ 1,594	\$ 680	\$ 2,274	\$ 1,235	\$ 624	\$ 1,859

(1) Includes non-controlling interest and taxable equivalent adjustment.

(2) Excludes one-time items in 1999, which are described in Table 4 on page 24A.

Economic Profit

The bank measures the Economic Profit of its businesses, in addition to using a variety of other traditional measures, such as return on common equity and growth in earnings. Economic Profit measures each business segment's cash operating earnings after providing for the cost of capital committed to the segment.

Cash operating earnings is net income available to common shareholders (i.e., excluding the impact of one-time items and amortization of goodwill and other intangibles). The equity capital charge is derived by applying the cost of common equity to the amount of average common equity. The current cost of common equity is 13.5% and is management's proxy for the after-tax return required by shareholders for the use of their capital.

To create shareholder value, one must generate cash operating earnings in excess of the equity capital charge. Positive Economic Profit adds to shareholder value while negative Economic Profit destroys shareholder value.

Economic Profit measures changes in value created for the shareholders over time, and is an effective planning tool to focus attention on shareholder value growth opportunities. The objectives are to:

- Increase cash operating earnings without tying up more capital
- Target investments in projects that yield positive economic returns
- Improve overall efficiency of invested capital through re-allocation from less efficient uses
- Improve the risk-return profiles of the lines of business

Table 2: Economic Profit ⁽¹⁾

(\$ millions)	2000	1999	1998	1997	1996
Net income available to common shareholders ⁽²⁾	\$ 2,140	\$ 1,600	\$ 1,679	\$ 1,548	\$ 1,286
Adjustment for one-time items	–	102	3	–	–
Adjustment for amortization of goodwill and other intangibles	87	66	62	59	38
Cash operating earnings	2,227	1,768	1,744	1,607	1,324
Capital charge	(1,460)	(1,386)	(1,229)	(1,160)	(1,061)
Economic Profit	\$ 767	\$ 382	\$ 515	\$ 447	\$ 263
Economic Profit growth	101%	(26)%	15%	70%	–
Average common equity	\$ 10,814	\$ 10,264	\$ 9,107	\$ 8,003	\$ 7,320
Cost of common equity	13.5%	13.5%	13.5%	14.5%	14.5%

(1) Economic Profit is cash operating earnings (i.e., net income available to common shareholders excluding the impact of one-time items and amortization of goodwill and other intangibles) less a charge for the cost of common equity employed.

(2) Net income less preferred share dividends.

Line of Business Results

Overview

Table 3 on page 24A shows the bank's results by business segment in 2000. Results for 1999 are shown both before and after the impact of one-time items (shown in Table 4 on page 24A). There were no one-time items in 2000. The discussion below and on pages 24A to 28A refers to core amounts (i.e., excluding one-time items) for 1999.

Personal & Commercial Financial Services generated 56% of the bank's net income in 2000 and produced a return on common equity of 22.1%. A substantial contributor to the bank's successful cost-saving initiatives, this segment achieved an efficiency ratio of 58.4% and an operating efficiency ratio of 56.3%, improvements of 500 basis points and 590 basis points, respectively, from 1999.

Wealth Management generated 18% of the bank's net income. The segment's 48.2% return on common equity reflects relatively low capital requirements due to its largely fee-based business. The efficiency ratio was 73.6%, while the operating efficiency ratio was 70.9%.

Corporate & Investment Banking generated 22% of the bank's net income. Return on common equity was 21.1%, while the efficiency ratio was 62.0% and the operating efficiency ratio was 57.5%.

Economic Profit strengthens risk management discipline, as business segments are attributed cost of capital based on their credit, market, operational and other risks. This discipline has resulted in controlled growth and returns commensurate with risks. Furthermore, Economic Profit encourages the allocation of more capital to stronger performing businesses, and less capital to businesses that are weaker performers.

As shown in Table 2 below, the bank had record Economic Profit in 2000, resulting from cash operating earnings growing at a much faster rate than average common equity. Economic Profit in 2000 was \$767 million, up \$385 million or 101% from \$382 million in 1999. Business segment contributions were \$469 million from Personal & Commercial Financial Services (1999 – \$318 million), \$313 million from Wealth Management (1999 – \$220 million), \$197 million from Corporate & Investment Banking (1999 – \$140 million) and \$82 million from Transaction Processing (1999 – \$60 million). The Economic Profit amounts for the business segments appear in Table 3 on page 24A.

Transaction Processing, a newly created segment in 2000, generated 6% of the bank's net income. Return on common equity was 32.2%, while the efficiency ratio was 68.1% and the operating efficiency ratio was 68.0%.

Other largely comprises Corporate Treasury (which manages the bank's market risk position of the non-trading businesses), Systems & Technology and Real Estate Operations. In 2000, this segment recorded a net loss of \$45 million.

The bank allocates capital to its business segments based on their credit, market, operational and other risks. The four operating segments' returns on common equity in 2000 were negatively impacted by the re-allocation of approximately \$1.1 billion of common equity during the first quarter from the Other segment to the four business segments to underpin operational and business risks. Approximately \$400 million was re-allocated to Personal & Commercial Financial Services, \$250 million to Wealth Management, \$450 million to Corporate & Investment Banking and \$50 million to Transaction Processing.

Table 3: Results by Business Segment

	2000					1999		
(\$ millions, taxable equivalent basis)	Personal & Commercial Financial Services	Wealth Management	Corporate & Investment Banking	Transaction Processing	Other (1)	Total	Core (2)	Reported
Net interest income	\$ 4,789	\$ 359	\$ 43	\$ 160	\$ (44)	\$ 5,307	\$ 5,155	\$ 5,155
Other income	1,769	2,138	2,287	514	24	6,732	5,375	5,480
Gross revenues	6,558	2,497	2,330	674	(20)	12,039	10,530	10,635
Provision for credit losses	649	(1)	91	(21)	(27)	691	670	760
Non-interest expenses	3,833	1,838	1,445	459	6	7,581	6,866	7,060
Income taxes	803	244	265	102	31	1,445	1,092	1,015
Non-controlling interest and taxable equivalent adjustment	12	–	21	–	15	48	43	43
Net income (loss)	\$ 1,261	\$ 416	\$ 508	\$ 134	\$ (45)	\$ 2,274	\$ 1,859	\$ 1,757
Net income (loss) as a % of total bank net income	56%	18%	22%	6%	(2)%	100%	100%	100%
Net income growth over prior year	28%	49%	32%	25%	n.a.	22%	2%	(4)%
Fully diluted earnings per share						\$ 3.47	\$ 2.66	\$ 2.51
Economic Profit (3)	469	313	197	82	(294)	767	382	382
Return on common equity	22.1%	48.2%	21.1%	32.2%	(2.9)%	19.8%	16.6%	15.6%
Efficiency ratio (4)	58.4%	73.6%	62.0%	68.1%	n.a.	63.0%	65.2%	66.4%
Operating efficiency ratio (5)	56.3%	70.9%	57.5%	68.0%	n.a.	60.0%	64.0%	64.0%
Other income as a % of gross revenues	27%	86%	98%	76%	n.a.	56%	51%	52%
Average assets	\$131,800	\$ 8,000	\$131,900	\$ 1,600	\$ 8,600	\$281,900	\$269,900	\$269,900
Average loans and bankers' acceptances	125,600	2,600	53,000	1,200	(2,600)	179,800	175,600	175,600
Average deposits	98,900	14,400	61,900	7,600	11,000	193,800	184,800	184,800
Average common equity	5,400	800	2,300	400	1,900	10,800	10,300	10,300

(1) The Other segment comprises mainly Corporate Treasury, Systems & Technology and Real Estate Operations.

(2) Core results exclude one-time items detailed in Table 4 below. There were no one-time items in 2000.

(3) Economic Profit is defined as cash operating earnings (i.e., net income available to common shareholders excluding the impact of one-time items and amortization of goodwill and other intangibles) less a charge for the cost of common equity employed.

(4) Non-interest expenses as a percentage of gross revenues.

(5) Operating efficiency ratio excludes expenses and revenues of strategic initiatives, costs of Stock Appreciation Rights and one-time expenses and revenues.

Table 4: One-Time Items Affecting Business Segment Results in 1999 (1)

(\$ millions, taxable equivalent basis)	Personal & Commercial Financial Services	Corporate & Investment Banking	Other	Total
Other income				
Gain on sale of securities (2)	\$ 28	\$ –	\$ –	\$ 28
Gain on sale of real estate	–	–	95	95
Writedown of MECA & Integriion (3)	–	–	(18)	(18)
	28	–	77	105
Provision for credit losses				
General unallocated (4)	(35)	(55)	–	(90)
	(35)	(55)	–	(90)
Non-interest expenses				
Restructuring costs	(50)	(83)	(20)	(153)
Merger costs (5)	–	–	(36)	(36)
Expenses related to the sale of real estate	–	–	(5)	(5)
	(50)	(83)	(61)	(194)
Total impact (pre-tax)	(57)	(138)	16	(179)
Total impact (after-tax)	\$ (33)	\$ (78)	\$ 9	\$ (102)
Impact on fully diluted earnings per share				\$ (0.15)

(1) There were no one-time items in Wealth Management or Transaction Processing in 1999 and no one-time items at all in 2000.

(2) Related to shares received in satisfaction of a loan previously written off.

(3) Writedowns of investment in MECA Software LLC and Integriion Financial Network LLC following the decision to migrate PC banking customers to the Internet.

(4) Recorded to allow for imperfections in models and in estimating risk.

(5) Related to the proposed merger with Bank of Montreal, which was denied by the Minister of Finance in December 1998.

Personal & Commercial Financial Services

Overview

Personal & Commercial Financial Service's net income was up 28% from a year ago.

Revenues were up 10%, with increases in all businesses, while non-interest expenses were relatively unchanged due to a highly effective cost-reduction program, resulting in an improvement in the efficiency ratio of 500 basis points from 1999. The operating efficiency ratio (i.e., excluding expenses and revenues of strategic initiatives, costs of Stock Appreciation Rights and one-time expenses and revenues) improved by 590 basis points from 1999 to 56.3%.

The 20% increase in the provision for credit losses was largely due to higher provisions for consumer loans.

Economic Profit was \$469 million, an increase of 47% over 1999. Return on common equity was 22.1%, up from 20.6% last year.

Core Results (1)

(\$ millions, taxable equivalent basis)	% change	2000	1999
Net interest income	7%	\$ 4,789	\$ 4,457
Other income	17	1,769	1,508
Gross revenues	10	6,558	5,965
Provision for credit losses			
Specific provision	33	539	405
General provision	(19)	110	135
Total provision	20	649	540
Non-interest expenses	1	3,833	3,782
Net income before income taxes	26	2,076	1,643
Income taxes	25	803	642
Non-controlling interest and taxable equivalent adjustment	–	12	12
Net income	28%	\$ 1,261	\$ 989
Net income as a % of			
total bank net income	300 bp	56%	53%
Economic Profit	47%	\$ 469	\$ 318
Return on common equity	150 bp	22.1%	20.6%
Efficiency ratio	(500)bp	58.4%	63.4%
Operating efficiency ratio (2)	(590)bp	56.3%	62.2%
Average assets	6%	\$ 131,800	\$ 123,800
Average loans and acceptances	6	125,600	118,400
Average deposits	5	98,900	94,600
Average common equity	20	5,400	4,500

(1) Excluding one-time items in 1999 detailed in Table 4 on page 24A. There were no one-time items in 2000.

(2) Operating efficiency ratio excludes expenses and revenues of strategic initiatives, costs of Stock Appreciation Rights and one-time expenses and revenues.

Financial Performance by Business

Personal & Commercial Banking

- Solid revenue growth of 6% and strong volume growth
- Market leader in Canada in mortgages (15.3% market share) and second in personal lending (16.3%) and personal deposits (15.7%)
- Leadership position maintained in business financing (14.0% market share) and business deposits (21.2%)

Card Services

- Strong volume growth and effective cost-containment initiatives led the business to 15% earnings growth this year
- The Bank One acquisition added over 200,000 new accounts and an additional 25 affinity partners, bringing the number to over 50

Insurance

- Insurance net income was up 43%, partially from the release of actuarial reserves in 2000
- Total gross insurance premiums grew 35% over 1999, reflecting the acquired Canadian individual life insurance and annuity business of Prudential of America, and significant volume increases in home & auto as well as property & casualty reinsurance
- Strong growth target of \$2.5 billion in annual gross premiums within five years
- Ranked in the world's top 50 reinsurers, based on net reinsurance premiums written (No. 57 in 1999), with a growing presence in the life retrocession, property & casualty and structured reinsurance businesses

Emerging Businesses (includes Prism Financial Corporation, Royal Bank Ventures Inc. and Security First Network Bank)

- Solid growth in Security First Network Bank's number of accounts
- Prism Financial Corporation originated \$4.9 billion of mortgages since the acquisition in early April 2000
- Number of Canadian online clients, which more than doubled in 2000 over 1999, is again expected to significantly increase in 2001
- Expansion in the U.S. is creating new opportunities for cross-selling products and services among member companies

(\$ millions)	% change	2000	1999
Gross revenues	6%	\$ 5,094	\$ 4,801
Average residential mortgages	6	62,850	59,300
Average personal loans	9	23,600	21,600
Average personal deposits	1	72,500	71,600
Average business loans	6	36,800	34,750
Average business deposits	14	22,300	19,500

(\$ millions, transactions in millions)	% change	2000	1999
Average managed assets	11%	\$ 5,307	\$ 4,770
Card spending volumes	8	25,299	23,350
Merchant spending volumes	13	23,026	20,346
No. of merchant debit transactions	22	429	351

(\$ millions)	% change	2000	1999
Gross insurance premiums			
Life	32%	\$ 912	\$ 693
Non-life	44	286	198
Other	233	10	3
Total	35%	\$ 1,208	\$ 894
Net income after tax			
Life	51%	\$ 145	\$ 96
Non-life	(167)	(16)	(6)
Other	50	3	2
Total	43%	\$ 132	\$ 92

	% change	2000	1999
Security First Network Bank's No. of accounts	38%	55,400	40,200
Prism Financial Corporation mortgage originations (\$ billions)	n.a.	\$ 4.9	n.a.
Canadian online clients	139	1,264,400	530,000

Wealth Management

Overview

Royal Investment Services' net income increased by 49% over 1999, reflecting strong performances from Royal Bank Action Direct (self-directed brokerage), Private Client Division (full-service brokerage), Royal Financial Planning and Global Private Banking. The segment's contribution to the bank's net income increased to 18% from 15% in 1999. Return on common equity declined to 48.2% due to the higher allocation of capital for operational and other risks, described on page 23A.

Revenue growth exceeded expense growth, resulting in a substantial improvement in the efficiency ratio. The operating efficiency ratio improved by 720 basis points from 1999 to 70.9%.

Economic Profit was \$313 million, up 42% over 1999.

Assets under administration (AUA) were up 21% as a result of double-digit percentage growth in Royal Bank Action Direct, Private Client Division and Global Private Banking.

Assets under management (AUM) were up 13%, with particularly strong growth in personal assets under management.

