



ROYAL BANK
OF CANADA

ROYAL BANK OF CANADA 1999 ANNUAL REPORT

INNOVATION. OPPORTUNITY. PEOPLE.

1999 ANNUAL REPORT



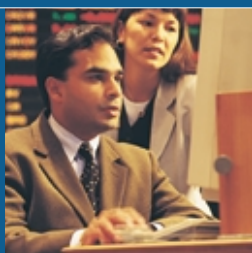
More than just a bank

We provide a wide array of financial services, which makes us much more than just a bank. These services are grouped under three operating segments.



PERSONAL & COMMERCIAL BANKING

THE LARGEST COMPONENT OF OUR OPERATIONS, CORE BUSINESSES, INCLUDES PERSONAL FINANCIAL SERVICES, CARD SERVICES, BUSINESS BANKING AND INSURANCE. EMERGING BUSINESSES INCLUDE OUR CANADIAN ELECTRONIC COMMERCE BUSINESS, ATLANTA-BASED SECURITY FIRST NETWORK BANK, AND OUR VENTURE CAPITAL OPERATIONS. WE HOLD LEADING MARKET POSITIONS IN MOST AREAS. WE WILL BUILD ON THIS LEADERSHIP POSITION BY CONTINUING TO PROVIDE SUPERIOR SERVICE, DISTRIBUTION AND PRODUCTS IN THE FACE OF INCREASING COMPETITION FROM MONOLINE COMPANIES.



WEALTH MANAGEMENT

THIS FAST-GROWING PLATFORM INCLUDES PRIVATE CLIENT DIVISION, ROYAL MUTUAL FUNDS, GLOBAL PRIVATE BANKING, GLOBAL SECURITIES SERVICES, INVESTMENT MANAGEMENT, PERSONAL WEALTH MANAGEMENT AND ROYAL BANK ACTION DIRECT (DISCOUNT BROKERAGE). AS CANADA'S LEADING PROVIDER OF WEALTH MANAGEMENT SERVICES, WE WILL CONTINUE TO IMPROVE OUR "CLIENT FIRST" FOCUS TO PROVIDE AFFLUENT CLIENTS WITH A UNIQUE, INTEGRATED SERVICE EXPERIENCE.



CORPORATE & INVESTMENT BANKING

THIS PLATFORM INCLUDES THE GLOBAL MARKETS, GLOBAL EQUITY AND CORPORATE AND INVESTMENT BANKING DIVISIONS. WE ARE THE LEADING PROVIDER OF FINANCIAL SERVICES TO CORPORATE, GOVERNMENT AND INSTITUTIONAL CLIENTS IN CANADIAN MARKETS AND USE THIS STRENGTH TO PROVIDE INTEGRATED, ONE-STOP SOLUTIONS FOR OUR CLIENTS IN CANADIAN AND INTERNATIONAL MARKETS.

Our vision is to be Canada's premier financial services provider, with committed people working as a team to create customer and shareholder value.

Our focus is on improving performance in each of our businesses to achieve consistent and superior returns for our shareholders.

Our key priorities are to cut costs, grow revenues, maintain strong credit quality, manage capital efficiently and provide opportunities for our capable, committed employees.

OUR STRUCTURE	GROUP COUNCIL	GROUP MANAGEMENT COMMITTEE
<p>Our businesses are supported by an integrated geographic and functional network. Along with western, central and eastern regions within Canada, we have integrated and refocused international operations in the U.S., Europe, Latin America, Asia and the Caribbean. Our functional groups include corporate affairs, corporate secretary, corporate treasury, distribution and service delivery, finance, human resources, internal audit, investor relations, law, payment and settlement services, real estate operations, risk management, strategic development and systems and technology.</p>	<p>Comprising the Group Management Committee and heads of each of our business, geographic and functional units, Group Council meets to review performance versus plan, to communicate group-wide issues and to address cross-functional matters.</p>	<p>This eight-member team (ten members after December 1, 1999) is led by the Chief Executive Officer and comprises two deputy chairmen and five vice-chairmen, including chief officers for finance, risk and information technology, and heads of the business segments. Meeting weekly, it is responsible for overall strategic direction, competitive position, market performance, human resource planning, external relations and risk profile.</p>

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Management's discussion and analysis and consolidated financial statements, prepared in accordance with Canadian generally accepted accounting principles (Canadian GAAP), accompany this document as a separate document.

Corporate Profile

As one of Canada's premier financial services institutions, we have leading positions in most Canadian markets. In all, we serve nearly 10 million individual and business customers worldwide.

IN CANADA We have leading market shares in most personal and business loan and deposit products. We are Canada's largest money manager and the second-largest provider of mutual funds (first among banks). We own the second-largest discount broker, Royal Bank Action Direct, and have by far the largest custody operations. Our investment dealer, RBC Dominion Securities, has the highest market share in most of its domestic markets. We are also a significant provider of creditor life and disability, individual life and travel insurance. Our domestic delivery network includes more than 1,400 branches and other units, 4,500 bank machines, 270 self-service account updaters and 87,250 proprietary point-of-sale terminals. With 2.1 million customers, alternative delivery channel provider Royal Direct allows access via telephone, the Internet and personal computer.

INTERNATIONALLY We provide corporate and investment banking, trade finance, correspondent banking, treasury and securities custody services to business customers. We also have a retail network in the Caribbean and substantial global private banking operations. Our international network includes 99 offices in more than 30 countries.

Financial Highlights

(C\$ millions, except per share and percentage amounts)	% growth 1999/1998	1999	1998	1997	1996	1995
Earnings						
Net interest income (1)	1%	\$ 5,152	\$ 5,101	\$ 5,032	\$ 4,675	\$ 4,579
Non-interest revenue	10	5,491	4,997	4,288	3,266	2,738
Gross revenues (1)	5	10,643	10,098	9,320	7,941	7,317
Provision for credit losses	32	760	575	380	570	580
Non-interest expenses	10	7,141	6,510	6,071	5,167	4,675
Net income	(3)	1,725	1,772	1,654	1,330	1,258
Return on common equity	(230)bp	15.3%	17.6%	18.3%	15.7%	16.2%
Goodwill-adjusted return on common equity (2)	(270)bp	16.9%	19.6%	20.3%	17.0%	17.7%
Balance sheet and off-balance sheet data						
Loans	(2)%	\$ 154,050	\$ 157,392	\$ 149,955	\$ 133,643	\$ 123,289
Assets	(3)	273,298	281,074	247,079	227,477	196,482
Deposits	4	187,897	180,005	173,229	161,817	143,491
Common equity	7	10,435	9,748	8,878	8,025	7,208
Assets under administration	17	967,800	829,200	783,300	522,100	407,700
Assets under management	11	81,600	73,400	67,700	51,200	40,400
Capital ratios (Canadian basis) (3)						
Common equity to risk-adjusted assets	90 bp	7.1%	6.2%	5.8%	6.0%	5.8%
Tier 1 capital	70 bp	8.1%	7.4%	6.8%	7.0%	6.9%
Total capital	70 bp	11.2%	10.5%	10.0%	9.4%	9.8%
Capital ratios (U.S. basis) (4)						
Common equity to risk-adjusted assets	90 bp	7.0%	6.1%	5.8%	6.0%	5.9%
Tier 1 capital	80 bp	7.6%	6.8%	6.4%	6.8%	7.1%
Total capital	60 bp	10.7%	10.1%	9.8%	9.5%	10.3%
Common share information						
Shares outstanding (in thousands)						
End of year	–%	308,884	308,791	308,335	310,529	314,155
Average basic	1	313,079	308,662	308,906	314,121	314,155
Average fully diluted	–	316,152	316,813	316,026	314,121	314,155
Earnings per share						
Basic	(5)	\$ 5.01	\$ 5.27	\$ 4.93	\$ 3.78	\$ 3.48
Fully diluted	(4)	4.97	5.17	4.85	3.78	3.48
Goodwill-adjusted basic (2)	(5)	5.22	5.49	5.14	3.90	3.60
Share price						
High	(9)	\$ 84.25	\$ 92.20	\$ 76.45	\$ 44.40	\$ 31.38
Low	3	59.30	57.50	44.00	29.75	25.88
Close	(11)	63.45	71.10	75.35	44.30	30.13
Dividends per share	7	1.88	1.76	1.52	1.33	1.18
Book value per share – year-end	7	33.78	31.60	28.83	25.88	22.98
Market capitalization (\$ billions)	(11)	19.6	22.0	23.2	13.8	9.5
Number of						
Employees (full-time equivalent)	–%	51,891	51,776	48,816	46,205	49,011
Automated banking machines	6	4,585	4,317	4,248	4,215	4,079
Service delivery units						
Canada	(1)	1,410	1,422	1,453	1,493	1,577
International (5)	(7)	99	106	105	103	105

(1) Taxable equivalent basis.

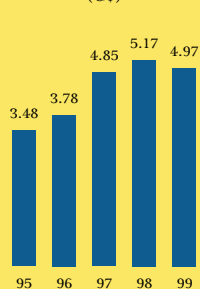
(2) Goodwill-adjusted return on common equity and goodwill-adjusted basic earnings per share are computed by adding back goodwill amortization after tax charged to net income in each year and reducing average common equity by the unamortized goodwill.

(3) Using guidelines issued by the Office of the Superintendent of Financial Institutions Canada and Canadian GAAP financial information.

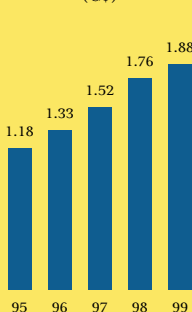
(4) Using guidelines issued by the Board of Governors of the U.S. Federal Reserve Board in the United States and U.S. GAAP financial information.

(5) International service delivery units include branches, specialized business centers, representative offices, agencies and subsidiaries.

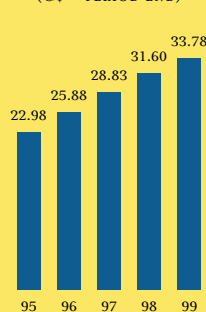
FULLY DILUTED
EARNINGS PER SHARE
(C\$)



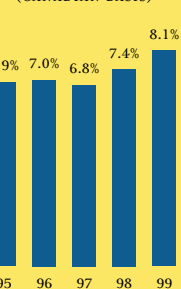
DIVIDENDS PER SHARE
(C\$)



BOOK VALUE PER SHARE
(C\$ – PERIOD END)



TIER 1
CAPITAL RATIO
(CANADIAN BASIS)





JOHN E. CLEGHORN

CHAIRMAN & CHIEF EXECUTIVE OFFICER

Seizing opportunities to grow profitably.
Using innovative ways to do business.
Hiring, retaining and developing the best
people. These are critical to our success.

In 1999, we made considerable progress on these fronts. Through innovative partnerships and niche acquisitions, described in our operating highlights, we positioned ourselves for profitable growth — particularly in the fast-growing segments of e-commerce and wealth management. And we accomplished this through some of the most capable people in the industry.



PETER W. CURRIE
VICE-CHAIRMAN
CHIEF FINANCIAL OFFICER

GORDON J. FEENEY
DEPUTY CHAIRMAN

ANTHONY S. FELL
DEPUTY CHAIRMAN, ROYAL BANK
CHAIRMAN & CEO
RBC DOMINION SECURITIES

SUZANNE B. LABARGE
VICE-CHAIRMAN
CHIEF RISK OFFICER

“In Canada, we gained market shares in key retail products, improved customer satisfaction ratings and generated solid revenue growth. The prospects for growth are strong, given the economic outlook for Canada and our ability, through sophisticated data mining, segmentation and sales techniques, to attract more of the business our 10 million customers have with other financial companies.”

Internationally, core earnings accounted for 35% of total earnings, up from last year, despite higher expenses for growing Security First Network Bank and segments of Corporate & investment banking in the U.S. Our selective international initiatives are starting to pay off. The bond operations of Hambros Bank Limited, bought in 1998, had revenues 65% higher than in 1998. The New York-based equity derivatives team, acquired a few years ago, generated revenues 140% higher than last year's. We've made several Wealth management acquisitions and alliances over the past 2 years, significantly broadening our reach in this growing market. Security First Network Bank's customer count was 40,000 in October, up from 15,000 in April, and it remains the number 1 rated Internet bank in the U.S. by Gomez Advisors.

In 1999, we repurchased 5.2 million of our common shares, increased our common share dividends by 7%, and in November 1999 announced a 13% increase in the quarterly dividend effective the first quarter of 2000. Our capital ratios strengthened considerably this year.



MARTIN J. LIPPERT

VICE-CHAIRMAN
CHIEF INFORMATION OFFICER

W. REAY MACKAY

VICE-CHAIRMAN
WEALTH MANAGEMENT

JAMES T. RAGER

VICE-CHAIRMAN
PERSONAL & COMMERCIAL BANKING

Also this year, asset quality improved, with problem loans and specific loss provisions declining, and we raised the general allowance for credit losses by over one-fourth to \$1,080 million. Revenue growth of 7% was at the upper end of our target. Expense growth was influenced by the purchase of the minority interest in RBC Dominion Securities, by higher expenses related to strategic investments, and some one-time items.

Our priorities are to continue to invest in and grow e-commerce, Wealth management, Personal & commercial banking (including insurance) and, selectively, Corporate & investment banking. To afford this and make us more globally cost competitive we intend to generate more than \$400 million of cost savings by the end of 2000, to be achieved through initiatives detailed on page 27.

“Among our other aggressive targets for 2000 are growth in earnings per share of 12-14%, an ROE in the 17-20% range, stable asset quality, and strong capital levels even as we complete our share repurchase program announced in May. We also want to maintain valuation levels that are in the top quartile of the TSE Banks and Trusts Index.”

I look forward to reporting on our progress throughout 2000.

Handwritten signature of John E. Cleghorn in black ink.

JOHN E. CLEGHORN, CHAIRMAN & CHIEF EXECUTIVE OFFICER

Our Objectives and Performance

1999 Performance Versus Objectives

OBJECTIVE 1: VALUATION

MAINTAIN VALUATION LEVELS (SHARE PRICE/BOOK VALUE AND SHARE PRICE/EARNINGS) THAT ARE IN THE TOP QUARTILE OF THE TSE BANKS AND TRUSTS INDEX.

PERFORMANCE:

SHARE PRICE/BOOK VALUE OF 1.9 TIMES AT OCTOBER 31, 1999 – IN TOP QUARTILE. SHARE PRICE/EARNINGS OF 10.9 TIMES (BASED ON ANALYSTS' AVERAGE EARNINGS ESTIMATE FOR 2000), ALSO IN TOP QUARTILE.

OBJECTIVE 2: EARNINGS GROWTH

GROW FULLY DILUTED EARNINGS PER SHARE BY 4–7%.

PERFORMANCE:

CORE FULLY DILUTED EARNINGS PER SHARE (I.E., EXCLUDING ONE-TIME ITEMS) UP 1% FROM 1998.

OBJECTIVE 3: REVENUE GROWTH

ACHIEVE REVENUE GROWTH IN THE MID-SINGLE DIGITS AND MAINTAIN OR ENHANCE MARKET SHARES IN PERSONAL BANKING PRODUCTS AND MUTUAL FUNDS.

PERFORMANCE:

CORE REVENUE GROWTH OF 7%, AT THE HIGHER END OF THE OBJECTIVE. MARKET SHARES (COMPARED TO ALL FINANCIAL INSTITUTIONS IN CANADA) INCREASED TO 15.3% FROM 14.8% A YEAR AGO FOR RESIDENTIAL MORTGAGES AND TO 16.6% FROM 16.0% FOR PERSONAL LOANS, BUT DECLINED TO 15.8% FROM 16.1% FOR PERSONAL DEPOSITS AND TO 8.6% FROM 8.8% FOR MUTUAL FUNDS.

OBJECTIVE 4: EXPENSE GROWTH

CONTAIN EXPENSE GROWTH TO A RATE LOWER THAN THE RATE OF REVENUE GROWTH.

PERFORMANCE:

CORE EXPENSE GROWTH OF 9% VERSUS CORE REVENUE GROWTH OF 7%.

1999 performance versus medium-term (3–5 year) goals

	Medium-term goals (1)	1999 performance (1)
Profitability		
Return on common equity	17–20%	16.1%
Efficiency (2)	59.5%	66.2%
Specific provisions for credit losses (3)	.35–.45%	.30%
Dividend payout ratio (4)	30–40%	37%
Capital adequacy (Canadian GAAP)		
Common equity to risk-adjusted assets	7.0%	7.1%
Tier 1 capital	8.0%	8.1%
Total capital	11–12%	11.2%

- (1) Using U.S. GAAP, except capital ratios, which are under Canadian GAAP. Performance of return on common equity and efficiency ratio are core (i.e., excluding one-time items).
- (2) Non-interest expenses as a percentage of gross revenues on a taxable equivalent basis.
- (3) As a percentage of average loans (including bankers' acceptances) and reverse repurchase agreements.
- (4) Common dividends as a percentage of net income after preferred dividends.

OBJECTIVE 5: PORTFOLIO QUALITY

ACHIEVE A RATIO OF SPECIFIC PROVISIONS FOR CREDIT LOSSES TO AVERAGE LOANS (INCLUDING BANKERS' ACCEPTANCES) AND REVERSE REPURCHASE AGREEMENTS OF .35–.40%.

PERFORMANCE:

.30%, BETTER THAN TARGET RANGE.

OBJECTIVE 6: CAPITAL MANAGEMENT

MAINTAIN STRONG CAPITAL RATIOS THROUGH CAREFUL GROWTH IN RISK-ADJUSTED ASSETS.

PERFORMANCE:

COMMON EQUITY TO RISK-ADJUSTED ASSETS OF 7.1%, UP 90 BASIS POINTS FROM OCTOBER 31, 1998, TIER 1 CAPITAL RATIO OF 8.1%, UP 70 BASIS POINTS, AND TOTAL CAPITAL RATIO OF 11.2%, UP 70 BASIS POINTS. RISK-ADJUSTED ASSETS DOWN 5%.

2000 Objectives

OBJECTIVE 1: VALUATION

MAINTAIN VALUATION LEVELS (SHARE PRICE/BOOK VALUE AND SHARE PRICE/EARNINGS) THAT ARE IN THE TOP QUARTILE OF THE TSE BANKS AND TRUSTS INDEX.

OBJECTIVE 2: EARNINGS GROWTH

GROW CORE FULLY DILUTED EARNINGS PER SHARE (I.E., EXCLUDING ONE-TIME ITEMS) BY 12–14%.

OBJECTIVE 3: RETURN ON COMMON EQUITY

ACHIEVE A RETURN ON EQUITY WITHIN MEDIUM-TERM GOAL RANGE OF 17–20%.

OBJECTIVE 4: REVENUE GROWTH

ACHIEVE REVENUE GROWTH IN THE MID-SINGLE DIGITS AND MAINTAIN OR ENHANCE MARKET SHARES IN PERSONAL BANKING PRODUCTS AND MUTUAL FUNDS.

OBJECTIVE 5: EXPENSE GROWTH

CONTAIN EXPENSES TO ALLOW ACHIEVEMENT OF A 59.5% EFFICIENCY RATIO (USING CANADIAN GAAP) EXITING THE FOURTH QUARTER OF 2000.

OBJECTIVE 6: PORTFOLIO QUALITY

ACHIEVE A RATIO OF SPECIFIC PROVISIONS FOR CREDIT LOSSES TO

AVERAGE LOANS (INCLUDING BANKERS' ACCEPTANCES) AND REVERSE REPURCHASE AGREEMENTS OF .30–.40%.

OBJECTIVE 7: CAPITAL MANAGEMENT

MAINTAIN STRONG CAPITAL RATIOS WHILE COMPLETING THE 3.5% SHARE REPURCHASE PROGRAM ANNOUNCED IN MAY 1999.

Operating Highlights

MILESTONES

- > IN APRIL, ROYAL BANK BECAME THE FIRST FINANCIAL INSTITUTION IN CANADA TO GUARANTEE, WITHOUT DISCLAIMERS, ITS CUSTOMER DEPOSITS AND RECORDS FROM PROBLEMS ASSOCIATED WITH THE YEAR 2000 ISSUE.

PERSONAL & COMMERCIAL BANKING

- > IN DECEMBER 1998, ROYAL BANK AND MÉTRO-RICHELIEU ANNOUNCED THAT THE BANK WILL OPEN UP TO 15 IN-STORE BANKING BRANCHES OVER 3 YEARS AT MÉTRO AND SUPER C LOCATIONS ACROSS QUEBEC. PERSONAL BANKERS WILL BE AVAILABLE 7 DAYS A WEEK TO OFFER SERVICES SUCH AS ACCOUNT OPENINGS, FINANCIAL ADVICE AND PLANNING, AND INFORMATION ON DEPOSITS, INVESTMENTS, PERSONAL AND MORTGAGE LOANS AND CARD PRODUCTS.
- > IN DECEMBER 1998, RBC INSURANCE LAUNCHED HOME AND AUTO INSURANCE IN NEW BRUNSWICK, MAKING US THE FIRST BANK-OWNED INSURER TO OFFER INDIVIDUAL HOME AND AUTO INSURANCE PRODUCTS THROUGH DIRECT SALES ACROSS CANADA.

- > IN JUNE, RBC INSURANCE LAUNCHED A GROUP LIFE AND HEALTH BENEFITS PLAN SPECIFICALLY DESIGNED FOR SMALL BUSINESSES WITH 5 TO 50 EMPLOYEES. THROUGH THIS PRODUCT, RBC INSURANCE IS BUILDING ON ROYAL BANK'S STRENGTH AS CANADA'S LEADING BANK FOR SMALL BUSINESS.

E-COMMERCE INITIATIVES

- > IN MAY, ROYAL BANK CREATED AN ALLIANCE WITH MICROCELL SOLUTIONS INC. TO INTRODUCE WIRELESS BANKING, WHICH WILL ENABLE INTERNET BANKING FROM DIGITAL CELLULAR PHONES. MICROCELL IS A NATIONAL PROVIDER OF PCS SERVICES IN CANADA, DELIVERED UNDER THE FIDO BRAND NAME.
- > IN JULY, RESIDENTS OF SHERBROOKE, QUEBEC, WERE THE FIRST IN CANADA TO BE OFFERED MONDEX ELECTRONIC-CASH LOADING VIA THE INTERNET, A QUICK AND CONVENIENT WAY TO LOAD E-CASH FROM THE OFFICE OR HOME. THIS PILOT PROJECT ADVANCES THE BANK'S ROLE IN E-COMMERCE AND SMART CARD TECHNOLOGY IN CANADA.

- > IN JULY, ROYAL BANK, THROUGH AN INDIRECT WHOLLY OWNED SUBSIDIARY, ACQUIRED BURNABY, B.C.-BASED ERNEX MARKETING TECHNOLOGIES INC. (PREVIOUSLY CALLED CREDIT SYSTEMS INTERNATIONAL INC.), A LEADER IN ELECTRONIC MARKETING THAT ALLOWS MERCHANTS TO OFFER INSTANT REWARDS TO CUSTOMERS AT POINT-OF-SALE. THE BANK WILL USE ERNEX'S EXPERTISE TO DELIVER MULTI-PURPOSE POINT-OF-SALE EQUIPMENT THAT WILL ENABLE REAL-TIME E-MARKETING SOLUTIONS FOR MERCHANTS.

- > IN JULY, THE BANK ANNOUNCED IT WOULD BE THE FIRST IN CANADA TO OFFER A SECURE ELECTRONIC WALLET THAT WILL MAKE INTERNET SHOPPING QUICK AND EASY. THE POWERWALLET, DEVELOPED BY QPASS AND EHNC, STORES THE IMPORTANT INFORMATION REQUIRED TO COMPLETE INTERNET CREDIT CARD PURCHASES, GIVING ON-LINE PURCHASERS THE SPEED AND CONVENIENCE OF AN EXPRESS CHECKOUT LANE.

- > IN JULY, ROYAL BANK AND AMERICA ONLINE INC. ANNOUNCED A STRATEGIC ALLIANCE THAT INCLUDES ROYAL BANK'S ACQUISITION OF A 20% EQUITY STAKE IN AOL CANADA, INC. THIS ALLIANCE WILL PROVIDE ACCESS TO AOL'S 17 MILLION MEMBERS IN THE U.S., 130,000 PAYING HOUSEHOLDS IN CANADA AND COMPUTERSERVE'S 50,000 BUSINESS MEMBERS IN CANADA.

- > IN AUGUST, ROYAL BANK SIGNED FOUR UTILITIES TO AN ELECTRONIC BILL PRESENTMENT PILOT OPERATED BY E-ROUTE INC., A TECHNOLOGY COMPANY JOINTLY OWNED BY ROYAL BANK AND FIVE OTHER CANADIAN FINANCIAL INSTITUTIONS. FULL ROLLOUT IS EXPECTED IN 2000. OPERATION AND SUPPORT IS BEING PROVIDED BY BCE EMERGIS ON A MICROSOFT CANADA AND TRANSPPOINT TECHNOLOGY INFRASTRUCTURE. ELECTRONIC BILL PRESENTMENT ALLOWS CUSTOMERS TO RECEIVE BILLS OVER THE INTERNET.

- > IN OCTOBER, SECURITY FIRST NETWORK BANK (SFNB) WAS RATED NUMBER 1 AMONG 78 U.S. INTERNET BANKS FOR PERSONAL FINANCE FOR THE FOURTH CONSECUTIVE QUARTER BY U.S. E-COMMERCE AUTHORITY GOMEZ ADVISORS (WWW.GOMEZADVISORS.COM).

WEALTH MANAGEMENT

- > IN NOVEMBER 1998, THE BANK ANNOUNCED AN AGREEMENT TO ACQUIRE THE OFFSHORE EUROPEAN CORPORATE AND INSTITUTIONAL TRUST AND FIDUCIARY BUSINESSES OF THE COUTTS GROUP, THE INTERNATIONAL PRIVATE BANKING ARM OF NATWEST GROUP. THE TRANSACTION COMPRISES £4 BILLION IN ASSETS ADMINISTERED BY THE COUTTS GROUP IN JERSEY, GUERNSEY AND ISLE OF MAN. SERVICES OFFERED BY THE COUTTS GROUP ARE CORPORATE TRUSTEE, CUSTODY, THIRD-PARTY FUND ADMINISTRATION AND THE ADMINISTRATION OF EMPLOYEE BENEFIT PLANS.
- > IN MARCH, ROYAL BANK COMPLETED THE ACQUISITION OF NEW YORK-BASED DISCOUNT BROKER, BULL & BEAR SECURITIES. THE BANK INTENDS TO OFFER U.S. CUSTOMERS AN INTEGRATED INTERNET BANKING AND DISCOUNT BROKERAGE SERVICE BY COMBINING THE INTERNET CAPABILITIES OF BULL & BEAR WITH THOSE OF SFNB.
- > IN APRIL, THE BANK COMPLETED THE ACQUISITION OF CONNOR CLARK LIMITED, A LEADING PROVIDER OF PRIVATE CLIENT WEALTH MANAGEMENT SERVICES. CONNOR CLARK LIMITED PROVIDES FINANCIAL PLANNING, INVESTMENT, TAX, TRUST, ADVISORY AND OTHER FIDUCIARY SERVICES TO PRIVATE CLIENTS AND MANAGES \$1.2 BILLION IN ASSETS.

- > IN MAY, THE BANK'S GLOBAL PRIVATE BANKING ARM AND BRITISH AIRWAYS ANNOUNCED A STRATEGIC ALLIANCE WITH THE LAUNCH OF BRITISH AIRWAYS GLOBAL FINANCIAL SERVICES. BEGINNING WITH THE OFFSHORE DEPOSIT ACCOUNT, THE BANK WILL OFFER A RANGE OF HIGH-QUALITY SERVICES, INCLUDING INTERNET BANKING, TO BRITISH AIRWAYS' PREMIUM CUSTOMERS.
- > IN JULY, THE BANK ANNOUNCED A PROPOSAL TO INCREASE ITS STAKE IN HARTLEY POYNTON LIMITED TO 40% FROM 25%. HARTLEY POYNTON, AN AUSTRALIAN STOCKBROKER AND INVESTMENT BANK AND A LEADER IN ON-LINE INVESTING, WILL EXPAND ROYAL BANK'S INTERNATIONAL WEALTH MANAGEMENT AND ON-LINE ACTIVITIES.
- > IN SEPTEMBER, THE BANK'S GLOBAL PRIVATE BANKING DIVISION ANNOUNCED THE ACQUISITION OF THE PRIVATE CLIENT TRUST AND FIDUCIARY SERVICES BUSINESSES OF ERNST & YOUNG IN GUERNSEY, CHANNEL ISLANDS. THE DEAL COMPRISES APPROXIMATELY 1,500 AFFLUENT CLIENTS WITH \$3.6 BILLION IN ASSETS UNDER ADMINISTRATION.

CORPORATE & INVESTMENT BANKING

- > RBC DOMINION SECURITIES STRENGTHENED ITS FOCUS ON THE NORTH AMERICAN ENERGY SECTOR IN 1999 BY ADDING INVESTMENT BANKING AND EQUITY RESEARCH EXPERTISE TO ITS CORPORATE BANKING UNIT IN HOUSTON. THE GROUP, NOW TRIPLE ITS ORIGINAL SIZE, INCLUDES A NEWLY HIRED TEAM OF U.S.-BASED OIL AND GAS EXPERTS.
 - > RBC DOMINION SECURITIES' LEADERSHIP IN THE INSTITUTIONAL EQUITY BUSINESS WAS SUBSTANTIATED BY ITS NUMBER 1 POSITION IN TERMS OF "ALL STAR" RESEARCH ANALYSTS AND MOST HIGHLY RATED PUBLICATIONS, ACCORDING TO THE 1999 BRENDAN WOODS SURVEY OF INSTITUTIONAL INVESTORS, AND BY ITS LARGEST MARKET SHARE OF INSTITUTIONAL COMMISSIONS AMONG ALL CANADIAN-BASED DEALERS, ACCORDING TO TSE STUDIES THROUGHOUT 1999.
 - > RBC DOMINION SECURITIES RECEIVED TWO NATIONAL AWARDS FOR INNOVATIVE EXCELLENCE IN 1999 RELATIVE TO THE IMPLEMENTATION OF FXDIRECT, AN INTERNET SOLUTION ALLOWING CLIENTS TO ACCESS THE FOREIGN EXCHANGE MARKET THROUGH THEIR WEB BROWSER. THIS IS AMONG THE FIRST GLOBAL INNOVATIONS OF ITS TYPE AND HAS BEEN EMBRACED BY GLOBAL MARKETS' CORPORATE AND INSTITUTIONAL CUSTOMERS AS A FAVOURED MEDIUM FOR ACCESSING THE FX MARKET. IT ALSO REINFORCES OUR POSITION
- AS ONE OF THE WORLD'S TOP 10 RELATIONSHIP BANKS, AS REPORTED IN EUROMONEY'S 1999 FOREIGN EXCHANGE POLL.
- > IN OCTOBER, RBC DOMINION SECURITIES ANNOUNCED THE FORMATION OF A U.S.-BASED HIGH-YIELD GROUP. THE GROUP'S ROLE WILL ENCOMPASS SALES, TRADING, RESEARCH, CAPITAL MARKETS AND ORIGINATION.