Financial Performance by Business

Royal Bank Action Direct

- As a result of strong capital markets, especially in the first half of the year, Royal Bank Action Direct experienced significant business growth in Canada with trade volumes up 125%, number of accounts up 34% and electronic trading volumes up 196% over last year. AUA grew 49% over 1999 to \$14.5 billion and revenues were up 89%

Private Client Division

- In the full-service brokerage division, AUA were up 21% and revenues increased 25% over 1999. Fee-based assets (assets that generate fees based on a percentage of the assets, rather than transaction-based commissions) represented 14% of total AUA, up from 11% in 1999

Royal Financial Planning (formerly Personal Wealth Management)

- Royal Financial Planning, in conjunction with Personal & Commercial Banking, continued to expand the Personal Financial Advisor program – a new relationship management value proposition for a segment of affluent clients in the Royal Bank and Royal Trust branch networks

RBC Private Counsel

- Formed in the first quarter of this year to provide a solution-based focus to the global investment counsel needs of domestic clients requiring discretionary investment services

Global Private Banking

- Global Private Banking experienced 22% growth in combined personal and institutional AUA and 27% growth in AUM, due in part to the Ernst & Young Channel Islands acquisitions. Revenues were up 35% over 1999

Investment Management and Personal Trust

- Investment Management AUM and Personal Trust AUA were up 13% and 9%, respectively, over 1999. Were it not for the transfer of assets to RBC Private Counsel in early 2000, Investment Management revenues would have been up 13% from 1999

Royal Mutual Funds

- At \$34 billion, mutual fund balances were up 11% from 1999. Royal Mutual Funds is the third-largest Canadian mutual fund company at October 31, 2000, with 8.1% of total mutual fund assets in Canada

Core Results ⁽¹⁾

(\$ millions, taxable equivalent basis)	% change	2000	1999 (2)
Net interest income	34%	\$ 359	\$ 267
Other income	27	2,138	1,684
Gross revenues	28	2,497	1,951
Provision for credit losses			
Specific provision	80	(1)	(5)
General provision	n.a.	–	5
Total provision	n.a.	(1)	–
Non-interest expenses	19	1,838	1,540
Net income before income taxes	61	660	411
Income taxes	86	244	131
Net income	49%	\$ 416	\$ 280
Net income as a % of total bank net income	300 bp	18%	15%
Economic Profit	42%	\$ 313	\$ 220
Return on common equity	(1140)bp	48.2%	59.6%
Efficiency ratio	(530)bp	73.6%	78.9%
Operating efficiency ratio ⁽³⁾	(720)bp	70.9%	78.1%
Average common equity	60%	\$ 800	\$ 500

(1) There were no one-time items in 2000 or 1999.

(2) 1999 results have been restated for the transfer of Global Securities Services to the Transaction Processing segment and for the revenues and costs associated with the transfer of Royal Trust branches to the Personal & Commercial Financial Services segment.

(3) Operating efficiency ratio excludes expenses and revenues of strategic initiatives, costs of Stock Appreciation Rights and one-time expenses and revenues.

(\$ millions)	% change	2000	1999 (1)
Assets under administration			
Personal			
Royal Bank Action Direct	49%	\$ 14,500	\$ 9,700
Private Client Division	21	107,700	89,200
Personal Trust	9	30,400	28,000
Global Private Banking	41	54,900	39,000
Other (2)	(27)	(1,400)	(1,100)
Total personal	25	206,100	164,800
Institutional	5	42,200	40,100
	21%	\$ 248,300	\$ 204,900

(1) 1999 institutional assets under administration have been restated for the transfer of Global Securities Services to the Transaction Processing segment and for reorganizations within the Wealth Management segment.

(2) Other AUA represents assets administered by more than one business.

(\$ millions)	% change	2000	1999
Assets under management			
Institutional	12%	\$ 36,700	\$ 32,700
Personal	17	21,500	18,300
Mutual funds	11	34,100	30,600
	13%	\$ 92,300	\$ 81,600

(\$ millions)	% change	2000	1999 (1)
Gross revenues by business			
Royal Bank Action Direct	89%	\$ 193	\$ 102
Private Client Division	25	1,050	840
Royal Financial Planning	40	112	80
RBC Private Counsel (2)	n.a.	92	–
Global Private Banking	35	388	288
Investment Management	(8)	253	274
Royal Mutual Funds	11	409	367
	28%	\$ 2,497	\$ 1,951

(1) 1999 gross revenues have been restated for the transfer of Global Securities Services to the Transaction Processing segment, certain reorganizations within Wealth Management and for the revenues and costs associated with the transfer of Royal Trust branches to Personal & Commercial Financial Services.

(2) At the beginning of 2000, RBC Private Counsel began managing assets formerly managed by Investment Management.

Corporate & Investment Banking

Overview

The segment had a very strong performance in 2000. Net income grew 32% from 1999 and accounted for 22% of the bank's total net income, compared to 21% in 1999. Return on common equity improved to 21.1% from 20.0% in 1999.

Revenues were up 17%, with very strong growth in the Global Equity and Global Banking divisions. Net interest income declined due to higher funding costs from the growing equity derivatives portfolio, which are included in interest expense and reduce other income. The revenues from the equity derivatives portfolio are recorded in trading revenues, which are included in other income.

Non-interest expenses, excluding variable compensation and strategic initiatives, were down \$51 million or 8% versus 1999.

The operating efficiency ratio improved by 230 basis points from 1999 to 57.5%.

The provision for credit losses declined 46% reflecting the exiting of unprofitable international lending relationships over the past two years.

Economic Profit was \$197 million, an increase of 41% over 1999.

Core Results (1)

(\$ millions, taxable equivalent basis)	% change	2000	1999
Net interest income	(89)%	\$ 43	\$ 402
Other income	44	2,287	1,588
Gross revenues	17	2,330	1,990
Provision for credit losses			
Specific provision	(52)	81	168
General provision	n.a.	10	–
Total provision	(46)	91	168
Non-interest expenses	19	1,445	1,212
Net income before income taxes	30	794	610
Income taxes	34	265	198
Non-controlling interest and taxable equivalent adjustment	(22)	21	27
Net income	32%	\$ 508	\$ 385
Net income as a % of total bank net income	100 bp	22%	21%
Economic Profit	41%	\$ 197	\$ 140
Return on common equity	110 bp	21.1%	20.0%
Efficiency ratio	110 bp	62.0%	60.9%
Operating efficiency ratio (2)	(230)bp	57.5%	59.8%
Average assets	4%	\$ 131,900	\$ 127,300
Average loans and acceptances	(6)	53,000	56,400
Average deposits	2	61,900	60,700
Average common equity	28	2,300	1,800

(1) Excluding one-time items in 1999 detailed in Table 4 on page 24A. There were no one-time items in 2000.

(2) Operating efficiency ratio excludes expenses and revenues of strategic initiatives, costs of Stock Appreciation Rights and one-time expenses and revenues.

Financial Performance by Business

Global Banking Division

- Revenues were up 12% as mergers & acquisitions and advisory activity increased markedly. Lending revenues were up 2% even as assets were managed downwards by 12%, reflecting more fee-based lending activity
- Non-interest expenses excluding variable compensation and strategic initiatives were down by \$26 million, as the restructuring and refocusing of the business continued

(\$ millions)	% change	2000	1999
Gross revenues	12%	\$ 855	\$ 764
Average assets	(12)	28,500	32,400

Global Equity Division

- The Global Equity Division generated revenues of \$731 million in fiscal 2000, up 40% over fiscal 1999. Virtually all areas within the division contributed to this growth, reflecting a substantial improvement in new issue activity and continued expansion of our equity derivative operations

(\$ millions)	% change	2000	1999
Gross revenues	40%	\$ 731	\$ 522
Average assets	(7)	14,300	15,400

Global Markets Division

- Favourable foreign exchange and money market conditions helped to offset the weakness experienced in fixed income markets, and the reduced revenues from Asian restructuring conducted in 1999. FX Direct added 500 new Internet clients during the year, an increase of 135%

(\$ millions)	% change	2000	1999
Gross revenues	6%	\$ 744	\$ 704
Average assets	12	89,100	79,500

Transaction Processing

Overview

Global Integrated Solutions, a newly created segment, showed strong performance in 2000. Net income grew 25% from 1999 and accounted for 6% of the bank's total net income, unchanged from 1999. Return on common equity improved to 32.2% from 27.7% in 1999.

Revenues were up 7%, with Global Securities Services contributing all of the growth.

Non-interest expenses rose 5% during 2000. The operating efficiency ratio improved by 150 basis points from 1999 to 68.0%.

The provision for credit losses fell by \$27 million, reflecting recoveries for prior years' losses on loans to international banks.

Economic Profit was \$82 million, an increase of 37% over 1999.

Core Results ⁽¹⁾

(\$ millions, taxable equivalent basis)	% change	2000	1999
Net interest income	(5)%	\$ 160	\$ 168
Other income	12	514	459
Gross revenues	7	674	627
Provision for credit losses			
Specific provision	(450)	(21)	6
Total provision	(450)	(21)	6
Non-interest expenses	5	459	436
Net income before income taxes	28	236	185
Income taxes	31	102	78
Net income	25%	\$ 134	\$ 107
Net income as a % of			
total bank net income	–	6%	6%
Economic Profit	37%	\$ 82	\$ 60
Return on common equity	450 bp	32.2%	27.7%
Efficiency ratio	(140)bp	68.1%	69.5%
Operating efficiency ratio ⁽²⁾	(150)bp	68.0%	69.5%
Average common equity	–	\$ 400	\$ 400

(1) Excluding one-time items in 1999 detailed in Table 4 on page 24A. There were no one-time items in 2000.

(2) Operating efficiency ratio excludes expenses and revenues of strategic initiatives, costs of Stock Appreciation Rights and one-time expenses and revenues.

Financial Performance by Business

Global Securities Services

Global Securities Services (GSS) is Canada's largest custodian, and a recognized provider of custody and related securities services to corporate and institutional investors worldwide:

- GSS operates from 11 locations throughout the world, with a global custody network spanning more than 80 markets
- Revenues and client assets under administration grew 28% and 22%, respectively, over 1999
- GSS continues to achieve top rankings in international custody surveys. It is
 - Top-rated among Canadian custodians for the 12th consecutive year (*Global Custodian*, Agent Bank Review 2000)
 - No. 2 in the world for quality of global custody service for investment managers (R&M Consultants, Global Custody Survey 2000)
 - No. 3 for global custody service quality worldwide (*Global Investor*, Global Custody Survey 2000)

Financial Institutions, Cash Management, Payments & Trade

Cash management, payment and trade products and services are provided to the small and medium enterprises, commercial, corporate and financial institution segments.

- Revenues decreased 10% from 1999 due largely to certain revenues being reported in Corporate & Investment Banking in 2000 rather than in Global Integrated Solutions. Excluding this transfer, revenues were unchanged from 1999
- Payment volumes grew 11% over 1999

(\$ millions)	% change	2000	1999
Gross revenues	28%	\$ 360	\$ 280
Assets under administration	22	920,000	755,000

(\$ millions, volumes in thousands)	% change	2000	1999
Gross revenues	(10)%	\$ 314	\$ 347
Payment volumes	11	4,690	4,220
Payment errors (per 10,000 payments)	(15)	.82	.97

Financial Priority: Revenue Growth and Diversification

Highlights

- Revenue growth of 14%, substantially higher than the objective for 2000 of growth in the mid-single digits
- Net interest income up 3%
- Net interest margin of 1.88%, down 3 basis points from 1999
- Other income up 25%
- Other income 56% of total revenues, up from 51% in 1999

Net Interest Income

Net interest income was up 3% from 1999 to \$5.3 billion. The increase stemmed from higher volumes of interest-earning assets, particularly retail loans. As well, the spread between the prime rate and core deposit funding costs widened slightly during the year as the average Canadian prime rate increased to 7.05% from 6.49% in 1999.

However, net interest income was reduced due to higher funding costs from the growing equity derivatives portfolio, which are included in

interest expense and reduce net interest income. The revenues from the equity derivatives portfolio are recorded in trading revenues, which are included in other income.

As shown in Table 5 below, the net interest margin declined by 3 basis points from last year to 1.88%, as the benefits of a wider spread between the prime rate and core deposits and other items were more than offset by the above-mentioned growth in global equity derivatives.

Table 5: Change in Net Interest Margin

	2000	1999
Net interest margin (1)	1.88%	1.91%
Components of change from prior year		
Growth in global equity derivatives	(.08)	(.04)%
Prime-core deposit spread	.03	.01
Other	.02	(.01)
Total change from prior year	(.03)%	(.04)%

(1) Net interest income, on a taxable equivalent basis, as a percentage of average total assets.

Other income

As shown in Table 6 on page 30A, other income was \$6.7 billion, up \$1.4 billion or 25% from 1999 (excluding one-time revenues in 1999 shown in Table 4 on page 24A). Other income accounted for 56% of total revenues, up from 51% in 1999.

Other income was up 17% in Personal & Commercial Financial Services, rose 27% in Wealth Management, increased by 44% in Corporate & Investment Banking and rose by 12% in Transaction Processing.

Most categories of other income grew over 1999. Capital market fees rose substantially, reflecting higher revenues from full-service

brokerage, discount brokerage and mergers & acquisitions activity. The growth in trading revenues is discussed on page 30A. Higher investment management and custodial fees reflected growth in assets under management and under administration. The growth in card service revenues partially stemmed from the return to the consolidated balance sheet of previously-securitized credit card receivables, the acquisition of Bank One's Canadian credit card portfolio and increased dollar volumes of transactions. The growth in foreign exchange revenues reflected increased market share. Mutual fund revenue growth reflected net growth in mutual fund assets of \$3.5 billion during 2000.

Outlook

- The bank is targeting revenue growth of over 10% in 2001, under the expectations that capital markets will not strengthen or weaken significantly from the level in early December 2000, retail loan volumes will increase next year and the net interest margin will remain relatively unchanged

Table 6: Other Income

(\$ millions)	2000	1999	1998	2000 vs 1999 Increase (decrease)		1999 vs 1998 Increase (decrease)	
Capital market fees	\$ 1,810	\$ 1,209	\$ 1,118	\$ 601	50%	\$ 91	8%
Trading revenues	1,540	1,106	756	434	39	350	46
Deposit and payment service charges	756	688	664	68	10	24	4
Investment management and custodial fees	684	547	495	137	25	52	11
Mutual fund revenues	528	479	447	49	10	32	7
Card service revenues	420	362	305	58	16	57	19
Securitization revenues	115	222	218	(107)	(48)	4	2
Foreign exchange revenues, other than trading	299	243	218	56	23	25	11
Credit fees	212	189	183	23	12	6	3
Revenues from insurance activities	191	161	113	30	19	48	42
Gain (loss) on sale of securities	(11)	18	66	(29)	(161)	(48)	(73)
Loss on disposal of premises and equipment	(16)	(5)	(32)	(11)	(220)	27	84
Other	204	156	187	48	31	(31)	(17)
Total core (i.e., excluding one-time gains)	6,732	5,375	4,738	1,357	25	637	13
One-time gains (1)	–	105	247	(105)	(100)	(142)	(57)
Total	\$ 6,732	\$ 5,480	\$ 4,985	\$ 1,252	23%	\$ 495	10%

(1) One-time gains in 1999 are described in Table 4 on page 24A. One-time gains in 1998 of \$247 million consisted of a \$277 million gain on sale of LDC Brady bonds offset by other charges aggregating \$30 million.

Trading Revenues

Trading revenues include gains and losses on securities and derivatives that the bank trades actively, or expects to hold for short periods, and whose values are marked-to-market daily. A description of trading revenues included in net interest income and other income is provided in footnotes (1) and (2) to Table 7 on page 31A.