OTHER HIGHLIGHTS

- > IN MAY, THE BANK'S QUARTERLY COMMON SHARE DIVIDEND WAS RAISED BY \$0.02 PER SHARE TO \$0.48, FOR THE PAYMENT ON AUGUST 24, 1999, TO COMMON SHAREHOLDERS OF RECORD ON JULY 26, 1999.
- > IN OCTOBER, THE BANK FINALIZED THE SALE OF 4.9 MILLION SQUARE FEET OF GROSS LEASEABLE AREA IN 33 OFFICE BUILDINGS, PROCESSING CENTRES AND OPERATIONS CENTRES ACROSS CANADA. THE BUILDINGS WERE SOLD TO OXFORD PROPERTIES GROUP INC. AND ONTARIO MUNICIPAL EMPLOYEES RETIREMENT SYSTEM FOR \$827 MILLION.
- > IN NOVEMBER 1999, THE BANK'S QUARTERLY COMMON SHARE DIVIDEND WAS RAISED BY \$0.06 PER SHARE, OR 13%, TO \$0.54 FOR THE PAYMENT ON FEBRUARY 24, 2000, TO COMMON SHAREHOLDERS ON RECORD ON JANUARY 25, 2000. THIS WAS THE EIGHTH DIVIDEND INCREASE IN 4 YEARS.

Personal & Commercial Banking

OBJECTIVES

OUR OBJECTIVE IS TO CONSISTENTLY DELIVER A PERSONALIZED ONE-ON-ONE EXPERIENCE AT EVERY POINT OF CUSTOMER CONTACT. OUR PRIORITIES ARE TO BUILD UPON OUR STRONG BRAND TO GROW OUR CORE CANADIAN FRANCHISE AND TO DEVELOP SOLID, FOCUSED CAPABILITIES IN THE U.S. (FINANCIAL RESULTS FOR PERSONAL & COMMERCIAL BANKING CAN BE FOUND ON PAGE 19).

STRATEGIES

OUR STRATEGY IS TO RETAIN AND GROW PROFITABLE RELATIONSHIPS WITH PERSONAL, SMALL BUSINESS AND COMMERCIAL CLIENTS. INVESTMENTS IN CUSTOMER INFORMATION TECHNOLOGY, AND SALES AND SERVICE CAPABILITIES, WILL ENABLE US TO SERVE NINE MILLION INDIVIDUALS ACROSS COMPLEMENTARY BUSINESS LINES, DISTRIBUTION CHANNELS AND GEOGRAPHIC BORDERS. OUR 1999 RESTRUCTURING INTEGRATES CORE BUSINESS FUNCTIONS TO INCREASE CLIENT FOCUS, SPEED TO MARKET AND OPERATING EFFICIENCIES.

CORE BUSINESSES:

PERSONAL FINANCIAL SERVICES

We are the leading provider of personal financial services in Canada. Our growth strategy is to strengthen existing relationships through sophisticated data management and customer segmentation – to better focus sales and service programs and deliver value-added products, services and advice to our clients.

CARD SERVICES

We are the largest provider of VISA cards and debit cards and the largest merchant services business in Canada. Strong growth will be driven by expanding the bank's presence in the United States through Security First Network Bank, through alliances, portfolio acquisitions and affinity marketing, and by developing smart card technologies.

BUSINESS BANKING

We serve more than 430,000 small, medium-sized and commercial customers, making us the leader in Canada. Specialized segment, industry and product experts, in conjunction with networks of expertise in local communities, provide customers with advice, flexibility, simplicity and speed of delivery through a variety of channels.

INSURANCE

We have the leading insurance operation among Canadian banks (\$894 million in premiums) and are one of Canada's fastest-growing insurance organizations. Our strategy is to seek significant growth through mergers and acquisitions, enhancements to existing distribution and selective international expansion.

EMERGING BUSINESSES:

E-COMMERCE/ INTERNET BANKING

We are rapidly building our e-commerce capabilities through technology-based alliances, partnerships and acquisitions to attract new customers in Canada and grow our U.S. customer base with Security First Network Bank. (See page 6 for recent initiatives.)

ROYAL BANK VENTURES INC.

This group has been formed by merging Royal Bank Capital Corporation and Royal Bank Growth Corporation to lead the development of knowledge-based industry investment expertise and company creation.



PEOPLE AND TECHNOLOGY. GREATER CUSTOMER SERVICE: ONE ON ONE.

FOREST SMITH, JASON LUNT & LISA MIKEL

PERSONAL & COMMERCIAL BANKING

CONSUMERS ARE MOVING TO INTERNET BANKING AND E-COMMERCE AT AN INCREASINGLY RAPID PACE. IN 1999, ROYAL BANK MORE THAN DOUBLED ITS NUMBER OF CUSTOMERS USING INTERNET BANKING AND E-COMMERCE. AS MORE CUSTOMERS TAKE ADVANTAGE OF ON-LINE SERVICES, THEIR EXPECTATIONS FOR SUPERIOR SERVICE AND CARE REMAINS AS HIGH AS WHEN FINANCIAL SERVICES WERE DELIVERED ONLY THROUGH BRICKS AND MORTAR. CUSTOMER SERVICE PERSONNEL FOREST SMITH, JASON LUNT AND LISA MIKEL – FROM OUR ATLANTA-BASED WHOLLY OWNED SUBSIDIARY SECURITY FIRST NETWORK BANK – BALANCE A CUSTOMER'S DESIRE FOR LEADING-EDGE SERVICE WITH THE NEED FOR OLD-FASHIONED CARE. THESE HIGHLY TRAINED STAFF AND THEIR MORE THAN 30,000 COLLEAGUES IN NORTH AMERICA DEAL WITH OUR 9 MILLION CONSUMER AND BUSINESS CUSTOMERS.

Wealth Management

OBJECTIVES

WEALTH MANAGEMENT'S GOAL IS TO PROVIDE AFFLUENT CLIENTS WITH A UNIQUE, INTEGRATED SERVICE EXPERIENCE. WE DO THIS THROUGH A COMPLETE SUITE OF PERSONALIZED FINANCIAL, INVESTMENT AND TRUST SERVICES, DELIVERED SEAMLESSLY THROUGH THE RELATIONSHIP AND CHANNEL OF THE CLIENT'S CHOICE. (FINANCIAL RESULTS FOR WEALTH MANAGEMENT CAN BE FOUND ON PAGE 20).

STRATEGIES

WEALTH MANAGEMENT RESTRUCTURED IN 1999 TO INTEGRATE ITS BUSINESSES UNDER A SINGLE MANAGEMENT TEAM, CREATING A MORE NIMBLE AND CLIENT-FOCUSED ORGANIZATION. TO GROW INTERNATIONAL EARNINGS, IT WILL PURSUE DISTRIBUTION ALLIANCES IN KEY MARKETS, AS WELL AS TARGETED ACQUISITIONS THAT BUILD VALUE FOR CLIENTS AND SHAREHOLDERS.

PRIVATE CLIENT DIVISION	We lead in revenues and profits in Canada for full-service brokers.
	Our strategy is to grow revenues by increasing our percentage of fee-based revenues and expanding our product range.
ROYAL MUTUAL FUNDS	
	We are the second-largest mutual fund provider in Canada (largest among banks) and plan to continue to grow by introducing new products and more focused client segmentation.
GLOBAL PRIVATE BANKING	
	With \$73 billion of personal and institutional assets under administration for clients from 100 countries, our goal is to grow earnings by expanding our sales efforts and from acquisitions and alliances where we can achieve synergies. (See page 7 for recent initiatives.)
GLOBAL SECURITIES SERVICES	
	At calendar year-end 1998, we were the tenth-largest international custodian, and remain the largest in Canada with a market share exceeding 40%. We plan to further build our client relationships and capitalize on international opportunities.
INVESTMENT MANAGEMENT	
	We are Canada's largest investment manager as measured by assets under management and we plan to grow through consistent, superior, long-term rates of return and excellent client service. With the acquisition of Connor Clark Limited, we have expanded the range of services we can offer to high net worth clients.
PERSONAL WEALTH MANAGEMENT	
	Our goal is to help clients achieve their investment goals through our team of accredited financial planning relationship managers based in branches.
ROYAL BANK ACTION DIRECT	
	We are the second-largest Canadian discount broker with 365,000 accounts in Canada. In 1999, trade volumes were up 54% over 1998. In September, <i>Canadian Business</i> magazine rated Royal Bank Action Direct number 2 among discount brokerage providers in Canada.



INTEGRATED SOLUTIONS.

CAROLYN COOK, MARC CEVEY & BRENDA PEART

WEALTH MANAGEMENT

MANY CLIENTS PREFER TO DEAL IN THE BRANCH ENVIRONMENT, WITH SOMEONE WHO GIVES THEM PROFESSIONAL UNBIASED FINANCIAL PLANNING ADVICE. A FINANCIAL ADVISOR, SUCH AS BRENDA PEART (PERSONAL FINANCIAL PLANNER OR PFP), CAN DETERMINE A CLIENT'S OVERALL NEEDS. SHE CAN CREATE A TOTAL FINANCIAL PLAN AND BRING IN THE EXPERTISE OF OUR SPECIALISTS IN DISCRETIONARY PORTFOLIO MANAGEMENT, TRUST AND ESTATE PLANNING, TAX ADVICE AND INTERNATIONAL FINANCIAL PLANNING. BY ENLISTING EXPERTS, SUCH AS CAROLYN COOK, MANAGER INTERNATIONAL SERVICES, GLOBAL PRIVATE BANKING, AND MARC CEVEY, MANAGER INVESTMENTS, ROYAL TRUST INVESTMENT COUNSEL, BRENDA PROVIDES A SINGLE POINT OF ACCESS TO A RANGE OF SERVICES. THE KEY IS TO KNOW YOUR CLIENT, AND PUT THEM FIRST.

Corporate & Investment Banking

OBJECTIVES

OUR GOAL IS TO SUSTAIN AND BUILD ON OUR POSITION AS THE LEADING PROVIDER OF FINANCIAL SERVICES TO CORPORATE, INSTITUTIONAL AND GOVERNMENT CLIENTS IN CANADA, WHILE PROVIDING FULL SERVICE IN SELECTED MARKETS (ENERGY, TECHNOLOGY AND TELECOMMUNICATIONS) IN THE U.S. AND SELECTIVELY BUILDING EXPERTISE GLOBALLY. (FINANCIAL RESULTS FOR CORPORATE & INVESTMENT BANKING CAN BE FOUND ON PAGE 21.)

STRATEGIES

ALL WHOLESALE BANKING ACTIVITY HAS BEEN CENTRALIZED WITHIN CORPORATE & INVESTMENT BANKING. THE STREAMLINING OF CORPORATE & INVESTMENT BANKING'S INTERNATIONAL NETWORK AND THE ASSESSMENT OF TOTAL RELATIONSHIP PROFITABILITY HAVE DRIVEN A RE-ALLOCATION OF CAPITAL AND RESOURCES THAT WILL CONTINUE TO IMPROVE PERFORMANCE. WHILE MAINTAINING OUR LEADERSHIP DOMESTICALLY AND IN DOMESTIC PRODUCTS GLOBALLY, WE WILL PURSUE FOCUSED GROWTH INTERNATIONALLY IN AREAS IN WHICH WE DEMONSTRATE WORLD-CLASS EXPERTISE.

GLOBAL MARKETS DIVISION

Canada's top-ranked dealer for fixed income, money markets and foreign exchange, we are among the world's leading providers in foreign exchange and international bond and money markets. Building on strong performance in 1998, the Global markets division continues to defend its position domestically while expanding its global Eurobond operation and its credit derivatives capability. Enhancements to our Internet delivery strategies will further contribute to growth and profitability.

GLOBAL EQUITY DIVISION

As Canada's leader in sales, trading and research in Canadian equities around the globe, our sectoral expertise in mining, energy, telecommunications and technology and growing capability in equity derivatives are also broadening the scope of the business internationally. Through our network, we offer institutional clients one-stop service domestically along with access to a creative North American boutique.

CORPORATE AND INVESTMENT BANKING DIVISION

The integration of Royal Bank's corporate banking and global financial institutions businesses with RBC Dominion Securities investment banking has positioned us to offer a complete range of credit, advisory and intermediary services from one source. Each business, a leader in its own market domestically, works with the others to pursue profitable opportunities for our clients in Canada and abroad.



MAXIMIZING VALUE FOR A WORLD LEADER.

MARC COURTOIS & JEAN BELAND

RBC DOMINION SECURITIES

THE POWER OF A WELL-ROUNDED RELATIONSHIP BECAME APPARENT IN THE SUMMER OF 1999 WHEN RBC DOMINION SECURITIES SUPPORTED LONG-STANDING CLIENT QUEBECOR PRINTING IN ITS ACQUISITION OF U.S. COMPETITOR WORLD COLOR PRESS. THE DEAL MADE QUEBECOR THE WORLD'S LARGEST COMMERCIAL PRINTER. AS LEAD ADVISOR TO QUEBECOR, WITH CREDIT SUISSE FIRST BOSTON, AND AS LEAD UNDERWRITER ON BANK FACILITIES OF US\$2.25 BILLION, RBC DS TRANSLATED ITS FIRM-WIDE COMMITMENT TO THE BEST INTERESTS OF ITS CLIENT INTO A CAREFULLY STRUCTURED DEAL THAT MAXIMIZED VALUE FOR THE SHAREHOLDERS OF QUEBECOR PRINTING WITHOUT PUTTING THE STABILITY OF THE COMPANY'S BALANCE SHEET AT RISK. THIS CONVERGENCE OF BEST-IN-CLASS ADVICE AND PRODUCTS, A CAREFULLY NURTURED CLIENT RELATIONSHIP AND AN UNBEATABLE OPPORTUNITY HAS RESULTED IN A SIGNIFICANT CANADIAN SUCCESS STORY.

Serving Our Stakeholders

Royal Bank's performance as an investment is directly linked to its ability to fulfill its commitments to all stakeholders. Throughout its 130-year history, one of Royal Bank's competitive advantages has been its relationships with its stakeholders. At the core of these relationships is a set of strong values, which will fuel our future success. Our values – reflected in a healthy and supportive workplace, our personal attention to customers, our responsibility and accountability to shareholders, and respect for our communities – form the heart of the Royal Bank brand.

OUR CUSTOMERS:

ACROSS ALL OUR BUSINESSES, WE STRIVE TO PUT CUSTOMERS FIRST, PROVIDING THEM WITH PERSONAL ATTENTION IN A HELPFUL ENVIRONMENT. WE SEEK WAYS TO RETAIN AND GROW THESE RELATIONSHIPS BY DELIVERING A UNIQUE, VALUED AND INTEGRATED CUSTOMER EXPERIENCE – ONE THAT REFLECTS A CARING INSTITUTION AND LEVERAGES PERSONAL CONTACT. WE HAVE ONE OF THE RICHEST CUSTOMER INFORMATION DATABASES IN THE INDUSTRY, WHICH ALLOWS US TO ANTICIPATE AND MEET CUSTOMER NEEDS. TO BETTER MEET THE NEEDS OF OUR CUSTOMERS, WE HAVE RESTRUCTURED OUR MAJOR BUSINESS SEGMENTS WITHIN THE PAST YEAR. WE REGULARLY MEASURE CUSTOMER SATISFACTION AND STRIVE FOR THE HIGHEST SCORES IN THE INDUSTRY.

OUR EMPLOYEES:

ROYAL BANK VALUES AND DELIVERS LEADING-EDGE WORKPLACE PRACTICES, A COMMITMENT TO DEVELOPING PEOPLE, COMPETITIVE MARKET-DRIVEN COMPENSATION AND A BELIEF IN THE VALUE OF DIVERSITY. THROUGH THE ROYAL EMPLOYEES SAVINGS AND SHARE OWNERSHIP PLAN, APPROXIMATELY 90% OF ALL EMPLOYEES OWN ROYAL BANK SHARES. EMPLOYEES THROUGHOUT THE ORGANIZATION ARE ELIGIBLE FOR VARIABLE COMPENSATION THROUGH A SHORT-TERM INCENTIVE PLAN. THE PAY-OUT IS BASED ON A VARIETY OF FACTORS, INCLUDING EMPLOYEE PERFORMANCE AND THE BANK'S RETURN ON EQUITY, REVENUE GROWTH, COST CONTROL, CUSTOMER SATISFACTION AND FINANCIAL PERFORMANCE RELATIVE TO THE COMPETITION.

OUR SHAREHOLDERS:

OUR EFFORTS ARE FOCUSED ON MAXIMIZING SHAREHOLDER VALUE THROUGH STRONG PERFORMANCE AND STRATEGIC DIRECTION. SPECIFICALLY, WE INTEND TO REDUCE COSTS, GROW HIGH-RETURN OR HIGH-PRICE-EARNINGS MULTIPLE BUSINESSES, CONTINUE TO ENHANCE RETURNS OF CORPORATE & INVESTMENT BANKING, MAINTAIN STRONG CREDIT QUALITY AND MANAGE OUR CAPITAL EFFICIENTLY.

OUR COMMUNITIES:

WE BELIEVE IN PROVIDING THE OPPORTUNITY FOR OUR PEOPLE AND RESOURCES TO MAKE A DIFFERENCE IN THEIR COMMUNITIES. WE HAVE ONE OF THE LEADING AND FURTHEST-REACHING CORPORATE COMMUNITY INVESTMENT PROGRAMS IN CANADA. IN 1999, ROYAL BANK'S DONATIONS TOTALLED MORE THAN \$25 MILLION – THAT'S ALMOST \$100,000 EVERY BUSINESS DAY. BESIDES DONATIONS, WE INVEST MORE THAN \$15 MILLION A YEAR SPONSORING AMATEUR ATHLETICS, THE ARTS AND NUMEROUS COMMUNITY EVENTS.

OFFICE OF THE OMBUDSMAN:

SUPERIOR CUSTOMER CARE INCLUDES PROMPT AND EFFECTIVE HANDLING OF COMPLAINTS. ROYAL BANK HAS A WELL-ESTABLISHED COMPLAINT MANAGEMENT PROCESS. IF AN ISSUE REMAINS UNRESOLVED, CUSTOMERS CAN REQUEST AN IMPARTIAL APPEAL THROUGH THE OFFICE OF THE OMBUDSMAN. INFORMATION ABOUT THE OFFICE OF THE OMBUDSMAN IS AVAILABLE AT BRANCHES, ON THE WEB (WWW.ROYALBANK.COM/OMBUDSMAN) OR BY CONTACTING: OFFICE OF THE OMBUDSMAN, ROYAL BANK FINANCIAL GROUP, P.O. BOX 1, ROYAL BANK PLAZA, TORONTO, ONTARIO, CANADA M5J 2J5
TEL: 1-800 ROYAL-42 OR
LOCALLY: (416) 974-4591
FAX: (416) 974-6922
(E-MAIL: OMBUDSMAN@WWW.ROYALBANK.COM).

The Canadian Economic Outlook

ECONOMIC PROSPECTS ACROSS MUCH OF THE EMERGING WORLD HAVE TAKEN A TURN FOR THE BETTER RECENTLY, PUTTING ECONOMIC GROWTH PROJECTIONS ON AN UPWARD TRAJECTORY. ALTHOUGH RISKS REMAIN, THIS BOUNCE ALONGSIDE AN IMPROVED OUTLOOK FOR DEVELOPED ECONOMIES SUGGESTS A MORE UPBEAT OUTLOOK FOR GLOBAL GROWTH PROSPECTS IS WARRANTED. A KEY FACTOR SUPPORTING WORLD GROWTH REMAINS THE BUOYANT U.S. ECONOMY, WHICH CONTINUES TO EXPAND AT A STRONG PACE ALONGSIDE MODERATE INFLATIONARY PRESSURES.

THE RECOVERING GLOBAL ECONOMY, FIRING COMMODITY PRICES, SOLID U.S. GROWTH AND A COMPETITIVE CURRENCY ALL BODE WELL FOR CONTINUED ECONOMIC EXPANSION IN CANADA. WHILE EXPORTS WILL REMAIN A KEY DRIVER OF GROWTH, THE EXPANSION IS EXPECTED TO BROADEN WITH SUPPORT ALSO COMING FROM CONSUMPTION, INVESTMENT AND THE GOVERNMENT SECTOR. A DECLINING CANADIAN GOVERNMENT DEBT BURDEN POINTS TO A COMBINATION

OF LOWER TAXES AND INCREASED SPENDING. IN ALL, WE LOOK FOR THE ECONOMY TO EXPAND IN THE 3.5–4% RANGE IN 1999 BEFORE MODERATING SOMEWHAT IN 2000 ALONGSIDE A LIKELY SLOWING IN THE U.S.

THE CANADIAN ECONOMY CONTINUES TO OPERATE IN A STATE OF EXCESS SUPPLY, SUGGESTING INFLATIONARY PRESSURES ARE UNLIKELY TO MOUNT SIGNIFICANTLY. IN THIS ENVIRONMENT, ANY RISE IN INTEREST RATES

WILL BE RELATIVELY MODEST, LEAVING OFFICIAL INTEREST RATES IN 2000 WITHIN 50 BASIS POINTS FROM THE LEVEL OF 5.0% IN EARLY DECEMBER 1999. FIRM GROWTH, LOW INFLATION AND AN IMPROVED TRADE OUTLOOK ALL POINT TO AN APPRECIATION OF THE CANADIAN DOLLAR.

Caution regarding forward-looking statements

Royal Bank, from time to time, makes written and oral forward-looking statements, included in this Annual Report, in other filings with Canadian regulators or the U.S. Securities and Exchange Commission, in reports to shareholders and in other communications. Such forward-looking statements include objectives for 2000 and the medium-term, and strategies to achieve those objectives, set forth herein.

By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and risks exist that predictions, forecasts, projections and other forward-looking statements will not be achieved. Royal Bank cautions readers not to place undue reliance on these statements as a number of important factors could cause actual results to differ materially from the

plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements. These factors include, but are not limited to, changes in economic conditions including fluctuations in interest rates and inflation, regulatory developments, technological changes and the effects of competition in the geographic and business areas where the bank operates.

Royal Bank cautions that the foregoing list of important factors is not exhaustive. When relying on forward-looking statements to make decisions with respect to the bank, investors and others should carefully consider the foregoing factors and other uncertainties and events.

Management's Discussion and Analysis

Overview

Management evaluates Royal Bank of Canada's performance on a core basis as well as on the basis reported in its financial statements included on pages 49 to 72. Results on a core basis exclude the impact of one-time items (shown in Table 3 on page 17). 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.

HIGHLIGHTS

- > Core fully diluted earnings per share (i.e., excluding one-time items) of \$5.25, up 1% from 1998, reflecting share repurchases
- > Core international net income 35% of total net income, up from 33% in 1998
- > Core revenues of \$10.5 billion, up 7%
- > Core non-interest revenues 51% of total revenues, up from 48%
- > Core non-interest expenses of \$7.0 billion, up 9%, and "base" non-interest expenses of \$5.6 billion, up 3%
- > Impaired loans down 15% and specific provisions for credit losses ratio down
- > Addition to general allowance of \$230 million
- > Repurchase of 5.2 million common shares for \$333 million
- > Capital ratios up substantially and common share dividends of \$1.88 per share, up 7%

REVENUE GROWTH AND DIVERSIFICATION

In 1999, core revenues increased 7%, at the upper end of our objective of growth in the mid-single digits. Net interest income increased 1% and non-interest revenue was 13% higher.

EFFICIENCY IMPROVEMENT

While the core efficiency ratio was 66.2% in 1999 versus 64.9% in 1998, the "base" efficiency ratio improved to 52.8% from 54.9%. The bank plans to take over \$400 million out of its cost base by the end of 2000, to reach a 59.5% efficiency ratio (using Canadian GAAP) exiting the fourth quarter of 2000.

CREDIT QUALITY

Impaired loans fell by 15% from last year to \$1.7 billion. Specific provisions for credit losses amounted to .30% of average loans

(including bankers' acceptances) and reverse repurchase agreements, down from .31% in 1998 and better than the bank's 1999 objective of .35–.40%. The general allowance for credit losses was increased by \$230 million to \$1,080 million or .72% of risk-adjusted assets, up from .54% in 1998. The total allowance for credit losses was \$1.9 billion or 1.2% of total loans versus 1.3% in 1998.

BALANCE SHEET AND CAPITAL MANAGEMENT

Using the guidelines provided by the Office of the Superintendent of Financial Institutions Canada and Canadian GAAP financial information, the Tier 1 capital ratio was 8.1%, up from 7.4% a year ago. The Total capital ratio was 11.2%, up from 10.5%. 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

(C\$ millions, taxable equivalent basis)	1999			1998		
	Canada	International	Total	Canada	International	Total
Net interest income	\$ 4,402	\$ 750	\$ 5,152	\$ 4,409	\$ 692	\$ 5,101
Non-interest revenue	4,277	1,214	5,491	3,729	1,268	4,997
Gross revenues	8,679	1,964	10,643	8,138	1,960	10,098
Provision for credit losses	672	88	760	527	48	575
Non-interest expenses	6,054	1,087	7,141	5,552	958	6,510
Income taxes (1)	854	163	1,017	1,015	226	1,241
Net income	\$ 1,099	\$ 626	\$ 1,725	\$ 1,044	\$ 728	\$ 1,772
Core net income (2)	\$ 1,171	\$ 642	\$ 1,813	\$ 1,191	\$ 598	\$ 1,789

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

(2) Excluding one-time items described in Table 3 on page 17.

Line of business results

Overview

Table 2 below shows the bank's results by business segment in 1999. These results include several one-time items, shown in Table 3 and described below. Table 4 on page 18 provides core business segment results, i.e., excluding the impact of these one-time items.

Table 2: Results by business segment

(C\$ millions, taxable equivalent basis)	1999					1998
	Personal & commercial banking	Wealth management	Corporate & investment banking	Other (1)	Total	Total
Net interest income	\$ 4,492	\$ 369	\$ 527	\$ (236)	\$ 5,152	\$ 5,101
Non-interest revenue	1,607	1,960	1,712	212	5,491	4,997
Gross revenues	6,099	2,329	2,239	(24)	10,643	10,098
Provision for credit losses	573	2	228	(43)	760	575
Non-interest expenses	3,764	1,841	1,431	105	7,141	6,510
Income taxes	682	164	183	(55)	974	1,128
Non-controlling interest and taxable equivalent adjustment	12	—	27	4	43	113
Net income (loss)	\$ 1,068	\$ 322	\$ 370	\$ (35)	\$ 1,725	\$ 1,772
Net income (loss) as a % of total bank net income	62%	19%	21%	(2)%	100%	100%
Net income growth over prior year	1%	14%	71%	n.a.	(3)%	7%
Fully diluted earnings per share					\$ 4.97	\$ 5.17
Return on common equity	22.6%	44.2%	17.7%	n.a.	15.3%	17.6%
Efficiency ratio (2)	61.7%	79.0%	63.9%	n.a.	67.1%	64.5%
Non-interest revenue as a % of gross revenues	26%	84%	76%	n.a.	52%	49%
Average assets	\$ 120,200	\$ 12,600	\$ 128,900	\$ 8,300	\$ 270,000	\$ 261,500
Average loans	115,000	6,000	36,100	(1,500)	155,600	155,000
Average deposits	88,800	21,400	65,200	9,400	184,800	178,700
Average common equity	4,400	700	1,900	3,300	10,300	9,300

(1) The Other segment is comprised mainly of corporate treasury, systems & technology, distribution & service delivery, real estate operations and the discontinued LDC business.

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

One-time items, described in Table 3 below, reduced fully diluted earnings per share by \$0.28 in 1999 and \$0.05 in 1998. For 1999, the \$28 million gain on the sale of securities relates to shares received in satisfaction of a loan previously written off. The write-downs of investments in MECA Software LLC and Integrion Financial

Network LLC followed the decision to migrate PC banking customers to the Internet. The merger costs related to the proposed merger with the Bank of Montreal, which was denied by the Minister of Finance in December 1998. For 1998, the \$277 million gain relates to the sale of LDC Brady bonds.

Table 3: One-time items affecting business segment results (1)

(C\$ millions, taxable equivalent basis)	Personal & commercial banking		Corporate & investment banking		Other		Total	
	1999	1998	1999	1998	1999	1998	1999	1998
Non-interest revenue								
Gain on sale of securities	\$ 28	\$ —	\$ —	\$ —	\$ —	\$ 277	\$ 28	\$ 277
Gain on sale of real estate	—	—	—	—	95	—	95	—
Writedown of real estate	—	—	—	—	—	(22)	—	(22)
Writedown of MECA & Integrion	—	—	—	—	(18)	—	(18)	—
Hambros bond revaluation	—	—	—	(8)	—	—	—	(8)
	28	—	—	(8)	77	255	105	247
Provision for credit losses								
Specific provision	—	—	—	(75)	—	—	—	(75)
General provision	(35)	(50)	(55)	(25)	—	—	(90)	(75)
	(35)	(50)	(55)	(100)	—	—	(90)	(150)
Non-interest expenses								
Hambros integration	—	—	—	(23)	—	—	—	(23)
Restructuring costs	(50)	—	(83)	—	(20)	(62)	(153)	(62)
Merger costs	—	—	—	—	(12)	(31)	(12)	(31)
Expenses related to the sale of real estate	—	—	—	—	(5)	—	(5)	—
	(50)	—	(83)	(23)	(37)	(93)	(170)	(116)
Total impact (pre-tax)	(57)	(50)	(138)	(131)	40	162	(155)	(19)
Total impact (after-tax)	\$ (33)	\$ (29)	\$ (78)	\$ (78)	\$ 23	\$ 90	\$ (88)	\$ (17)
Impact on fully diluted earnings per share							\$ (0.28)	\$ (0.05)

(1) There were no one-time items in Wealth management.