Trading revenues recorded in net interest income decreased by \$370 million and in other income increased by \$434 million during 2000, partially due to the equity derivatives portfolio. As mentioned on page 29A, funding costs from the growing equity derivatives portfolio are included in net interest income and the revenues are recorded in other income. Total trading revenues were up \$64 million or 6% in 2000, reflecting strong overall growth in the equity derivatives business and active markets in 2000. The bank continues to avoid large proprietary

trading positions and conducts the majority of trading to accommodate clients in the major G7 markets and currencies.

With respect to products, as shown in Table 7 on page 31A, revenues from equity, commodity and precious metal contracts increased 51% due to growth in the equity derivatives business. Trading revenues from foreign exchange contracts rose 4%, while those from interest rate risk management contracts were 75% higher. Revenues from debt instruments shrank 39% due to additional costs of funding the inventory and weakness in all fixed income markets – in Canada, the U.S. and Europe – reflecting widening credit spreads and greater volatility. The size of the bank's high-yield bond trading portfolio was less than US\$100 million at October 31, 2000, with approximately 60% of this amount in the telecommunications sector.

Table 7: Trading Revenues

(\$ millions)	2000	1999	1998
Net interest income (1)	\$ (365)	\$ 5	\$ 179
Other income (2)	1,540	1,106	748
Total	\$ 1,175	\$ 1,111	\$ 927
By product			
Debt instruments (3)	\$ 257	\$ 423	\$ 385
Equity, commodity and precious metal contracts	496	329	224
Foreign exchange contracts (4)	301	290	267
Interest rate risk management contracts (5)	121	69	51
Total	\$ 1,175	\$ 1,111	\$ 927

(1) Includes interest earned on trading securities and other cash instruments held in the trading portfolios less funding costs associated with trading-related derivative and security positions. Net interest income for 1999 reflects reclassification of interest expenses to net interest income from other income of \$125 million. Net interest income prior to 1999 has not been restated to reflect this reclassification. A similar reclassification in 1998 would have resulted in a transfer of \$50 million of interest expense to net interest income from other income. Total trading revenues did not change as a result of the reclassification.

(2) Primarily includes realized and unrealized gains and losses on trading securities, derivative instruments and foreign exchange trading activities.

(3) Includes Canadian government securities and corporate debt instruments.

(4) Includes foreign exchange spot, forward, futures and options contracts.

(5) Includes swaps, interest rate options, interest rate futures, forward rate agreements and related cash instruments used to hedge the trading derivatives portfolios.

Table 8: Change in Net Interest Income

(\$ millions, taxable equivalent basis)	2000 vs 1999 Increase (decrease) due to changes in			1999 vs 1998 Increase (decrease) due to changes in			Net change
	average volume (1)	average rate (1)	Net change	average volume (1)	average rate (1)	Net change	
Assets							
Deposits with other banks							
Canada	\$ 51	\$ (11)	\$ 40	\$ 6	\$ 13	\$ 19	
International	(38)	132	94	105	(105)	-	
Securities							
Trading account	218	78	296	268	(142)	126	
Investment account	127	23	150	153	(28)	125	
Loan substitute	(19)	9	(10)	(9)	(11)	(20)	
Loans							
Canada							
Residential mortgage	109	(10)	99	256	(89)	167	
Personal	216	129	345	158	4	162	
Credit card	139	40	179	28	5	33	
Business and government	34	73	107	20	(357)	(337)	
Assets purchased under reverse repurchase agreements	37	52	89	(276)	45	(231)	
International							
Business and government	(347)	761	414	(584)	479	(105)	
Assets purchased under reverse repurchase agreements	(24)	120	96	111	(156)	(45)	
Total interest income	\$ 503	\$ 1,396	\$ 1,899	\$ 236	\$ (342)	\$ (106)	
Liabilities							
Deposits							
Canada	\$ 114	\$ 466	\$ 580	\$ (78)	\$ 132	\$ 54	
International	203	638	841	233	(383)	(150)	
Obligations related to securities sold short	(32)	134	102	32	(35)	(3)	
Obligations related to assets sold under repurchase agreements	(13)	134	121	22	(95)	(73)	
Subordinated debentures	42	16	58	(15)	(38)	(53)	
Other interest-bearing liabilities	(47)	92	45	6	59	65	
Total interest expense	267	1,480	1,747	200	(360)	(160)	
Net interest income	\$ 236	\$ (84)	\$ 152	\$ 36	\$ 18	\$ 54	

(1) Volume/rate variance is allocated on the percentage relationship of changes in balances and changes in rates to the total net change in net interest income on a taxable equivalent basis.

Table 9: Net Interest Income on Average Assets and Liabilities

(\$ millions, taxable equivalent basis)	2000			1999			1998		
	Average balances (1)	Interest (2)	Average rate	Average balances (1)	Interest (2)	Average rate	Average balances (1)	Interest (2)	Average rate
Assets									
Deposits with other banks									
Canada	\$ 3,225	\$ 164	5.09%	\$ 2,244	\$ 124	5.53%	\$ 2,133	\$ 105	4.92%
International	14,885	811	5.45	15,694	717	4.57	13,549	717	5.29
	18,110	975	5.38	17,938	841	4.69	15,682	822	5.24
Securities									
Trading account	36,892	1,435	3.89	31,196	1,139	3.65	24,180	1,013	4.19
Investment account	18,495	1,062	5.74	16,278	912	5.60	13,562	787	5.80
Loan substitute	495	49	9.90	703	59	8.39	804	79	9.83
	55,882	2,546	4.56	48,177	2,110	4.38	38,546	1,879	4.87
Loans (3)									
Canada									
Residential mortgage	59,860	3,891	6.50	58,176	3,792	6.52	54,268	3,625	6.68
Personal	26,949	2,290	8.50	24,347	1,945	7.99	22,368	1,783	7.97
Credit card	3,559	405	11.38	2,297	226	9.84	2,009	193	9.61
Business and government	32,927	1,506	4.57	32,152	1,399	4.35	31,779	1,736	5.46
Assets purchased under reverse repurchase agreements	12,713	693	5.45	12,005	604	5.03	17,538	835	4.76
	136,008	8,785	6.46	128,977	7,966	6.18	127,962	8,172	6.39
International									
Business and government	24,495	3,446	14.07	27,405	3,032	11.06	33,083	3,137	9.48
Assets purchased under reverse repurchase agreements	9,016	385	4.27	9,764	289	2.96	6,906	334	4.84
	33,511	3,831	11.43	37,169	3,321	8.93	39,989	3,471	8.68
	169,519	12,616	7.44	166,146	11,287	6.79	167,951	11,643	6.93
Total interest-earning assets	243,511	16,137	6.63	232,261	14,238	6.13	222,179	14,344	6.46
Non-interest-bearing deposits with other banks	525			666			394		
Customers' liability under acceptances	10,281			9,508			10,033		
Other assets	27,583			27,465			28,694		
Total assets	\$ 281,900	\$ 16,137	5.72%	\$ 269,900	\$ 14,238	5.28%	\$ 261,300	\$ 14,344	5.49%
Liabilities and shareholders' equity									
Deposits (4)									
Canada	\$ 107,533	\$ 5,060	4.71%	\$ 104,919	\$ 4,480	4.27%	\$ 106,784	\$ 4,426	4.14%
International	70,575	3,997	5.66	66,498	3,156	4.75	61,933	3,306	5.34
	178,108	9,057	5.09	171,417	7,636	4.45	168,717	7,732	4.58
Obligations related to securities sold short	14,195	656	4.62	15,015	554	3.69	14,168	557	3.93
Obligations related to assets sold under repurchase agreements	11,873	653	5.50	12,169	532	4.37	11,724	605	5.16
Subordinated debentures	5,129	344	6.71	4,499	286	6.36	4,711	339	7.20
Other interest-bearing liabilities	3,042	120	3.94	5,574	75	1.35	3,936	10	.25
Total interest-bearing liabilities	212,347	10,830	5.10	208,674	9,083	4.35	203,256	9,243	4.55
Non-interest-bearing deposits	15,654			13,379			9,971		
Acceptances	10,281			9,508			10,033		
Other liabilities	30,829			25,864			26,962		
	269,111	10,830	4.02	257,425	9,083	3.53	250,222	9,243	3.69
Shareholders' equity									
Preferred	1,975			2,211			1,971		
Common	10,814			10,264			9,107		
Total liabilities and shareholders' equity	\$ 281,900	\$ 10,830	3.84%	\$ 269,900	\$ 9,083	3.37%	\$ 261,300	\$ 9,243	3.54%
Net interest income as a % of total average assets	\$ 281,900	\$ 5,307	1.88%	\$ 269,900	\$ 5,155	1.91%	\$ 261,300	\$ 5,101	1.95%
Net interest income as a % of total average interest-earning assets									
Canada	\$ 176,418	\$ 4,796	2.72%	\$ 167,110	\$ 4,405	2.64%	\$ 159,847	\$ 4,409	2.76%
International	67,093	511	.76	65,151	750	1.15	62,332	692	1.11
Total	\$ 243,511	\$ 5,307	2.18%	\$ 232,261	\$ 5,155	2.22%	\$ 222,179	\$ 5,101	2.30%

(1) Calculated on a daily basis.

(2) Interest income includes loan fees (2000 – \$274 million; 1999 – \$250 million; 1998 – \$195 million). The taxable equivalent adjustment is based on the Canadian tax rate of 42.8% for 2000, 43.0% for 1999 and 42.9% for 1998.

(3) Average balances include impaired loans and are net of the allowance for credit losses.

(4) Deposits include savings deposits with average balances of \$34, \$33 and \$42 billion, interest expense of \$0.7, \$0.6 and \$0.7 billion and average rates of 2.06%, 1.82% and 1.67% for 2000, 1999 and 1998, respectively. Deposits also include time deposits with average balances of \$38, \$37 and \$47 billion, interest expense of \$2.0, \$2.0 and \$2.6 billion and average rates of 5.26%, 5.41% and 5.53% for 2000, 1999 and 1998, respectively.

Financial Priority: Cost Control

Highlights

- Non-interest expenses up 10% from 1999, 390 basis points below the growth rate of revenues
- Base non-interest expenses down 1%
- Efficiency ratio of 63.0% versus 65.2% in 1999
- Operating efficiency ratio (i.e., excluding costs and revenues of strategic initiatives, costs of Stock Appreciation Rights and one-time expenses and revenues) of 60.0%, 400 basis points better than in 1999
- Removed \$580 million of costs from the expense base by the end of 2000, compared to objective of \$400 million

Performance

As shown in Table 10 below, core non-interest expenses (i.e., excluding one-time expenses in 1999 mentioned in Table 4 on page 24A) were up \$715 million or 10% from 1999. There were a number of factors that accounted for this increase. The bank incurred expenses relating to strategic initiatives of \$390 million in 2000, up \$259 million from last year. These largely related to acquisitions such as Prism Financial, private banking operations of Ernst & Young in Jersey, Channel Islands, insurance operations of Prudential of America Life Insurance Co. (Canada), hiring of teams in investment banking outside Canada and growth of North American eBusiness initiatives. Additionally, appreciation in the

bank's share price during 2000 resulted in a \$52 million expense for Stock Appreciation Rights (SARs) that were granted under the Stock Option Plan in November 1999. There was no such expense recorded in 1999. Operating non-interest expenses (i.e., excluding costs of strategic initiatives and SARs and one-time expenses) were up 6% from 1999 as shown in Table 11 on page 34A.

Performance-related compensation costs were up \$453 million this year, largely due to much stronger results in Corporate & Investment Banking and Wealth Management. Base non-interest expenses (operating non-interest expenses less performance-related compensation) were actually down 1% from 1999 as also shown in Table 11.

Table 10: Non-Interest Expenses

(\$ millions)	2000	1999	1998	2000 vs 1999 Increase (decrease)		1999 vs 1998 Increase (decrease)	
Human resources	\$ 4,651	\$ 3,949	\$ 3,544	\$ 702	18%	\$ 405	11%
Occupancy							
Net premises rent	384	262	239	122	47	23	10
Premises repairs and maintenance	68	88	93	(20)	(23)	(5)	(5)
Depreciation	81	92	92	(11)	(12)	–	–
Property taxes	15	41	46	(26)	(63)	(5)	(11)
Energy	22	33	33	(11)	(33)	–	–
	570	516	503	54	10	13	3
Equipment							
Office and computer rental and maintenance	376	376	329	–	–	47	14
Depreciation	289	297	250	(8)	(3)	47	19
	665	673	579	(8)	(1)	94	16
Communications							
Telecommunications	225	225	209	–	–	16	8
Marketing and public relations	173	182	175	(9)	(5)	7	4
Postage and courier	170	157	156	13	8	1	1
Stationery and printing	127	129	125	(2)	(2)	4	3
	695	693	665	2	–	28	4
Other							
Professional fees	267	274	262	(7)	(3)	12	5
Business and capital taxes	134	114	118	20	18	(4)	(3)
Deposit insurance	30	71	111	(41)	(58)	(40)	(36)
Travel and relocation	85	90	98	(5)	(6)	(8)	(8)
Amortization of goodwill and other intangibles	87	66	62	21	32	4	6
Employee training	38	48	60	(10)	(21)	(12)	(20)
Donations	26	29	25	(3)	(10)	4	16
Other	333	343	280	(10)	(3)	63	23
	1,000	1,035	1,016	(35)	(3)	19	2
Total core (i.e., excluding one-time expenses)	7,581	6,866	6,307	715	10	559	9
One-time expenses ⁽¹⁾	–	194	92	(194)	(100)	102	111
Total	\$ 7,581	\$ 7,060	\$ 6,399	\$ 521	7%	\$ 661	10%

(1) One-time expenses in 1999 are described in Table 4 on page 24A. One-time expenses of \$92 million in 1998 related to a \$62 million restructuring charge and other charges aggregating \$30 million.

As shown in Table 12 below, the core efficiency ratio improved to 63.0% from 65.2% in 1999, while the operating efficiency ratio was 60.0%, down 400 basis points from last year. The bank achieved

an operating efficiency ratio of 59.5% in the fourth quarter of 2000, in line with the objective stated in its third quarter 2000 earnings press release.

Table 11: Components of Non-Interest Expenses

(\$ millions)	2000	1999	2000 vs 1999 Increase (decrease)	
Core non-interest expenses (1)	\$ 7,581	\$ 6,866	\$ 715	10%
Cost of strategic initiatives	390	131	259	198
Cost of Stock Appreciation Rights	52	–	52	n.a.
Operating non-interest expenses (2)	7,139	6,735	404	6
Performance-related compensation (3)	1,662	1,209	453	37
Base non-interest expenses	\$ 5,477	\$ 5,526	\$ (49)	(1)%

(1) Excludes one-time expenses in 1999 detailed in Table 4 on page 24A. There were no one-time expenses in 2000.

(2) Core non-interest expenses less costs of strategic initiatives and Stock Appreciation Rights.

(3) Operating non-interest expenses less performance-related compensation.

Table 12: Key Efficiency Ratios

(\$ millions)	2000	1999	2000 vs 1999 Increase (decrease)	
Core non-interest expenses	\$ 7,581	\$ 6,866	\$ 715	10%
Core revenues	\$ 12,039	\$ 10,530	\$ 1,509	14%
Core efficiency ratio (1)	63.0%	65.2%	(220)bp	
Operating non-interest expenses	\$ 7,139	\$ 6,735	\$ 404	6%
Operating revenues (2)	\$ 11,901	\$ 10,518	\$ 1,383	13%
Operating efficiency ratio (3)	60.0%	64.0%	(400)bp	

(1) Core non-interest expenses as a percentage of total core revenues.

(2) Core revenues less revenues associated with strategic initiatives.

(3) Operating non-interest expenses as a percentage of operating revenues.

The substantial improvement in efficiency was achieved through the removal of \$580 million of costs from the bank's cost base by the end of 2000. This compared to targeted cost savings of \$400 million as shown below.

Cost Savings by End of 2000

(\$ millions)	Targeted	Achieved
Streamlined overhead functions	\$ 100	\$ 160
Enhancement of service delivery	100	150
Lower costs for purchased goods and services	100+	140
Redefinition of international corporate lending operations	75	80
Network reconfiguration	35	50
Total	\$ 400+	\$ 580

The bank had targeted savings of approximately \$100 million from reduced overhead functions and exceeded this target by \$60 million. These savings came largely from combining functions and reducing staff in businesses, geographic units and the head office.

Enhancement of service delivery refers to the removal and centralization of after-sales servicing and administrative activities from the bank's branches. The targeted cost savings from these efforts were approximately \$100 million, and \$150 million were realized.

Approximately a quarter of the \$400 million of cost savings was targeted from lower procurement costs. The bank achieved \$140 million in savings from these sourcing initiatives.

The returns from international corporate lending have been volatile and insufficient to warrant an extensive and expensive network outside Canada. Savings of \$80 million were achieved by the end of 2000 from the restructuring of international corporate banking and global financial institutions operations.

With approximately 90% of routine transactions now conducted through electronic channels, branches have increasingly become sales and advice outlets. The branch network was rationalized and restructured, for total cost savings of \$50 million by the end of 2000.

These changes resulted in 3,504 fewer people, excluding 845 non-commissioned employees at Prism Financial Corporation, which was acquired in April 2000. The annual attrition level prior to 2000 has run around 5% or 2,500 people.

The bank believes that changes in business mix make an efficiency ratio for the entire bank an inappropriate measure of cost performance. Therefore, in future, the efficiency ratio for the bank as a whole will not be measured. Instead, emphasis will be placed on the operating efficiency ratio of each business segment and possibly other cost measures that may be appropriate for some of the segments. Operating efficiency ratios for the segments appear in the tables on pages 24A to 28A.

The bank is aiming to further improve its cost competitiveness.

Outlook

- In 2001, the bank expects to grow operating expenses at a lower rate than operating revenues

Income and Other Taxes

Income and other taxes reported in Table 13 below were \$2.0 billion in 2000, comprising income taxes of \$1,473 million (including a taxable equivalent adjustment) and other taxes of \$557 million. Income taxes increased by \$423 million over 1999, largely due to the \$959 million increase in net income before income taxes, while other taxes were up \$19 million as a result of higher goods and services tax and sales taxes, payroll taxes, provincial capital taxes and business taxes, which more than offset a decline in property taxes attributable to the sale of real estate in 1999.

As shown below and in note 8 of the consolidated financial statements on page 67A, the effective income tax rate increased from 36.5% in 1999 to 38.6% in 2000.

In addition to the income and other taxes reported in the consolidated income statement, the bank recorded income tax benefits of \$37 million in 2000 (1999 – expense of \$213 million) in shareholders' equity related to unrealized foreign currency translation gains and losses (net of hedging activities).

Table 13: Taxes

(\$ millions)	2000	1999	1998
Income taxes			
Consolidated statement of income	\$ 1,445	\$ 1,015	\$ 1,175
Taxable equivalent adjustment	28	35	37
	1,473	1,050	1,212
Other taxes			
Goods and services tax and sales taxes	208	187	182
Payroll taxes	188	176	171
Provincial capital taxes	108	98	95
Property taxes (1)	16	55	63
Business taxes	26	16	23
Insurance premium taxes	11	6	6
	557	538	540
Total	\$ 2,030	\$ 1,588	\$ 1,752
Effective income tax rate (2)	38.6%	36.5%	38.2%
Effective total tax rate (3)	46.9%	47.4%	48.0%

(1) Includes amounts netted against other income regarding investment properties.

(2) Income taxes reported in the consolidated statement of income, as a percentage of net income before taxes.

(3) Total income taxes and other taxes as a percentage of net income before income taxes and other taxes expressed on a taxable equivalent basis.

Financial Priority: Strong Credit Quality

Highlights

- Gross impaired loans down 2% to \$1,678 million
- Net impaired loans to total loans at (.11)%, unchanged from 1999
- Provision for credit losses was down 9% from 1999 to \$691 million
- Specific provision ratio of .32%, up slightly from .30% in 1999
- Net write-offs ratio of .38%, versus .55% in 1999
- Allowance for credit losses up \$75 million to \$1,975 million

Impaired Loans

Loans are generally classified as impaired under circumstances described in note 1 of the consolidated financial statements, on page 58A.

As indicated in Table 14 below, impaired loans declined \$26 million from 1999 to \$1,678 million at October 31, 2000. This reflects net additions of \$813 million and write-offs and adjustments of \$839 million.

As shown in Table 15 on page 38A, gross impaired loans in Canada were down \$18 million, comprising a \$41 million decrease in business and government loans, partially offset by a \$23 million increase in consumer loans. Within business and government impaired loans in Canada, there were substantial decreases in the commercial real estate and

forest products and energy sectors, and a considerable increase in the transportation and environmental sector. The increase in consumer impaired loans resulted from small increases in both the residential mortgage and personal loan portfolios. International gross impaired loans decreased \$8 million as reductions in Asia and Europe more than offset an increase in the U.S. One corporate client accounted for a significant portion of the increase in impaired loans in the transportation and environmental sector, both in Canada and internationally.

As a percentage of related loans (after general allowance for loan losses), net impaired loans is unchanged from 1999 at (.11)%.

Outlook

- The bank does not expect a significant change in the level of impaired loans in 2001, based upon its expectation of continued sound economic growth in Canada, albeit at a lower rate than in 2000

Table 14: Change in Gross Impaired Loans

(\$ millions)	2000	1999	1998	1997	1996
Gross impaired loans at beginning of year	\$ 1,704	\$ 2,001	\$ 1,819	\$ 2,376	\$ 2,944
Additions	965	990	1,271	705	1,013
Reductions	(152)	(247)	(643)	(624)	(629)
	813	743	628	81	384
Write-offs and adjustments	(839)	(1,040)	(446)	(638)	(952)
Gross impaired loans at end of year	\$ 1,678	\$ 1,704	\$ 2,001	\$ 1,819	\$ 2,376

Provision for Credit Losses

The provision for credit losses is charged to income by an amount necessary to bring the allowance for credit losses to a level determined appropriate by management, as discussed in the Allowance for Credit Losses section below.

The provision for credit losses was \$691 million in 2000, down \$69 million or 9% from 1999, as shown in Table 16 on page 39A. In Canada, the specific provision for credit losses declined in the business and government loan portfolio but increased in the consumer loan portfolio during 2000.

Provisions on personal loans rose largely due to higher provisions on student loans, growth of the personal loan portfolio, higher than expected losses on loans booked in 1999 and an increase to bring the coverage ratio (allowance for credit losses as a percentage of gross impaired loans) to the previous year's level. Accelerated write-offs of personal loans in early 2000, to bring the bank in line with the U.S. practice, had caused

a decline in the allowance for loan losses on personal loans. (The bank had accelerated the write-offs of corporate loans in 1999.) The cause of the higher than expected losses on personal loans booked in 1999 has been identified and remedial action taken, with benefits expected to be realized in 12 to 15 months.

Higher provisions on credit card loans stemmed from the purchase of the Canadian credit card portfolio of Bank One, the return to the consolidated balance sheet of previously-securitized credit card receivables, growth in card volumes and a planned change in the risk profile of the business to accelerate volume growth. Despite these higher provisions, credit card net income was up 15% in 2000.

Internationally, the specific provision decreased as recoveries in Asia and Europe more than offset increases in the United States.

The specific provision amounted to .32% of average loans (including reverse repurchase agreements) and bankers' acceptances, up slightly from .30% in 1999 and compared to a goal of .30–.40% for 2000.

Outlook

- In 2001, the bank is targeting a ratio of specific provisions for credit losses to average loans (including reverse repurchase agreements) and bankers' acceptances of .30–.40%, unchanged from its goal for 2000. This is based upon the bank's expectation of continued sound economic growth in Canada, albeit at a lower rate than in 2000

Allowance for Credit Losses

The allowance for credit losses is maintained at a level sufficient to absorb probable losses in the loan and off-balance sheet portfolios. The individual elements as well as the overall allowance are evaluated on a quarterly basis. This evaluation is based on continuing assessments of problem accounts, recent loss experience and changes in other factors, including the composition and quality of the portfolio, economic conditions and regulatory requirements. The allowance is increased by the provision for credit losses, which is charged to income, and reduced by the amount of write-offs net of recoveries.

The determination of the allowance for credit losses is based upon estimates derived from historical analysis, adjusted for management's judgment relating to current assumptions. Therefore, the allowance for credit losses will inevitably differ from actual losses incurred in the future. To minimize these differences, management assesses the methodology and all significant assumptions on a regular basis.

As shown in Table 17 on page 40A, the allowance for credit losses increased \$75 million between 1999 and 2000. Net write-offs decreased from \$958 million to \$677 million, largely due to a \$299 million decrease in domestic business and government loan write-offs. During 1999, the bank had accelerated the rate of writing off problem corporate loans to be more in line with U.S. practice while still adhering to Canadian GAAP.

The bank has entered into a five-year agreement with a AAA rated reinsurer to provide capital if exceptional losses occur in the bank's loan portfolio. The agreement requires the reinsurer to purchase up to \$200 million in Non-cumulative first preferred shares at the October 27, 2000 market price, should the general allowance for credit losses be drawn below a certain level. In management's view, if these shares had been issued currently, based on existing regulatory guidelines, they would qualify as Tier 1 capital. The sale of the securities would mitigate the impact of loan losses on the capital base of the bank through the replenishment of capital.

The allowance for credit losses comprises four components – specific, country risk, general allocated and general unallocated – as described in note 1 of the consolidated financial statements on page 59A.

Specific

Specific allowances are maintained to provide for the most likely losses on loans that have become impaired. Specific allowances for business and government loans are established on an individual borrower basis. Specific allowances for residential mortgages, personal loans and small business loans are determined on a portfolio basis using historical loss experiences on impaired loans. No specific allowance is maintained for credit cards, as these balances are written off after 180 days if no payment has been received.

Country Risk

Country risk allowances are maintained with respect to exposures to certain less developed countries based on an overall assessment of the outstanding exposure and underlying economic conditions in those countries.

General Allocated

The general allocated allowance reflects the best estimate of probable losses that exist within that portion of the portfolio that has not yet been specifically identified as impaired. This amount is determined based on the application of statistical expected loss factors to outstanding and undrawn facilities. The expected loss factors have been determined by assessing statistical loss migrations, adjusted to reflect management's judgment regarding items that impact the quality of the portfolio.

General Unallocated

The general unallocated allowance is determined through management's assessment of probable losses that are in the portfolio but not adequately captured in the determination of the specific, country risk and general allocated allowances. This assessment includes consideration of current economic and business conditions and regulatory requirements affecting key lending operations. It also reflects management's acknowledgement of the imprecise and subjective elements involved in modelling credit risk.

Prior to October 31, 1999, the general allocated and general unallocated allowances did not exist as separate components.

Table 15: Impaired Loans

(\$ millions)	2000		1999		1998	1997	1996
	Gross	Net (1)	Gross	Net (1)	Net (1)	Net (1)	Net (1)
Canada							
Atlantic provinces	\$ 115	\$ 65	\$ 77	\$ 37	\$ 24	\$ 30	\$ 32
Quebec	198	121	259	158	142	185	320
Ontario	572	287	438	190	80	203	437
Prairie provinces	129	57	198	109	64	278	296
British Columbia	355	266	415	287	350	45	31
Total Canada	1,369	796	1,387	781	660	741	1,116
Consumer							
Residential mortgage	185	157	173	131	116	114	123
Personal	247	51	236	66	61	61	40
	432	208	409	197	177	175	163
Business and government							
Small business (2)	248	141	232	134	43	42	15
Transportation and environmental	185	120	21	12	3	218	225
Forest products	184	180	233	197	285	6	144
Commercial real estate	90	41	186	109	69	184	320
Agriculture (2)	53	39	62	49	31	34	40
Information technology and media	44	15	57	32	31	9	(2)
Consumer goods	37	23	43	19	29	32	56
Industrial products	28	18	19	6	1	33	30
Financial services	20	7	16	1	(1)	1	6
Commercial mortgages	16	–	25	7	5	22	56
Energy	–	–	38	32	5	2	–
Other	32	4	46	(14)	(18)	(17)	63
	937	588	978	584	483	566	953
Total Canada	1,369	796	1,387	781	660	741	1,116
International							
United States	145	69	41	25	15	24	2
Europe	46	7	58	12	24	21	35
Latin America	9	3	10	3	1	13	1
Caribbean	48	26	47	28	31	39	51
Asia	33	2	127	35	54	15	19
	281	107	283	103	125	112	108
Less developed countries (LDCs)	28	–	34	–	–	–	–
Total international	309	107	317	103	125	112	108
Business and government							
Transportation and environmental	56	25	–	–	1	2	1
Commercial real estate	4	1	5	4	10	15	9
Consumer goods	2	–	18	2	34	29	34
Industrial products	83	38	38	15	21	(6)	4
Financial services	41	(2)	89	22	15	9	17
Energy	14	(2)	23	3	4	9	–
Other	109	47	144	57	40	54	43
Total international	309	107	317	103	125	112	108
Total before general allowance	1,678	903	1,704	884	785	853	1,224
General allowance	–	(1,102)	–	(1,080)	(850)	(750)	(700)
Total	\$ 1,678	\$ (199)	\$ 1,704	\$ (196)	\$ (65)	\$ 103	\$ 524
Net impaired loans as a % of related loans and acceptances (3)							
Canada							
Residential mortgage		.26%		.22%	.21%	.22%	.26%
Personal		.19		.27	.28	.30	.23
Business and government loans and acceptances		.99		1.05	.86	.96	1.88
		.52		.55	.48	.55	.93
International		.33		.32	.31	.33	.44
Total before general allowance for loan losses		.49%		.51%	.44%	.51%	.85%
Total after general allowance for loan losses		(.11)%		(.11)%	(.04)%	.06%	.37%

(1) Net of specific allowance.

(2) The 2000 amounts include government guaranteed portions of impaired loans of \$101 million in small business (1999 – \$79 million) and \$6 million in agriculture (1999 – \$5 million). Previously, only the non-guaranteed portion was considered impaired.

(3) Loans in Canada include all loans booked in Canada, regardless of currency or residence of borrower. Related loans and acceptances are net of the specific allowance.