Core line of business results

Overview

Table 4 below shows core results by business segment for 1999. Core results for 1998 for the three operating segments – Personal & commercial banking, Wealth management and Corporate & investment banking – are shown on pages 19 to 21.

Personal & commercial banking generated 61% of the bank's net income in 1999, produced a return on common equity of 23.4% and derived 26% of its revenues from non-interest revenues. The segment achieved an efficiency ratio of 61.2%.

Wealth management generated 18% of the bank's net income and derived 84% of its revenues from non-interest revenues. The segment's 44.2% return on common equity reflects low capital requirements due to its largely fee-based business. The efficiency ratio was 79.0%.

Corporate & investment banking generated 25% of the bank's net income and derived 76% of its revenues from non-interest revenue. Return on common equity was 21.7%, while the efficiency ratio was 60.2%.

Other largely comprises corporate treasury, which manages the bank's market risk position of the non-trading businesses, the systems and operations groups, real estate operations and the discontinued LDC business. In 1999, this segment recorded a net loss of \$58 million.

The three operating segments' returns on common equity in 1999 were negatively impacted by re-allocation of common equity from the Other segment to the three segments to cover non-trading market risk – \$410 million to Personal & commercial banking, \$55 million to Wealth management and \$35 million to Corporate & investment banking.

An additional amount of approximately \$1.1 billion of common equity will be similarly re-allocated from the Other segment to the three operating segments in the first quarter of fiscal 2000 to underpin operational and strategic risk – approximately \$450 million to Personal & commercial banking, about \$250 million to Wealth management and approximately \$400 million to Corporate & investment banking.

Table 4: Core results by business segment (1)

	1999					1998
	Personal & commercial banking	Wealth management	Corporate & investment banking	Other (2)	Total	Total
(C\$ millions, taxable equivalent basis)						
Net interest income	\$ 4,492	\$ 369	\$ 527	\$ (236)	\$ 5,152	\$ 5,101
Non-interest revenue	1,579	1,960	1,712	135	5,386	4,750
Gross revenues	6,071	2,329	2,239	(101)	10,538	9,851
Provision for credit losses	538	2	173	(43)	670	425
Non-interest expenses	3,714	1,841	1,348	68	6,971	6,394
Income taxes	706	164	243	(72)	1,041	1,130
Non-controlling interest and taxable equivalent adjustment	12	–	27	4	43	113
Net income (loss)	\$ 1,101	\$ 322	\$ 448	\$ (58)	\$ 1,813	\$ 1,789
Net income (loss) as a % of total bank net income	61%	18%	25%	(4)%	100%	100%
Net income growth over prior year	1%	14%	52%	n.a.	1%	9%
Fully diluted earnings per share					\$ 5.25	\$ 5.22
Return on common equity	23.4%	44.2%	21.7%	n.a.	16.1%	17.8%
Efficiency ratio (3)	61.2%	79.0%	60.2%	n.a.	66.2%	64.9%
Non-interest revenue as a % of gross revenues	26%	84%	76%	n.a.	51%	48%
Average assets	\$ 120,200	\$ 12,600	\$ 128,900	\$ 8,300	\$ 270,000	\$ 261,500
Average loans	115,000	6,000	36,100	(1,500)	155,600	155,000
Average deposits	88,800	21,400	65,200	9,400	184,800	178,700
Average common equity	4,400	700	1,900	3,300	10,300	9,300

(1) Core results exclude one-time items detailed in Table 3 on page 17.

(2) The Other segment is comprised mainly of corporate treasury, systems & technology, distribution & service delivery, real estate operations and the discontinued LDC business.

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

Personal & commercial banking

PERFORMANCE – OVERVIEW

Personal & commercial banking's core net income was up 1% from a year ago. However, excluding incremental expenses for investing in Security First Network Bank, Canadian electronic commerce, and home and auto insurance, net income was up 5%.

Revenues were up 8%, with increases in all businesses. Non-interest expenses were up 6%, resulting in an improvement in the core efficiency ratio of 110 basis points from 1998. Excluding higher expenses for investments in Security First Network Bank, Canadian electronic commerce, and home and auto insurance, non-interest expenses were up 4%.

The increase in the provision for credit losses largely reflects a \$135 million addition to the general provision this year and an increase in Business banking's specific provisions from a low level in 1998. Specific provisions were \$403 million, or .35% of average loans (including bankers' acceptances) compared to \$254 million, or .24%, in 1998.

Return on common equity was 23.4%, down from a year ago, reflecting the re-allocation of non-trading market risk capital from the Other segment to the three major operating segments, as mentioned on page 18.

FINANCIAL PERFORMANCE BY BUSINESS

Personal financial services

- > Solid revenue and volume growth
- > Market leader in mortgages, personal lending and personal deposits
- > Client-centric approach, leveraging group-wide offerings for investment needs

Card services

- > Healthy increase in volumes reflects focused marketing programs
- > Thirteen affinity programs finalized during the year with organizations that have over 1 million members in total

Business banking

- > Revenue growth of 4%
- > Leadership position maintained in business financing
- > Strong deposit growth offset by margin compression

Insurance

- > Strong growth target of \$1.5 billion in annual gross premiums within 5 years
- > Canada's fourth largest issuer of new individual life insurance policies and leading provider of creditor insurance products
- > Canada's largest travel insurance issuer as well as a premier supplier of emergency out-of-country medical assistance

Emerging businesses

- > Solid growth in Security First Network Bank's number of accounts in 1999 and SFNB continues to build infrastructure to support further growth
- > Number of Canadian on-line clients doubled in 1999, and is targeted to double again in 2000

Core results (1)

(C\$ millions, taxable equivalent basis)	% change	1999	1998
Net interest income	6%	\$ 4,492	\$ 4,224
Non-interest revenue	15	1,579	1,376
Gross revenues	8	6,071	5,600
Provision for credit losses			
Specific provision	59	403	254
General provision	n.a.	135	—
Total provision	112	538	254
Non-interest expenses	6	3,714	3,491
Net income before income taxes	(2)	1,819	1,855
Income taxes	(6)	706	752
Non-controlling interest and taxable equivalent adjustment	(25)	12	16
Net income	1%	\$ 1,101	\$ 1,087
Net income as a % of total net income	—	61%	61%
Return on common equity	(610)bp	23.4%	29.5%
Efficiency ratio	(110)bp	61.2%	62.3%
Average assets	8%	\$ 120,200	\$ 111,100
Average loans	8	115,000	106,400
Average deposits	4	88,800	85,400

(C\$ millions)	% change	1999	1998
Gross revenues	6%	\$ 3,233	\$ 3,060
Average residential mortgages	11	55,900	50,300
Average personal loans	9	21,200	19,400
Average personal deposits	1	63,400	62,600

(C\$ millions, transactions in millions)	% change	1999	1998
Average managed assets	17%	\$ 4,770	\$ 4,087
Card spending volumes	11	23,350	20,967
Merchant spending volumes	13	20,346	17,989
No. of merchant debit transactions	35	351	259

(C\$ millions)	% change	1999	1998
Gross revenues	4%	\$ 1,802	\$ 1,741
Average assets	3	35,900	34,900
Average loans	3	34,800	33,700
Average deposits	11	21,800	19,600

(C\$ millions)	% change	1999	1998
Gross insurance premiums			
Consumer	15%	\$ 621	\$ 540
Commercial	29	54	42
Other	321	219	52
Total	41%	\$ 894	\$ 634

	% change	1999	1998
Security First Network Bank's number of accounts	175%	40,200	14,600
Canadian on-line clients	111	530,000	251,300

(1) Excluding one-time items detailed in Table 3 on page 17.

Wealth management

PERFORMANCE – OVERVIEW

Net income increased by 14% over 1998, reflecting strong performances from Private client division (full-service brokerage), Global Securities Services, Global private banking and Action Direct discount brokerage. The segment's contribution to the bank's net income increased to 18% from 16% in 1998. Return on common equity declined due to the higher allocation of capital for non-trading market risk, described on page 18, and goodwill from acquisitions.

Revenues rose 7% and non-interest expenses were up 7% as well, excluding costs of strategic initiatives.

Assets under administration (AUA) were up 16% to \$960 billion as a result of double-digit percentage growth in Private client division, Global custody, Global private banking, Personal trust, Action Direct and Royal Mutual Funds.

Assets under management (AUM) were up 11% to \$82 billion, with particularly strong growth in personal assets under management.

FINANCIAL PERFORMANCE BY BUSINESS

Private client division

- > AUA in the full-service brokerage division were up 12% over 1998. Fee-based assets now represent 11% of total AUA, up from 8% in 1998. The goal is 25% in 5 years.

Royal Mutual Funds

- > At \$31 billion, AUM were up 11% from 1998. Royal Mutual Funds remains the second largest Canadian mutual fund company with market share in Canada of 8.6%.

Global private banking

- > Global private banking experienced 51% growth in combined personal and institutional AUA and 11% growth in AUM, due in part to several acquisitions. Revenues were up 13% over 1998.

Global Securities Services (GSS)

- > AUA were up 14% over 1998. GSS ranked number 3 in the world in the 13th annual *Global Investor* magazine survey of global custodians and was top-rated for Canadian custody for the 11th consecutive year by *Global Custodian* magazine.

Investment management and personal trust

- > Investment management AUM and personal trust AUA were each up 11% over 1998. The acquisition of Connor Clark Limited contributed a combined \$1.2 billion in AUM and AUA.

Personal wealth management

- > Personal wealth management's focus on building a strong financial planning-based relationship management team resulted in an increase in fee sales of 7% over 1998.

Action Direct

- > Action Direct experienced significant business growth in Canada with trade volumes up 54%, revenues up 52%, number of accounts up 25% and electronic trading volumes up 141% over last year. AUA grew 45% to \$9.7 billion, including \$0.5 billion for Bull & Bear Securities.

Core results (1)

(C\$ millions, taxable equivalent basis)	% change	1999	1998
Net interest income	6%	\$ 369	\$ 347
Non-interest revenue	7	1,960	1,828
Gross revenues	7	2,329	2,175
Provision for credit losses			
Specific provision	n.a.	(3)	1
General provision	n.a.	5	—
Total provision	100	2	1
Non-interest expenses	8	1,841	1,701
Net income before income taxes	3	486	473
Income taxes	(8)	164	179
Non-controlling interest	n.a.	—	12
Net income	14%	\$ 322	\$ 282
Net income as a % of total net income	200 bp	18%	16%
Return on common equity	(260)bp	44.2%	46.8%
Efficiency ratio	80 bp	79.0%	78.2%

(C\$ millions)	% change	1999	1998
Assets under administration			
Personal			
Private client division	12%	\$ 93,100	\$ 83,200
Mutual funds	11	30,600	27,500
Personal trust	11	28,000	25,200
Global private banking	11	24,500	22,100
Action Direct	45	9,700	6,700
Other	n.a.	(300)	1,100
Total personal	12	185,600	165,800
Institutional	18	774,300	658,300
	16%	\$ 959,900	\$ 824,100

(C\$ millions)	% change	1999	1998
Assets under management			
Institutional	9%	\$ 32,700	\$ 30,100
Personal	16	18,300	15,800
Mutual funds	11	30,600	27,500
	11%	\$ 81,600	\$ 73,400

(C\$ millions)	% change	1999	1998
Gross revenues by business			
Private client division	5%	\$ 840	\$ 797
Royal Mutual Funds	12	333	297
Global private banking	13	288	256
Global Securities Services	4	280	268
Investment management	4	275	264
Personal wealth management	(7)	211	226
Action Direct	52	102	67
	7%	\$ 2,329	\$ 2,175

(1) Excluding one-time items detailed in Table 3 on page 17.

Corporate & investment banking

PERFORMANCE – OVERVIEW

This segment showed very strong performance in 1999. Net income grew 52% from 1998 and accounted for 25% of total net income, compared to 16% in 1998. Return on common equity improved to 21.7% from 16.4% in 1998.

Revenues were up 12%, with very strong growth in the Global equity division.

Non-interest expenses rose 15% during 1999. In the first quarter of this year, the bank acquired the outstanding participating preferred shares of RBC Dominion Securities Limited held by certain key employees. This resulted in higher non-interest expenses since the former holders of the participating preferred shares now receive direct compensation. In 1998, such compensation was recorded as "non-controlling interest". Non-interest expenses, excluding the higher compensation resulting from the acquisition of the preferred shares, grew 6% over 1998. On further excluding costs of strategic initiatives (hiring of energy team based in Houston and formation of a high-yield bond team in Greenwich, Connecticut), non-interest expenses rose 4%.

Specific provisions for credit losses were \$173 million, or .48% of average loans (including bankers' acceptances) compared to \$285 million or .66% in 1998.

FINANCIAL PERFORMANCE BY BUSINESS

Global markets division

- > The bond-trading operations acquired in 1998 from Hambros Bank Limited contributed revenues of \$83 million in 1999, up 65% over last year. These grew to 12% of Global markets division's total revenues from 7% in 1998.

Global equity division

- > The Global equity derivatives team in the U.S. had revenues of \$330 million in 1999, up 140% from 1998. These amounted to 63% of Global equity division's total revenues in 1999 versus 45% in 1998.

Corporate and investment banking division

- > Despite an \$8 billion or 19% reduction in asset levels (reflecting restructuring efforts), revenues were unchanged. This stemmed from wider credit spreads and a greater focus on fee income.
- > Non-interest expenses were reduced by \$38 million, largely in the last two quarters, from successful restructuring efforts aimed at achieving the cost savings discussed on page 27.

Core results (1)

(C\$ millions, taxable equivalent basis)	% change	1999	1998
Net interest income	(24)%	\$ 527	\$ 689
Non-interest revenue	31	1,712	1,307
Gross revenues	12	2,239	1,996
Provision for credit losses			
Specific provision	(39)	173	285
General provision	–	–	–
Total provision	(39)	173	285
Non-interest expenses	15	1,348	1,171
Net income before income taxes	33	718	540
Income taxes	40	243	174
Non-controlling interest and taxable equivalent adjustment	(62)	27	71
Net income	52%	\$ 448	\$ 295
Net income as a % of total net income	900 bp	25%	16%
Return on common equity	530 bp	21.7%	16.4%
Efficiency ratio	150 bp	60.2%	58.7%
Average assets	1%	\$ 128,900	\$ 128,100
Average loans	(17)	36,100	43,400
Average deposits	(9)	65,200	72,000

(C\$ millions)	% change	1999	1998
Gross revenues	2%	\$ 704	\$ 691
Average assets	4	79,700	76,500

(C\$ millions)	% change	1999	1998
Gross revenues	79%	\$ 522	\$ 291
Average assets	60	15,200	9,500

(C\$ millions)	% change	1999	1998
Gross revenues	–%	\$ 1,013	\$ 1,014
Average assets	(19)	34,000	42,100

(1) Excluding one-time items detailed in Table 3 on page 17.

Strategic priority: revenue growth and diversification

HIGHLIGHTS

- > Core revenue growth of 7%, at the upper end of the objective for 1999 of growth in the mid-single digits
- > Net interest income up 1%
- > Net interest margin of 1.91%, down slightly from 1998
- > Core non-interest revenues up 13%
- > Core non-interest revenues 51% of total core revenues, up from 48% in 1998

Net interest income

Net interest income was up 1% from 1998 to \$5.2 billion. The increase partially stemmed from higher volumes of interest-earning assets, particularly retail loans, where market shares for residential mortgages and personal loans were up considerably during the year. Also impacting net interest income was a more favourable mix of loans and deposits. This occurred as low-yielding international corporate loans were replaced with higher return business and retail loans, and as non-interest-bearing deposits rose to account for a higher proportion of total deposits. As well, the spread between the prime rate and core deposit funding costs widened slightly during the year due to the average Canadian prime rate increasing to 6.5% from 6.4% in 1998.

However, there were three major factors that had a dampening effect on net interest income this year. First, the spread on the mortgage business declined substantially as yields fell due to lower mortgage interest rates caused by intense price competition, while

related funding costs increased. Second, net interest income was reduced by a change in the reporting for equity derivatives that took effect in the third quarter of 1998. Since that time, funding costs for the equity derivatives portfolio have been included in interest expense, which reduces net interest income. In the first two quarters of 1998, the funding costs were netted against trading revenues. Third, credit card securitizations of \$1.1 billion in the second quarter of 1998 also reduced net interest income since these revenues are now included in non-interest revenues under "securitization revenues".

As shown in Table 5 below, the net interest margin declined by 4 basis points from last year to 1.91%, as the benefits of a better loan and deposit mix and a wider spread between the prime rate and core deposits were more than offset by narrower spreads on the mortgage business, the change in reporting for equity derivatives and the credit card securitization described above.

Table 5: Change in net interest margin

	1999	1998
Net interest margin (1)	1.91%	1.95%
Components of change from prior year		
Loan/deposit mix	.11%	(.13)%
Prime-core deposit spread	.01	.10
Card securitizations	(.02)	(.06)
Change in reporting for equity derivatives	(.04)	(.04)
Mortgage funding costs	(.10)	(.02)
Total change from prior year	(.04)%	(.15)%

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

Non-interest revenue

As shown in Table 6 on page 23, core non-interest revenues (i.e., excluding one-time revenues mentioned in Table 3 on page 17) were \$5.4 billion, up \$636 million or 13% from 1998. Core non-interest revenues accounted for 51% of total revenues, up from 48% in 1998.

Core non-interest revenues were up 15% in Personal & commercial banking and represented 26% of the segment's total revenues, rose 7% in Wealth management to account for 84% of its revenues, and increased in Corporate & investment banking by 31% to make up 76% of its total revenues.

Most categories of non-interest revenues grew over 1998. The growth in trading revenues is discussed on page 23. The very strong growth in insurance revenues was reflected in most segments of the business, including the former Canadian operations of Mutual of Omaha, acquired last year, and the general insurance business, which expanded in 1999. The growth in card service revenues stemmed from heightened marketing efforts and greater success in the affinity card area.

Higher investment management and custodial fees reflected growth in assets under management and under administration, partially reflecting superior customer service ratings. Capital market fees rose, reflecting higher revenues from full-service brokerage, discount brokerage, and mergers and acquisition activity. Mutual fund revenue growth reflected net growth in mutual fund assets of \$3.1 billion during 1999, including \$1.5 billion of net inflows.

The sale of real estate, comprising 33 office buildings, processing centres and operations centres across Canada, resulted in a gain

of approximately \$350 million with associated human resource expenses of \$5 million, for a net pre-tax gain of \$345 million (\$195 million after-tax). Of this amount, \$90 million (\$95 million of non-interest revenues and \$5 million of expenses) or \$51 million after-tax was recognized as a one-time item in 1999. The remaining net gain of \$255 million (\$144 million after-tax) will be deferred and amortized over the approximately 10-year average term of the leases, and recorded as a reduction of non-interest expenses. It will be partially offset by higher rental costs.

OUTLOOK

> THE BANK EXPECTS MID-SINGLE-DIGIT PERCENTAGE GROWTH IN TOTAL REVENUES IN 2000, UNDER THE EXPECTATION THAT CAPITAL MARKETS WILL NOT STRENGTHEN OR WEAKEN SIGNIFICANTLY FROM THE LEVEL IN EARLY DECEMBER 1999, RETAIL LOAN VOLUMES WILL INCREASE NEXT YEAR AND THE NET INTEREST MARGIN WILL REMAIN RELATIVELY UNCHANGED.

Table 6: Non-interest revenue

(C\$ millions)	1999	1998	1997	1999 vs 1998		1998 vs 1997	
				Increase (decrease)		Increase (decrease)	
Capital market fees	\$ 1,209	\$ 1,118	\$ 1,172	\$ 91	8%	\$ (54)	(5)%
Trading revenues	1,106	760	606	346	46	154	25
Deposit and payment service charges	688	664	690	24	4	(26)	(4)
Investment management and custodial fees	547	495	404	52	11	91	23
Mutual fund revenues	479	447	354	32	7	93	26
Card service revenues	362	305	332	57	19	(27)	(8)
Securitization revenues	220	226	9	(6)	(3)	217	—
Foreign exchange revenues, other than trading	243	218	211	25	11	7	3
Credit fees	189	183	169	6	3	14	8
Revenues from insurance activities	174	113	102	61	54	11	11
Gain on sale of securities	18	66	37	(48)	(73)	29	78
Gain (loss) on disposal of premises and equipment	(5)	(32)	(4)	27	84	(28)	(700)
Other	156	187	91	(31)	(17)	96	105
Total core (i.e., excluding one-time gains)	5,386	4,750	4,173	636	13	577	14
One-time gains (1)	105	247	115	(142)	(57)	132	115
Total	\$ 5,491	\$ 4,997	\$ 4,288	\$ 494	10%	\$ 709	17%

(1) One-time gains in 1999 and 1998 are described in Table 3 on page 17. One-time gains in 1997 of \$115 million consisted of \$70 million from the sale of the payroll technologies business and \$65 million (net of expenses) from the cancellation of the planned acquisition of London Insurance Group, offset in part by \$20 million of minor asset write-offs and losses.

Trading revenues

Trading revenues include gains and losses on securities and derivatives which 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 non-interest revenues is provided in footnotes 1 and 2 to Table 7 on page 24.

Trading revenues in net interest income declined by \$174 million and in non-interest revenues increased by \$354 million during 1999, partly due to the change in reporting for equity derivatives mentioned under the net interest income section on page 22 and also as a result of the reclassification mentioned in footnote 1 to Table 7 on page 24. Total trading revenues were up \$180 million or 19% in 1999, reflecting strong growth in the New York-based equity derivatives business, stronger markets in 1999, and the continuing

success of Global markets division (which was created in 1996 by combining the bank's trading division with the investment dealer's fixed income group). 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, revenues from debt instruments rose 9% due to the continued success of the European bond trading operations. Revenues from equity, commodity and precious metal contracts increased 47% due to growth in the equity derivatives business. Trading revenues from foreign exchange contracts rose 9%, while those from interest rate risk management contracts were 35% higher.

Table 7: Trading revenues

(C\$ millions)	1999	1998	1997
Net interest income (1)	\$ 5	\$ 179	\$ 194
Non-interest revenue (2)	1,106	752	606
Total	\$ 1,111	\$ 931	\$ 800
By product			
Debt instruments (3)	\$ 423	\$ 389	\$ 409
Equity, commodity and precious metal contracts	329	224	151
Foreign exchange contracts (4)	290	267	226
Interest rate risk management contracts (5)	69	51	14
Total	\$ 1,111	\$ 931	\$ 800

(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 non-interest revenue 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 non-interest revenue. 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

(C\$ millions, taxable equivalent basis)	1999 vs 1998 Increase (decrease) due to changes in			1998 vs 1997 Increase (decrease) due to changes in		
	average volume (1)	average rate (1)	Net change	average volume (1)	average rate (1)	Net change
Assets						
Deposits with other banks						
Canada	\$ 6	\$ 13	\$ 19	\$ 21	\$ 42	\$ 63
International	105	(105)	—	(240)	(10)	(250)
Securities						
Trading	254	(172)	82	235	2	237
Available for sale	112	(30)	82	(504)	26	(478)
Held to maturity	22	2	24	(6)	2	(4)
Assets purchased under reverse repurchase agreements	(120)	(156)	(276)	483	118	601
Loans						
Canada						
Residential mortgage	282	(75)	207	247	(221)	26
Personal	158	4	162	221	162	383
Credit card	28	5	33	(156)	(66)	(222)
Business and government	27	(364)	(337)	98	(11)	87
International	(596)	491	(105)	392	406	798
Total interest income	\$ 278	\$ (387)	\$ (109)	\$ 791	\$ 450	\$ 1,241
Liabilities						
Deposits						
Canada	\$ (78)	\$ 132	\$ 54	\$ (101)	\$ 499	\$ 398
International	233	(383)	(150)	763	23	786
Obligations related to securities sold short	32	(35)	(3)	167	(152)	15
Obligations related to assets sold under repurchase agreements	23	(31)	(8)	(125)	143	18
Subordinated debentures	(15)	(38)	(53)	11	(56)	(45)
Total interest expense	195	(355)	(160)	715	457	1,172
Net interest income	\$ 83	\$ (32)	\$ 51	\$ 76	\$ (7)	\$ 69

(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

(C\$ millions, taxable equivalent basis)	1999			1998			1997		
	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	\$ 2,244	\$ 124	5.53%	\$ 2,133	\$ 105	4.92%	\$ 1,530	\$ 42	2.75%
International	15,694	717	4.57	13,549	717	5.29	18,075	967	5.35
	17,938	841	4.69	15,682	822	5.24	19,605	1,009	5.15
Securities									
Trading	31,315	1,143	3.65	24,768	1,061	4.28	19,278	824	4.27
Available for sale (3)	15,982	905	5.66	14,011	823	5.87	22,588	1,301	5.76
Held to maturity	1,161	67	5.77	779	43	5.52	894	47	5.26
	48,458	2,115	4.36	39,558	1,927	4.87	42,760	2,172	5.08
Assets purchased under reverse repurchase agreements									
	21,769	893	4.10	24,444	1,169	4.78	14,038	568	4.05
Loans (4)									
Canada									
Residential mortgage	57,979	3,784	6.53	53,682	3,577	6.66	50,070	3,551	7.09
Personal	24,347	1,945	7.99	22,368	1,783	7.97	19,481	1,400	7.19
Credit card	2,297	226	9.84	2,009	193	9.61	3,530	415	11.76
Business and government	33,799	1,399	4.14	33,278	1,736	5.22	31,409	1,649	5.25
	118,422	7,354	6.21	111,337	7,289	6.55	104,490	7,015	6.71
International	27,705	3,032	10.94	33,584	3,137	9.34	29,069	2,339	8.05
	146,127	10,386	7.11	144,921	10,426	7.19	133,559	9,354	7.00
Total interest-earning assets	234,292	14,235	6.08	224,605	14,344	6.39	209,962	13,103	6.24
Non-interest-bearing deposits with other banks	666	—	—	394	—	—	89	—	—
Customers' liability under acceptances	9,508	—	—	10,033	—	—	8,790	—	—
Other assets	27,531	—	—	28,623	—	—	23,357	—	—
Allowance for credit losses	(1,997)	—	—	(2,155)	—	—	(2,398)	—	—
Total assets	\$ 270,000	\$ 14,235	5.27%	\$ 261,500	\$ 14,344	5.49%	\$ 239,800	\$ 13,103	5.46%
Liabilities and shareholders' equity									
Deposits (5)									
Canada	\$ 104,919	\$ 4,480	4.27%	\$ 106,784	\$ 4,426	4.14%	\$ 109,473	\$ 4,028	3.68%
International	66,498	3,156	4.75	61,933	3,306	5.34	47,643	2,520	5.29
	171,417	7,636	4.45	168,717	7,732	4.58	157,116	6,548	4.17
Obligations related to securities sold short	15,015	554	3.69	14,168	557	3.93	10,408	542	5.21
Obligations related to assets sold under repurchase agreements	12,169	607	4.99	11,724	615	5.25	14,442	597	4.13
Subordinated debentures	4,499	286	6.36	4,711	339	7.20	4,581	384	8.38
Total interest-bearing liabilities	203,100	9,083	4.47	199,320	9,243	4.64	186,547	8,071	4.33
Non-interest-bearing deposits	13,379	—	—	9,971	—	—	9,133	—	—
Acceptances	9,508	—	—	10,033	—	—	8,790	—	—
Other liabilities	31,532	—	—	30,949	—	—	25,286	—	—
	257,519	9,083	3.53	250,273	9,243	3.69	229,756	8,071	3.51
Shareholders' equity									
Preferred	2,213	—	—	1,972	—	—	1,741	—	—
Common	10,268	—	—	9,255	—	—	8,303	—	—
Total liabilities and shareholders' equity	\$ 270,000	\$ 9,083	3.36%	\$ 261,500	\$ 9,243	3.53%	\$ 239,800	\$ 8,071	3.37%
Net interest income as a % of total average assets	\$ 270,000	\$ 5,152	1.91%	\$ 261,500	\$ 5,101	1.95%	\$ 239,800	\$ 5,032	2.10%
Net interest income as a % of total average interest-earning assets									
Canada	\$ 168,842	\$ 4,402	2.61%	\$ 161,648	\$ 4,409	2.73%	\$ 152,686	\$ 4,352	2.85%
International	65,450	750	1.15	62,957	692	1.10	57,276	680	1.19
Total	\$ 234,292	\$ 5,152	2.20%	\$ 224,605	\$ 5,101	2.27%	\$ 209,962	\$ 5,032	2.40%

(1) Calculated on a daily basis.

(2) Interest income includes loan fees (1999 – \$250 million; 1998 – \$195 million; 1997 – \$192 million). The taxable equivalent adjustment is based on the Canadian tax rate of 43.0 % for 1999 and 42.9 % for 1998 and 1997.

(3) Tax-exempt securities had average balances of \$2,017, \$1,152 and \$904 million, interest earned of \$83, \$87 and \$80 million and average rates of 4.12%, 7.55% and 8.85% for 1999, 1998 and 1997, respectively.

(4) Average balances include impaired loans.

(5) Deposits include savings deposits with average balances of \$33, \$42 and \$35 billion, interest expense of \$0.6, \$0.7 and \$0.4 billion and average rates of 1.82%, 1.67% and 1.14% for 1999, 1998 and 1997, respectively. Deposits also include time deposits with average balances of \$37, \$47 and \$47 billion, interest expense of \$2.0, \$2.6 and \$2.5 billion and average rates of 5.41%, 5.53% and 5.32% for 1999, 1998 and 1997, respectively.

Strategic priority: efficiency improvement

HIGHLIGHTS

- > Core non-interest expenses up 9% from 1998
- > "Base" non-interest expenses up 3%
- > Core efficiency ratio of 66.2% versus 64.9% in 1998
- > "Base" efficiency ratio of 52.8%, 210 basis points better than in 1998

PERFORMANCE

As shown in Table 10 below, core non-interest expenses (i.e., excluding one-time expenses mentioned in Table 3 on page 17) were up \$577 million or 9% from 1998. There were three factors that accounted for close to three-quarters of this increase. First, the acquisition of the participating preferred shares of RBC Dominion Securities Limited, mentioned on page 21, caused non-interest expenses to rise by \$104 million from last year. Such expenses were previously reported as non-controlling interest in net income of subsidiaries. Second, the bank incurred expenses relating to strategic initiatives of \$151 million in 1999, up \$124 million from last year. These related to growth of Security First Network Bank

(the world's first internet bank™), Canadian electronic commerce operations, wealth management businesses, property and casualty insurance in Canada, and the high-yield and energy operations in the United States. Third, performance-related compensation costs were up \$198 million this year, largely due to much stronger results in Corporate & investment banking. Base non-interest expenses (excluding these three factors and one-time costs) were up 2.8% from 1998.

While the core efficiency ratio was 66.2% versus 64.9% in 1998, the base efficiency ratio (excluding one-time items and the three factors mentioned above) was 52.8%, down 210 basis points from 54.9% last year.

Table 10: Non-interest expenses

(C\$ millions)	1999	1998	1997	1999 vs 1998 Increase (decrease)		1998 vs 1997 Increase (decrease)	
Human resources	\$ 4,032	\$ 3,638	\$ 3,386	\$ 394	11%	\$ 252	7%
Occupancy							
Net premises rent	262	239	274	23	10	(35)	(13)
Premises repairs and maintenance	88	93	88	(5)	(5)	5	6
Depreciation	92	92	84	—	—	8	10
Property taxes	41	46	37	(5)	(11)	9	24
Energy	33	33	33	—	—	—	—
	516	503	516	13	3	(13)	(3)
Equipment							
Office and computer rental and maintenance	376	329	248	47	14	81	33
Depreciation	297	250	298	47	19	(48)	(16)
	673	579	546	94	16	33	6
Communications							
Telecommunications	225	209	188	16	8	21	11
Marketing and public relations	182	175	134	7	4	41	31
Postage and courier	157	156	164	1	1	(8)	(5)
Stationery and printing	129	125	101	4	3	24	24
	693	665	587	28	4	78	13
Other							
Professional fees	274	262	228	12	5	34	15
Business and capital taxes	114	118	126	(4)	(3)	(8)	(6)
Deposit insurance	71	111	115	(40)	(36)	(4)	(3)
Travel and relocation	90	98	95	(8)	(8)	3	3
Amortization of goodwill	70	66	63	4	6	3	5
Employee training	48	60	52	(12)	(20)	8	15
Donations	29	25	21	4	16	4	19
Other	361	269	234	92	34	35	15
	1,057	1,009	934	48	5	75	8
Total core (i.e., excluding one-time expenses)	6,971	6,394	5,969	577	9	425	7
One-time expenses (1)	170	116	102	54	47	14	14
Total	\$ 7,141	\$ 6,510	\$ 6,071	\$ 631	10%	\$ 439	7%

(1) One-time expenses in 1999 and 1998 are described in Table 3 on page 17. One-time expenses of \$102 million in 1997 related to a \$40 million charge for reconfiguring the branch network and various other charges aggregating \$62 million.

The bank is targeting a 59.5% efficiency ratio (using Canadian GAAP) exiting the fourth quarter of 2000. This will require cost savings of more than \$400 million by the end of 2000.

The table below breaks down the bank's targeted cost savings.

Targeted cost savings by end of 2000

(C\$ millions)

Streamlined overhead functions	\$	100
Enhancement of service delivery		100
Lower costs for purchased goods and services		100+
Redefinition of international corporate lending operations		75
Network reconfiguration		35
Total	\$	400+

The bank is targeting savings of approximately \$100 million from reduced overhead functions. These will come largely from combining functions and reducing staff in businesses, geographic units and head office. The greatest cost savings will be sought from support groups and activities that do not interface directly with the customer.

Enhancement of service delivery refers to the removal and centralization of after-sales servicing and administrative activities from the bank's branches. The bank is also consolidating those centralized environments to achieve scale and scope, and redesigning processes to improve customer service. The targeted cost savings from these efforts is approximately \$100 million exiting 2000.

Approximately a quarter of the \$400 million of cost savings is expected to come from a decline in the amount spent on acquiring goods and services. The bank's strategic sourcing group is co-ordinating efforts in realizing these savings. Strategic sourcing

addresses total spending, shifts activities and costs to suppliers where feasible, manages demand, leverages supplier innovation and bases purchasing recommendations and decisions on facts that result from extensive analysis of data. The bank has compiled over 80 potential initiatives for cost savings, covering all facets of purchases from travel and stationery to telecommunication costs.

The returns from international corporate lending have been volatile and insufficient to warrant an extensive and expensive network outside Canada. The bank has therefore been closing offices in a number of international locations, largely in Asia and Latin America. These include offices in Thailand, Taiwan, China, Hong Kong, Argentina, Brazil, Colombia and Venezuela. In the U.S., offices in Chicago and Los Angeles have been closed, concentrating activities in New York and Houston. In Europe, the bank's presence has been reduced in Paris and Madrid. The Puerto Rican operation in the Caribbean has been sold. Savings of approximately \$75 million are expected in 2000 from the reduction of international corporate banking and global financial institutions operations.

The physical delivery channel has evolved considerably over the last few years, in terms of the number of units, their layout, the range of services offered, and the number and skills of people in the branches. With approximately 90% of routine transactions now conducted through electronic channels, branches have increasingly become sales and advice outlets. The branch network will continue to be rationalized and restructured, for a targeted \$35 million of cost savings in 2000.

These changes will result in fewer people – somewhere between 3,000 and 4,000 less next year and another 1,000 to 2,000 less in 2001, using full-time equivalent numbers. The annual attrition level has historically run around 5% or 2,500 people.

OUTLOOK

> THE BANK IS TARGETING AN EFFICIENCY RATIO OF 59.5% (USING CANADIAN GAAP) EXITING THE FOURTH QUARTER OF 2000.

Income and other taxes

Income and other taxes reported in the statement of income on page 51 were \$1.5 billion, comprising income taxes of \$1.0 billion (including a taxable equivalent adjustment) and other taxes of \$538 million. While other taxes were virtually unchanged from 1998, income taxes declined by \$156 million due to lower net income before income taxes.

As shown below and in note 8 to the financial statements on page 64, the effective income tax rate declined from 37.9% in 1998 to 36.0% in 1999. This reduction is primarily due to a higher

proportion of income earned in certain subsidiaries that are subject to lower taxes.

In addition to the income and other taxes reported in the statement of income, the bank recorded income taxes of \$276 million in 1999 (1998 – tax benefit of \$341 million) in shareholders' equity related to unrealized foreign currency translation gains and losses (net of hedging activities) and unrealized gains and losses on available for sale securities (net of hedging activities).

Table 11: Taxes

(C\$ millions)	1999	1998	1997
Income taxes			
Statement of income	\$ 974	\$ 1,128	\$ 1,106
Taxable equivalent adjustment	35	37	32
	1,009	1,165	1,138
Other taxes			
Goods and services tax and sales taxes	187	182	146
Payroll taxes	176	171	166
Provincial capital taxes	98	95	81
Property taxes (1)	55	63	49
Business taxes	16	23	45
Insurance premium taxes	6	6	3
	538	540	490
Total	\$ 1,547	\$ 1,705	\$ 1,628
Effective income tax rate (2)	36.0%	37.9%	39.0%
Effective total tax rate (3)	47.2%	48.0%	48.5%

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

(2) Income taxes reported in the 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.

Strategic priority: strong credit quality

HIGHLIGHTS

- > Total impaired loans down 15% from 1998 to \$1.7 billion
- > Impaired loans to total loans of 1.1%, down from 1.3% in 1998
- > Specific provision for credit losses ratio of .30%, better than 1999 objective of .35–.40%
- > General allowance (accumulated general provisions) up \$230 million to \$1,080 million

IMPAIRED LOANS

Loans are generally classified as impaired under circumstances described in detail in note 1 to the financial statements, on page 54.

As indicated in Table 12 below, impaired loans declined \$297 million from 1998 to \$1,704 million at October 31, 1999. The reduction reflected a significant increase in charge-offs and adjustments to \$1,040 million from \$446 million in 1998. Most of this increase related to the acceleration in the rate of charging off problem loans, to be consistent with U.S. practice, as described in the Allowance for credit losses section on page 30.

As shown in Table 13 on page 31, impaired loans in Canada declined \$123 million, principally in the financial services and forestry sectors in Ontario and British Columbia, respectively. International impaired loans dropped \$174 million, due to a combination of charge-offs and reductions in exposures, mostly in Asia.

As a percentage of loans (including bankers' acceptances), impaired loans fell to 1.1% from 1.3% a year ago, with lower ratios both in Canada and internationally.

OUTLOOK

- > THE BANK DOES NOT EXPECT A SIGNIFICANT CHANGE IN THE LEVEL OF IMPAIRED LOANS IN 2000, BASED UPON ITS EXPECTATION OF CONTINUED SOUND ECONOMIC GROWTH IN CANADA.

Table 12: Change in impaired loans

(C\$ millions)	1999	1998	1997	1996	1995
Impaired loans at beginning of year	\$ 2,001	\$ 1,819	\$ 2,376	\$ 2,944	\$ 4,424
Additions	990	1,271	705	1,013	n.a.
Reductions	(247)	(643)	(624)	(629)	n.a.
Charge-offs and adjustments	743 (1,040)	628 (446)	81 (638)	384 (952)	(255) (1,225)
Impaired loans at end of year	\$ 1,704	\$ 2,001	\$ 1,819	\$ 2,376	\$ 2,944

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 \$760 million in 1999, compared to \$575 million in 1998, as shown in Table 14 on page 32. This increase resulted largely from a higher general provision of \$230 million in 1999 versus \$100 million in 1998.

Specific provisions this year declined to \$530 million from \$555 million in 1998. The \$25 million drop reflected a \$40 million decline internationally, net of a \$15 million increase in Canada. International specific provisions fell significantly in Asia but were up in the U.S., largely in industrial products. The increase in specific

provisions in Canada reflects higher charge-offs, net of recoveries in the credit card portfolio, which were up from an exceptionally low level in 1998.

The specific provision for credit losses amounted to .30% of average loans (including bankers' acceptances) and reverse repurchase agreements, down from .31% in 1998 and better than the bank's objective of .35–.40% for 1999.

As mentioned below, the bank revised its methodology for determining the general provision as at October 31, 1999. The \$230 million general provision recorded in 1999 reflects this revised methodology and changes in composition of the bank's credit portfolio. Of the \$230 million, \$90 million was recorded to allow for imperfections in models and in estimating risk.

OUTLOOK

> IN 2000, THE BANK EXPECTS A RATIO OF SPECIFIC PROVISIONS FOR CREDIT LOSSES TO AVERAGE LOANS (INCLUDING BANKERS' ACCEPTANCES) AND REVERSE REPURCHASE AGREEMENTS OF .30–.40%, BASED UPON ITS EXPECTATION OF CONTINUED SOUND ECONOMIC GROWTH IN CANADA.

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 charge-offs net of recoveries.

Using a comprehensive historical analysis, at October 31, 1999, the bank revised its methodology for determining the amount of the general allowance. This included a determination of allocated and unallocated components of the general allowance which will be applied prospectively. Additionally, during the year, the bank commenced charging off problem loans faster than it had done before. Both changes were made to align the bank's accounting for the allowance for credit losses with U.S. practice, while still adhering to Canadian GAAP.

The allowance for credit losses comprises four components – specific, country risk, general allocated and general unallocated – as described in note 1 to the financial statements on page 55.

Specific allowances are maintained to provide for the most likely loss 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 experience applied to impaired loans. No specific allowance is maintained for credit cards, as these balances are charged off after 180 days if no payment has been received.

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.

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.

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 assessing model risk and credit risk.

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 conducts back-testing and assesses the methodology and all significant assumptions on a regular basis.

As shown in Table 15 on page 33, the allowance for credit losses fell between 1998 and 1999. This decline mainly reflects an increase in net charge-offs this year due to the bank charging off problem loans faster than before, as referred to earlier.

The revision of the methodology for the general allowance resulted in the determination of a general allocated allowance of \$790 million and a general unallocated allowance of \$290 million at October 31, 1999. The methodology used in prior years did not allow for this split and as a result the general allowance for prior years is reported as unallocated.

Table 13: Impaired loans

(C\$ millions)	1999	1998	1997	1996	1995
Canada					
Atlantic provinces	\$ 77	\$ 60	\$ 64	\$ 61	\$ 74
Quebec	259	261	378	544	279
Ontario	438	543	583	1,020	1,880
Prairie provinces	198	161	369	390	129
British Columbia	415	485	83	52	77
Total Canada	1,387	1,510	1,477	2,067	2,439
Consumer					
Residential mortgage	173	166	166	188	211
Personal	236	217	153	117	131
	409	383	319	305	342
Business and government					
Financial services	16	121	8	11	15
Small business (1)	232	130	144	117	162
Energy	38	6	2	—	—
Information technology and media	57	43	18	13	114
Consumer goods	43	55	43	112	103
Agriculture (1)	62	47	46	51	72
Industrial products	19	25	68	58	64
Commercial real estate	186	182	348	599	1,126
Commercial mortgages	25	22	43	88	137
Forest products	233	383	79	250	2
Other	67	113	359	463	302
	978	1,127	1,158	1,762	2,097
Total Canada	1,387	1,510	1,477	2,067	2,439
International					
United States	41	18	42	22	131
Europe	58	59	43	86	212
Latin America	10	4	20	1	—
Caribbean	47	62	71	83	99
Asia	127	308	132	54	4
	283	451	308	246	446
Less developed countries (LDCs)	34	40	34	63	59
Total international	317	491	342	309	505
Business and government					
Financial services	89	90	46	68	89
Energy	23	31	14	1	1
Consumer goods	18	119	115	70	56
Industrial products	38	76	30	54	35
Commercial real estate	5	12	31	33	215
Other	144	163	106	83	109
Total international	317	491	342	309	505
Total	\$ 1,704	\$ 2,001	\$ 1,819	\$ 2,376	\$ 2,944
Impaired loans as a % of related loans (including acceptances) (2)					
Canada					
Residential mortgage	.30%	.30%	.31%	.39%	.47%
Personal	.97	.99	.76	.66	.80
Business and government loans and acceptances	2.24	2.52	2.72	4.36	5.19
	1.07	1.21	1.25	1.89	2.33
International	1.28	1.49	1.07	1.27	2.73
Total	1.11%	1.27%	1.21%	1.78%	2.39%

(1) The 1999 amounts include government guaranteed portions of impaired loans of \$79 million in Small business and \$5 million in Agriculture. Previously, the non-guaranteed portion was considered impaired.

(2) Loans in Canada include all loans booked in Canada, regardless of currency or residence of borrower.

Table 14: Provision for credit losses

(C\$ millions)	1999	1998	1997	1996	1995
Provision for credit losses					
Canada					
Atlantic provinces	\$ 32	\$ 35	\$ 37	\$ 36	\$ 37
Quebec	71	63	149	186	60
Ontario	52	144	13	153	341
Prairie provinces	95	53	29	86	34
British Columbia	192	132	37	3	12
Total Canada	442	427	265	464	484
Consumer					
Residential mortgage	4	9	12	56	43
Personal	172	171	114	99	123
Credit card	55	28	65	76	63
	231	208	191	231	229
Business and government					
Financial services	5	113	1	(1)	—
Small business	113	48	51	73	79
Energy	12	1	(1)	(1)	—
Information technology and media	(16)	(20)	5	(34)	95
Consumer goods	11	23	(29)	50	(9)
Agriculture	2	4	1	(1)	1
Industrial products	(10)	(6)	12	5	5
Commercial real estate	9	(30)	(78)	(43)	73
Commercial mortgages	8	6	18	26	22
Forest products	81	76	86	103	(3)
Other	(4)	4	8	56	(8)
	211	219	74	233	255
Total Canada	442	427	265	464	484
International					
United States	45	(7)	(8)	(13)	71
Europe	21	10	(24)	(19)	(6)
Latin America	2	(2)	7	—	2
Caribbean	—	3	7	4	26
Asia	20	124	83	34	3
Total international	88	128	65	6	96
Business and government					
Financial services	2	36	(2)	1	4
Energy	—	21	4	1	—
Consumer goods	(10)	(5)	46	17	(1)
Industrial products	31	9	5	21	6
Commercial real estate	2	(2)	(1)	(28)	42
Other	63	69	13	(6)	45
Total international	88	128	65	6	96
Total specific provisions	530	555	330	470	580
Country risk provision	—	(80)	—	(300)	—
General provision	230	100	50	400	—
Total	\$ 760	\$ 575	\$ 380	\$ 570	\$ 580
Provision for credit losses as a % of related average loans (including acceptances)					
Canada					
Residential mortgage	.01%	.02%	.02%	.12%	.10%
Personal	.71	.76	.59	.60	.77
Credit card	2.39	1.39	1.84	2.20	1.87
Business and government loans and acceptances	.49	.51	.19	.61	.66
	.35	.35	.24	.44	.48
International	.31	.14	.22	(1.30)	.49
Total, including general provision	.49%	.37%	.27%	.45%	.48%
Provision for credit losses as a % of average loans (including acceptances) and reverse repurchase agreements	.43%	.32%	.24%	.43%	.46%
Specific provision for credit losses as a % of average loans (including acceptances) and reverse repurchase agreements	.30%	.31%	.21%	.36%	.46%

Table 15: Allowance for credit losses

(C\$ millions)	1999	1998	1997	1996	1995
Allowance at beginning of year	\$ 2,066	\$ 2,118	\$ 2,235	\$ 2,669	\$ 3,202
Provision for credit losses	760	575	380	570	580
Charge-offs					
Canada					
Residential mortgage	(14)	(17)	(34)	(46)	(29)
Personal	(236)	(163)	(138)	(133)	(134)
Credit card	(65)	(52)	(98)	(104)	(90)
Business and government	(524)	(250)	(361)	(542)	(839)
	(839)	(482)	(631)	(825)	(1,092)
International, excluding LDCs	(229)	(29)	(28)	(124)	(125)
LDC exposures	(4)	(325)	(10)	(186)	—
	(1,072)	(836)	(669)	(1,135)	(1,217)
Recoveries					
Canada					
Residential mortgage	2	6	9	11	—
Personal	31	26	21	21	18
Credit card	10	24	32	28	26
Business and government	66	80	62	65	58
	109	136	124	125	102
International	5	8	17	9	10
	114	144	141	134	112
Net charge-offs	(958)	(692)	(528)	(1,001)	(1,105)
Adjustments	32	65	31	(3)	(8)
Allowance at end of year	\$ 1,900	\$ 2,066	\$ 2,118	\$ 2,235	\$ 2,669
Net charge-offs (excluding LDCs) as a % of average loans	.61%	.24%	.36%	.64%	.91%
Net charge-offs as a % of average loans	.62%	.45%	.37%	.79%	.91%
Allocation of allowance (1)					
Canada					
Residential mortgage	\$ 53	\$ 50	\$ 52	\$ 65	\$ 44
Personal	344	156	92	77	90
Credit card	60	—	—	—	—
Business and government	764	644	592	809	1,053
	1,221	850	736	951	1,187
International	389	366	632	584	1,182
	1,610	1,216	1,368	1,535	2,369
General unallocated allowance	290	850	750	700	300
Total	\$ 1,900	\$ 2,066	\$ 2,118	\$ 2,235	\$ 2,669
Composition of allowance					
Specific	\$ 786	\$ 1,176	\$ 932	\$ 1,091	\$ 1,439
Country risk	34	40	436	444	930
General allocated (1)	790	—	—	—	—
General unallocated (1)	290	850	750	700	300
Total	\$ 1,900	\$ 2,066	\$ 2,118	\$ 2,235	\$ 2,669
Allowance for credit losses as a % of loans (including acceptances)	1.2%	1.3%	1.4%	1.7%	2.2%
Allowance for credit losses as a % of loans (including acceptances) and reverse repurchase agreements	1.1%	1.2%	1.3%	1.5%	2.1%
Allowance for credit losses as a % of impaired loans (coverage ratio), excluding LDCs	112%	103%	94%	77%	60%

(1) As at October 31, 1999, the general allowance has been separated into two components, allocated and unallocated. In prior years, this split was not made and the total general allowance is shown as unallocated.

Strategic priority: balance sheet and capital management

HIGHLIGHTS

- > Strong growth in consumer loans
- > Planned reduction in international loans
- > Deposits increased at the same rate as in 1998
- > Internally generated capital of \$1 billion
- > Issued \$700 million of subordinated debentures and \$300 million of preferred shares
- > Redeemed \$400 million of preferred shares and repurchased 5.2 million common shares for \$333 million

As shown in Table 16 below, total consumer loans (residential mortgages, personal and credit card loans) were up \$6 billion or 7% from 1998. Including mortgage securitizations of \$3.2 billion in 1999, which are reported as securities on the balance sheet, both residential mortgages and total consumer loans were up 11%. The bank achieved its objective of increasing market shares for residential mortgages and personal loans. Market shares among all financial institutions in Canada rose to 15.3% from 14.8% for residential mortgages, and increased to 16.6% from 16.0% for personal loans. Consistent with the bank's strategy to reduce low-return international corporate lending exposures, business and government loans and acceptances declined by \$9.3 billion or 12%. Loans in Europe, Latin America and Asia fell, as shown in Table 19 on page 40.

The substantial decline in other assets and other liabilities reflects a drop in derivative-related amounts. These amounts are now close to their levels at the end of 1997 (shown in the balance sheet on page 73). The substantial increase from 1997 to 1998 had reflected the impacts on foreign exchange forward contracts at the end of 1998 of a stronger Japanese yen against the U.S. dollar and a weaker Canadian dollar.

Deposits increased by 4% during 1999, with close to three-quarters of the increase recorded in Canada. Non-interest bearing deposits accounted for over one-third of the total increase. Further details on deposits are provided on page 45. The bank's personal deposit market share slipped to 15.8% from 16.1% in 1998.

Table 16: Balance sheet growth

(C\$ millions)	1999		1998	
Components of growth in assets over prior year				
Cash resources	\$ 6,647	41%	\$ (4,997)	(23)%
Securities	10,198	24	9,195	28
Assets purchased under reverse repurchase agreements	365	2	1,265	7
Loans				
Residential mortgage (1)	2,774	5	3,099	6
Personal	2,494	11	1,897	9
Credit card	721	37	(379)	(16)
Business and government loans and acceptances	(9,331)	(12)	2,820	4
	(3,342)	(2)	7,437	5
Allowance for credit losses	142	7	(257)	(15)
	(3,200)	(2)	7,180	5
Other assets	(21,786)	(46)	21,352	84
Total change over prior year	\$ (7,776)	(3)%	\$ 33,995	14%
Components of growth in liabilities and shareholders' equity over prior year				
Deposits				
Canada				
Non-interest-bearing	\$ 2,493	17%	\$ 1,430	11%
Interest-bearing	3,280	3	(618)	(1)
International				
Non-interest-bearing	236	55	(777)	(64)
Interest-bearing	1,883	3	6,741	14
	7,892	4	6,776	4
Other liabilities	(16,727)	(20)	26,136	44
Subordinated debentures	509	12	(140)	(3)
Shareholders' equity	550	5	1,223	11
Total change over prior year	\$ (7,776)	(3)%	\$ 33,995	14%

(1) Reflects securitization balances of \$3.2 billion in 1999 that have been transferred to securities. Also reflects sale of \$0.5 billion (1998 – \$1.6 billion) of mortgage-backed securities.

OUTLOOK

> THE BANK EXPECTS CONSUMER LOAN GROWTH TO REMAIN SOLID BUT IT MAY MODERATE SLIGHTLY IN 2000, GIVEN HIGH LEVELS OF CONSUMER INDEBTEDNESS.

Capital management

Capital management is an important objective for the bank. It requires balancing the desires for strong, competitive capital ratios and for maintaining high credit 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 existing capital issues.

The bank is committed to maintaining strong capital ratios through continued solid internal capital generation, the issuance of subordinated debentures and preferred shares when appropriate, and controlled growth in risk-adjusted assets, while at the same time returning capital to shareholders through share repurchases and dividend increases when considered appropriate.

BALANCE SHEET CAPITAL

Total balance sheet capital, which includes shareholders' equity and subordinated debentures, was \$17.0 billion at October 31, 1999, up \$1.1 billion from a year ago. The most significant factor behind the increase in capital was \$1 billion of internally generated capital.

In November 1998, the bank exchanged virtually all the 4.65 million Class B shares originally issued by its wholly owned subsidiary, Royal Bank DS Holding Inc., for the acquisition of Richardson Greenshields Limited on November 1, 1996, into 4.79 million common shares, increasing outstanding common stock by \$170 million.

In December 1998, and again in April 1999, the bank issued \$350 million of subordinated debentures. This \$700 million increase in debentures was partially offset by maturities totalling \$123 million.

In June 1999, the bank issued \$150 million of First Preferred Shares Series O and US\$100 million (C\$146 million) of First Preferred Shares Series P. These issuances partially offset the redemption of \$400 million of First Preferred Shares Series F and G, in October 1999.

On June 22, 1999, the bank received stock exchange approval to purchase up to 3.5% of its common share float, or 10.9 million shares, during the 1-year period commencing June 25, 1999, and ending June 23, 2000. The amount and timing of any such repurchases is to occur on market terms at the discretion of management. During 1999, the bank repurchased 5.2 million common shares for \$333 million. It is the bank's intention, at this time, to continue with the repurchase program, and to even extend the program if circumstances permit.

Total dividends were \$745 million, with common share dividends of \$588 million, up \$45 million from 1998, and preferred share dividends of \$157 million, up \$12 million. The bank increased its quarterly common share dividend from \$0.46 to \$0.48 for shareholders of record on July 26, 1999, and announced a further increase to \$0.54 for shareholders of record on January 25, 2000. The dividend payout ratio (common share dividends as a percentage of net income less preferred share dividends) was 37% in 1999 and 33% in 1998. The bank's target payout ratio is 30–40%.

REGULATORY CAPITAL

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

Total regulatory capital, which differs from capital recorded on the balance sheet, is allocated into two tiers. Tier 1 capital comprises the more permanent forms of capital. The components of Tier 1 and Tier 2 capital are shown in Table 17 on page 36.

Regulatory capital ratios are calculated by dividing Tier 1 and Total capital by risk-adjusted assets. Risk-adjusted assets, as shown in Table 18 on page 37, 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. During the year, the Office of the Superintendent of Financial Institutions Canada indicated that a Canadian bank should attain 7% for the Tier 1 capital ratio and 10% for the Total capital ratio. As at October 31, 1999, the bank's Tier 1 and Total capital ratios were 8.1% and 11.2%, respectively, compared to 7.4% and 10.5% at October 31, 1998. The improvement in these ratios is due to changes in capital discussed earlier and reflected in Table 17 on page 36, as well as to the efforts undertaken by the bank to manage its risk-adjusted assets. Total risk-adjusted assets were down 5% during 1999, primarily in international lending.

The bank considers the common equity to risk-adjusted assets ratio as another important measure of capital strength. This ratio was 7.1% at October 31, 1999, up from 6.2% at October 31, 1998.

Using guidelines issued by the Board of Governors of the Federal Reserve Board (FRB) in the United States and financial information prepared using United States GAAP, the bank's Tier 1 and Total capital ratios were 7.6% and 10.7%, respectively, at October 31, 1999, compared to 6.8% and 10.1% at October 31, 1998. These ratios exceeded the FRB's required minimum guidelines of 4% and 8%, respectively, and their standards of 6% and 10%, respectively, to be considered well capitalized. In addition, the FRB has established a minimum guideline of 3% for the leverage ratio for banks that have implemented the market risk capital measure. This ratio was 4.1% at October 31, 1999, compared with 4.0% at October 31, 1998.

PENDING DEVELOPMENTS

On June 3, 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 is very much at the discussion phase and further iterations are expected. As such, it is difficult 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 2001.

Table 17: Capital ratios ⁽¹⁾

(C\$ millions)	1999	1998	1997
Tier 1 capital			
Common equity	\$ 10,606	\$ 9,748	\$ 8,606
Non-cumulative preferred shares	2,009	2,144	1,784
Non-controlling interest in subsidiaries	22	247	283
Goodwill	(611)	(546)	(600)
	12,026	11,593	10,073
Tier 2 capital			
Permanent subordinated debentures	441	463	423
Other subordinated debentures (2)	4,040	3,419	3,309
General allowance	1,080	850	750
Non-controlling interest in subsidiaries	2	172	166
	5,563	4,904	4,648
Investments in unconsolidated subsidiaries and substantial investments (3)	(891)	(17)	(16)
Total capital	\$ 16,698	\$ 16,480	\$ 14,705
Total risk-adjusted assets	\$ 149,078	\$ 157,064	\$ 147,672
Capital ratios			
Common equity to risk-adjusted assets	7.1%	6.2%	5.8%
Tier 1 capital to risk-adjusted assets	8.1%	7.4%	6.8%
Total capital to risk-adjusted assets	11.2%	10.5%	10.0%
Assets-to-capital multiple (4)	16.5	16.7	17.1
U. S. basis (5)			
Tier 1 capital to risk-adjusted assets	7.6%	6.8%	6.4%
Total capital to risk-adjusted assets	10.7%	10.1%	9.8%
Leverage (6)	4.1%	4.0%	3.9%

- (1) Using guidelines issued by the Office of 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 5 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) Relates primarily to investments in insurance subsidiaries, which are deducted from risk-adjusted assets and Total capital beginning in 1999. Had this deduction for risk-adjusted assets and Total capital taken place in 1998 and 1997, the Total capital to risk-adjusted assets ratio in those 2 years would have been .2% lower under both the Canadian and U.S. basis.
- (4) Total assets and specified off-balance sheet financial instruments, as determined by the Office of the Superintendent of Financial Institutions Canada, divided by Total capital.
- (5) Using guidelines issued by the Board of Governors of the Federal Reserve Board in the United States and U.S. GAAP financial information.
- (6) 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 18: Risk-adjusted assets ⁽¹⁾

(C\$ millions)	Balance sheet amount	Risk weight (2)	Risk-adjusted balance	
			1999	1998
Balance sheet assets				
Cash resources	\$ 23,042	20%	\$ 3,785	\$ 2,551
Securities				
Issued or guaranteed by Canadian or other OECD governments	20,066	0%	23	44
Other	30,493	100%	4,379	8,340
Residential mortgages (3)				
Insured	28,884	0%	362	324
Conventional	30,305	50%	15,979	14,337
Other loans and acceptances (3)				
Issued or guaranteed by Canadian or other OECD governments	12,497	0%	1,119	837
Other	100,798	100%	78,206	84,763
Other assets	24,565	0%	5,596	5,511
	<u>\$ 270,650</u>		<u>\$ 109,449</u>	<u>\$ 116,707</u>
	Contract amount	Credit conversion factor	Credit equivalent amount	
Off-balance sheet financial instruments				
Credit instruments				
Guarantees and standby letters of credit				
Financial	\$ 11,507	100%	\$ 11,507	100%
Non-financial	2,623	50%	1,312	100%
Documentary and commercial letters of credit	585	20%	117	100%
Securities lending	19,833	100%	19,833	0%
Commitments to extend credit				
Original term to maturity of 1 year or less	83,425	0%	—	0%
Original term to maturity of more than 1 year	45,761	50%	22,881	100%
Note issuance/revolving underwriting facilities	125	50%	63	100%
	<u>\$ 163,859</u>		<u>\$ 55,713</u>	<u>\$ 32,799</u>
	Notional amount	Gross positive replacement cost (5)	Credit equivalent amount (6)	
Derivatives (4)				
Interest rate contracts				
Forward rate agreements	\$ 28,822	\$ 19	\$ 19	20%
Swaps	471,886	4,475	6,680	20%
Options purchased	43,614	230	409	20%
	<u>544,322</u>	<u>4,724</u>	<u>7,108</u>	<u>1,891</u>
Foreign exchange contracts				
Forward contracts	625,246	8,336	14,757	20%
Swaps	52,150	1,494	3,888	20%
Options purchased	46,454	826	1,370	20%
	<u>723,850</u>	<u>10,656</u>	<u>20,015</u>	<u>4,979</u>
Other contracts (7)	8,392	892	1,311	50%
Total derivatives before netting	<u>\$ 1,276,564</u>	<u>16,272</u>	<u>28,434</u>	<u>7,271</u>
Impact of master netting agreements		(7,931)	(11,727)	(2,946)
Total derivatives after netting		<u>\$ 8,341</u>	<u>\$ 16,707</u>	<u>\$ 4,325</u>
Total off-balance sheet financial instruments			<u>\$ 72,420</u>	<u>\$ 37,124</u>
General market risk				<u>2,505</u>
Total risk-adjusted assets				<u>\$ 149,078</u>

(1) Using guidelines issued by the Office of 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 credit 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.