Table 16: Provision for Credit Losses

(\$ millions)	2000	1999	1998	1997	1996
Provision for credit losses					
Canada					
Atlantic provinces	\$ 58	\$ 32	\$ 35	\$ 37	\$ 34
Quebec	22	71	63	149	165
Ontario	342	52	144	13	61
Prairie provinces	64	95	53	29	83
British Columbia	40	192	132	37	(3)
Total Canada	526	442	427	265	340
Consumer					
Residential mortgage	–	4	9	12	29
Personal	301	172	171	114	95
Credit card	102	55	28	65	76
	403	231	208	191	200
Business and government					
Small business	105	113	48	51	67
Transportation and environmental	56	7	(27)	(9)	53
Information technology and media	19	(16)	(20)	5	(44)
Consumer goods	7	11	23	(29)	48
Agriculture	4	2	4	1	(5)
Commercial mortgages	2	8	6	18	22
Industrial products	2	(10)	(6)	12	4
Financial services	–	5	113	1	(2)
Energy	(8)	12	1	(1)	(1)
Commercial real estate	(17)	9	(30)	(78)	(74)
Forest products	(36)	81	76	86	103
Other	(11)	(11)	31	17	(31)
	123	211	219	74	140
Total Canada	526	442	427	265	340
International					
United States	99	45	(7)	(8)	(14)
Europe	(9)	21	10	(24)	(22)
Latin America	2	2	(2)	7	–
Caribbean	3	–	3	7	2
Asia	(50)	20	124	83	34
Total international	45	88	128	65	–
Business and government					
Transportation and environmental	42	–	(1)	1	–
Consumer goods	(7)	(10)	(5)	46	14
Industrial products	34	31	9	5	21
Financial services	(21)	2	36	(2)	1
Energy	(2)	–	21	4	1
Commercial real estate	1	2	(2)	(1)	(30)
Other	(2)	63	70	12	(7)
Total international	45	88	128	65	–
Total specific provisions	571	530	555	330	340
Country risk provision	–	–	(80)	–	(300)
General allocated (1)	73	n.a.	n.a.	n.a.	n.a.
General unallocated (1)	47	n.a.	n.a.	n.a.	n.a.
Total general provision (1)	120	230	100	50	400
Total	\$ 691	\$ 760	\$ 575	\$ 380	\$ 440
As a % of related average loans and acceptances					
Canada					
Residential mortgage	–%	.01%	.02%	.02%	.06%
Personal	1.12	.71	.76	.59	.57
Credit card	2.87	2.39	1.39	1.84	2.20
Business and government loans and acceptances	.22	.40	.37	.14	.33
	.36	.32	.31	.21	.31
International	.13	.23	.31	.22	–
Total specific provision	.32%	.30%	.31%	.21%	.26%
Total provision for credit losses	.38%	.43%	.32%	.25%	.34%

(1) The general provision was not separated into the allocated and unallocated components prior to November 1, 1999.

Table 17: Allowance for Credit Losses

(\$ millions)	2000	1999	1998	1997	1996
Allowance at beginning of year	\$ 1,900	\$ 2,066	\$ 2,118	\$ 2,235	\$ 2,669
Provision for credit losses	691	760	575	380	440
Write-offs					
Canada					
Residential mortgage	(11)	(14)	(17)	(34)	(46)
Personal	(372)	(236)	(163)	(138)	(133)
Credit card	(150)	(65)	(52)	(98)	(104)
Business and government	(225)	(524)	(250)	(361)	(542)
	(758)	(839)	(482)	(631)	(825)
International, excluding LDCs	(81)	(229)	(29)	(28)	(124)
LDC exposures	–	(4)	(325)	(10)	(186)
	(839)	(1,072)	(836)	(669)	(1,135)
Recoveries					
Canada					
Residential mortgage	–	2	6	9	11
Personal	44	31	26	21	21
Credit card	48	10	24	32	28
Business and government	48	66	80	62	65
	140	109	136	124	125
International	22	5	8	17	9
	162	114	144	141	134
Net write-offs	(677)	(958)	(692)	(528)	(1,001)
Adjustments	61	32	65	31	127
Allowance at end of year	\$ 1,975	\$ 1,900	\$ 2,066	\$ 2,118	\$ 2,235
Net write-offs (excluding LDCs) as a % of average loans and acceptances	.38%	.54%	.21%	.34%	.63%
Net write-offs as a % of average loans and acceptances	.38%	.55%	.39%	.34%	.77%
Allocation of allowance (1)					
Canada					
Residential mortgage	\$ 46	\$ 53	\$ 50	\$ 52	\$ 65
Personal	403	344	156	92	77
Credit card	88	60	–	–	–
Business and government	664	748	604	562	775
	1,201	1,205	810	706	917
International	333	389	366	313	258
	1,534	1,594	n.a.	n.a.	n.a.
Allocated allowance for loan losses (2)	337	290	n.a.	n.a.	n.a.
General unallocated allowance for loan losses (2)					
Total allowance for loan losses	\$ 1,871	\$ 1,884	\$ 2,026	\$ 1,769	\$ 1,875
Allowance for off-balance sheet and other items (3)	98	–	–	–	–
Allowance for loan substitute securities	6	16	40	30	34
Allowance for country risk securities	–	–	–	319	326
Total allowance for credit losses	\$ 1,975	\$ 1,900	\$ 2,066	\$ 2,118	\$ 2,235
Composition of allowance					
Specific, including allowance for loan substitute securities	\$ 747	\$ 786	\$ 1,176	\$ 932	\$ 1,091
Country risk	28	34	40	436	444
General allocated allowance for credit losses (4)	863	790	n.a.	n.a.	n.a.
General unallocated allowance for credit losses	337	290	n.a.	n.a.	n.a.
Total general allowance for credit losses (2)	1,200	1,080	850	750	700
Total allowance for credit losses	\$ 1,975	\$ 1,900	\$ 2,066	\$ 2,118	\$ 2,235
Percentage of loans to total loans					
Canada					
Residential mortgage	33%	34%	32%	32%	33%
Personal	15	14	12	12	12
Credit card	2	1	1	1	3
Business and government	32	32	32	35	35
	82	81	77	80	83
International	18	19	23	20	17
Total	100%	100%	100%	100%	100%
Allowance for loan losses as a % of loans (including reverse repurchase agreements) and acceptances	1.0%	1.1%	1.2%	1.1%	1.3%
Allowances for loan losses as a % of gross impaired loans (coverage ratio), excluding LDCs	112%	112%	103%	94%	77%

(1) As a result of a change in methodology in 1999, the allowance for loan losses in 2000 and 1999 includes amounts for the general allocated allowance, which have been allocated to loan categories. These amounts total \$765 million (1999 – \$790 million) and have been allocated as follows: for Canada – residential mortgages \$18 million (1999 – \$11 million), personal \$207 million (1999 – \$174 million), credit cards \$88 million (1999 – \$60 million), business and government \$321 million (1999 – \$370 million), and international \$131 million (1999 – \$175 million). The amounts prior to 1999 do not include the general allocated allowance.

(2) The general allocated and unallocated allowance totalled \$850 million in 1998, \$750 million in 1997 and \$700 million in 1996. These were not separated into allocated and unallocated components prior to October 31, 1999.

(3) During 2000, the allowance for off-balance sheet and other items was separated and is reported under other liabilities. Previously, this amount was included in the general allocated allowance for loan losses.

(4) Includes the allowance for off-balance sheet and other items.

Financial Priority: Balance Sheet and Capital Management

Highlights

- Strong growth in consumer loans
- Deposits increased at a faster rate than in 1999
- Internally generated capital of \$1.5 billion
- Issued \$1.2 billion of subordinated debentures and \$650 million of innovative Tier 1 capital (RBC TruCS)
- Repurchased 19.7 million common shares for \$660 million

As shown in Table 18 below, cash resources decreased by \$3.4 billion or 15% from 1999. In 1999, cash resources had been significantly increased in preparation for potential disruptions relating to the Year 2000 issue.

Total consumer loans (residential mortgage, personal and credit card loans) were up \$8.5 billion or 10% from 1999. Residential mortgages were up 6% and personal loans were up 11%. Credit cards increased \$2.0 billion or 75%, partially reflecting the bank's decision, in light of market conditions, to return to the consolidated balance sheet \$1.2 billion of previously-securitized credit card receivables funded

by commercial paper, and the purchase of the \$430 million Canadian credit card portfolio of Bank One in 2000. Business and government loans and acceptances increased by \$5.2 billion or 8%. Loans in the United States and Asia were lower, as shown in Table 21 on page 47A.

Deposits increased by 8% during 2000, with increases in both inter-national and Canadian deposits. Interest-bearing deposits accounted for over 80% of the total increase. Further details on deposits are provided in Table 25 on page 52A.

Changes in capital are discussed on page 42A.

Table 18: Balance Sheet Growth

(\$ millions)	2000		1999	
Components of growth in assets over prior year				
Cash resources	\$ (3,436)	(15)%	\$ 6,647	41%
Securities (1)	6,451	13	9,160	22
Loans				
Residential mortgage (1)	3,742	6	2,173	4
Personal	2,764	11	2,494	11
Credit card	2,000	75	721	37
Business and government	2,870	5	(7,922)	(12)
Assets purchased under reverse repurchase agreements	(1,969)	(10)	365	2
	9,407	6	(2,169)	(1)
Allowance for loan losses	13	1	142	7
	9,420	6	(2,027)	(1)
Other assets	6,655	20	(17,529)	(34)
Total change over prior year	\$ 19,090	7%	\$ (3,749)	(1)%
Components of growth in liabilities and shareholders' equity over prior year				
Deposits				
Personal	\$ 2,273	3%	\$ 1,449	2%
Business and government	7,395	9	10,116	13
Bank	5,331	37	(3,673)	(20)
	14,999	8	7,892	4
Other liabilities	1,336	2	(12,477)	(16)
Subordinated debentures	1,229	27	509	12
Non-controlling interest	600	583	(396)	(79)
Shareholders' equity	926	7	723	6
Total change over prior year	\$ 19,090	7%	\$ (3,749)	(1)%

(1) Reflects mortgage securitization balances of \$0.5 billion (1999 – \$3.2 billion) that have been transferred to securities.

Outlook

- The bank expects consumer loan growth in 2001 to remain solid but to moderate somewhat from 2000

Capital Management

Capital management requires balancing the desires for strong, competitive capital ratios and for maintaining high debt ratings with the need to also provide solid returns to shareholders. In striving for this balance, the bank considers expected levels of risk-adjusted assets and balance sheet assets, future investment plans and the costs and terms of current and potential capital issues.

The bank is committed to maintaining strong capital ratios through internal capital generation, the issuance of capital instruments when appropriate and controlled growth in risk-adjusted assets.

Balance Sheet Capital

Total balance sheet capital, which includes shareholders' equity and subordinated debentures, was \$19.4 billion at October 31, 2000, up \$2.2 billion from a year ago. The most significant factors behind the increase were \$1.5 billion of internally generated capital and the net issuance of \$0.6 billion of capital during 2000.

In January and August 2000, the bank issued \$500 million and \$700 million of subordinated debentures, respectively. Debentures of \$20 million matured during the year.

In April 2000, the bank issued \$50 million of common equity upon the conversion of Class C shares of the bank's wholly owned subsidiary, Royal Bank DS Holding Inc., that had been issued on November 1, 1996, in connection with the acquisition of Richardson Greenshields.

In July 2000, the bank issued \$650 million of RBC TruCS, a form of innovative Tier 1 capital, which is reported as non-controlling interest in subsidiaries on the consolidated balance sheet.

On February 23, 2000, the bank received stock exchange approval to amend its normal course issuer bid, increasing the number of common shares that could be purchased during the 12-month period ending June 23, 2000, from 3.5% to 6.0% of its common share float in June 1999 (when the repurchase program was implemented), or 37.4 million shares. At the conclusion of the normal course issuer bid in June 2000, 30.2 million common shares had been repurchased since June 1999 at a cost of approximately \$990 million, of which 19.7 million common shares were repurchased during fiscal 2000, at a cost of approximately \$660 million.

In August 2000, the bank announced a stock dividend of one common share for each outstanding common share. The effect of this one-for-one stock dividend was the same as that of a two-for-one split of the bank's common stock. The common shares commenced trading on a post-stock dividend basis on September 25, 2000, (the record date) on the Toronto and Swiss Stock Exchanges, on September 26, 2000, on the London Stock Exchange, and on October 6, 2000, on the New York Stock Exchange.

Common share dividends were \$689 million, up \$101 million from 1999, and preferred share dividends were \$134 million, down \$23 million. The bank announced two increases in its quarterly common share dividend during the year, representing 25% growth, from \$0.24 to \$0.30. The dividend payout ratio (common share dividends as a percentage of net income less preferred share dividends) was 32% in 2000 and 37% in 1999. The target payout ratio is 30–40%.

On September 28, 2000, the bank announced that it had signed a definitive merger agreement with Dain Rauscher Corporation (described on page 6) and mentioned that it would issue common shares of approximately \$500 million, innovative Tier 1 capital up to \$750 million as well as subordinated debentures. Subsequently, on December 6, 2000, the bank issued \$750 million of innovative Tier 1 capital (RBC TruCS). In addition, the bank announced on November 30, 2000, that it had filed a preliminary prospectus for the issuance of common shares.

Regulatory Capital

Capital strength for Canadian banks is regulated pursuant to guidelines issued by the Superintendent of Financial Institutions Canada (OSFI), based on standards issued by the Bank for International Settlements (BIS) and Canadian GAAP financial information.

Regulatory capital, which differs from capital recorded on the consolidated balance sheet, is allocated into two tiers. Tier 1 capital comprises the more permanent form of capital. The components of Tier 1 and Tier 2 capital are shown in Table 19 on page 43A.

Regulatory capital ratios are calculated by dividing Tier 1 and Total capital by risk-adjusted assets. Risk-adjusted assets, as shown in Table 20 on page 44A, are determined by applying risk weights to balance sheet assets and off-balance sheet financial instruments according to the relative credit risk of the counterparty. Risk-adjusted assets also include an amount for the market risk exposure associated with the bank's trading portfolio.

The bank's policy is to remain well capitalized so as to provide a safety net for the variety of risks that it is exposed to in the conduct of its business. In 1999, OSFI formally established risk-based capital targets for deposit-taking institutions in Canada. These targets are a Tier 1 capital ratio of at least 7% and a Total capital ratio of at least 10%. As at October 31, 2000, the bank's Tier 1 and Total capital ratios were 8.6% and 12.0%, respectively, compared to 8.1% and 11.2% at October 31, 1999. As mentioned in footnote (5) of Table 19 on page 43A, the bank's pro forma capital ratios at October 31, 2000, after giving effect to acquisitions of Dain Rauscher Corporation, Liberty Life Insurance Company and Liberty Insurance Services Corporation, the issuance of \$500 million of common shares and \$750 million of innovative Tier 1 capital, and the adoption of the new accounting standard on employee future benefits would have been: common shareholders' equity to risk-adjusted assets of 7.3%; Tier 1 capital ratio of 8.0%; and Total capital ratio of 11.0%.

The bank also monitors the common equity to risk-adjusted assets ratio. This ratio was 7.3% at October 31, 2000, up from 7.1% at October 31, 1999.

The bank's capital ratios on a U.S. basis, calculated using guidelines issued to U.S. banks by the Board of Governors of the Federal Reserve System (FRB) and using U.S. GAAP financial information, are provided in Table 19 on page 43A.

Pending Developments

In 1999, BIS issued a proposal for a new capital adequacy framework to replace the previous Capital Accord of 1988, under which the bank is currently regulated. This proposal continues to be at the discussion phase and a further consultative paper is expected early in 2001. It is difficult at this stage to estimate the impact of these proposed amendments on the bank's regulatory capital requirements. Implementation of final proposals is not likely to occur prior to 2002.