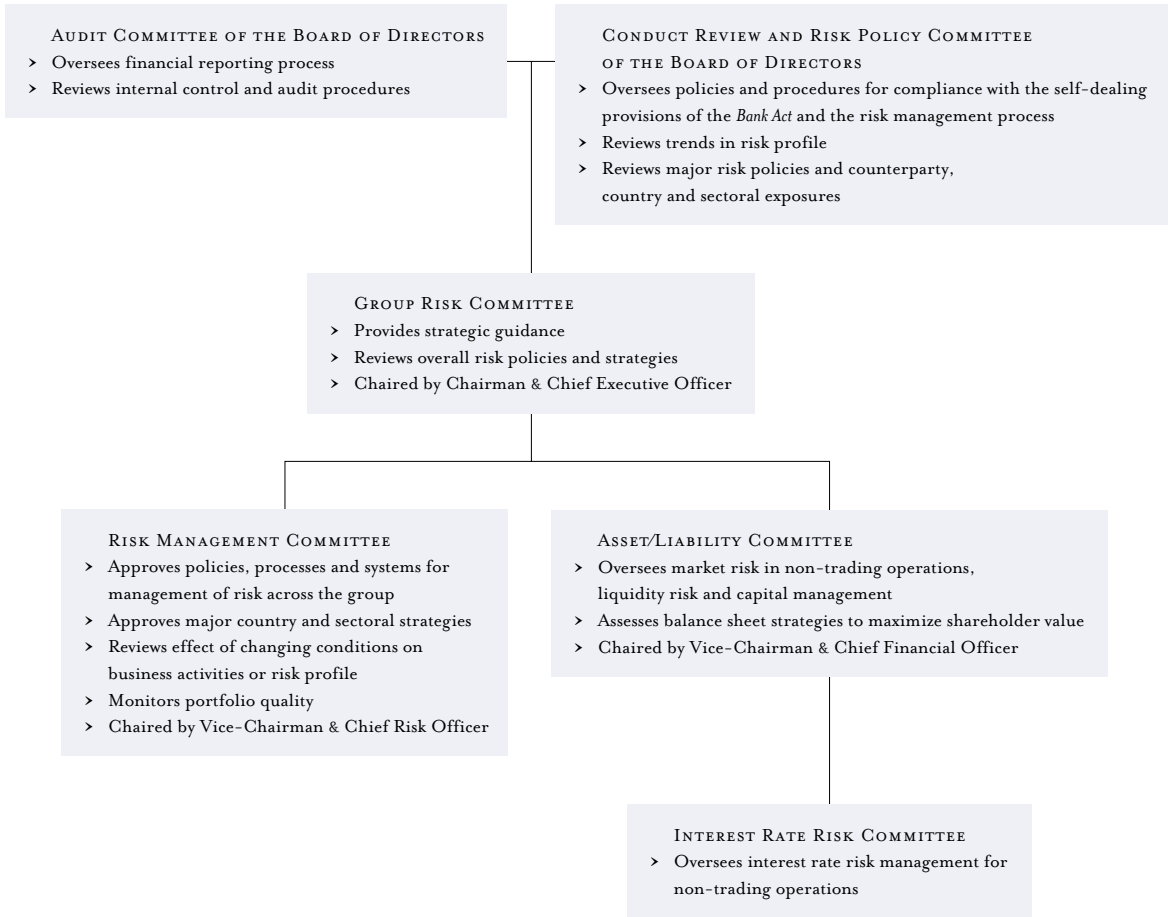
(7) Precious metals, commodity and equity-linked contracts.

Risk management

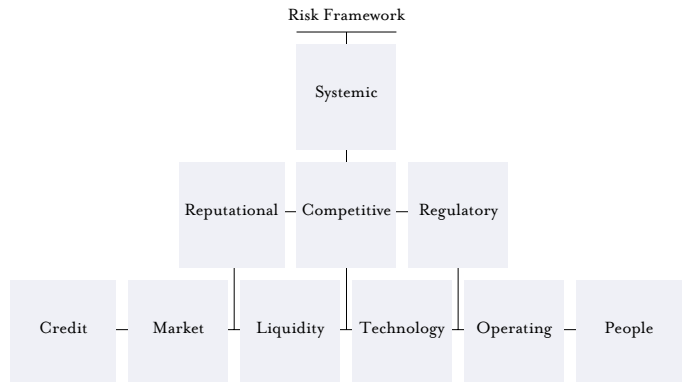
Overview

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 on 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 for the risk management process:



The bank's Risk Framework, shown to the right, is the primary vehicle for identifying and assessing risk across the group. Risks are divided into two broad classes: (1) those that can be influenced but not directly controlled, and (2) those that can be directly managed through the formulation of strategies, policies and processes. 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 group.



Credit risk management

Credit risk is the risk of loss due to the inability or unwillingness of a counterparty to fulfill its payment obligations. It also occurs from loss in market value due to deterioration in the financial position of a counterparty.

The bank looks for opportunities to take credit risk prudently and then manages it effectively at both the transaction and portfolio levels, creating value for shareholders. A disciplined credit risk management process 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 business culture.

The management of credit risk in the bank is guided by several key principles. Subject to the overriding principle of portfolio diversification, the bank focuses on

- > strategic and profitable client relationships, existing as well as prospective ones,
- > industries where Canadian companies enjoy a particular competitive advantage or where the bank has developed special expertise (telecommunications, energy, mining and technology),
- > sectors that generate an attractive volume of fee business (small business, public sector, agriculture).

For example, while oil prices hit an almost 30-year low earlier in 1999, the bank maintained its sector exposure, and in several energy sub-sectors even increased it, in the confidence that such cyclical downturns were neither new nor threatening for the industry. By contrast, exposure to forestry and real estate continues to be kept under tight control. Cyclical price swings are similar there, but these sectors are substantially more vulnerable due to their high debt leverage. In fact, exposure to real estate and forest products has been managed down every year since 1996 and 1997, respectively.

During 1998, the bank was aggressive in reducing its exposure to emerging markets. Accordingly, foreign outstandings in Emerging Asia (which excludes Japan and Singapore), Latin America, Central and Eastern Europe, Middle East and Africa were reduced from \$9.0 billion to \$8.1 billion by the end of that year. During fiscal 1999, the figure was halved and is currently at \$4.2 billion, which represents less than 2% of the bank's total assets. As shown in Table 20 on page 41, exposure to Emerging Asia has declined by \$1.9 billion or 60% since October 1998, and is now predominantly in South Korea and Hong Kong. Latin American exposure contracted by \$1.8 billion or 45% in 1999, largely due to scheduled repayments. Impaired loans are \$127 million in Asia and \$10 million in Latin America (\$35 million and \$3 million, respectively, after deducting the allowance for credit losses). Exposure to Central and Eastern Europe, Middle East and Africa declined by \$300 million or 30% in 1999. Within this area, Russian exposure is down by 50% and now stands at \$37 million. Remaining impaired Russian assets of

\$20 million are fully provided for. Overall, the bank is now comfortable with its emerging markets exposure levels. Selective new business is being contemplated in short-term and structured trade finance as well as project financing in sectors that are strategic to the bank.

Portfolio composition by product continues to shift away from traditional lending, particularly outside Canada. Emphasis is placed on trading products such as foreign exchange, swaps, options, equity derivatives and fixed income products. Transactions are handled by specialized teams in New York, London, Singapore and Sydney. Resident middle offices are designed to ensure that risk guidelines are strictly adhered to. New products or structures must be approved by Group Risk Management in Toronto following thorough risk analysis and rigorous 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 30% and non-bank financial institutions for a further 15% of all the bank 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 been undertaken 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 portfolio modelling techniques.

PERSONAL & COMMERCIAL BANKING

The strong growth in Personal financial services and Business banking can be attributed to the focus on alternative delivery channels, new streamlined adjudication processes and a continuing strong economy. Risk methodologies, including ongoing monitoring of the portfolio and credit scoring, continue to be enhanced to meet these opportunities. A continuous review process is now employed that has both improved the overall quality of the portfolio and minimized the level of manual intervention.

YEAR 2000 COUNTERPARTY RISK

In the past 2 years, an evaluation of the Year 2000 readiness efforts of the bank's major credit customers was undertaken, with the results integrated into our credit risk assessment process as discussed in the Year 2000 issue section on page 47.

Table 19: Loans ⁽¹⁾

(C\$ millions)	1999	1998	1997	1996	1995	1999	1995
Canada							
Atlantic provinces	\$ 8,840	\$ 8,052	\$ 7,714	\$ 7,233	\$ 6,454	5.7%	5.2%
Quebec	14,936	14,066	14,758	14,780	12,612	9.7	10.2
Ontario	54,724	51,977	48,717	45,268	42,801	35.5	34.7
Prairie provinces	25,521	23,288	22,150	17,814	15,341	16.6	12.5
British Columbia	23,141	22,295	21,646	19,782	17,120	15.0	13.9
Total Canada	127,162	119,678	114,985	104,877	94,328	82.5	76.5
International							
United States	13,060	13,717	12,725	10,540	10,329	8.5	8.4
Europe, Middle East and Africa	6,617	13,174	11,763	9,855	9,294	4.3	7.5
Latin America	2,309	3,875	3,493	2,162	2,485	1.5	2.0
Caribbean	1,502	1,573	1,274	1,104	1,462	1.0	1.2
Asia	2,417	4,550	5,372	5,033	5,282	1.6	4.3
Australia and New Zealand	983	825	343	72	109	.6	.1
Total international	26,888	37,714	34,970	28,766	28,961	17.5	23.5
Total loans	154,050	157,392	149,955	133,643	123,289	100.0%	100.0%
Allowance for credit losses	(1,884)	(2,026)	(1,769)	(1,875)	(2,003)		
Total	\$ 152,166	\$ 155,366	\$ 148,186	\$ 131,768	\$ 121,286		
Canada							
Consumer							
Residential mortgage	\$ 58,524	\$ 55,836	\$ 52,835	\$ 47,613	\$ 44,607	38.0%	36.2%
Personal	24,353	21,814	20,214	17,817	16,309	15.8	13.2
Credit card	2,666	1,945	2,324	3,522	3,435	1.7	2.8
	85,543	79,595	75,373	68,952	64,351	55.5	52.2
Business and government loans and acceptances							
Financial services	1,567	1,718	1,976	1,678	1,550	1.0	1.3
Small business	10,334	8,452	7,325	6,555	5,581	6.7	4.5
Energy	3,350	3,442	3,845	2,349	1,627	2.2	1.3
Government	2,105	1,951	1,575	1,891	2,649	1.4	2.1
Information technology and media	1,851	1,524	1,340	1,331	891	1.2	.7
Consumer goods	2,086	2,802	2,787	2,813	1,923	1.4	1.6
Agriculture	4,217	3,851	3,479	2,988	2,331	2.7	1.9
Industrial products	2,301	2,241	2,137	1,948	1,040	1.5	.8
Transportation and environmental	1,562	1,392	1,481	1,903	2,185	1.0	1.8
Commercial real estate	2,400	2,523	2,872	3,285	3,110	1.6	2.5
Commercial mortgages	2,635	2,434	2,392	2,166	1,676	1.7	1.4
Forest products	1,151	1,728	1,976	1,856	1,719	.7	1.4
Other	6,060	6,025	6,427	5,162	3,695	3.9	3.0
	41,619	40,083	39,612	35,925	29,977	27.0	24.3
Total Canada	127,162	119,678	114,985	104,877	94,328	82.5	76.5
International							
Consumer							
Residential mortgage	718	632	534	507	524	.5	.4
Personal	902	947	650	623	614	.6	.5
	1,620	1,579	1,184	1,130	1,138	1.1	.9
Business and government loans and acceptances							
Financial services	6,937	10,896	11,359	9,559	11,462	4.5	9.3
Energy	3,887	4,702	3,877	2,045	1,963	2.5	1.6
Government	773	492	622	725	1,401	.5	1.1
Information technology and media	3,824	5,238	4,722	3,267	2,578	2.5	2.1
Consumer goods	1,411	2,756	2,365	2,518	1,608	.9	1.3
Industrial products	1,325	1,881	2,589	2,633	1,612	.9	1.3
Transportation and environmental	1,975	2,296	1,762	1,421	2,984	1.3	2.4
Commercial real estate	464	862	926	1,078	1,104	.3	.9
Automotive	878	2,264	1,771	1,243	555	.6	.5
Other	3,794	4,748	3,793	3,147	2,556	2.4	2.1
	25,268	36,135	33,786	27,636	27,823	16.4	22.6
Total international	26,888	37,714	34,970	28,766	28,961	17.5	23.5
Total loans	154,050	157,392	149,955	133,643	123,289	100.0%	100.0%
Allowance for credit losses	(1,884)	(2,026)	(1,769)	(1,875)	(2,003)		
Total	\$ 152,166	\$ 155,366	\$ 148,186	\$ 131,768	\$ 121,286		

(1) Based on residence of borrower.

Table 20: Foreign outstandings ⁽¹⁾

(C\$ millions)	1999		1998		1997	
		% of total assets		% of total assets		% of total assets
United States – Banks	\$ 4,208		\$ 2,590		\$ 4,262	
Government	486		597		446	
Other	23,865		27,008		17,333	
	28,559	10.45%	30,195	10.74%	22,041	8.92%
Western Europe						
United Kingdom – Banks	4,960		4,593		3,320	
Government	79		113		38	
Other	4,308		5,759		5,122	
	9,347	3.42	10,465	3.72	8,480	3.43
France – Banks	2,082		2,785		2,487	
Government	57		15		–	
Other	784		1,077		915	
	2,923	1.07	3,877	1.38	3,402	1.38
Germany – Banks	5,608		5,335		3,097	
Government	291		262		45	
Other	268		143		219	
	6,167	2.26	5,740	2.04	3,361	1.36
Netherlands	2,060	.75	1,184	.42	1,509	.61
Switzerland	2,044	.75	1,950	.70	1,562	.63
Other	4,309	1.57	3,956	1.41	2,913	1.18
	26,850	9.82	27,172	9.67	21,227	8.59
Central/Eastern Europe, Middle East and Africa						
Saudi Arabia	255	.09	278	.10	26	.01
Turkey	80	.03	208	.07	168	.07
Other	434	.16	613	.22	455	.18
	769	.28	1,099	.39	649	.26
Latin America						
Argentina	437	.16	978	.35	1,150	.47
Brazil	160	.06	584	.21	764	.31
Chile	640	.24	851	.30	646	.26
Colombia	229	.08	347	.12	220	.09
Mexico	665	.24	1,054	.38	1,108	.45
Other	43	.02	111	.04	158	.06
	2,174	.80	3,925	1.40	4,046	1.64
Caribbean						
Bahamas	1,674	.61	1,149	.41	1,328	.54
Other	1,236	.45	1,607	.57	1,664	.67
	2,910	1.06	2,756	.98	2,992	1.21
Asia						
Japan – Banks	390		1,073		3,411	
Government	625		1,029		–	
Other	1,256		1,597		1,730	
	2,271	.83	3,699	1.32	5,141	2.08
China	37	.01	245	.09	300	.12
Hong Kong	324	.12	872	.31	971	.39
Indonesia	94	.03	179	.06	385	.16
Singapore	411	.15	484	.17	757	.31
South Korea	462	.17	603	.21	1,279	.52
Taiwan	212	.08	898	.32	1,055	.43
Thailand	45	.02	198	.07	205	.08
Other	43	.02	83	.03	112	.04
	3,899	1.43	7,261	2.58	10,205	4.13
Australia and New Zealand	2,444	.89	1,460	.52	1,113	.45
Allowance for credit losses ⁽²⁾	(389)	(.14)	(366)	(.13)	(632)	(.25)
Total	\$ 67,216	24.59%	\$ 73,502	26.15%	\$ 61,641	24.95%

(1) Include 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) In 1999, the allowance for credit losses includes the country risk allowance and the international component of the specific and the general allocated allowance.

Operational risk

Operational risk is the risk of loss from inadequate or failed processes, practices, human performance, technology or business strategies, or from external events. Its impact can be financial or non-financial – for example, damage to reputation or change in competitive position.

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.

During the year, all major business units were reviewed to determine the potential for high-impact but low-probability operational loss events. This risk assessment forms the basis of a new approach to internal capital allocation for operational risk to be implemented in 2000, as mentioned on page 18.

Our focus in 2000 is the continuing improvement of the operational risk assessment methodology across the organization and staying at the forefront of best risk management practices.

Market risk management

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 held in 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 trading portfolios are exposed to commodity risk primarily through exposures to movements in the price of precious metals.

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 the bank to monitor and control the exposure to market risk resulting from these activities.

Table 21: Market risk measures – trading activities

(C\$ millions)	1999			1998		
	Year-end	High	Low	Year-end	High	Low
Global VAR by major risk category (1)						
Foreign exchange and commodity	\$ 6	\$ 12	\$ 4	\$ 5	\$ 10	\$ 4
Interest rate	6	11	3	7	11	2
Equity	9	22	7	17	17	5
Global VAR (2)	13	28	10	18	28	15

(1) Amounts are presented on a pre-tax basis and represent 1-day VAR at a 99% confidence level.

(2) Global VAR reflects the correlation effect from each of the risk categories through diversification.

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 operations 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 1-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 days 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 below shows the daily net trading revenue matched against the daily VAR amounts for the year ended October 31, 1999. 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 1999, the bank did not experience a day with trading losses in excess of VAR.

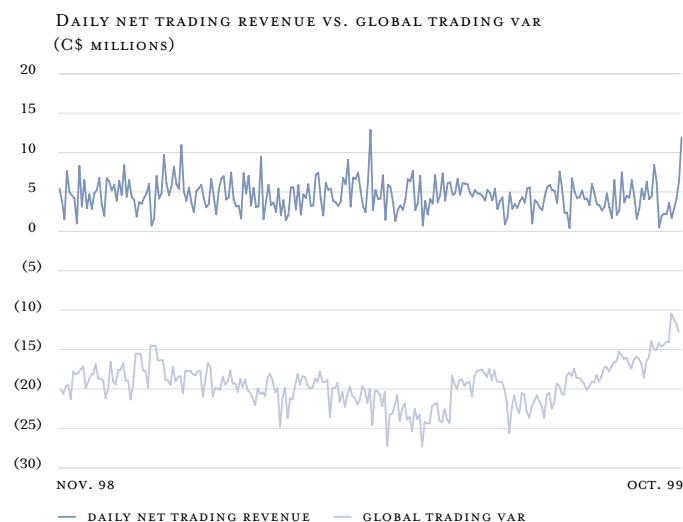
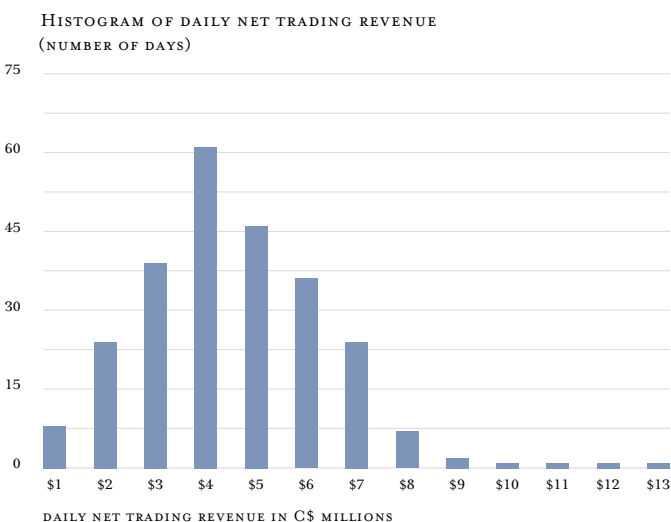
Table 21 above shows the year-end, high and low VAR by major risk category for the bank's combined trading activities for the years

ended October 31, 1999 and 1998. 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 growth in the 1999 equity VAR component over 1998 is primarily due to increased merger arbitrage and indexed arbitrage activity. The bank can generate revenue from these arbitrage transactions through simultaneously buying and selling securities to capture pricing mismatches.

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 VAR.

The Group Risk Management function, which is independent of the trading function, is responsible for the daily monitoring of global trading risk exposures. The functions use the bank's VAR methodology to compare actual exposures to the limits established by the bank, to assess global risk/return trends and to alert senior management of adverse trends or positions. The functions also develop and implement 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 strategic, tactical and operational 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 Asset/Liability 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 11% 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 \$250 million.

Corporate treasury 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 enhancing net interest income and reducing risk from adverse movements in interest rates. To achieve this, 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 pre-payment 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 22 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, 1999, 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, 1999, including all repricing assumptions, reflects a view on future interest rate movements relative to the current yield curve. The gap positions have been and are currently being actively managed recognizing the volatile interest rate environment that has existed since mid-1998. The bank is positioning itself to reflect its view that medium-term and long-term interest rates should reach a cyclical peak during fiscal 2000.

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 22: Market risk measures – non-trading activities

(C\$ millions)	1999		1998	
	Economic value risk (1)	Net interest income risk (1)	Economic value risk (1)	Net interest income risk (1)
100bp increase	\$ (267)	\$ 87	\$ (350)	\$ 62
100bp decrease	\$ 213	\$ (91)	\$ 292	\$ (79)
200bp increase	\$ (544)	\$ 167	\$ (703)	\$ 118
200bp decrease	\$ 416	\$ (217)	\$ 581	\$ (219)

(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 MANAGEMENT

The objective of liquidity management is to ensure that the bank has the ability to generate sufficient cash or its equivalents, either from internal or external sources, 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 management of liquidity risk is embedded within its overall risk management framework. This framework includes limits that specify the minimum level of liquid assets to be held at all times and the maximum net outflow of funds for specified time periods, particularly for key short-term time horizons. Policies are also in place to ensure that the bank is able to meet potential pledging requirements that may arise.

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 results of the analysis are used to assist in refining limits and are provided to senior management to enable them to monitor changes in liquidity and to react appropriately to market developments on a timely basis. The bank's liquidity management framework also incorporates liquidity contingency planning to assess the nature and volatility of funding sources and to determine alternatives to these sources. These contingency plans would be activated to ensure that the bank's funding commitments are met in the event of general market disruption or adverse economic conditions. An example of this could be the Year 2000 issue as discussed in the Year 2000 issue section on page 47.

Differences in domestic and international environments require the bank to manage its liquidity in two main segments: the domestic Canadian dollar pool and the foreign currency pool, which includes Canadian dollar offshore. This reflects the fact that domestic and international environments differ in client base, the nature of deposits, market share and regulatory environments.

Table 23 below provides details on the bank's Canadian and foreign deposits. Deposits from Canadian consumers comprise 63% of the bank's Canadian dollar deposits, versus 64% in 1998. The continued low domestic interest rate environment has resulted in the continuing shift of consumer funds from deposits to investment products. At the same time, the major factor behind the increase in business and government deposits as a percentage of total deposits (to 46% in 1999 from 42% in 1998) has been the bank's increased use of wholesale funding. The foreign currency portion of these balances primarily consists of deposits from large corporations and foreign banks, including central banks.

Wholesale funding accounts for a significant and increasing portion of the Canadian and foreign currency funding. 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.

To compensate for low personal deposit growth rates and increased loan demand during fiscal 1999, the bank took several alternative steps to broaden its funding capacity. First, it increased its Canadian dollar and foreign currency wholesale funding by issuing \$3.6 billion Euro medium-term notes and \$329 million senior deposit notes. Second, the bank issued \$700 million of subordinated debentures and approximately \$300 million of preferred shares as outlined in the Capital management section on page 35. Included in the Euro medium-term notes amounts was a U.S. dollar fixed rate senior deposit note, the first such issue made by a Canadian bank in the Euro medium-term note market. Third, the bank securitized \$1.1 billion of credit card receivables, funded by medium-term fixed rate instruments, and elected to reduce, by the same amount, existing securitized receivables that were funded by short-term floating rate instruments. 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.

Table 23: Deposits

(C\$ millions)	1999	1998	1997
Canadian dollar deposits			
Personal	\$ 74,552	\$ 73,258	\$ 74,873
Business and government	41,406	39,044	36,629
Bank	3,254	2,091	2,548
	119,212	114,393	114,050
Foreign currency deposits			
Personal	12,807	12,652	11,233
Business and government	44,817	37,063	27,739
Bank	11,061	15,897	20,207
	68,685	65,612	59,179
Total deposits			
Personal	87,359	85,910	86,106
Business and government	86,223	76,107	64,368
Bank	14,315	17,988	22,755
	\$ 187,897	\$ 180,005	\$ 173,229
Personal deposits as a % of total deposits	46%	48%	50%

LIQUIDITY RISK MANAGEMENT (CONTINUED)

Table 24 below shows that liquid assets totalled \$78.5 billion or 29% of total assets at October 31, 1999, as compared to \$61.1 billion or 22% of total assets at October 31, 1998. Canadian dollar liquid assets are primarily marketable securities, and much of the bank's foreign currency liquid assets are placed with highly rated foreign banks.

In the normal course of business, the bank pledges a portion of its liquid assets, primarily as collateral for various types of funding transactions, to participate in clearing and payment systems, to meet the requirements of regulators in foreign jurisdictions and for bilateral collateralized trading agreements. At October 31, 1999, \$31.1 billion of assets had been pledged as collateral primarily for obligations related to assets sold under repurchase agreements and obligations related to securities sold short. At October 31, 1999, \$20.3 billion (1998 – \$19.9 billion) of assets had been pledged to the bank as collateral for reverse repurchase agreements. The bank continues to use repurchase and reverse repurchase agreements

when managing its short-term liquidity. As at October 31, 1999, net reverse repurchase transactions totalled \$10.9 billion, an increase of \$2.3 billion from 1998. Liquid assets, as shown in Table 24, are before consideration of pledging activities both to and by the bank. Pledged assets decreased by \$1.4 billion from the prior year.

During 1999, the bank securitized \$3.2 billion of residential mortgages into mortgage-backed securities, which are available to support the bank's activity in the Large Value Transfer System. The Large Value Transfer System is a real-time electronic fund transfer system designed to handle large-value or time-critical payments with immediate finality of payment. The Large Value Transfer System is operated by the Canadian Payment Association and became fully operational in February 1999. All the major Canadian Payment Association member deposit-taking institutions (chartered banks, trust companies and other large deposit-taking institutions) and the Bank of Canada, are direct participants and will provide access to the system for their clients.

Table 24: Liquidity

(C\$ millions)	1999	1998	1997
Canadian dollar liquid assets			
Cash and deposits with Bank of Canada and other banks	\$ 4,129	\$ 4,069	\$ 3,835
Securities (1)	30,592	23,670	22,551
	34,721	27,739	26,386
Foreign currency liquid assets			
Cash and deposits with Bank of Canada and other banks	18,913	12,326	17,557
Securities (1)	24,879	21,042	11,537
	43,792	33,368	29,094
Total liquid assets			
Cash and deposits with Bank of Canada and other banks	23,042	16,395	21,392
Securities (1)	55,471	44,712	34,088
	\$ 78,513	\$ 61,107	\$ 55,480
Liquid assets as a % of total assets	29%	22%	22%

(1) Includes call loans, but excludes tax-exempt securities. Included in securities is \$31.1 billion (1998 – \$32.5 billion; 1997 – \$23.9 billion), which has been pledged as collateral for various types of funding transactions.

The Year 2000 issue

The Year 2000 issue arises from many computer systems expressing years by two digits rather than four, with the assumption that the first two digits are always "19". Such systems, if not modified or replaced, could misinterpret the year before and after January 1, 2000 (e.g., read "00" as the year 1900 rather than the year 2000). The results could range from miscalculations to system failure causing a temporary inability to process transactions or engage in normal business activities. The Year 2000 issue presents a significant risk and challenge to the bank because its business is highly dependent on complex systems and technology which have date-sensitive aspects.

The important computer systems that support the principal businesses within Personal & commercial banking, Wealth management and Corporate & investment banking have undergone an extensive process of coding changes and testing, which included testing of related computer hardware and vendor software products. The last phase of testing was in a "time machine" environment used to test the ability of systems to roll-over from 1999 to 2000 before they were certified as Year 2000 ready. All of these systems and related technology components (many of which involved testing with external service providers), were modified and tested and certified by June 30, 1999.

The bank's Year 2000 program also covers other computer systems, hardware, and software programs throughout the bank, as well as embedded computer chips that are used in the operation of facilities such as vaults, security systems and premises. All of these systems and technology were modified or replaced (where required) and certified for Year 2000 readiness by June 30, 1999.