Table 19: Capital Ratios ⁽¹⁾

(\$ millions)	2000	1999	1998
Tier 1 capital			
Common equity	\$ 11,504	\$ 10,606	\$ 9,748
Non-cumulative preferred shares	2,037	2,009	2,144
Non-controlling interest in subsidiaries			
RBC TruCS	650	–	–
Other	23	22	247
Goodwill	(647)	(611)	(546)
	13,567	12,026	11,593
Tier 2 capital			
Permanent subordinated debentures	457	441	463
Other subordinated debentures ⁽²⁾	5,138	4,040	3,419
General allowance ⁽³⁾	1,188	1,080	850
Non-controlling interest in subsidiaries	1	2	172
	6,784	5,563	4,904
Investments in unconsolidated subsidiaries and substantial investments ⁽⁴⁾	(1,307)	(891)	(17)
Total capital	\$ 19,044	\$ 16,698	\$ 16,480
Total risk-adjusted assets	\$ 158,364	\$ 149,078	\$ 157,064
Capital ratios ⁽⁵⁾			
Common equity to risk-adjusted assets	7.3%	7.1%	6.2%
Tier 1 capital to risk-adjusted assets	8.6%	8.1%	7.4%
Total capital to risk-adjusted assets	12.0%	11.2%	10.5%
Assets-to-capital multiple ⁽⁶⁾	15.3	16.5	16.7
U.S. basis ^{(5), (7)}			
Tier 1 capital to risk-adjusted assets	7.8%	7.6%	6.8%
Total capital to risk-adjusted assets	11.3%	10.7%	10.1%
Equity to assets ⁽⁸⁾	4.5%	4.6%	4.3%
Tier 1 leverage ⁽⁹⁾	4.2%	4.1%	4.0%

(1) Using guidelines issued by the Superintendent of Financial Institutions Canada, based on standards issued by the Bank for International Settlements and Canadian GAAP financial information.

(2) Subordinated debentures that are within five years of maturity are subject to straight-line amortization to zero during their remaining term and, accordingly, are included above at their amortized value.

(3) The general allowance for credit losses may be included in Tier 2 capital up to a maximum of .75% of risk-adjusted assets. On October 27, 2000, the bank entered into a five-year agreement with a AAA rated reinsurer, which requires the reinsurer to purchase up to \$200 million of Non-cumulative first preferred shares at the October 27, 2000 market price, should the general allowance for credit losses be drawn down below a certain level. In management's view, if these shares had been issued today they would qualify as Tier 1 capital.

(4) Relates primarily to investments in insurance subsidiaries (2000 – \$960 million), which are excluded from risk-adjusted assets and deducted from Total capital beginning in 1999. Had this treatment for risk-adjusted assets and Total capital taken place in 1998, the Total capital to risk-adjusted assets ratio in that year would have been .2% lower under both the Canadian and U.S. basis. Amount also includes \$5 million in 2000 for a first loss facility.

(5) On September 28, 2000, the bank and Dain Rauscher Corporation announced that they had signed a definitive merger agreement (see note 12 of the consolidated financial statements), which will increase risk-adjusted assets by approximately US\$2.3 billion and reduce Tier 1 capital by approximately US\$947 million. On November 1, 2000, the bank adopted the new accounting standard on employee future benefits (see note 1 of the consolidated financial statements), which will reduce Tier 1 capital in the first quarter of 2001 by \$221 million. Also on November 1, 2000, the bank acquired Liberty Life Insurance Company and Liberty Insurance Services Corporation (see note 12 of the consolidated financial statements), which will reduce Total capital by US\$580 million. On December 6, 2000, the bank issued \$750 million of innovative Tier 1 capital (RBC TruCS). On November 30, 2000, the bank filed a preliminary prospectus providing for the issuance of \$500 million of common shares, which will increase Tier 1 capital by the same amount. Had these five transactions taken place as at October 31, 2000, (assuming \$500 million of issued common shares) the pro forma capital ratios would have been: common shareholders' equity to risk-adjusted assets – 7.3%; Tier 1 capital ratio – 8.0%; and Total capital ratio – 11.0%. Using guidelines issued by the Board of Governors of the Federal Reserve System in the United States and U.S. GAAP financial information, the pro forma capital ratios would have been Tier 1 capital ratio – 7.5% and Total capital ratio – 10.4%.

(6) Total assets and specified off-balance sheet financial instruments, as determined by the Superintendent of Financial Institutions Canada, divided by Total capital.

(7) Using guidelines issued by the Board of Governors of the Federal Reserve System in the United States and U.S. GAAP financial information.

(8) Average total shareholders' equity divided by average total assets.

(9) Tier 1 capital divided by adjusted average assets net of the allowance for credit losses (includes gross derivative-related amounts, goodwill and deferred income taxes).

Table 20: Risk-Adjusted Assets ⁽¹⁾

(\$ millions)	Balance sheet amount	Predominant risk weight (2)	Risk-adjusted balance	
			2000	1999
Balance sheet assets				
Cash resources	\$ 19,606	20%	\$ 2,763	\$ 3,785
Securities				
Issued or guaranteed by Canadian or other OECD governments	20,925	0%	28	23
Other	36,085	100%	4,081	4,379
Residential mortgages (3)				
Insured	30,491	0%	375	362
Conventional	32,446	50%	17,008	15,979
Other loans and acceptances (3)				
Issued or guaranteed by Canadian or other OECD governments	12,700	0%	1,221	1,119
Other	108,638	100%	89,523	78,206
Other assets	28,849	0%	4,664	5,596
	\$ 289,740		\$ 119,663	\$ 109,449
Off-balance sheet financial instruments				
Credit instruments				
Guarantees and standby letters of credit				
Financial	\$ 10,402	100%	\$ 10,402	100%
Non-financial	3,256	50%	1,628	100%
Documentary and commercial letters of credit	456	20%	91	100%
Securities lending	20,333	100%	20,333	0%
Commitments to extend credit				
Original term to maturity of 1 year or less	97,966	0%	–	0%
Original term to maturity of more than 1 year	41,599	50%	20,799	100%
Note issuance/revolving underwriting facilities	155	50%	77	100%
	\$ 174,167		\$ 53,330	\$ 29,820
				\$ 32,799
Derivatives (4)				
Interest rate contracts				
Forward rate agreements	\$ 16,518	\$ 7	\$ 10	20%
Swaps	530,652	4,517	7,288	20%
Options purchased	31,695	168	264	20%
	578,865	4,692	7,562	1,956
Foreign exchange contracts				
Forward contracts	554,867	10,878	16,943	20%
Swaps	63,048	2,636	5,421	20%
Options purchased	47,400	934	1,494	20%
	665,315	14,448	23,858	6,391
Other contracts (7)	14,227	1,423	2,208	50%
Total derivatives before netting	\$ 1,258,407	20,563	33,628	9,119
Impact of master netting agreements		(10,498)	(14,934)	(3,713)
Total derivatives after netting		\$ 10,065	18,694	5,406
Total off-balance sheet financial instruments		\$ 72,024	\$ 35,226	\$ 37,124
General market risk			3,475	2,505
Total risk-adjusted assets			\$ 158,364	\$ 149,078

(1) Using guidelines issued by the Superintendent of Financial Institutions Canada, based on standards issued by the Bank for International Settlements and Canadian GAAP financial information.

(2) Represents the predominant counterparty risk-weighting for that category.

(3) Amounts are shown net of allowance for loan losses.

(4) Futures and some purchased options are traded on exchanges and are subject to daily margin requirements. Such instruments are excluded from the calculation of risk-adjusted assets as they are deemed to have no additional credit risk.

(5) Represents the total current replacement value of all outstanding contracts in a gain position.

(6) Consists of (i) the total positive replacement value of all outstanding contracts, and (ii) an amount for potential future credit exposure.

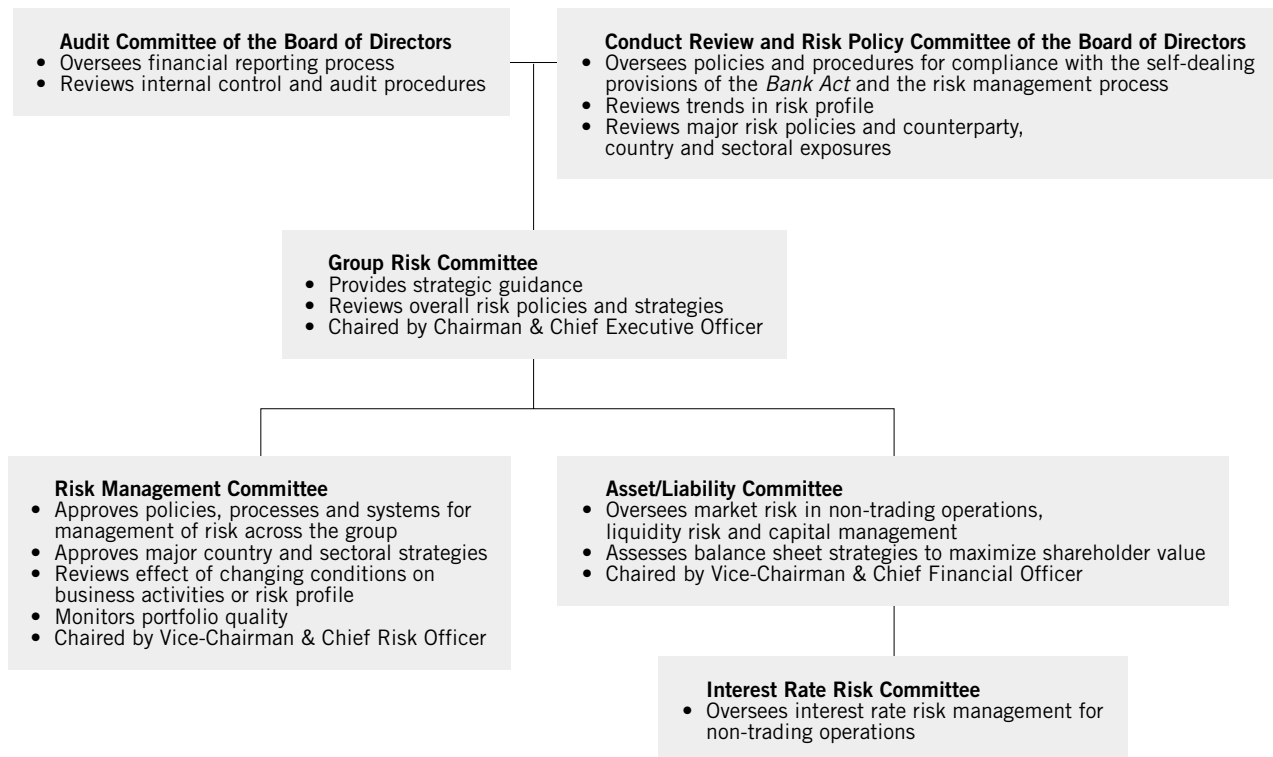
(7) Precious metals, commodity and equity-linked contracts.

Risk Management

Overview

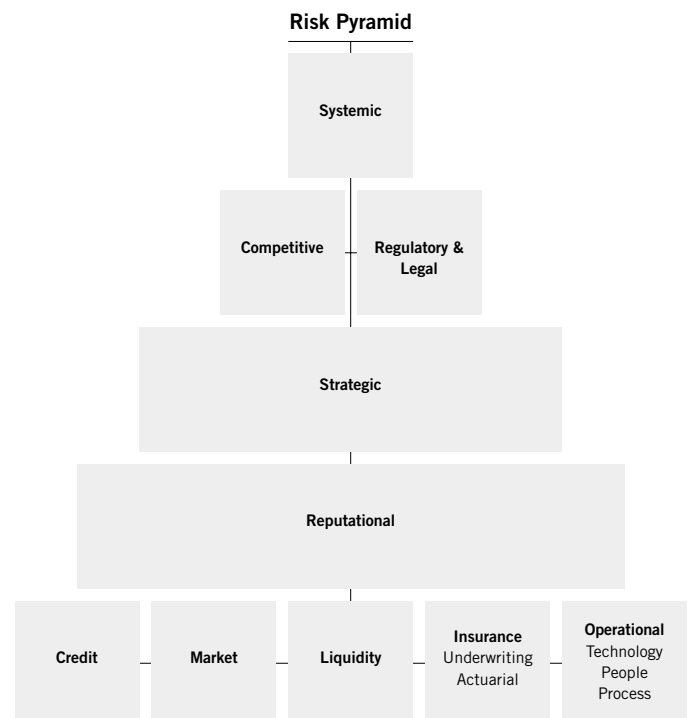
The bank manages risk strategically to build shareholder value. The cornerstone of effective risk management in the bank is a strong risk management culture, which is supported by numerous strategy and policy development processes, run jointly by risk management professionals and the businesses. This partnership approach is designed to ensure strategic alignment of business, risk and resource issues.

Although partnership is important, independence of the Group Risk Management function is essential. The Vice-Chairman and Chief Risk Officer, who reports directly to the Chairman and Chief Executive Officer, heads up a global function that has been structured to reflect the evolving needs and strategic initiatives of the organization. A structure of management and board committees provides oversight of the risk management process:



Introduced in 1996, and updated in 2000, the Risk Pyramid is the primary tool to assess risk across the bank. The Risk Pyramid gives the organization a common language for evaluating risk in business reviews, new businesses, new products, new initiatives, acquisitions or alliances. The Pyramid was initially developed as a communication tool and continues to serve in that capacity.

Group Risk Management professionals work in partnership with the business and functional units to identify risk, which is then measured, monitored and managed. In line with a group-wide portfolio management approach, portfolio analytical techniques are employed in an effort to optimize the risk/reward profile and ensure efficient allocation of capital within the bank.



Credit Risk

Traditionally, credit risk is considered to be the risk of loss due to the inability or unwillingness of a counterparty to fulfill its payment obligations. However, the distinction from market risk is not clear-cut, since credit risk can also result from loss in market value due to deterioration in the financial position of a counterparty. A disciplined approach to credit risk management preserves the independence and integrity of risk assessment while being integrated into business management processes. Policies and procedures, which are communicated throughout the organization, guide the day-to-day management of credit exposure and are an essential part of the bank's business culture.

Subject to the overriding principle of portfolio diversification, the bank focuses on:

- Strategic and profitable client relationships, existing as well as prospective
- Industries where Canadian companies enjoy a particular competitive advantage or where the bank has developed special expertise
- Volume-based sectors that generate an attractive return for the risk (small business, public sector and agriculture)

The "new economy" sectors (information technology, telecommunications and media) have provided many business opportunities over the past year. The bank has actively participated in the financing of both mergers & acquisitions and new build-outs, capitalizing on the opportunities to enhance returns while rigorously applying key credit risk principles. Given the volatility of share prices of technology companies, a key priority was the need to ensure that the bank's portfolio would not be compromised in the event of low market valuations. Thus, while transactional activity in these sectors was substantial, outstanding exposure has grown only marginally.

At October 31, 2000, the bank's loans to telecommunication and cable companies was \$4.8 billion, of which 66% was investment grade. Telecommunication loans alone were \$3.3 billion, of which 63% were investment grade. Gross impaired loans to the telecommunication and cable sectors were less than \$5 million in 2000.

The bank continues to pursue business in sectors where it has developed an expertise (communications, media and technology, energy and mining). Increasing emphasis is placed on the risk/return balance of individual transactions as well as their impact on portfolio diversification, and particular attention is being given to the appropriate balance between "new economy" and "old economy" or resource-based sectors. Exposure to highly cyclical sectors with traditionally high debt levels (forest products and commercial real estate) continues to be closely managed.

The bank has stayed the course on exposure to emerging markets. Credit risk in Asia (excluding Japan), Latin America, Central & Eastern Europe, Middle East and Africa was reduced further although not to the significant degree of the previous year. Remaining exposure in these markets is largely to companies with significant North American operations that offer the prospect of fee-generating business in their home market. Exposure has also been reduced in other countries as increasing emphasis has been placed on the risk/return profile of each client: the bank does not intend to assume credit risk on a stand-alone basis if a relationship does not meet the overall return targets.

Portfolio composition by product continues to shift away from traditional lending, particularly in global banking relationships. Emphasis is placed on trading activities such as foreign exchange, swaps, options, equity derivatives and fixed income products. Specialized teams in Toronto, New York, London and Sydney handle these transactions. Resident independent middle offices ensure that risk guidelines are adhered to. New products or structures must be approved by Group Risk Management in Toronto following risk analysis and stress testing. Exposure control of trading products has two levels. First, individual credit lines must be approved for every counterparty. Second, overall usage of approved lines is capped by product group, counterparty location or industry. Such limits are particularly important in the financial industry, as banks account for approximately 35% and non-bank financial institutions for a further 15% of all the bank's commercial credit authorizations.

Corporate & Investment Banking

For the large corporate client base, the bank uses a strategic approach to the management of risk. This incorporates forward-looking strategic limits for sectors, countries and clients based on risk analysis, business opportunities and the bank's risk appetite. Over the past year, portfolio rebalancing has continued with greater focus on selected strategic global industry sectors and core clients, and reduction in exposures in certain international markets. Portfolio management continues to play an ever-increasing role in optimizing the risk/reward profile through the development of comprehensive portfolio modelling techniques.

Personal & Commercial Financial Services

The overall economy has continued to allow for growth in the personal and commercial portfolios. Use of automated scoring decisioning has continued, and is being augmented by dataflows to support more sophisticated portfolio quality management, risk pricing, sensitivity testing and efficiencies. Industry specialization within the commercial portfolio was focused upon in 2000 and is expected to carry through into 2001, giving the bank the ability to enhance its services to that market.

Table 21: Loans and Acceptances (1)

(\$ millions)	2000	1999	1998	1997	1996	2000	1996
Canada							
Atlantic provinces	\$ 9,690	\$ 8,840	\$ 8,052	\$ 7,714	\$ 7,233	5.2%	5.0%
Quebec	16,191	14,936	14,066	14,758	14,780	8.7	10.2
Ontario	73,124	67,120	64,566	65,538	56,333	39.3	38.8
Prairie provinces	29,402	25,521	23,288	22,150	17,814	15.8	12.3
British Columbia	25,118	23,141	22,295	21,646	19,782	13.5	13.6
Total Canada	153,525	139,558	132,267	131,806	115,942	82.5	79.9
International							
United States	15,939	17,247	17,728	12,968	10,740	8.6	7.4
Europe, Middle East and Africa	9,782	9,642	16,822	13,341	10,036	5.2	6.9
Caribbean	2,059	1,502	1,573	1,274	1,104	1.1	.8
Latin America	1,842	2,309	3,875	3,493	2,162	1.0	1.5
Asia	1,781	2,417	4,550	5,372	5,033	1.0	3.5
Australia and New Zealand	1,218	1,693	1,085	343	72	.6	–
Total international	32,621	34,810	45,633	36,791	29,147	17.5	20.1
Total loans and acceptances	186,146	174,368	177,900	168,597	145,089	100.0%	100.0%
Allowance for loan losses	(1,871)	(1,884)	(2,026)	(1,769)	(1,875)		
Total	\$ 184,275	\$ 172,484	\$ 175,874	\$ 166,828	\$ 143,214		
Canada							
Consumer							
Residential mortgage	\$ 61,444	\$ 58,524	\$ 56,437	\$ 52,835	\$ 47,613	33.0%	32.8%
Personal	27,207	24,353	21,814	20,214	17,817	14.6	12.3
Credit card	4,666	2,666	1,945	2,324	3,522	2.5	2.4
	93,317	85,543	80,196	75,373	68,952	50.1	47.5
Business and government loans and acceptances							
Small business	11,701	10,334	8,452	7,325	6,555	6.3	4.5
Agriculture	4,931	4,217	3,851	3,479	2,988	2.7	2.1
Energy	3,754	3,350	3,442	3,845	2,349	2.0	1.6
Commercial mortgages	2,961	2,635	2,434	2,392	2,166	1.6	1.5
Consumer goods	2,874	2,086	2,802	2,787	2,813	1.5	1.9
Commercial real estate	2,594	2,400	2,523	2,872	3,285	1.4	2.3
Industrial products	2,470	2,301	2,241	2,137	1,948	1.3	1.3
Information technology and media	2,338	1,851	1,524	1,340	1,331	1.3	.9
Financial services	2,218	1,567	1,718	1,976	1,678	1.2	1.2
Transportation and environmental	1,519	1,562	1,392	1,481	1,903	.8	1.3
Government	1,385	2,105	1,951	1,575	1,891	.8	1.3
Forest products	1,362	1,151	1,728	1,976	1,856	.7	1.3
Other	8,007	6,106	6,025	6,427	5,162	4.3	3.6
	48,114	41,665	40,083	39,612	35,925	25.9	24.8
Reverse repurchase agreements	12,094	12,350	11,988	16,821	11,065	6.5	7.6
Total Canada	153,525	139,558	132,267	131,806	115,942	82.5	79.9
International							
Consumer							
Residential mortgage	1,540	718	632	534	507	.8	.4
Personal	812	902	947	650	623	.5	.4
	2,352	1,620	1,579	1,184	1,130	1.3	.8
Business and government loans and acceptances							
Energy	3,051	3,887	4,702	3,877	2,045	1.6	1.4
Consumer goods	1,111	1,411	2,756	2,365	2,518	.6	1.7
Commercial real estate	271	464	862	926	1,078	.1	.7
Industrial products	1,749	1,325	1,881	2,589	2,633	.9	1.8
Information technology and media	4,710	3,824	5,238	4,722	3,267	2.5	2.2
Financial services	7,912	6,937	10,896	11,359	9,559	4.3	6.6
Transportation and environmental	1,487	1,975	2,296	1,762	1,421	.8	1.0
Government	167	773	492	622	725	.1	.5
Automotive	513	878	2,264	1,771	1,243	.3	.9
Other	3,089	3,794	4,748	3,793	3,147	1.7	2.2
	24,060	25,268	36,135	33,786	27,636	12.9	19.0
Reverse repurchase agreements	6,209	7,922	7,919	1,821	381	3.3	.3
Total international	32,621	34,810	45,633	36,791	29,147	17.5	20.1
Total loans and acceptances	186,146	174,368	177,900	168,597	145,089	100.0%	100.0%
Allowance for loan losses	(1,871)	(1,884)	(2,026)	(1,769)	(1,875)		
Total	\$ 184,275	\$ 172,484	\$ 175,874	\$ 166,828	\$ 143,214		

(1) Based on residence of borrower.

Table 22: Foreign Outstandings ⁽¹⁾

(\$ millions)	2000		1999		1998	
		% of total assets		% of total assets		% of total assets
United States – Banks	\$ 5,462		\$ 4,208		\$ 2,590	
Government	889		486		597	
Other	30,034		23,865		27,008	
	36,385	12.56%	28,559	10.55%	30,195	11.00%
Western Europe						
United Kingdom – Banks	4,347		4,960		4,593	
Government	26		79		113	
Other	5,791		4,308		5,759	
	10,164	3.51	9,347	3.45	10,465	3.81
France – Banks	2,379		2,082		2,785	
Government	45		57		15	
Other	1,552		784		1,077	
	3,976	1.37	2,923	1.08	3,877	1.41
Germany – Banks	5,471		5,608		5,335	
Government	1		291		262	
Other	643		268		143	
	6,115	2.11	6,167	2.28	5,740	2.10
Netherlands	1,300	.45	2,060	.76	1,184	.43
Switzerland	1,687	.58	2,044	.76	1,950	.71
Other	4,305	1.49	4,309	1.59	3,956	1.45
	27,547	9.51	26,850	9.92	27,172	9.91
Central/Eastern Europe, Middle East and Africa						
Saudi Arabia	225	.08	255	.09	278	.10
Turkey	109	.04	80	.03	208	.08
Other	311	.10	434	.16	613	.22
	645	.22	769	.28	1,099	.40
Latin America						
Argentina	324	.11	437	.16	978	.36
Brazil	75	.02	160	.06	584	.21
Chile	751	.26	640	.24	851	.31
Colombia	165	.06	229	.08	347	.13
Mexico	343	.12	665	.24	1,054	.38
Other	47	.02	43	.02	111	.04
	1,705	.59	2,174	.80	3,925	1.43
Caribbean						
Bahamas	1,549	.54	1,674	.62	1,149	.42
Other	1,952	.67	1,236	.46	1,607	.58
	3,501	1.21	2,910	1.08	2,756	1.00
Asia						
Japan – Banks	634		390		1,073	
Government	1,599		625		1,029	
Other	1,000		1,256		1,597	
	3,233	1.12	2,271	.84	3,699	1.35
China	31	.01	37	.02	245	.09
Hong Kong	19	.01	324	.12	872	.32
Indonesia	16	.01	94	.03	179	.07
Singapore	336	.11	411	.15	484	.18
South Korea	338	.11	462	.17	603	.22
Taiwan	77	.03	212	.08	898	.33
Thailand	1	–	45	.02	198	.07
Other	44	.01	43	.02	83	.02
	4,095	1.41	3,899	1.45	7,261	2.65
Australia and New Zealand	1,775	.61	2,444	.90	1,460	.53
Allowance for loan losses ⁽²⁾	(441)	(.15)	(389)	(.14)	(366)	(.13)
Total	\$ 75,212	25.96%	\$ 67,216	24.84%	\$ 73,502	26.79%

(1) Includes the following assets with borrowers or customers in a foreign country: loans, accrued interest, acceptances, interest-bearing deposits with other banks, securities, other interest-earning investments and other monetary assets including net revaluation gains on foreign exchange and derivative products. Local currency outstandings, whether or not hedged or funded by local currency borrowings, are included in country exposure outstandings. Foreign outstandings are reported based on location of ultimate risk.

(2) The allowance for loan losses includes the country risk allowance and the international component of the specific and the general allowance.

Operational Risk

Operational risk is the risk of direct or indirect loss resulting from inadequate or failed processes, technology or human performance, or from external events. Its impact can be financial loss, loss to reputation, loss of competitive position or regulatory censure.

While operational risk can never be fully eliminated, the bank endeavours to minimize it by ensuring that the appropriate infrastructure, controls, systems, and trained and competent people are in place throughout the group. Dedicated professionals are in place to identify and implement best industry practices in the area of operational risk management.

The bank has been proactive in developing and implementing new methodologies for the identification, assessment and management of operational risk.

Again this year, all major business units were reviewed to determine the potential for high-impact but low-probability operational loss events. This risk assessment formed the basis for the internal allocation of operational risk capital for fiscal 2001. More in-depth operational risk self-assessments were also conducted in a number of major business units, resulting in action plans taken on by the businesses to manage their risks more proactively.

The bank's focus in 2001 is on the continuous improvement of operational risk assessment tools and processes across the organization, development of operational risk quantification methodologies, and staying at the forefront of best risk management practices.

eBusiness Risk

eBusiness brings together different cultures, industry practices, processes, talents and complex value chains. With this in mind, along with the speed of eBusiness growth and technological change, the bank is keeping abreast of risk management industry best practices as they develop.

Security, privacy and the management of technology are the risks most commonly cited and the trends are closely monitored and managed within the bank. Some unique and potentially high risks include strategic/business planning; business continuity; project management; and recruitment and retention of specialized human resource skills and competencies. The bank recognizes that eBusiness risk identification and management is an evolving process that will have to keep pace with changing business models and opportunities. By establishing a focal point for eBusiness risk, the bank intends to be a leader in eBusiness governance.

Market Risk

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

Interest Rate Risk

Interest rate risk is the potential adverse impact on the bank's earnings and economic value due to changes in interest rates. The key sources of interest rate risk to which the bank is exposed are repricing mismatch risk, credit spread risk, basis risk and options risk. Repricing mismatch risk arises when there are mismatches or gaps in the amount of assets, liabilities and off-balance sheet instruments that mature or reprice in a given period, primarily due to customers' differing term preferences. Credit spread risk arises when there are changes in the credit spread that result from changes in the market's perception of general or specific credit quality and liquidity. Basis risk arises when the differentials between various indices upon which the bank prices its products change. Options risk arises from the effect of interest rate movements and changes in volatilities on the market value of the options within the bank's portfolios.

Foreign Exchange Rate Risk

Foreign exchange rate risk is the potential adverse impact on the bank's earnings and economic value due to currency rate movements. The bank is exposed to foreign exchange rate risk in both the spot and forward foreign exchange markets and in the options market. Spot foreign exchange risk arises when the total present value of assets in any currency does not equal the total present value of liabilities in that currency. Forward foreign exchange risk arises when, for a given currency, the maturity profile of forward purchases differs from the maturity profile of forward sales. Options risk arises from the effect of interest rate and exchange rate movements and changes in volatilities on the market value of the options within the bank's portfolios.

Equity Risk

Equity risk is the potential adverse impact on the bank's earnings due to movements in individual equity prices or general movements in the value of the stock market. The bank is exposed to equity risk from the buying and selling of equities as a principal in its brokerage business. Equity risk also results from the bank's trading activities, including the providing of tailored equity derivative transactions to clients, arbitrage trading and proprietary trading.

Commodity Risk

Commodity risk is the potential adverse impact on the bank's earnings and economic value due to movements in commodity prices. The bank's commodity risk arises primarily through exposures to movements in the price of precious metals. There is minimal exposure to commodity risk in the bank's trading portfolio.

The level of market risk to which the bank is exposed varies continually, reflecting changing market conditions, expectations of future price and market movements and the composition of the bank's trading and non-trading portfolios. The bank has established risk management policies and limits for its trading and asset/liability management activities that allow it to monitor and control the exposure to market risk resulting from these activities.

Trading Activities

The market risk associated with trading activities is a result of market-making, positioning and sales and arbitrage activities in the foreign exchange, interest rate, equity and commodity markets. The bank's trading operation has a primary role of acting as a market-maker or jobber, executing transactions that meet the financial requirements of its customers, and transferring the market risks to the broad financial market. The bank also acts as principal and uses market risk positions within the authorizations granted by the board. This risk is managed primarily through a Value-At-Risk (VAR) methodology.

VAR is a generally accepted risk measurement concept that uses statistical models to estimate within a given level of confidence the maximum loss in market value that the bank would experience in its trading portfolios from an adverse one-day movement in market rates and prices. The bank's VAR measure is based on a 99% confidence level and is an estimate of the maximum potential trading loss in 99 out of every 100 days. The bank uses an historical simulation of the previous 500 trading day scenarios to determine VAR for its trading portfolio. The graph on page 50A shows the daily net trading revenue compared to the global trading VAR amounts for the year ended October 31, 2000. Net trading revenue is defined as the sum of the mark-to-market adjustments booked on trading positions and net interest income accrued from trading assets. During fiscal 2000, the bank did not experience a day with trading losses in excess of VAR.

Table 23: Market Risk Measures – Trading Activities ⁽¹⁾

(\$ millions)	2000				1999			
	Year-end	High	Average	Low	Year-end	High	Average	Low
Global VAR by major risk category								
Equity	\$ 14	\$ 22	\$ 13	\$ 6	\$ 9	\$ 22	\$ 16	\$ 7
Foreign exchange and commodity	4	11	5	2	6	12	7	4
Interest rate	7	9	5	3	6	11	6	3
Global VAR ⁽²⁾	\$ 18	\$ 24	\$ 16	\$ 10	\$ 13	\$ 28	\$ 20	\$ 10

(1) Amounts are presented on a pre-tax basis and represent one-day VAR at a 99% confidence level.
 (2) Global VAR reflects the correlation effect from each of the risk categories through diversification.