The bank has not deferred any material information technology projects as a consequence of its Year 2000 program. However, as a precautionary measure, it has restricted the development of new systems or changes to existing systems during the period from July 2, 1999, to March 6, 2000.

The impact of the Year 2000 issue also depends on the Year 2000 readiness of other parties, including financial institutions, governmental agencies, payment systems, exchanges, depositories, telecommunication companies, and other entities worldwide which provide data to, receive data from, or process data for, the bank. It also depends on the readiness of customers, counterparties and suppliers whose financial condition or operational capability is important to the bank.

The bank has been working with external parties to mitigate the risk the Year 2000 issue poses to it and to the global financial community. Key external parties were identified and contacted to determine their Year 2000 plans and target dates, and the process is ongoing. In particular, the securities brokerage, mutual fund, investment management, custody and trading businesses have been working closely with exchanges, clearing agents, depositories and payment associations. Industry-wide street testing was completed by June 30, 1999.

In addition, credit risk associated with the bank's borrowers and other counterparties may increase as a result of their individual Year 2000 issues. This could give rise to increases in impaired loans and provisions for credit losses in future years. The bank has taken certain steps to assess the Year 2000 risk to its major borrowers and counterparties and has incorporated a Year 2000 risk factor into its regular process for assessing borrower risk. However, it is not possible at this time to estimate the amounts of any increases in impaired loans and provisions for credit losses in future years.

The bank's liquidity risk may also increase if the Year 2000 issue results in higher than normal drawdowns on loan commitments or withdrawals of deposits. The bank has taken certain steps to mitigate this increased liquidity risk, including increasing its holdings of liquid assets, lengthening the term of its funding and arranging additional lines of credit with key central banks.

All organizational units have prepared and tested contingency plans and the bank's Year 2000 program management office has coordinated these plans. However, there can be no assurance that the bank's contingency planning will fully mitigate the risks and uncertainties associated with the Year 2000 issue.

The bank believes that by modifying or replacing its systems where required and by monitoring the Year 2000 readiness of key external parties, and by developing contingency plans, it is mitigating its Year 2000 risks. However, due to the general uncertainty inherent in the Year 2000 issue, resulting in part from the uncertainty of the Year 2000 readiness of other parties, the bank is unable to determine at this time whether the Year 2000 issue will have a material and adverse impact on the bank's results of operations, liquidity and financial condition.

The total cost of the bank's Year 2000 program over the period since 1995 is \$170 million, of which \$30 million represents the cost of new assets to be depreciated over their estimated useful lives, and \$140 million represents operating costs being expensed as incurred. Approximately 98% of the cost of new assets and 91% of the operating costs have been incurred as at October 31, 1999, up from 25% and 55%, respectively, as at October 31, 1998.

1998 compared to 1997

The following discussion and analysis provides a comparison of the bank's results of operations for the years ended October 31, 1998 and 1997. This discussion should be read in conjunction with the Consolidated financial statements and related notes on pages 49 to 72.

BUSINESS SEGMENT RESULTS

Personal & commercial banking's net income increased 5% to \$1.1 billion in 1998. Return on common equity increased 160 basis points to 28.7%. Revenue growth and expense control led to a 170 basis point improvement in the efficiency ratio to 62.3% in 1998.

Wealth management's 1998 net income was up 8% from 1997 to \$282 million. Return on common equity decreased 580 basis points to 46.8%. The efficiency ratio increased by 210 basis points to 78.2%.

Corporate & investment banking's net income declined 37% in 1998 to \$217 million. Return on common equity fell 630 basis points to 12.3%. The efficiency ratio increased 330 basis points to 60.1%.

NET INTEREST INCOME

Net interest income increased 1% to \$5.1 billion in 1998 from \$5.0 billion in 1997 due to greater asset volumes and higher spreads. The increase was achieved despite the impact of credit card securitizations, a change in reporting for equity derivatives and an increase in the proportion of lower yielding deposits.

NON-INTEREST REVENUE

Non-interest revenue increased 17% to \$5.0 billion in 1998, driven by higher mutual fund fees and the sale of LDC Brady bonds.

NON-INTEREST EXPENSES

Non-interest expenses increased 7% to \$6.5 billion. The increase was primarily caused by higher human resource and marketing costs. The efficiency ratio improved from 65.1% in 1997 to 64.5% in 1998.

TAXES

The bank's income and other taxes for 1998 were \$1.7 billion, for an effective total tax rate of 48.0%. Income and other taxes were \$1.6 billion in 1997, while the effective total tax rate was 48.5%.

PROVISION FOR CREDIT LOSSES

The provision for credit losses increased to \$575 million in 1998 from \$380 million in 1997. The increase was due largely to two accounts in forestry and trade finance, as well as to some Asian exposures.

The allowance for credit losses was unchanged from 1997 to 1998 at \$2.1 billion. At October 31, 1998, the allowance for credit losses was 103% of impaired loans excluding LDCs, up from 94% at the end of 1997.

Consolidated Financial Statements

Management's responsibility for financial reporting

The accompanying financial statements of Royal Bank of Canada were prepared by management, which is responsible for the integrity and fairness of the data presented, including the many amounts that must of necessity be based on estimates and judgments. These financial statements were prepared in accordance with accounting principles generally accepted in the United States. Financial information appearing throughout this Annual Report is consistent with these financial statements. Management has also prepared financial statements for Royal Bank of Canada in accordance with accounting principles generally accepted in Canada, including the accounting requirements of the Superintendent of Financial Institutions Canada, and these financial statements have also been provided to shareholders.

In discharging its responsibility for the integrity and fairness of the financial statements and for the accounting systems from which they are derived, management maintains the necessary system of internal controls designed to ensure that transactions are authorized, assets are safeguarded and proper records maintained. These controls include quality standards in hiring and training of employees, policies and procedure manuals, a corporate code of conduct and accountability for performance within appropriate and well-defined areas of responsibility.

The system of internal controls is further supported by a compliance function, which ensures that the bank and its employees comply with securities legislation and conflict of interest rules, and by an internal audit staff, which conducts periodic audits of all aspects of the bank's operations.

The board of directors oversees management's responsibilities for financial reporting through an Audit Committee, which is com-

posed entirely of directors who are neither officers nor employees of the bank. This Committee reviews the consolidated financial statements of the bank and recommends them to the board for approval. Other key responsibilities of the Audit Committee include reviewing the bank's existing internal control procedures and planned revisions to those procedures, and advising the directors on auditing matters and financial reporting issues. The bank's Compliance Officer and Chief Internal Auditor have full and unrestricted access to the Audit Committee.

At least once a year, the Superintendent of Financial Institutions Canada, makes such examination and enquiry into the affairs of the bank as deemed necessary to ensure that the provisions of the Bank Act, having reference to the safety of the depositors and shareholders of the bank, are being duly observed and that the bank is in a sound financial condition.

Deloitte & Touche LLP and PricewaterhouseCoopers LLP, independent auditors appointed by the shareholders of the bank upon the recommendation of the Audit Committee, have performed an independent audit of the financial statements and their report follows. The shareholders' auditors have full and unrestricted access to the Audit Committee to discuss their audit and related findings.

John E. Cleghorn
Chairman & Chief Executive Officer

Peter W. Currie
Vice-Chairman & Chief Financial Officer

Toronto, November 19, 1999

Auditors' report

To the Shareholders of Royal Bank of Canada

We have audited the consolidated balance sheet of Royal Bank of Canada as at October 31, 1999 and 1998, and the consolidated statements of income, changes in shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the bank as at October 31, 1999 and 1998, and the results of its operations and its cash flows for the years then ended in accordance

with accounting principles generally accepted in the United States of America.

We also reported separately on November 19, 1999, to the shareholders of the bank on our audit, conducted in accordance with Canadian generally accepted auditing standards, where we expressed an opinion without reservation on the October 31, 1999 and 1998, consolidated financial statements, prepared in accordance with accounting principles generally accepted in Canada, including the accounting requirements of the Superintendent of Financial Institutions Canada.

The consolidated financial statements for the year ended October 31, 1997, prepared in accordance with accounting principles generally accepted in the United States of America were audited by Deloitte & Touche and KPMG who expressed an opinion thereon without reservation in their report dated December 3, 1997.

Deloitte & Touche LLP
PricewaterhouseCoopers LLP
Chartered Accountants

Toronto, November 19, 1999

Consolidated balance sheet

As at October 31 (C\$ millions)

	1999	1998
Assets		
Cash resources		
Cash and due from banks	\$ 2,460	\$ 2,409
Interest-bearing deposits with other banks	20,582	13,986
	23,042	16,395
Securities (note 3)		
Trading account	35,288	29,588
Available for sale	16,364	11,860
Held to maturity	1,084	1,090
	52,736	42,538
Assets purchased under reverse repurchase agreements		
	20,272	19,907
Loans (note 4)		
Residential mortgage	59,242	56,468
Personal	25,255	22,761
Credit card	2,666	1,945
Business and government loans and acceptances	66,887	76,218
	154,050	157,392
Allowance for credit losses	(1,884)	(2,026)
	152,166	155,366
Other		
Derivative-related amounts	15,151	30,413
Premises and equipment (note 5)	1,274	1,872
Goodwill	660	608
Other assets	7,997	13,975
	25,082	46,868
	\$ 273,298	\$ 281,074
Liabilities and shareholders' equity		
Deposits		
Canada		
Non-interest-bearing	\$ 16,876	\$ 14,383
Interest-bearing	112,430	109,150
International		
Non-interest-bearing	666	430
Interest-bearing	57,925	56,042
	187,897	180,005
Other		
Acceptances	9,257	10,620
Obligations related to securities sold short	18,740	20,488
Obligations related to assets sold under repurchase agreements	9,396	11,264
Derivative-related amounts	15,219	29,370
Other liabilities	15,785	13,382
	68,397	85,124
Subordinated debentures (note 6)		
	4,596	4,087
Shareholders' equity		
Capital stock (note 7)		
Preferred	1,973	2,110
Common (issued and outstanding – 308,883,781 and 308,790,624)	3,063	2,923
Retained earnings	7,495	6,803
Accumulated other comprehensive income	(123)	22
	12,408	11,858
	\$ 273,298	\$ 281,074

John E. Cleghorn
Chairman & Chief Executive Officer

L. Yves Fortier
Director

Consolidated statement of income

For the year ended October 31 (C\$ millions)

	1999	1998	1997
Interest income			
Loans	\$ 10,386	\$ 10,426	\$ 9,354
Trading account securities	1,143	1,061	824
Available for sale and held to maturity securities	937	829	1,316
Assets purchased under reverse repurchase agreements	893	1,169	568
Deposits with banks	841	822	1,009
	14,200	14,307	13,071
Interest expense			
Deposits	7,636	7,732	6,548
Other liabilities	1,161	1,172	1,139
Subordinated debentures	286	339	384
	9,083	9,243	8,071
Net interest income	5,117	5,064	5,000
Provision for credit losses	760	575	380
Net interest income after provision for credit losses	4,357	4,489	4,620
Non-interest revenue			
Capital market fees	1,209	1,118	1,172
Trading revenues	1,106	752	606
Deposit and payment service charges	688	664	690
Investment management and custodial fees	547	495	404
Mutual fund revenues	479	447	354
Card service revenues	362	305	332
Securitization revenues	220	226	9
Gain on sale of securities	28	343	37
Other	852	647	684
	5,491	4,997	4,288
Non-interest expenses			
Human resources	4,096	3,688	3,427
Occupancy	564	508	559
Equipment	677	585	605
Communications	699	665	587
Other	1,105	1,064	893
	7,141	6,510	6,071
Net income before income taxes	2,707	2,976	2,837
Income taxes (note 8)	974	1,128	1,106
Net income before non-controlling interest	1,733	1,848	1,731
Non-controlling interest in net income of subsidiaries	8	76	77
Net income	\$ 1,725	\$ 1,772	\$ 1,654
Preferred share dividends	157	145	131
Net income available to common shareholders	\$ 1,568	\$ 1,627	\$ 1,523
Average number of common shares (in thousands)	313,079	308,662	308,906
Earnings per share (in dollars) (note 11)	\$ 5.01	\$ 5.27	\$ 4.93
Average number of fully diluted common shares (in thousands)	316,152	316,813	316,026
Fully diluted earnings per share (in dollars) (note 11)	\$ 4.97	\$ 5.17	\$ 4.85

Consolidated statement of changes in shareholders' equity

For the year ended October 31 (C\$ millions)

	1999	1998	1997
Preferred shares			
Balance at beginning of year	\$ 2,110	\$ 1,757	\$ 1,725
Issued (note 7)	296	300	—
Redeemed for cancellation (note 7)	(393)	—	—
Share issuance costs	(9)	(7)	—
Translation adjustment on shares denominated in foreign currency	(31)	60	32
Balance at end of year	\$ 1,973	\$ 2,110	\$ 1,757
Common shares			
Balance at beginning of year	\$ 2,923	\$ 2,905	\$ 2,874
Issued (note 7)	192	18	69
Purchased for cancellation (note 7)	(52)	—	(38)
Balance at end of year	\$ 3,063	\$ 2,923	\$ 2,905
Retained earnings			
Balance at beginning of year	\$ 6,803	\$ 5,719	\$ 4,825
Net income	1,725	1,772	1,654
Preferred share dividends	(157)	(145)	(131)
Common share dividends	(588)	(543)	(469)
Issuance costs of preferred shares redeemed	(7)	—	—
Premium paid on common shares purchased for cancellation (note 7)	(281)	—	(160)
Balance at end of year	\$ 7,495	\$ 6,803	\$ 5,719
Accumulated other comprehensive income			
Unrealized gains and losses on available for sale securities, net of hedging activities and related income taxes (note 8)	\$ (85)	\$ 56	\$ 283
Unrealized foreign currency translation gains and losses, net of hedging activities and related income taxes (note 8)	(38)	(34)	(29)
	\$ (123)	\$ 22	\$ 254
Shareholders' equity at end of year	\$ 12,408	\$ 11,858	\$ 10,635
Comprehensive income			
Net income	\$ 1,725	\$ 1,772	\$ 1,654
Change in unrealized gains and losses on available for sale securities, net of hedging activities and related income taxes	(141)	(227)	(66)
Change in unrealized foreign currency translation gains and losses, net of hedging activities and related income taxes	(4)	(5)	(6)
Total comprehensive income	\$ 1,580	\$ 1,540	\$ 1,582

Consolidated statement of cash flows

For the year ended October 31 (C\$ millions)

	1999	1998	1997
Cash flows from operating activities			
Net income	\$ 1,725	\$ 1,772	\$ 1,654
Adjustments to determine net cash provided by (used in) operating activities			
Provision for credit losses	760	575	380
Depreciation	389	342	382
Restructuring	153	68	51
Amortization of goodwill	70	66	63
Gain on sale of real estate	(95)	—	—
Change in accrued interest receivable and payable	(81)	95	(387)
Net gain on sale of available for sale securities	(28)	(343)	(37)
Changes in operating assets and liabilities			
Deferred income taxes	(27)	(65)	196
Current income taxes payable	487	66	(2)
Unrealized gains and amounts receivable on derivative contracts	15,262	(15,637)	(6,178)
Unrealized losses and amounts payable on derivative contracts	(14,151)	14,638	5,679
Trading account securities	(5,700)	(11,037)	(4,040)
Securities sold with recourse	(239)	(337)	444
Obligations related to securities sold short	(1,748)	7,426	5,999
Other	8,116	(1,993)	(177)
Net cash provided by (used in) operating activities	4,893	(4,364)	4,027
Cash flows from investing activities			
Change in loans	1,077	(7,696)	(13,660)
Proceeds from the maturity of held to maturity securities	411	885	1,793
Purchases of held to maturity securities	(405)	(737)	(2,235)
Proceeds from sale of available for sale securities	5,163	4,446	1,956
Proceeds from the maturity of available for sale securities	10,428	11,478	18,663
Purchases of available for sale securities	(20,208)	(14,114)	(8,248)
Change in interest-bearing deposits with other banks	(6,596)	5,406	2,584
Net acquisitions of premises and equipment other than the sale of real estate	(255)	(518)	(293)
Net proceeds from sale of real estate	815	—	—
Increase in assets purchased under reverse repurchase agreements	(365)	(1,265)	(7,196)
Goodwill and other intangibles acquired	(129)	(7)	(396)
Net cash used in investing activities	(10,064)	(2,122)	(7,032)
Cash flows from financing activities			
Increase in domestic deposits	5,773	93	3,221
Increase in international deposits	2,119	5,964	7,173
Issue of subordinated debentures	700	500	1,576
Subordinated debentures matured	(123)	(72)	—
Issue of preferred shares	287	293	—
Preferred shares redeemed for cancellation	(400)	—	—
Issue of common shares	17	18	69
Common shares redeemed for cancellation	(333)	—	(198)
Dividends paid	(735)	(662)	(586)
Change in securities sold under repurchase agreements	(1,868)	1,806	(7,068)
Decrease in liabilities of subsidiaries	(215)	(315)	(705)
Net cash provided by financing activities	5,222	7,625	3,482
Net change in cash and due from banks	51	1,139	477
Cash and due from banks at beginning of year	2,409	1,270	793
Cash and due from banks at end of year	\$ 2,460	\$ 2,409	\$ 1,270
Supplemental disclosure of cash flow information			
Amount of interest paid in year	\$ 8,989	\$ 9,163	\$ 8,407
Amount of income taxes paid in year	\$ 542	\$ 604	\$ 845

Note 1: Significant accounting policies

The accompanying consolidated financial statements of Royal Bank of Canada are stated in Canadian dollars, the currency of the country in which the bank is incorporated and principally operates. These financial statements are prepared in accordance with generally accepted accounting principles (GAAP) in the United States and prevailing practices within the banking industry in that country. The bank has also prepared financial statements in accordance with Canadian GAAP and these have also been provided to shareholders.

GAAP requires management to make estimates and assumptions that affect the amounts reported in financial statements. Actual results could differ from those estimates.

The significant accounting policies followed in the preparation of these financial statements are summarized below.

BASIS OF CONSOLIDATION

The consolidated financial statements include the assets and liabilities and results of operations of all subsidiaries after elimination of intercompany transactions and balances. The bank has accounted for the acquisition of subsidiaries using the purchase method; any difference between the cost of the investment and the fair value of the net assets acquired is recorded as goodwill and amortized over appropriate periods of up to 15 years, except where a writedown is required to reflect permanent impairment. An impairment review is performed periodically on unamortized goodwill by reviewing returns of the related business, taking into account the risk associated with the investment.

The equity method is used to account for investments in associated corporations in which the bank has significant influence and holds between a 20% and a 50% equity interest but does not exercise control. These investments are reported in Other assets. The bank's share of earnings of these associated corporations is included in interest income from securities. Gains and losses realized on dispositions of investments in associated corporations are included in Non-interest revenue.

TRANSLATION OF FOREIGN CURRENCIES

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at rates prevailing on the balance sheet date; income and expenses are translated at average rates of exchange for the year.

Unrealized foreign currency translation gains and losses (net of hedging activities and related income taxes) on investments in foreign branches, subsidiaries and associated corporations where the functional currency is other than the Canadian dollar are recorded in Accumulated other comprehensive income in Shareholders' equity. On disposal of such investments, the accumulated net translation gain or loss is included in Non-interest revenue. Other foreign currency translation gains and losses (net of hedging activities) are included in Non-interest revenue.

SECURITIES

Securities are classified at the time of purchase, based on management's intentions, as Trading account, Available for sale, or Held to maturity securities.

Trading account securities, which are purchased for resale over a short period of time, are stated at estimated current market value. Obligations to deliver trading securities sold but not yet purchased are recorded as liabilities and are carried at their fair values. Realized and unrealized gains and losses on these securities are recorded in Trading revenues in Non-interest revenue. Interest

income accruing on Trading securities is recorded in Interest income from securities. Interest expense accruing on interest-bearing securities sold short is recorded in Interest expense.

Available for sale securities include securities that may be sold in response to or in anticipation of changes in interest rates and resulting prepayment risk, changes in funding sources or terms, or to meet liquidity needs. These securities are carried at estimated current market value. Unrealized gains and losses on these securities and on the derivatives designated as hedges of the securities, net of taxes, are reported in Accumulated other comprehensive income in Shareholders' equity. Available for sale securities include tax-exempt securities, which are customer financings that have been structured as after-tax investments rather than conventional loans in order to provide the issuers with a borrowing rate advantage. Such securities are accorded the accounting treatment applicable to loans and, if required, are reduced by an allowance for credit losses.

Held to maturity securities include debt securities that the bank has both the intent and the ability to hold until maturity and are carried at amortized cost. Premiums and discounts on Held to maturity securities are amortized to interest income from securities using the yield method over the period to maturity of the related securities.

Gains and losses realized on disposal of Available for sale and Held to maturity securities, which are calculated on an average cost basis, and writedowns to reflect other than temporary impairment in value are included in Gain on sale of securities in Non-interest revenue.

LOANS

Loans are stated net of an allowance for credit losses and unearned income, which is comprised of unearned interest and unamortized loan fees.

Loans are classified as impaired when there is no longer reasonable assurance of the timely collection of principal and interest. Whenever a payment is 90 days past due, loans other than credit card balances are classified as impaired unless they are well secured and in the process of collection. Credit card balances are charged off when a payment is 180 days in arrears. When a loan has been identified as impaired, the carrying amount of the loan is reduced to its estimated realizable amount, measured by discounting the expected future cash flows at the effective interest rate inherent in the loan. In subsequent periods, any increase in the carrying value of the loan is credited to the provision for credit losses. When a loan is recognized as impaired, the accrual of interest is discontinued and any previously accrued but unpaid interest on the loan is reversed against the current period's interest revenue. Interest received on impaired loans is credited to the allowance for credit losses on that loan. Impaired loans are returned to performing status when there is no longer any reasonable doubt regarding the timely collection of principal and interest, all amounts in arrears, including interest, have been collected and all charges for loan impairment have been reversed. Where a portion of a loan is charged off and the remaining balance is restructured, the new loan is carried on an accrual basis when there is no longer any reasonable doubt regarding the collectibility of principal and interest, and payments are not 90 days past due.

Collateral is obtained if, based on an evaluation of the customer's creditworthiness, it is considered necessary for the customer's overall borrowing facility. Collateral would normally be in the form of assets such as cash, government securities, shares, accounts receivable, inventory or fixed assets.

Assets acquired in respect of problem loans are recorded at the lesser of their fair value or the carrying value of the loan at the date of transfer. Any excess of the carrying value of the loan over the fair value of the assets acquired is charged off. Operating results and gains and losses on disposal of these assets are treated as charge-offs and recoveries.

Fees that relate to such activities as originating, restructuring or renegotiating loans are deferred and recognized as Interest income over the expected term of such loans. Where there is reasonable expectation that a loan will result, commitment and standby fees are also recognized as Interest income over the expected term of the resulting loan. Otherwise, such fees are recognized as Non-interest revenue over the commitment or standby period.

ALLOWANCE FOR CREDIT LOSSES

The allowance for credit losses is maintained at a level that management considers adequate to absorb identified credit-related losses in the portfolio as well as losses that have been incurred, but are not yet identifiable. The allowance for credit losses reflects management's best estimate of losses existing in the credit portfolio at the balance sheet date. The allowance relates primarily to loans but also to deposits with other banks, derivatives, tax-exempt securities and other credit instruments such as acceptances, guarantees and letters of credit. The allowance is increased by the provision for credit losses, which is charged to income, and decreased by the amount of charge-offs, net of recoveries.

The allowance is determined based on management's identification and evaluation of problem accounts; the application of estimated probable losses that exist on the remaining portfolio; and an allowance based on other factors including the composition and quality of the portfolio, and changes in economic conditions.

Specific allowances are maintained to absorb losses on both specifically identified borrowers and other more homogeneous loans that have become impaired. The losses relating to the identified large business and government debtors are estimated based on the present value of expected payments on an account-by-account basis. The losses relating to other portfolio-type products, excluding credit cards, are based on net charge-off experience over an economic cycle. For credit cards, no specific allowance is maintained as balances are charged off if no payment has been received after 180 days.

Country risk allowances are maintained with respect to exposures to a number of less developed countries (LDCs) based on an overall assessment of the underlying economic conditions in those countries.

The general allocated allowance represents the best estimate of probable losses within the portion of the portfolio that has not yet been specifically identified as impaired. This amount is established through the application of expected loss factors to outstanding and undrawn facilities. The general allocated allowance for large business and government loans and acceptances is based on the application of expected default and loss factors, determined by statistical loss migration analysis, delineated by loan type and rating. For more homogeneous portfolios, such as residential mortgages, small business loans, personal loans and credit cards, the determination of the general allocated allowance is done on a product portfolio basis. The losses are determined by the application of loss ratios determined through the analysis of loss migration and charge-off trends over an economic cycle, adjusted to reflect changes in the product offerings and credit quality of the pool.

The general unallocated allowance is based on management's assessment of probable, unidentified losses in the portfolio that have not been captured in the determination of the specific,

the country risk or the general allocated allowances. This allowance does not represent future losses or serve as a substitute for specific allowances. This assessment includes consideration of general economic and business conditions and regulatory requirements affecting key lending operations, recent loan loss experience, and trends in credit quality and concentrations. This allowance also reflects model and estimation risks, which are reviewed and revised where conditions indicate the initial assumptions differ from actual results.

Charge-offs are generally recorded when there is no realistic prospect of full recovery of a loan.

ASSETS PURCHASED UNDER REVERSE REPURCHASE AGREEMENTS AND ASSETS SOLD UNDER REPURCHASE AGREEMENTS

The bank enters into short-term purchases of securities under agreements to resell (reverse repurchase agreements) and sales of securities under agreements to repurchase (repurchase agreements). These agreements are treated as collateralized lending and borrowing transactions and are carried on the balance sheet at the amounts at which the securities were initially acquired or sold. Reverse repurchase and repurchase agreements conducted with the same counterparty are reported on a net basis provided they meet the requirements of FASB Interpretation No. 41, *Offsetting of Amounts Related to Certain Repurchase and Reverse Repurchase Agreements*. Interest earned on reverse repurchase agreements and interest incurred on repurchase agreements are included in Interest income and Interest expense, respectively.

ACCEPTANCES

The potential liability under acceptances is reported as a liability in the balance sheet. The recourse against the customer in the case of a call on these commitments is reported as a corresponding asset of the same amount under Loans. Fees earned are reported in Non-interest revenue.

PREMISES AND EQUIPMENT

Premises and equipment are stated at cost less accumulated depreciation. Depreciation is recorded principally on the straight-line basis over the estimated useful lives of the assets, which are 25 to 50 years for buildings, 3 to 10 years for computers, 7 to 10 years for furniture, fixtures and other equipment, and lease term plus first option period for leasehold improvements. Gains and losses on disposal are recorded in Non-interest revenue.

INCOME TAXES

The bank uses the asset and liability method whereby income taxes reflect the expected future tax consequences of temporary differences between the carrying amounts of assets or liabilities for book purposes compared with tax purposes. Accordingly, a deferred income tax liability or asset is determined for each temporary difference based on the tax rates that are expected to be in effect when the underlying items of income and expense are expected to be realized. Income taxes on the Consolidated statement of income include the current and deferred portions of the expense. Income taxes applicable to items charged or credited to Retained earnings and Accumulated other comprehensive income are netted with such items.

Deferred income taxes accumulated as a result of temporary differences are included in Other assets. A valuation allowance is established to reduce deferred income tax assets to the amount expected to be realized. In addition, the Consolidated statement of income contains items that are non-taxable or non-deductible for income tax purposes and, accordingly, cause the income tax provision to be different than what it would be if based on statutory rates.

Note 1: Significant accounting policies (CONTINUED)

DERIVATIVES

Derivatives are used in sales and trading activities to provide clients with the ability to manage their market risk exposures. Derivatives are also used to manage the bank's own exposures to interest, currency and other market risks. The most frequently used derivative products are foreign exchange forward contracts, interest rate and currency swaps, foreign currency and interest rate futures, forward rate agreements, and foreign currency and interest rate options.

When used in sales and trading activities, the realized and unrealized gains and losses on these derivatives are recognized in Non-interest revenue. Market values are determined using pricing models that incorporate current market and contractual prices of the underlying instruments, time value of money, yield curve and volatility factors. A portion of the market value is deferred within Derivative-related amounts in Other liabilities and amortized to income over the life of the instruments to cover credit considerations and ongoing direct servicing costs. Unrealized gains and unrealized losses are generally reported on a gross basis as Derivative-related amounts in Other assets and Other liabilities, except where the bank has both the legal right and intent to settle these amounts simultaneously in which case they are presented on a net basis. Margin requirements and premiums paid are also included in Derivative-related amounts in Other assets, while premiums received are shown in Derivative-related amounts in Other liabilities.

When derivatives are used to manage the bank's own exposures, the revenue or expense is recognized over the life of the transaction as an adjustment to interest revenue or expense. Where derivatives have been designated and function effectively as hedges, realized gains and losses are deferred and amortized over the life of hedged assets or liabilities as adjustments to Interest income or Interest expense.

POSTRETIREMENT BENEFITS

The bank maintains a defined benefit pension plan that is available to substantially all employees after 2 years of service or at age 25, on a contributory or a non-contributory basis. The plan provides pensions based on years of service, contributions, and average earnings at retirement. Employees of subsidiaries of the bank are generally covered by separate pension plans that offer comparable benefits. It is the bank's funding policy to annually contribute to its pension funds the actuarially determined amounts needed to satisfy employee benefit laws. Investments held by the pension funds are primarily comprised of equity securities, bonds and debentures.

Actuarial valuations are performed each year to determine the present value of the accrued pension benefits, based on projections of employees' compensation levels to the time of retirement.

Pension expense consists of the aggregate of (a) the actuarially computed cost of pension benefits provided in respect of the current year's service, (b) imputed interest on the funding excess or deficiency of the plan and (c) the amortization of the funding excess existing at the date the current accounting policy commenced, experience gains and losses, and amounts arising as a result of changes in assumptions and plan amendments over the expected average remaining service life of employees.

The cumulative excess of pension fund contributions over the amounts recorded as expense is reported in Other assets, and other postretirement accrued benefit costs are reported in Other liabilities.

The bank also provides health and dental care benefits and life insurance coverage to employees who retire after 10 years of service, and to their dependents. Costs of providing these benefits are accrued over the working lives of employees in a manner similar to pension costs.

ASSETS UNDER ADMINISTRATION AND ASSETS UNDER MANAGEMENT

The bank administers and manages assets owned by clients that are not reflected on the balance sheet. Asset management fees are earned for providing investment management services and mutual fund products. Asset administration fees are earned for providing trust, estate administration and custodial services. Fees are recognized and reported in Non-interest revenue as the services are provided.

LOAN SECURITIZATION

The bank periodically securitizes loans by selling loans to special-purpose vehicles or trusts that in turn issue securities to investors. These transactions are accounted for as sales when the bank is deemed to have surrendered control over such assets and consideration other than beneficial interests in these transferred assets has been received by the bank in exchange. Gains on these transactions are recognized in Non-interest revenue provided the bank is considered to have surrendered control of the loans that have been transferred.

Fees earned by the bank to service the securitized loans are recognized as services are provided and reported in Securitization revenues in Non-interest revenue.

INSURANCE OPERATIONS

The Consolidated statement of income includes earned premium, fees, claims and changes in actuarial reserves in Non-interest revenue. Investments are primarily included in Available for sale securities and actuarial reserves are included in Other liabilities. Investment income is included in Interest income on Available for sale and held to maturity securities, and administrative expenses are included in Non-interest expenses.

FUTURE ACCOUNTING CHANGES

In 1998, the American Institute of Certified Public Accountants issued Statement of Position (SOP) 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use*. This statement requires that certain costs associated with the acquisition or development of internal use software be capitalized. Effective November 1, 1999, the bank will adopt prospectively SOP 98-1. Once the software is ready for its intended use, the capitalized cost will be amortized on a straight-line basis over its estimated useful life of 3 to 5 years. The bank currently expenses internal costs and capitalizes external acquisition costs. The impact of this new statement is not yet determinable.

In 1998, the Financial Accounting Standards Board issued SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*. This standard, which becomes effective for the bank on November 1, 2000, will significantly change the accounting treatment of end-user derivative and foreign exchange contracts used by the bank and its customers. Depending on the underlying risk management strategy, these accounting changes could affect reported earnings, assets, liabilities and shareholders' equity. The bank is in the process of evaluating the potential impact of the new standard.

Note 2: Results by business and geographic segments

1999	Personal & commercial banking	Wealth management	Corporate & investment banking	Other	Total	Canada	International
Net interest income on taxable equivalent basis	\$ 4,492	\$ 369	\$ 527	\$ (236)	\$ 5,152	\$ 4,402	\$ 750
Taxable equivalent adjustment	8	—	27	—	35	35	—
Net interest income	4,484	369	500	(236)	5,117	4,367	750
Provision for credit losses	573	2	228	(43)	760	672	88
Net interest income after provision for credit losses	3,911	367	272	(193)	4,357	3,695	662
Non-interest revenue	1,607	1,960	1,712	212	5,491	4,277	1,214
Non-interest expenses	3,764	1,841	1,431	105	7,141	6,054	1,087
Net income before income taxes	1,754	486	553	(86)	2,707	1,918	789
Income taxes	682	164	183	(55)	974	815	159
Non-controlling interest	4	—	—	4	8	4	4
Net income	\$ 1,068	\$ 322	\$ 370	\$ (35)	\$ 1,725	\$ 1,099	\$ 626
Total average assets	\$ 120,200	\$ 12,600	\$ 128,900	\$ 8,300	\$ 270,000	\$ 187,900	\$ 82,100

1998	Personal & commercial banking	Wealth management	Corporate & investment banking	Other	Total	Canada	International
Net interest income on taxable equivalent basis	\$ 4,224	\$ 347	\$ 689	\$ (159)	\$ 5,101	\$ 4,409	\$ 692
Taxable equivalent adjustment	13	—	24	—	37	37	—
Net interest income	4,211	347	665	(159)	5,064	4,372	692
Provision for credit losses	304	1	385	(115)	575	527	48
Net interest income after provision for credit losses	3,907	346	280	(44)	4,489	3,845	644
Non-interest revenue	1,376	1,828	1,299	494	4,997	3,729	1,268
Non-interest expenses	3,491	1,701	1,194	124	6,510	5,552	958
Net income before income taxes	1,792	473	385	326	2,976	2,022	954
Income taxes	731	179	119	99	1,128	906	222
Non-controlling interest	3	12	49	12	76	72	4
Net income	\$ 1,058	\$ 282	\$ 217	\$ 215	\$ 1,772	\$ 1,044	\$ 728
Total average assets	\$ 111,100	\$ 11,900	\$ 128,100	\$ 10,400	\$ 261,500	\$ 179,900	\$ 81,600

1997	Personal & commercial banking	Wealth management	Corporate & investment banking	Other	Total	Canada	International
Net interest income on taxable equivalent basis	\$ 3,972	\$ 336	\$ 721	\$ 3	\$ 5,032	\$ 4,352	\$ 680
Taxable equivalent adjustment	16	—	16	—	32	32	—
Net interest income	3,956	336	705	3	5,000	4,320	680
Provision for credit losses	226	6	142	6	380	315	65
Net interest income after provision for credit losses	3,730	330	563	(3)	4,620	4,005	615
Non-interest revenue	1,359	1,708	1,097	124	4,288	3,585	703
Non-interest expenses	3,413	1,555	1,032	71	6,071	5,333	738
Net income before income taxes	1,676	483	628	50	2,837	2,257	580
Income taxes	667	201	238	—	1,106	1,001	105
Non-controlling interest	3	20	43	11	77	74	3
Net income	\$ 1,006	\$ 262	\$ 347	\$ 39	\$ 1,654	\$ 1,182	\$ 472
Total average assets	\$ 100,000	\$ 12,300	\$ 109,900	\$ 17,600	\$ 239,800	\$ 169,300	\$ 70,500

For management reporting purposes, the operations of the bank are grouped into the business segments of Personal & commercial banking, Wealth management and Corporate & investment banking with the Other segment comprised mainly of real estate operations, corporate treasury, systems and technology, distribution and service delivery, and earnings on LDC assets.

The business segments operate on an arm's-length basis with respect to the purchase and sale of intra-group services. Transfer pricing of funds sold or purchased, commissions, or charges and credits for services rendered are generally based on third-party or market-pricing strategies.

For geographic reporting purposes, Canadian-based activities of international money market units are included in International.

Note 3: Securities

	Term to maturity (1)					1999 Total	1998 Total
	Under 1 year	1 to 5 years	5 to 10 years	Over 10 years	With no specific maturity		
Trading account (2)							
Canadian government debt (3)	\$ 3,022	\$ 2,972	\$ 1,783	\$ 1,862	\$ —	\$ 9,639	\$ 11,035
U.S. Treasury and other U.S. agencies	433	187	125	14	—	759	1,034
Other OECD government debt	135	765	1,162	112	—	2,174	1,288
Mortgage-backed securities	13	13	4	15	—	45	801
Other debt	4,338	1,989	1,082	445	—	7,854	5,541
Equities	—	—	—	—	14,817	14,817	9,889
Total trading account	7,941	5,926	4,156	2,448	14,817	35,288	29,588
Available for sale (2)							
Canadian government debt (3)							
Amortized cost	6,489	770	95	201	—	7,555	7,081
Estimated market value	6,491	777	97	203	—	7,568	7,187
Yield (4)	5.1%	6.3%	6.5%	6.5%	—	5.3%	5.8%
U.S. Treasury and other U.S. agencies							
Amortized cost	1	—	—	—	—	1	5
Estimated market value	1	—	—	—	—	1	5
Yield (4)	4.3%	—	—	—	—	4.3%	4.3%
Other OECD government debt							
Amortized cost	107	88	2	—	—	197	1,032
Estimated market value	107	86	2	—	—	195	1,028
Yield (4)	3.3%	6.3%	5.9%	—	—	4.7%	.8%
Mortgage-backed securities							
Amortized cost	160	3,918	52	10	—	4,140	231
Estimated market value	161	3,800	51	9	—	4,021	239
Yield (4)	7.2%	5.1%	5.7%	6.0%	—	5.2%	8.4%
Other debt							
Amortized cost	2,001	698	723	63	72	3,557	2,308
Estimated market value	2,007	688	681	60	68	3,504	2,276
Yield (4)	5.1%	6.8%	8.6%	7.8%	5.0%	6.2%	7.2%
Equities							
Cost	—	—	—	—	1,064	1,064	1,105
Estimated market value	—	—	—	—	1,075	1,075	1,125
Total available for sale							
Amortized cost	8,758	5,474	872	274	1,136	16,514	11,762
Estimated market value	8,767	5,351	831	272	1,143	16,364	11,860
Held to maturity (2)							
Other OECD government debt							
Amortized cost	134	246	8	—	—	388	351
Estimated market value	134	247	8	—	—	389	362
Yield (4)	6.3%	5.9%	5.9%	—	—	6.0%	5.5%
Other debt							
Amortized cost	285	411	—	—	—	696	739
Estimated market value	285	419	—	—	—	704	736
Yield (4)	6.0%	6.5%	—	—	—	6.3%	4.8%
Total held to maturity							
Amortized cost	419	657	8	—	—	1,084	1,090
Estimated market value	419	666	8	—	—	1,093	1,098
Total carrying value of securities (2)	\$ 17,127	\$ 11,934	\$ 4,995	\$ 2,720	\$ 15,960	\$ 52,736	\$ 42,538
Total estimated market value of securities	\$ 17,127	\$ 11,943	\$ 4,995	\$ 2,720	\$ 15,960	\$ 52,745	\$ 42,546

- (1) Actual maturities may differ from contractual maturities shown above, since borrowers may have the right to prepay obligations with or without prepayment penalties.
(2) Trading and Available for sale securities are carried at estimated current market value. Held to maturity securities are carried at amortized cost.
(3) Canadian government debt is comprised of securities issued or guaranteed by Canadian federal, provincial or municipal governments.
(4) The weighted average yield is based on the carrying value at the end of the year for the respective securities.

Unrealized gains and losses

	1999				1998			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated market value	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated market value
Available for sale								
Canadian government debt (1)	\$ 7,555	\$ 27	\$ (14)	\$ 7,568	\$ 7,081	\$ 108	\$ (2)	\$ 7,187
U.S. Treasury and other U.S. agencies	1	—	—	1	5	—	—	5
Other OECD government debt	197	—	(2)	195	1,032	—	(4)	1,028
Mortgage-backed securities	4,140	3	(122)	4,021	231	8	—	239
Other debt	3,557	15	(68)	3,504	2,308	29	(61)	2,276
Equities	1,064	30	(19)	1,075	1,105	25	(5)	1,125
Total available for sale	\$ 16,514	\$ 75	\$ (225)	\$ 16,364	\$ 11,762	\$ 170	\$ (72)	\$ 11,860
Held to maturity								
Other OECD government debt	\$ 388	\$ 3	\$ (2)	\$ 389	\$ 351	\$ 11	\$ —	\$ 362
Other debt	696	10	(2)	704	739	7	(10)	736
Total held to maturity	\$ 1,084	\$ 13	\$ (4)	\$ 1,093	\$ 1,090	\$ 18	\$ (10)	\$ 1,098

(1) Canadian government debt is comprised of securities issued or guaranteed by Canadian federal, provincial or municipal governments.

Gross realized gains and losses on sales of available for sale securities

	1999	1998	1997
Gross realized gains	\$ 94	\$ 423	\$ 61
Gross realized losses	\$ 66	\$ 80	\$ 24

Note 4: Loans

	1999	1998
Canada (1)		
Residential mortgage	\$ 58,524	\$ 55,836
Personal	24,353	21,814
Credit card	2,666	1,945
Business and government loans and acceptances	43,674	44,747
Total Canada	129,217	124,342
International (1)		
Residential mortgage	718	632
Personal	902	947
Business and government loans and acceptances	23,213	31,471
Total international	24,833	33,050
Total loans (2)	154,050	157,392
Allowance for credit losses (3)	(1,884)	(2,026)
Total loans net of allowance for credit losses	\$ 152,166	\$ 155,366

(1) Loans in Canada include all loans booked in Canada, regardless of currency or residence of borrower.

(2) Loans are net of unearned income of \$144 million (1998 – \$133 million).

(3) Excludes allowance of \$16 million (1998 – \$40 million) related to tax-exempt securities.

Note 4: Loans (CONTINUED)

Impaired loans

	1999	1998
Residential mortgage	\$ 173	\$ 166
Personal	236	217
Business and government loans and acceptances	1,295	1,618
	<u>\$ 1,704</u>	<u>\$ 2,001</u>
Specific allowances (1)	\$ 820	\$ 1,216
Average balance of impaired loans (2)	\$ 1,860	\$ 1,778

(1) Includes allowance for tax-exempt securities of \$16 million (1998 – \$ 40 million). Specific allowances include specific and country risk allowances, which are included in the bank's overall allowance for credit losses.

(2) For the year ended October 31, 1997, the average balance of impaired loans was \$2,094 million.

Allowance for credit losses (1)

	1999	1998	1997
Allowance at beginning of the year	\$ 2,066	\$ 2,118	\$ 2,235
Charge-offs	(1,072)	(836)	(669)
Recoveries	114	144	141
Net charge-offs	(958)	(692)	(528)
Provision for credit losses	760	575	380
Other	32	65	31
Allowance at end of the year	<u>\$ 1,900</u>	<u>\$ 2,066</u>	<u>\$ 2,118</u>

(1) Includes allowance of \$16 million (1998 – \$40 million, 1997 – \$30 million) related to tax-exempt securities.

Note 5: Premises and equipment

			1999	1998
	Cost	Accumulated depreciation	Net book value	Net book value
Land	\$ 111	\$ —	\$ 111	\$ 192
Buildings	440	(198)	242	695
Computer equipment	1,146	(740)	406	469
Furniture, fixtures and other equipment	617	(402)	215	259
Leasehold improvements	695	(395)	300	257
	<u>\$ 3,009</u>	<u>\$ (1,735)</u>	<u>\$ 1,274</u>	<u>\$ 1,872</u>

Note 6: Subordinated debentures

The debentures are unsecured obligations and are subordinated in right of payment to the claims of depositors and certain other creditors. All repurchases, cancellations and exchanges of subordinated

debentures are subject to the consent and approval of the Superintendent of Financial Institutions Canada.

Maturity	Rate		Denominated in foreign currency	1999	1998
January 15, 1999	10.90%			\$ —	\$ 75
October 14, 1999	10.20%			—	48
July 1, 2000	11.00%			20	20
January 31, 2001	11.75%			27	27
August 15, 2001	10.75%			15	15
January 11, 2002	11.00%			41	41
March 1, 2002	10.50%			60	60
July 29, 2005		(1)	Callable US\$350	516	540
September 3, 2007	5.40%	(2)	Callable	400	400
September 3, 2008	5.45%	(3)	Callable	100	100
April 12, 2009	5.40%	(4)	Callable	350	—
June 11, 2009	5.10%	(5)	Callable	350	—
July 7, 2009	6.05%	(6)	Callable	175	175
October 12, 2009	6.00%	(7)	Callable	150	150
April 26, 2011	8.20%	(8)	Callable	100	100
September 12, 2011	6.50%	(9)	Callable	350	350
October 24, 2011	6.75%	(10)	Callable US\$300	441	463
June 4, 2012	6.75%	(11)	Callable	500	500
November 14, 2014	10.00%			200	200
June 8, 2023	9.30%			110	110
October 1, 2083		(12)	Callable	250	250
June 6, 2085		(13)	Callable US\$300	441	463
				\$ 4,596	\$ 4,087

- (1) Interest at a rate of .0625% above the U.S. dollar 1-month LIBOR.
(2) Interest at a rate of 5.40% until September 3, 2002, and thereafter at a rate of 1.00% above the 90-day Bankers' Acceptance rate.
(3) Interest at a rate of 5.45% until September 3, 2003, and thereafter at a rate of 1.00% above the 90-day Bankers' Acceptance rate.
(4) Interest at a rate of 5.40% until April 12, 2004, and thereafter at a rate of 1.00% above the 90-day Bankers' Acceptance rate.
(5) Interest at a rate of 5.10% until June 11, 2004, and thereafter at a rate of 1.00% above the 90-day Bankers' Acceptance rate.
(6) Interest at a rate of 6.05% until July 7, 2004, and thereafter at a rate of 1.00% above the 90-day Bankers' Acceptance rate.
(7) Interest at a rate of 6.00% until October 12, 2004, and thereafter at a rate of 1.00% above the 90-day Bankers' Acceptance rate.

- (8) Interest at a rate of 8.20% until April 26, 2006, and thereafter at a rate of 1.00% above the 90-day Bankers' Acceptance rate.
(9) Interest at a rate of 6.50% until September 12, 2006, and thereafter at a rate of 1.00% above the 90-day Bankers' Acceptance rate.
(10) Interest at a rate of 6.75% until October 24, 2006, and thereafter at a rate of 1.00% above the U.S. dollar 6-month LIBOR.
(11) Interest at a rate of 6.75% until June 4, 2007, and thereafter at a rate of 1.00% above the 90-day Bankers' Acceptance rate.
(12) Interest at a rate of .40% above the 30-day Bankers' Acceptance rate.
(13) Interest at a rate of .25% above the U.S. dollar 3-month LIMEAN. In the event of a reduction of the annual dividend declared by the bank on its Common Shares, the interest payable on the debentures is reduced pro rata to the dividend reduction and the interest reduction is payable with the proceeds from the sale of Common Shares.

REPAYMENT SCHEDULE

The aggregate maturities of the debentures, assuming the earliest possible dates of maturity under the terms of issue, are as follows:

	Total
2000	\$ 20
2001	42
2002	101
2003	—
2004	—
2005 to 2009	2,041
Thereafter	2,392
	\$ 4,596

Note 7: Capital stock

AUTHORIZED CAPITAL STOCK

Preferred – An unlimited number of First Preferred Shares and Second Preferred Shares without nominal or par value, issuable in series; the aggregate consideration for which all the First Preferred Shares and all the Second Preferred Shares that may be issued may not exceed \$5 billion in each case.

Common – An unlimited number of shares without nominal or par value, provided that the aggregate consideration for which all common shares may be issued shall not exceed \$10 billion.

Outstanding capital stock

	1999			1998			1997		
	Number of shares (000s)	Amount	Dividends declared per share	Number of shares (000s)	Amount	Dividends declared per share	Number of shares (000s)	Amount	Dividends declared per share
First Preferred (1)									
Non-cumulative Redeemable Series E (2)	1,500	\$ 149	\$ 4.69	1,500	\$ 149	\$ 5.00	1,500	\$ 149	\$ 3.64
Non-cumulative Series F (3)	–	–	2.25	6,000	147	2.25	6,000	147	2.25
Non-cumulative Series G (3)	–	–	2.13	10,000	246	2.13	10,000	246	2.13
Non-cumulative Series H (4)	12,000	295	2.25	12,000	295	2.25	12,000	295	2.25
US\$ Non-cumulative Series I (5)	8,000	291	US 1.91	8,000	305	US 1.91	8,000	279	US 1.91
Non-cumulative Series J (6)	12,000	294	1.78	12,000	294	1.78	12,000	294	1.78
US\$ Non-cumulative Series K (7)	10,000	363	US 1.58	10,000	381	US 1.58	10,000	347	US 1.58
Non-cumulative Series N (8)	12,000	293	1.18	12,000	293	0.68	–	–	–
Non-cumulative Series O (9)	6,000	145	0.58	–	–	–	–	–	–
US\$ Non-cumulative Series P (10)	4,000	143	US 0.61	–	–	–	–	–	–
		<u>\$ 1,973</u>			<u>\$ 2,110</u>			<u>\$ 1,757</u>	
Common									
Balance at beginning of year	308,791	\$ 2,923		308,335	\$ 2,905		310,529	\$ 2,874	
Issued under the Stock Option Plan	476	17		456	18		173	5	
Issued on the acquisition of Richardson Greenshields Limited (11)	4,790	170		–	–		1,274	44	
Issued on the acquisition of RBC Dominion Securities Limited common shares (12)	70	5		–	–		482	20	
Purchased for cancellation (13)	(5,243)	(52)		–	–		(4,123)	(38)	
Balance at end of year	<u>308,884</u>	<u>\$ 3,063</u>	<u>\$ 1.88</u>	<u>308,791</u>	<u>\$ 2,923</u>	<u>\$ 1.76</u>	<u>308,335</u>	<u>\$ 2,905</u>	<u>\$ 1.52</u>

- All redemption and purchase for cancellation options on preferred shares are subject to the consent of the Superintendent of Financial Institutions Canada. **Series H** and **J** are redeemable by the bank on and after the dates specified below (i) in cash, at a price per share of \$25 or (ii) by the conversion of each such share to be redeemed into that number of Common Shares determined by dividing \$25 by the greater of \$2.50 and 95% of the average market price of the Common Shares at such time. On and after the dates specified below, subject to the right of the bank to redeem or to find substitute purchasers, each share of the **Series H** and **J** will be convertible quarterly at the option of the holder into that number of Common Shares determined by dividing \$25 by the greater of \$2.50 and 95% of the average market price of the Common Shares at such time. **Series I** and **K** are redeemable by the bank on and after the dates specified below (i) in cash, at a price per share of US\$25 or (ii) by the conversion of each such share to be redeemed into that number of Common Shares determined by dividing US\$25 by the greater of \$2.50 and the U.S. dollar equivalent of 95% of the average market price of the Common Shares at such time. On and after the dates specified below, subject to the right of the bank to redeem or to find substitute purchasers, each share of **Series I** and **K** will be convertible quarterly at the option of the holder into that number of Common Shares determined by dividing US\$25 by the greater of \$2.50 and the U.S. dollar equivalent of 95% of the average market price of the Common Shares at such time.
- During 1997, a special resolution was passed to amend the rights, privileges, restrictions and conditions attached to the **Series E**. The shareholders are entitled to receive, as and when declared, a monthly non-cumulative cash dividend that (i) floats in relation to the bank's Canadian prime rate and (ii) is adjusted upwards or downwards based on changes in market trading value. The annual dividend rate applicable to any month will in no event be less than the sum of .25% plus 55% or greater than the sum of .25% plus 75% of the average prime rate. Such shares are redeemable by the bank at a price per share of \$100 and the bank may, at any time, purchase for cancellation such shares at a price per share not exceeding \$100.
- On October 31, 1999, the bank redeemed for cancellation the Non-cumulative First Preferred Shares **Series F** and **Series G**.
- The dividend on the **Series H** is payable quarterly at a rate of \$0.5625 per share. Such shares are not redeemable by the bank prior to August 24, 2001, but thereafter are redeemable as discussed in footnote (1) above. On and after November 24, 2001, such shares are convertible at the option of the holder into Common Shares as discussed in footnote (1) above.
- The dividend on the **Series I** is payable quarterly at a rate of US\$0.4766 per share. Such shares are not redeemable by the bank prior to November 24, 2001, but thereafter are redeemable as discussed in footnote (1) above. On and after February 24, 2002, such shares are convertible at the option of the holder into Common Shares as discussed in footnote (1) above.

- (6) The dividend on the **Series J** is payable quarterly at a rate of \$0.44375 per share. Such shares are not redeemable by the bank prior to May 24, 2003, but thereafter are redeemable as discussed in footnote (1) above. On and after November 24, 2003, such shares are convertible at the option of the holder into Common Shares as discussed in footnote (1) above.
- (7) The dividend on the **Series K** is payable quarterly at a rate of US\$0.39375 per share. Such shares are not redeemable by the bank prior to May 24, 2003, but thereafter are redeemable as discussed in footnote (1) above. On and after November 24, 2003, such shares are convertible at the option of the holder into Common Shares as discussed in footnote (1) above.
- (8) The dividend on the **Series N** is payable quarterly at a rate of \$0.29375 per share. Such shares are not redeemable by the bank prior to August 24, 2003, but thereafter are redeemable (i) in cash, at a price per share of \$26, if redeemed during the 12 months commencing August 24, 2003, and decreasing by \$0.25 each 12-month period thereafter to a price per share of \$25 or (ii) by the conversion of each such share to be redeemed into that number of Common Shares determined by dividing the then-applicable redemption price by the greater of \$2.50 and 95% of the average market price of the Common Shares at such time. On or after August 24, 2008, subject to the right of the bank to redeem or to find substitute purchasers, each share will be convertible quarterly at the option of the holder into that number of Common Shares determined by dividing \$25 by the greater of \$2.50 and 95% of the average market price of the Common Shares at such time.
- (9) The dividend on the **Series O** is payable quarterly at the rate of \$0.34375 per share. Such shares are not redeemable by the bank prior to August 24, 2004, but thereafter are redeemable (i) in cash, at a price per share of \$26, if redeemed during the 12 months commencing August 24, 2004, and decreasing by \$0.25 each 12-month period thereafter to a price per share of \$25 or (ii) by the conversion of each such share to be redeemed into that number of Common Shares determined by dividing the then-applicable redemption price by the greater of \$2.50 and 95% of the weighted average market price of the Common Shares at such time.
- (10) The dividend on the **Series P** is payable quarterly at the rate of US\$0.359375 per share. Such shares are not redeemable by the bank prior to August 24, 2004, but thereafter are redeemable (i) in cash, at a price per share of US\$26 if redeemed during the 12 months commencing August 24, 2004, and decreasing by US\$0.25 each 12-month period thereafter to a price per share of US\$25 or (ii) by the conversion of each such share to be redeemed into that number of Common Shares determined by dividing the then-applicable redemption price by the greater of US\$2.50 and 95% of the U.S. dollar equivalent of the weighted average market price of the Common Shares at such time.
- (11) On November 1, 1998, the bank exchanged virtually all of the 4,650,000 Class B shares, originally issued by its wholly owned subsidiary, Royal Bank DS Holding Inc., for the acquisition of Richardson Greenshields Limited, into 4,790,000 Common Shares for \$170 million.
- (12) Effective November 1, 1998, the bank acquired all of the outstanding participating preferred shares of RBC Dominion Securities Limited in exchange for 70,000 Common Shares for \$5 million and cash of \$175 million.
- (13) In May 1999 and in September 1996, the bank announced its intention to repurchase up to 10,912,979 and 31,272,424 Common Shares, respectively, during the 12 months ending June 23, 2000, and September 25, 1997, respectively. Such purchases are made in the open market at market prices through the facilities of the Toronto and Montreal Stock Exchanges, and in accordance with stock exchange requirements. The amount and timing of purchases are determined by the bank. Premiums paid to acquire the shares above the average carrying value are charged to retained earnings. In 1999, 5,242,900 Common Shares were repurchased at a cost of \$333 million, common stock outstanding being reduced by \$52 million and retained earnings by \$281 million. In 1997, 4,123,200 Common Shares were repurchased at a cost of \$198 million, common stock outstanding being reduced by \$38 million and retained earnings by \$160 million.

REGULATORY CAPITAL

The bank is subject to the regulatory capital requirements defined by the Office of the Superintendent of Financial Institutions Canada (OSFI), which includes the use of Canadian GAAP. Two measures of capital strength established by OSFI, based on standards issued by the Bank for International Settlements (BIS), include risk-adjusted capital ratios and the assets-to-capital multiple.

OSFI requires Canadian banks to maintain a minimum Tier 1 and Total capital ratio of 4% and 8%, respectively. However, OSFI has indicated that a Canadian bank should attain a Tier 1 and Total capital ratio of 7% and 10%, respectively. At October 31, 1999, the bank's Tier 1 and Total capital ratios were 8.1% and 11.2%, respectively (1998 – 7.4% and 10.5%, respectively).

In the evaluation of the assets-to-capital multiple, OSFI specifies that total assets, including specified off-balance sheet financial instruments, should be no greater than 20 times Total capital. At October 31, 1999, the bank's assets-to-capital multiple was 16.5 times (1998 – 16.7 times).

Using guidelines issued by the Board of Governors of the Federal Reserve Board in the United States and U.S. GAAP financial information, the bank's Tier 1 and Total capital ratios at October 31, 1999 were 7.6% and 10.7%, respectively (1998 – 6.8% and 10.1%, respectively). Using the same guidelines, at October 31, 1999, the bank's leverage ratio was 4.1% (1998 – 4.0%).

Note 8: Income taxes

	1999	1998	1997
Provision for income tax reported in income			
Current			
Canada – Federal	\$ 580	\$ 501	\$ 405
Provincial	234	302	277
International	176	153	158
	990	956	840
Deferred			
Canada – Federal	(3)	144	230
Provincial	(3)	28	36
International	(10)	–	–
	(16)	172	266
	\$ 974	\$ 1,128	\$ 1,106
Income tax expense (benefit) reported in shareholders' equity			
Unrealized foreign currency translation gains and losses, net of hedging activities	213	(299)	(158)
Unrealized gains and losses on available for sale securities, net of hedging activities	63	(42)	(212)
	276	(341)	(370)
Total income taxes	\$ 1,250	\$ 787	\$ 736

Deferred income taxes (temporary differences)

	1999	1998	1997
Deferred income tax asset (1)			
Allowance for credit losses	\$ 509	\$ 364	\$ 319
Tax loss carryforwards	19	233	250
Premises and equipment	–	118	89
Interest on impaired loans	–	–	75
Other	618	381	429
	1,146	1,096	1,162
Deferred income tax liability			
Pension expense	(120)	(112)	(125)
Premises and equipment	(29)	–	–
Other	(200)	(214)	(332)
	(349)	(326)	(457)
Net deferred income tax asset	\$ 797	\$ 770	\$ 705

(1) The bank has determined that it is more likely than not that its deferred income tax asset will be realized through a combination of future reversals of temporary differences and taxable income.

Reconciliation to statutory tax rate

	1999		1998		1997	
Income taxes at Canadian statutory tax rate	\$ 1,163	43.0%	\$ 1,277	42.9%	\$ 1,217	42.9%
Increase (decrease) in income taxes resulting from						
Lower average tax rate applicable to subsidiaries	(199)	(7.1)	(167)	(5.4)	(142)	(5.0)
Tax-exempt income from securities	(10)	(.4)	(10)	(.4)	(9)	(.3)
Other	20	.5	28	.8	40	1.4
Income taxes reported in income/effective tax rate	\$ 974	36.0%	\$ 1,128	37.9%	\$ 1,106	39.0%

Foreign earnings of certain subsidiaries would be taxed only upon their repatriation to Canada. The bank has not recognized a deferred tax liability for these undistributed earnings as management does not currently expect them to be repatriated. Taxes

that would be payable if all foreign subsidiaries' accumulated unremitted earnings were repatriated are estimated at \$729 million as at October 31, 1999 (1998 – \$696 million).