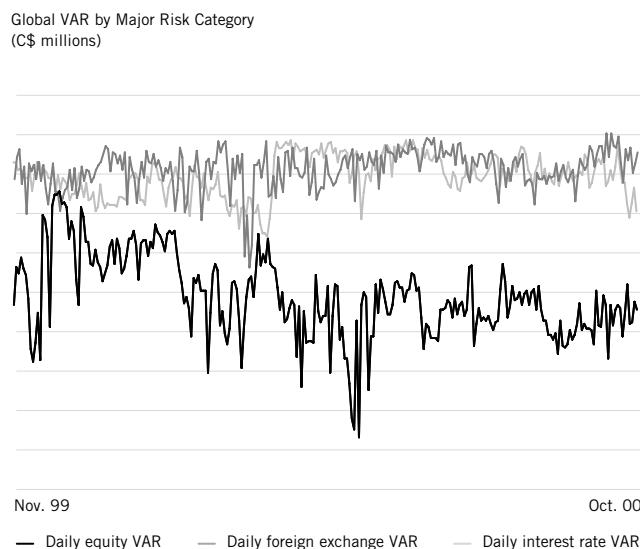
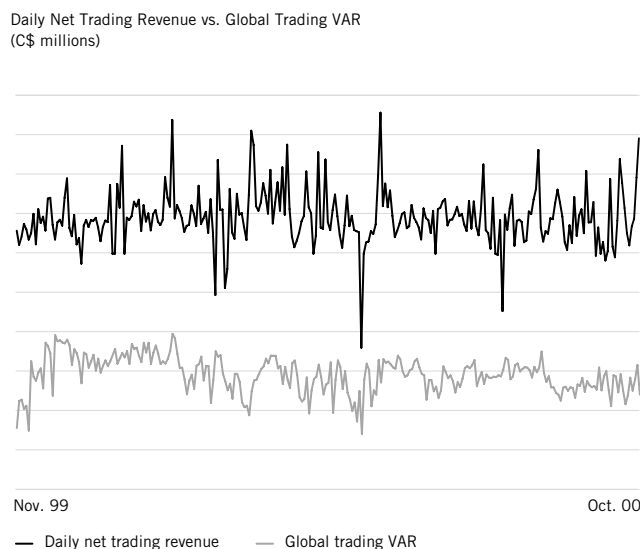
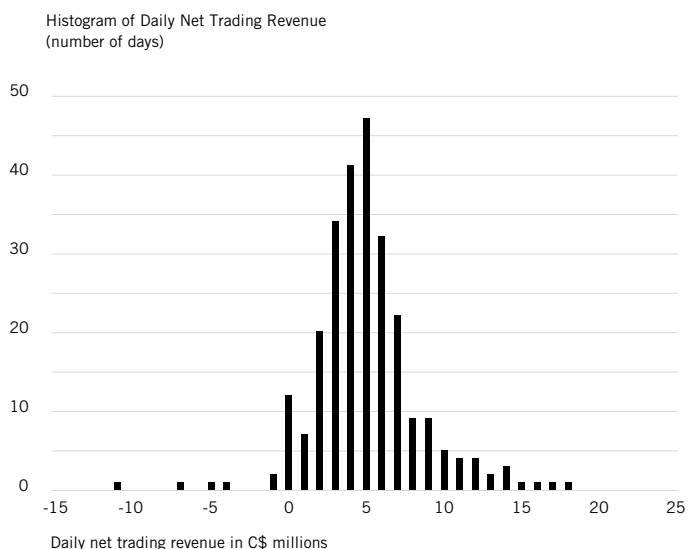
In the last year, the bank expanded the scope of its interest rate products to include credit derivatives. Credit derivatives allow trading of credit risk separate from an underlying instrument. For example, credit exposure to a company can be acquired or divested through a credit derivative without actually owning a loan or bond issued by the company. Credit derivatives are one of the fastest growing over-the-counter trading products. Credit derivatives are provided to institutional and corporate clients and are also used by the bank in the management of its lending portfolio.

Table 23 above shows the year-end, high, average and low VAR by major risk category for the bank's combined trading activities for the years ended October 31, 2000 and 1999. The table also shows the bank's global VAR, which incorporates the effects of correlation in the movements of interest rates, exchange rates, equity prices and commodity prices and the resulting benefits of diversification within the bank's trading portfolio.

The bank also performs analysis on the potential trading losses due to stress events as a supplementary control on its market risk exposure. This is accomplished through applying historical and internally developed scenarios to the daily trading positions to monitor the effect of extreme market movements on the value of its portfolio.

The Group Risk Management function, which is independent of the trading operations, is responsible for the daily monitoring of global trading risk exposures. The function uses the bank's VAR methodology to compare actual exposures to the limits established, to assess global risk/return trends and to alert senior management of adverse trends or positions. The function also develops and implements comprehensive risk measurement policies and risk limits that apply to trading activities.

As management recognizes that VAR is not an absolute measure of market risk, other limits are also established to control market liquidity risks, net position gap, term and volume for all products. This comprehensive market risk management framework ensures that an appropriate diversification of risks through policies is adopted on a global basis.



Asset/Liability Management Activities of the Bank's Non-Trading Portfolio

Core banking activities, such as deposit taking and lending, expose the bank to market risk, mostly in the form of interest rate risk. The risk is managed within economic value risk and net interest income risk limits approved by the Group Risk Committee. The risk limits are based on an immediate and sustained 200 basis point parallel movement in rates across all maturities. Economic value risk measures the adverse net impact on the present value of both on- and off-balance sheet assets and liabilities. The limit for economic value risk is \$1.1 billion or about 10% of the bank's common equity. Net interest income risk measures the adverse impact on net interest income over the next 12 months. The net interest income risk limit is \$300 million.

The Corporate Treasury function actively monitors and manages the Canadian domestic non-trading book. It also oversees a limited number of authorized units that manage their interest rate exposure at a decentralized level within established risk limits.

In managing the Canadian domestic non-trading book, the goal is to achieve a balance between reducing risk from adverse movements in interest rates and enhancing net interest income. To achieve this, derivative instruments, primarily interest rate swaps, are used to adjust the risk profile of the book taking into account the shape of the yield curve, expected changes in the level of interest rates and the current level of risk being carried. When appropriate, the bank will also purchase options to hedge some of the embedded options inherent in certain deposit and loan banking products. Embedded options allow bank customers to alter the maturity profile of their deposit or loan products. The most prevalent types of embedded options are early redemption features in certain term deposit products and prepayment options in some loan products.

The primary analytical techniques used by the bank to measure the economic value risk and net interest income risk and to manage non-trading interest rate risk are scenario analysis and starting position analysis. Scenario analysis is forward looking, and enables the bank to forecast net interest income and analyze the impact under numerous economic and interest rate scenarios. It incorporates assumptions about pricing strategies, volume and mix of new business, expected changes in the level of interest rates, changes in the shape of the yield curve and other factors such as the impact of embedded options. Starting position analysis provides the framework for measuring economic value and net interest income risk exposures against limits at a point in time. The results of the scenario

and starting position analysis assist in determining the risk/return tradeoffs of potential hedging and investment strategies. This allows the bank to achieve a balance between enhancing net interest income and reducing the risk of lower earnings from adverse movements in interest rates.

Table 24 below presents the potential impact of a 100 and 200 basis point increase and decrease on the bank's economic value and on current earnings from changes in interest rates on the non-trading portfolio of the bank. These measures are based on the bank's interest rate sensitivity position at October 31, 2000, including all repricing assumptions. These measures assume that no further hedging is undertaken and that all assets and liabilities reprice by the defined amounts.

The domestic interest rate sensitivity position at October 31, 2000, including all repricing assumptions, reflects a view on future interest rate movements relative to the current yield curve. The risk position has been and is currently being actively managed to reflect the relative stability of interest rates since mid-2000. The bank's view is that medium-term and long-term rates reached a cyclical peak during the first nine months of fiscal 2000. While some short-term volatility is possible, the bank is positioning itself for fairly stable or modestly declining rates during fiscal 2001.

All interest rate measures in this section are based upon the bank's interest rate exposures at a specific time. The exposures change continually as a result of the bank's day-to-day business activities and its risk management initiatives.

Table 24: Market Risk Measures – Non-Trading Activities

(\$ millions)	2000		1999	
	Economic value risk (1)	Net interest income risk (1)	Economic value risk (1)	Net interest income risk (1)
100bp increase	\$ (306)	\$ 71	\$ (267)	\$ 87
100bp decrease	241	(84)	213	(91)
200bp increase	\$ (628)	\$ 129	\$ (544)	\$ 167
200bp decrease	473	(170)	416	(217)

(1) Amounts are presented on a pre-tax basis and represent changes in economic value and net interest income from changes in interest rates as at October 31.

Liquidity Risk

The objective of liquidity management is to ensure that the bank has the ability to generate sufficient cash or its equivalents, in a timely and cost-effective manner, to meet its commitments as they fall due. Liquidity management is critical in protecting the bank's capital, maintaining market confidence and ensuring that the bank can expand into profitable business opportunities.

The bank's liquidity management framework includes policies for several key elements, such as minimum levels of liquid assets to be held at all times. The bank uses liquid assets and repurchase and reverse repurchase agreements when managing its short-term liquidity. Liquid assets and assets purchased under reverse repurchase agreements (before pledging, see next paragraph) totalled \$97.5 billion or 34% of total assets at October 31, 2000, as compared to \$96.6 billion or 36% of total assets at October 31, 1999. Canadian dollar liquid assets are primarily marketable securities, and much of the bank's foreign currency liquid assets are issued by highly rated foreign banks.

Policies are also in place to ensure that the bank is able to meet potential pledging requirements that may arise. At October 31, 2000, \$27.6 billion of assets had been pledged as collateral, including obligations related to assets sold under repurchase agreements. For further details, see note 12 of the consolidated financial statements.

Another key element of the liquidity management framework is cash flow management. There are limits on the maximum net outflow of funds for specified time periods, particularly for key short-term time horizons. Scenario analysis is performed on the assumed behaviour of cash flows under varying conditions to assess funding requirements and is updated as needed to reflect changing conditions.

The bank's framework also incorporates liquidity contingency planning to assess the nature and volatility of funding sources and to determine alternatives to these sources. The contingency plan would be activated to ensure that the bank's funding commitments could be met in the event of general market disruption or adverse economic conditions. The plan is reviewed and updated at least annually.

Funding diversification is another key element of liquidity management. As shown in Table 25 on page 52A, deposits from consumers comprise 44% of the bank's deposits, versus 46% in 1999. Business and government deposits as a percentage of total deposits remain at 46%. Consumer deposits represent the prime source of Canadian dollar deposits, while foreign currency deposits are primarily from large corporations and foreign banks, including central banks. The bank manages its liquidity through a strategically diversified portfolio of funding instruments. Diversification of funding instruments is achieved through the consideration of type and country of origin of depositors, by term and through various locations and legal entities.

In 2000, the bank broadened its funding capacity. First, it increased its wholesale funding by issuing \$3,339 million of senior deposit notes in various currencies. Second, the bank issued \$1.2 billion of subordinated debentures and \$650 million of innovative Tier 1 capital as outlined in the Capital Management section on page 42A.

These alternative activities have strengthened the bank's domestic and foreign funding presence. Their future use will be continually assessed in light of market conditions and their impact on traditional funding sources.

The bank continues to securitize \$1.1 billion of credit card receivables funded by medium-term notes but, in light of market conditions,

\$1.2 billion of previously-securitized credit card receivables funded by commercial paper were returned to the balance sheet. Credit card receivables currently funded on-balance sheet will be continually considered for future securitization and, as a result, are a source of alternative funding and capital relief.

During 2000, the bank securitized \$500 million of residential mortgages into mortgage-backed securities, which are available to support the bank's activity in the domestic clearing and payment system or can be sold to generate funds.

Table 25: Deposits

(\$ millions)	Demand	Notice	Term	2000	1999	1998
				Total	Total	Total
Personal	\$ 6,591	\$ 26,222	\$ 56,819	\$ 89,632	\$ 87,359	\$ 85,910
Business and government	24,162	8,844	60,612	93,618	86,223	76,107
Bank	2,104	202	17,340	19,646	14,315	17,988
Total	\$ 32,857	\$ 35,268	\$ 134,771	\$ 202,896	\$ 187,897	\$ 180,005
Non-interest-bearing						
Canada				\$ 19,431	\$ 16,876	\$ 14,383
International				863	666	430
Interest-bearing						
Canada				116,113	112,430	109,150
International				66,489	57,925	56,042
Total				\$ 202,896	\$ 187,897	\$ 180,005

1999 Compared to 1998

The following discussion and analysis provides a comparison of the bank's results of operations for the years ended October 31, 1999 and 1998. This discussion should be read in conjunction with the consolidated financial statements and related notes on pages 53A to 77A. This portion of the management's discussion and analysis is based on amounts reported in the consolidated financial statements and does not exclude one-time items.

Business Segment Results

Personal & Commercial Financial Services' net income decreased 5% to \$956 million in 1999, partially due to a restructuring charge of \$50 million. Return on common equity declined 720 basis points to 19.9%, largely due to the re-allocation of common equity from the Other segment to the four operating segments to cover non-trading market risk. The efficiency ratio increased 30 basis points to 63.9% in 1999, also partially reflecting the above-mentioned restructuring charge.

Wealth Management's 1999 net income was up 9% from 1998 to \$280 million. Return on common equity declined by 560 basis points to 59.6% due to the re-allocation of common equity mentioned above. The efficiency ratio increased by 140 basis points to 78.9%.

Corporate & Investment Banking's net income increased 32% in 1999 to \$307 million. Return on common equity improved by 50 basis points to 15.6%. The efficiency ratio increased 380 basis points to 65.1%.

Transaction Processing's 1999 net income was up 282% to \$107 million due to lower provision for credit losses. Return on common equity improved from 5.0% to 27.7%. The efficiency ratio increased 370 basis points to 69.5%.

Net Interest Income

Net interest income increased 1% to \$5.2 billion in 1999 from \$5.1 billion in 1998 partially due to higher volumes of interest-bearing assets, which were offset by a change in reporting for equity derivatives.

Other Income

Other income increased 10% to \$5.5 billion in 1999, driven by revenue gains from all of the operating segments and a gain on sale of real estate.

Non-Interest Expenses

Non-interest expenses increased 10% to \$7.1 billion. The increase was primarily caused by higher human resource and one-time expenses largely related to a restructuring charge in 1999. The efficiency ratio was 66.4% in 1999 compared to 63.4% in 1998.

Taxes

The bank's income and other taxes for 1999 were \$1.6 billion, for an effective total tax rate of 47.4%. Income and other taxes were \$1.8 billion in 1998, while the effective total tax rate was 48.0%.

Provision for Credit Losses

The provision for credit losses increased to \$760 million in 1999 from \$575 million in 1998. This increase resulted largely from a higher general provision of \$230 million in 1999 versus \$100 million in 1998.

The general allowance for credit losses was increased by \$230 million in 1999 to \$1,080 million or .72% of risk-adjusted assets, up from .54% in 1998. The total allowance for loan losses was \$1.9 billion or 1.1% of total loans versus 1.2% in 1998.