Note 9: Employee benefit plans

Pension and other postretirement plans

	Pension plan		Other postretirement plans (1)	
	1999	1998	1999	1998
Change in fair value of plan assets				
Fair value of plan assets at beginning of year	\$ 3,673	\$ 3,695	\$ 72	\$ 69
Actual return on plan assets	350	450	3	3
Company contributions	77	86	—	—
Plan participant contributions	19	18	—	—
Benefits paid	(183)	(158)	(7)	—
Business combinations	—	105	—	—
Experience gains (losses)	241	(516)	—	—
Foreign currency exchange rate changes	(12)	13	—	—
Change in valuation allowance	10	(14)	—	—
Transfers to other plans	(40)	(6)	—	—
Fair value of plan assets at end of year	\$ 4,135	\$ 3,673	\$ 68	\$ 72
Change in benefit obligation				
Benefit obligation at beginning of year	\$ 3,626	\$ 3,359	\$ 513	\$ 516
Service cost	126	100	17	20
Interest cost	238	226	40	34
Plan participant contributions	2	3	—	—
Actuarial loss (gain)	(294)	187	22	(45)
Benefits paid	(183)	(158)	(18)	(12)
Transfers to other plans	(34)	(5)	—	—
Plan amendments	11	—	—	—
Business combinations	—	68	—	—
Foreign currency exchange rate changes	(9)	11	—	—
Changes in assumptions	(12)	(165)	—	—
Benefit obligation at end of year	\$ 3,471	\$ 3,626	\$ 574	\$ 513
Funded status				
Overfunded (underfunded) status at end of year	\$ 664	\$ 47	\$ (506)	\$ (441)
Unrecognized net actuarial loss (gain)	(410)	233	38	20
Unrecognized transition obligation	4	4	243	260
Other	3	(27)	—	—
Prepaid (accrued) benefit cost	\$ 261	\$ 257	\$ (225)	\$ (161)
Weighted average assumptions as at October 31				
Discount rate	7.25%	7.0%	7.25%	6.5%
Assumed long-term rate of return on plan assets	7.0%	7.5%	4.75%	4.8%
Rate of increase in future compensation	4.4%	5.1%	4.4%	5.1%

Pension benefit cost (2)

	1999	1998	1997
Service cost	\$ 126	\$ 100	\$ 81
Interest cost	238	226	205
Expected return on plan assets	(274)	(254)	(222)
Amortization of transition asset	—	10	(6)
Amortization of prior service cost	(3)	—	—
Amortization of net pension surplus	(1)	—	—
Recognized net actuarial loss (gain)	13	23	(1)
Change in valuation allowance	(10)	14	(2)
Pension benefit cost	\$ 89	\$ 119	\$ 55

Other postretirement benefits cost (1)

	1999	1998	1997
Service cost	\$ 20	\$ 20	\$ 18
Interest cost	40	35	30
Expected return on plan assets	(3)	(3)	—
Amortization of transitional asset	17	17	17
Recognized net actuarial loss	1	1	—
Other postretirement benefits cost	\$ 75	\$ 70	\$ 65

(1) Includes postretirement health, dental care and life insurance. The assumed health care cost trend rates for the next year used to measure the expected cost of benefits covered for the postretirement health and life plans was 6.5% for medical and 4.5% for dental with the ultimate trend rate of 4.5%. A one percentage point increase in assumed health care cost trend rates would have increased the service and interest costs and obligation by \$9 million and \$74 million, respectively. A one percentage point decrease in assumed health care cost trends would have lowered the service and interest costs and the obligation by \$7 million and \$60 million, respectively.

(2) An assumed discount rate of 6.5% (1998 – 6.5%; 1997 – 8%) was used to determine pension costs.

Note 9: Employee benefit plans (CONTINUED)

RESSOP

The bank offers a Royal Employee Savings and Share Ownership Plan (RESSOP) to its employees, whereby the bank contributes 50% of employees' contributions to a maximum of 3% of the employee's salary in the form of common shares.

The bank contributed \$40 million (1998 – \$38 million; 1997 – \$36 million), under the terms of the RESSOP, towards the purchase of common shares. As at October 31, 1999, an aggregate of 9,250,796 common shares were held under the RESSOP.

DEFERRED SHARE UNIT PLAN

The bank offers a Deferred Share Unit Plan for certain senior executive officers. Under this plan, each officer may select to receive all or a percentage of his or her annual incentive bonus in the form of deferred share units ("DSUs"). An officer must elect to participate in the plan prior to the beginning of the fiscal year. The DSUs attract dividends in the form of additional DSUs at the same rate as dividends on the common shares. The officer is not allowed to convert the DSUs until termination or retirement. The value of the DSUs, when converted to cash, will be equivalent to the market value of the common shares at the time the conversion takes place. The value of the DSUs as at October 31, 1999, was \$20 million (1998 – \$6 million).

DEFERRED BONUS PLAN – CORPORATE & INVESTMENT BANKING

Beginning in 1999, the bank offers a Deferred Bonus Plan for certain key employees. Under this plan, a percentage of each

employee's annual incentive bonus is deferred and tied to the value of common shares. The deferred bonus attracts dividends at the same rate as dividends on common shares. The employee will receive the deferred bonus evenly on the following three year-end dates. The value of the deferred bonus paid will be equivalent to the original deferred bonus adjusted for dividends and changes in the market value of common shares at the time the bonus is received. The value of the deferred bonus as at October 31, 1999, was \$26 million.

STOCK OPTION PLAN

The bank offers a Stock Option Plan for certain key employees. Under this plan, options are periodically granted to purchase common shares at prices not less than the market price of such shares immediately prior to the grant date. The options vest over a 4-year period and are exercisable for periods not exceeding 10 years. When the options are exercised, the proceeds received are credited to common shares.

Of the total options outstanding at October 31, 1999, 1,620,566 options (1,139,566 exercisable) have exercise prices ranging from \$28.91 to \$31.35, or \$31.11 on average (\$31.01 exercisable), and a weighted average remaining contractual life of 6.9 years; 2,375,997 options (1,062,472 exercisable) had exercise prices ranging from \$49.60 to \$65.13, or \$50.14 on average (\$50.18 exercisable), and a weighted average remaining contractual life of 8.0 years; 6,486,675 options (791,900 exercisable) had exercise prices ranging from \$78.02 to \$79.28, or \$78.63 on average (\$79.28 exercisable), and a weighted average remaining contractual life of 9.5 years.

Stock options

	1999		1998		1997	
	Number of shares (000s)	Weighted average exercise price	Number of shares (000s)	Weighted average exercise price	Number of shares (000s)	Weighted average exercise price
Outstanding at beginning of year	7,711	\$ 57.32	5,005	\$ 41.40	2,476	\$ 31.02
Granted	3,414	78.02	3,229	79.28	2,775	50.96
Exercised	(476)	35.66	(456)	37.72	(173)	31.16
Cancelled	(166)	70.99	(67)	60.30	(73)	43.34
Outstanding at end of year	10,483	\$ 64.83	7,711	\$ 57.32	5,005	\$ 41.40
Exercisable at end of year	2,994	\$ 50.58	1,449	\$ 37.68	729	\$ 30.75
Available for grant	3,907		7,155		4,817	

SFAS No. 123, *Accounting for Stock-Based Compensation*, permits either recognizing compensation cost for the estimated fair value of employee stock-based compensation arrangements on the grant date or disclosing the pro forma effects of stock-based compensation on net income and earnings per share, as if the fair value based method of valuing options and awards had been used to record compensation cost, while continuing to use the intrinsic value method.

No compensation cost is recorded under the intrinsic value method since on the day of the grant the option's exercise price is not less than the market price of the underlying stock.

The bank has elected to provide SFAS 123 disclosures as if the bank has adopted the fair value based method of measuring outstanding stock options in 1999, 1998 and 1997 as indicated below:

Pro forma net income and earnings per share

	As reported			Pro forma		
	1999	1998	1997	1999	1998	1997
Net income	\$ 1,725	\$ 1,772	\$ 1,654	\$ 1,699	\$ 1,756	\$ 1,648
Earnings per share	5.01	5.27	4.93	4.92	5.22	4.91
Fully diluted earnings per share	4.97	5.17	4.85	4.88	5.12	4.83

In determining the pro forma disclosures above, the fair value of options granted was estimated on the date of grant using an option pricing model with the following assumptions:

(i) risk-free interest rate of 5.10% (1998 – 4.75%; 1997 – 6.76%),
(ii) expected option life of 10 years, (iii) expected volatility of 23% (1998 – 23%; 1997 – 18%) and (iv) expected dividends of 2.80%

(1998 – 2.78%; 1997 – 3.67%). The fair value of each option granted in 1999, 1998 and 1997 was \$21.85, \$21.40 and \$11.90, respectively.

Compensation expense under the fair value based method is recognized over the vesting period of the related stock options. Accordingly, the pro forma results of applying this method in 1999, 1998 and 1997 may not be indicative of future amounts.

Note 10: Restructuring charges

In 1999, there was a \$153 million restructuring charge, which comprises severance-related costs of \$70 million recorded in Human resources expenses associated with staff reductions of approximately 1,100 full-time equivalents, \$57 million in Occupancy costs mostly due to exiting leases, \$6 million in Equipment costs, and \$20 million in Other expenses.

The restructuring charge relates largely to the reduction of the corporate lending infrastructure in most regions outside Canada, consistent with the bank's strategy of enhancing the risk profile and focusing on a reduced number of strategically important clients and industries, particularly those with strong North American

connections (\$83 million). The restructuring charge also relates to the reconfiguration of the domestic branch network (\$50 million) and scaling back of overhead functions (\$20 million).

As at October 31, 1999, the remaining accrual balance in Other liabilities was \$147 million, of which \$54 million relates to staff reductions, \$71 million relates to Occupancy, \$5 million relates to dispositions of equipment and \$17 million relates to Other expenses. The accrual balance at the end of 1999 that relates to restructuring charges for 1998 and prior years is \$38 million. This balance consists primarily of severance continuance and lease costs.

	Accrual balance 1998	1999 expenses	Amount utilized	Accrual balance 1999
Human resources	\$ 45	\$ 70	\$ 61	\$ 54
Occupancy	44	57	30	71
Equipment	11	6	12	5
Other	8	20	11	17
Total restructuring charges	\$ 108	\$ 153	\$ 114	\$ 147

Note 11: Earnings per share

	1999	1998	1997
Basic earnings per share			
Net income	\$ 1,725	\$ 1,772	\$ 1,654
Dividends on preferred shares	(157)	(145)	(131)
Net income available to common shareholders	\$ 1,568	\$ 1,627	\$ 1,523
Average number of common shares outstanding	313,079	308,662	308,906
	\$ 5.01	\$ 5.27	\$ 4.93
Fully diluted earnings per share			
Net income available to common shareholders	\$ 1,568	\$ 1,627	\$ 1,523
Effect of assumed conversions (1)	2	10	9
Net income adjusted for diluted computation	\$ 1,570	\$ 1,637	\$ 1,532
Weighted average number of shares outstanding	313,079	308,662	308,906
Convertible Class B and C shares (1)	1,354	6,041	5,826
Stock options (2)	1,719	2,110	1,294
Weighted average fully diluted number of shares outstanding	316,152	316,813	316,026
	\$ 4.97	\$ 5.17	\$ 4.85

- (1) The convertible shares include the Class B and C shares issued by the bank's wholly owned subsidiary Royal Bank DS Holding Inc. on the acquisition of Richardson Greenshields Limited on November 1, 1996. The Class B shares are exchangeable into Royal Bank of Canada Common Shares, while the exchange of the Class C shares is determined based on the bank's average common share price during the 20 days prior to the date the exchange is made. On November 1, 1998, the bank exchanged virtually all of the 4,650,000 Class B shares into 4,790,000 Royal Bank of Canada Common Shares.
- (2) The dilutive effect of stock options was computed using the treasury stock method. This method computes the number of incremental shares by assuming the outstanding stock options are exercised, reduced by the number of shares assumed to be repurchased from the issuance proceeds, using the average market price of our common stock for the period. Excluded from the computation of diluted earnings per share were options of 3,177,915 with an exercise price of \$79.28 and options of 3,118,931 with an exercise price of \$78.02 (1998 – 2,805,041 at \$79.28; 1997 – 5,849 at \$65.13) as the options' exercise prices were greater than the average market price of the bank's common stock.

Note 12: Commitments and contingencies

FINANCIAL INSTRUMENTS WITH CONTRACTUAL AMOUNTS REPRESENTING CREDIT RISK

The primary purpose of these commitments is to ensure that funds are available to a customer as required. The bank's policy for requiring collateral security with respect to these instruments and the types of collateral security held is generally the same as for loans.

Guarantees and standby letters of credit, which represent irrevocable assurances that the bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters

of credit, which are written undertakings by the bank on behalf of a customer authorizing a third party to draw drafts on the bank up to a stipulated amount under specific terms and conditions, are collateralized by the underlying shipments of goods to which they relate.

In securities lending transactions, the bank acts as an agent for the owner of a security, who agrees to lend the security to a borrower for a fee, under the terms of a pre-arranged contract. The borrower must fully collateralize the security loan at all times.

Commitments to extend credit represent unused portions of authorizations to extend credit in the form of loans, bankers' acceptances, guarantees or letters of credit.

Financial instruments with contractual amounts representing credit risk

	1999	1998
Guarantees and standby letters of credit	\$ 14,130	\$ 13,300
Documentary and commercial letters of credit	585	796
Securities lending	19,833	22,602
Commitments to extend credit		
Original term to maturity of 1 year or less	83,425	80,948
Original term to maturity of more than 1 year	45,761	42,119
Note issuance/revolving underwriting facilities	125	110
	\$ 163,859	\$ 159,875

LEASE COMMITMENTS

Minimum future rental commitments for buildings under long-term non-cancellable leases for the next 5 years are shown below. Annual rental commitments after 2004 are in decreasing amounts.

Lease commitments

2000	\$ 232
2001	201
2002	173
2003	148
2004	132

LITIGATION

Various legal proceedings are pending that challenge certain practices or actions of the bank and its subsidiaries. Many of these proceedings are loan-related and are in reaction to steps taken by the bank and its subsidiaries to collect delinquent loans and enforce rights in collateral securing such loans. Management considers that the aggregate liability resulting from these proceedings will not be material.

PLEDGED ASSETS

Securities with a carrying value of \$31.1 billion (1998 – \$32.5 billion) have been pledged as collateral for various types of funding transactions including obligations related to assets sold under repurchase agreements and obligations related to securities sold short. Included in the above amount are assets with a carrying value of \$1.3 billion (1998 – \$1.8 billion) that have been deposited as collateral in order to participate in clearing and payment systems and depositories or to have access to the facilities of central banks in foreign jurisdictions.

Note 13: Derivative financial instruments

Derivative financial instruments are financial contracts whose value is derived from an underlying interest rate, foreign exchange rate, equity or commodity instrument or index.

DERIVATIVE PRODUCT TYPES

The bank uses the following derivative financial instruments for both trading and non-trading purposes.

Swaps are transactions in which two parties exchange cash flows on a specified notional amount for a predetermined period. For interest rate swaps, fixed and floating interest payments are exchanged based on a notional amount. Cross currency swaps involve the exchange of fixed or floating interest payments in one currency for the receipt of fixed or floating interest payments in another currency. Cross currency interest rate swaps involve the exchange of both interest and principal amounts in two different currencies.

Forwards and futures are contractual obligations to buy or sell a financial instrument on a future date at a specified price. Forward contracts are effectively tailor-made agreements that are transacted between counterparties in the over-the-counter market, whereas futures are standardized contracts that are transacted on regulated exchanges.

Options are contractual agreements under which the seller (writer) grants the purchaser the right, but not the obligation, either to buy (call option) or sell (put option), by or at a set date, a specified amount of a financial instrument at a predetermined price. The seller receives a premium from the purchaser for this right.

DERIVATIVES HELD OR ISSUED FOR TRADING PURPOSES

Most of the bank's derivative transactions relate to sales and trading activities. Sales activities include the structuring and marketing of derivative products to customers at competitive prices to enable them to transfer, modify or reduce current or expected risks. Trading involves market-making, positioning and arbitrage activities. Market-making involves quoting bid and offer prices to other market participants with the intention of generating revenues based on spread and volume. Positioning involves managing market risk positions with the expectation of profiting from favourable movements in prices, rates or indices. Arbitrage activities involve identifying and profiting from price differentials between markets and products. The bank does not deal, to any significant extent, in leveraged derivative transactions. These transactions contain a multiplier which, for any given change in market prices, could cause the change in the transaction's fair value to be significantly different from the change in fair value that would occur for a similar derivative without the multiplier.

DERIVATIVES HELD OR ISSUED FOR NON-TRADING PURPOSES

The bank also uses derivatives in connection with its own asset/liability management activities, which include hedging and investment activities.

Interest rate swaps are used to adjust exposure to interest rate risk by modifying the repricing or maturity characteristics of existing and/or anticipated assets and liabilities. At October 31, 1999, the level of interest rate derivatives in place to hedge anticipated transactions, and accounted for as a hedge, was insignificant. Purchased interest rate options are used to hedge redeemable deposits and other options embedded in consumer products. Written options are used in the bank's asset/liability management activities when specifically linked to a purchased

option in the form of a collar. The amount of the bank's deferred gains and losses associated with these non-trading derivatives was insignificant.

DERIVATIVES — NOTIONAL AMOUNTS AND REPLACEMENT COST

The tables below provide the notional amounts and gross positive replacement cost of the bank's derivative transactions. Notional amounts, which are off-balance sheet, serve as a point of reference for calculating payments and are a common measure of business volume. The gross replacement cost of derivatives represents the total current replacement value of all outstanding transactions in a gain position, before factoring in the impact of master netting agreements.

DERIVATIVE-RELATED CREDIT RISK

Credit risk from derivative transactions is generated by the potential for the counterparty to default on its contractual obligations when one or more transactions have a positive market value to the bank. This market value is referred to as "replacement cost" since it is an estimate of what it would cost to replace transactions at prevailing market rates if a default occurred.

For internal risk management purposes, the credit risk arising from a derivative transaction is defined as the sum of the replacement cost plus an add-on that is an estimate of the potential change in the market value of the transaction through to maturity. The add-on is determined by statistically based models that project the expected volatility of the variable(s) underlying the derivative, whether interest rate, foreign exchange rate, equity or commodity price. Both the replacement cost and the add-on are continually re-evaluated over the life of each transaction to ensure that sound credit risk valuations are used.

Netting is a technique that can reduce credit exposure from derivatives and is generally facilitated through the use of master netting agreements. The two main categories of netting are close-out netting and settlement netting. Under the close-out netting provision, if the counterparty defaults, the bank has the right to terminate all transactions covered by the master agreement at the then-prevailing market values and to sum the resulting market values, offsetting negative against positive values, to arrive at a single "net" amount owed by either the counterparty or the bank. Under the settlement netting provision, all payments and receipts in the same currency and due on the same day between specified pairs of bank and counterparty units are netted, generating a single payment in each currency, due either by the bank or the counterparty unit. The bank actively encourages counterparties to enter into master netting agreements. However, measurement of the bank's credit exposure arising out of derivative transactions is not reduced to reflect the effects of netting unless the enforceability of that netting is supported by appropriate legal analysis as documented in bank policy. Further development of netting policy is a key objective in the management of derivative credit risk.

To further manage derivative-related counterparty credit exposure, the bank enters into agreements containing mark-to-market cap provisions with some counterparties. Under such provisions, the bank has the right to request that the counterparty pay down or collateralize the current market value of its derivatives position with the bank. The use of collateral does not currently represent a significant credit mitigation technique for the bank in managing derivative-related credit risk.

Note 13: Derivative financial instruments (CONTINUED)

The bank subjects its derivative-related credit risks to the same credit approval, limit and monitoring standards that it uses for managing other transactions that create credit exposure. This includes evaluation of counterparties as to creditworthiness, and managing the size, diversification and maturity structure of the portfolio. Credit utilization for all products is compared with established limits on a continual basis and is subject to a standard exception reporting process. The bank utilizes a single internal rating system for all credit

risk exposure. In most cases, these internal ratings approximate the external risk ratings of public rating agencies. The table below shows replacement cost, both before and after the impact of netting, of the bank's derivatives by risk rating and by counterparty type. During 1999 and 1998, neither the bank's actual credit losses arising from derivative transactions nor the level of impaired derivative contracts were significant.

Replacement cost of derivatives by risk rating and by counterparty type

	Risk rating (1)					Counterparty type (2)			
	AAA, AA	A	BBB	BB or lower	Total	Banks	OECD governments	Other	Total
Gross positive replacement cost (3)	\$ 8,837	\$ 5,016	\$ 1,650	\$ 769	\$ 16,272	\$ 11,304	\$ 1,390	\$ 3,578	\$ 16,272
Impact of master netting agreements	(4,501)	(2,258)	(888)	(284)	(7,931)	(6,769)	–	(1,162)	(7,931)
Replacement cost (after netting agreements)	\$ 4,336	\$ 2,758	\$ 762	\$ 485	\$ 8,341	\$ 4,535	\$ 1,390	\$ 2,416	\$ 8,341
Replacement cost (after netting agreements) – 1998	\$ 8,352	\$ 6,042	\$ 2,530	\$ 1,050	\$ 17,974	\$ 10,978	\$ 1,613	\$ 5,383	\$ 17,974

- (1) The bank's internal risk ratings for major counterparty types approximate those of public rating agencies. Ratings of AAA, AA, A and BBB represent investment grade ratings and ratings of BB or lower represent non-investment grade ratings.
- (2) Counterparty type is defined in accordance with the capital adequacy requirements of the Superintendent of Financial Institutions Canada.
- (3) Represents the total current replacement value of all outstanding contracts in a gain position, before factoring in the impact of master netting agreements.

Derivatives – notional amount by term to maturity and replacement cost

	Term to maturity						1999	1998		
	Within 1 year	1 to 5 years	Over 5 years (1)	Total	Trading	Other than trading		Replacement cost (2)	Trading	Other than trading
Over-the-counter (OTC) contracts										
Interest rate contracts										
Forward rate agreements	\$ 28,822	\$ –	\$ –	\$ 28,822	\$ 28,822	\$ –	\$ 19	\$ 67,628	\$ 70	\$ 55
Swaps	165,681	236,513	69,692	471,886	394,090	77,796	4,475	388,786	55,824	6,717
Options purchased	17,189	21,743	4,682	43,614	41,444	2,170	230	45,956	1,256	360
Options written	17,535	25,089	4,314	46,938	44,155	2,783	–	47,911	1,273	–
Foreign exchange contracts										
Forward contracts	602,144	19,473	3,629	625,246	616,867	8,379	8,336	711,389	6,816	20,487
Cross currency swaps	598	1,697	1,907	4,202	3,812	390	123	3,368	458	184
Cross currency interest rate swaps	12,537	24,859	10,552	47,948	36,457	11,491	1,371	27,857	6,332	1,224
Options purchased	44,543	1,811	100	46,454	46,425	29	826	57,708	248	2,017
Options written	53,731	1,856	41	55,628	55,599	29	–	64,725	244	–
Other contracts (3)	6,598	3,196	1,814	11,608	11,608	–	892	5,444	–	456
Exchange-traded contracts										
Interest rate contracts										
Futures – long positions	19,869	2,871	128	22,868	20,971	1,897	–	19,019	–	–
Futures – short positions	14,955	1,356	27	16,338	15,458	880	–	26,270	–	–
Options purchased	6,192	–	–	6,192	6,192	–	–	10,031	–	–
Options written	6,087	–	–	6,087	6,087	–	–	13,706	–	–
Foreign exchange contracts										
Futures – long positions	53	–	–	53	53	–	–	106	–	–
Futures – short positions	610	–	–	610	610	–	–	–	–	–
Other contracts (3)	21,189	2	–	21,191	21,191	–	–	25,793	–	–
	\$ 1,018,333	\$ 340,466	\$ 96,886	\$ 1,455,685	\$ 1,349,841	\$ 105,844	\$ 16,272	\$ 1,515,697	\$ 72,521	\$ 31,500
Impact of master netting agreements										
With intent to settle net or simultaneously (4)							(18)			(131)
Without intent to settle net or simultaneously (5)							(7,913)			(13,395)
Total after netting							\$ 8,341			\$ 17,974

- (1) Includes contracts maturing in over 10 years with a notional value of \$9,631 million and related gross positive replacement cost of \$223 million.
- (2) Represents the total current replacement value of all outstanding contracts in a gain position, before factoring in the impact of master netting agreements. Exchange-traded contracts are excluded from this presentation as the credit risk associated with these instruments is minimal since they are settled in cash on a daily basis. Written options are excluded as they represent obligations of the bank and as such do not attract credit risk.
- (3) Comprised of precious metals, commodity and equity-linked contracts.
- (4) Impact of offsetting credit exposures on contracts where the bank both has a legally enforceable master netting agreement in place and intends to settle the contracts on either a net basis or simultaneously.
- (5) Additional impact of offsetting credit exposures on contracts where the bank has a legally enforceable master netting agreement in place but does not intend to settle the contracts on a net basis or simultaneously.

Note 14: Concentrations of credit risk

Concentrations of credit risk exist if a number of clients are engaged in similar activities, or are located in the same geographic region or have comparable economic characteristics such that their ability to meet contractual obligations would be similarly affected by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the bank's performance to developments affecting a particular industry or geographic location. Management does not believe that the concentrations described below are unusual.

ON-BALANCE SHEET ASSETS

Of the \$154 billion (1998 – \$157 billion) in total loans, 83% (1998 – 76%) relates to borrowers located in Canada with the largest provincial concentrations being Ontario – 36% (1998 – 33%) and British Columbia – 15% (1998 – 14%). No industry or foreign jurisdiction accounts for more than 10% of total loans.

OFF-BALANCE SHEET FINANCIAL INSTRUMENTS

Financial instruments with contractual amounts representing credit risk

Of the \$164 billion (1998 – \$160 billion) in off-balance sheet financial instruments with contractual amounts representing credit risk as at October 31, 1999, approximately 49% relates to Canada, 34% to the United States and 14% to Europe (1998 – 49%, 31% and 14%, respectively).

Included in the \$164 billion of these credit instruments are commitments to extend credit totalling \$129 billion (1998 – \$123 billion), of which 46% relates to Canada, 35% to the United States and 16% to Europe (1998 – 42%, 35% and 17%, respectively). Of the commitments to extend credit, the largest industry concentration relates to financial institutions (32%), mining and energy (16%), manufacturing (13%) and transportation (12%) (1998 – 27%, 16%, 15% and 13%, respectively). No other industry sector exceeds 10% of the total.

Derivatives

Credit risk represents the current replacement value of all outstanding over-the-counter derivative contracts in a gain position without factoring in the impact of master netting agreements or the value of any collateral. Credit risk totalled \$16.3 billion and \$31.5 billion as at October 31, 1999 and 1998, respectively. Based on the location of the ultimate counterparty, 41% of this credit risk amount relates to Europe, 24% to the United States, 22% to Canada and 12% to Asia Pacific (1998 – 41%, 22%, 21% and 15%, respectively).

The largest concentration by counterparty type of this credit risk exposure is with banks at 68% (1998 – 72%).

Note 15: Estimated fair value of financial instruments

The estimated fair values are designed to approximate values at which these instruments could be exchanged in a current transaction between willing parties. However, many of the financial instruments lack an available trading market and therefore, fair values are based on estimates using net present value and other valuation techniques that are significantly affected by the assumptions used concerning the amount and timing of estimated future cash flows and discount rates that reflect varying degrees of risk.

Also, the book values and estimated fair values disclosed do not reflect the value of assets and liabilities that are not considered financial instruments such as "premises and equipment". In addition, the values of other non-financial assets and liabilities, such as intangible values of customer relationships and leases, have been excluded. Furthermore, due to the use of subjective judgment and uncertainties, the aggregate fair value amounts should not be interpreted as being realizable in an immediate settlement of the instruments.

Financial instruments

	1999			1998		
	Book value	Fair value	Difference	Book value	Fair value	Difference
Financial assets						
Cash resources (1)	\$ 23,042	\$ 23,042	\$ –	\$ 16,395	\$ 16,395	\$ –
Securities (2)	52,736	52,745	9	42,538	42,546	8
Assets purchased under reverse repurchase agreements (1)	20,272	20,272	–	19,907	19,907	–
Loans (3)	152,166	152,170	4	155,366	156,878	1,512
Other assets (4)	22,088	22,085	(3)	43,361	43,236	(125)
Financial liabilities						
Deposits (5)	187,897	189,209	(1,312)	180,005	181,657	(1,652)
Acceptances (1)	9,257	9,257	–	10,620	10,620	–
Obligations related to securities sold short (1)	18,740	18,740	–	20,488	20,488	–
Obligations related to assets sold under repurchase agreements (1)	9,396	9,396	–	11,264	11,264	–
Other liabilities (4)	30,615	30,615	–	42,035	42,035	–
Subordinated debentures (6)	4,596	4,523	73	4,087	4,208	(121)

- Due to their short-term maturity, the carrying values of certain on-balance sheet financial instruments are assumed to approximate their fair values.
- The estimated fair values are provided in the Securities note to the financial statements (note 3). These are based on quoted market prices, when available. If quoted market prices are not available, fair values are estimated using quoted market prices of similar securities.
- For certain variable rate loans that reprice frequently, fair values are assumed to be equal to the carrying values. The fair values of other loans are estimated through a discounted cash flow calculation that applies market interest rates currently charged for similar new loans to expected maturity amounts.

- The carrying values of Other assets and Other liabilities approximate their fair values with the exception of amounts relating to derivative financial instruments held or issued for other than trading purposes. The net fair value over book value for these instruments is shown in Other assets.
- The fair values of deposits with no stated maturity are assumed to be equal to their carrying values. The estimated fair values of fixed rate deposits are determined by discounting the expected cash flows, using market interest rates currently offered for deposits of similar remaining maturities (adjusted for early redemptions where appropriate).
- The fair values of the debentures are based on quoted market prices for similar issues, or current rates offered to the bank for debt of the same remaining maturity.

Note 15: Estimated fair value of financial instruments (CONTINUED)

Derivative financial instruments (1)

	1999				1998	
	Average fair value for the year ended (2)		Year-end fair value		Year-end fair value	
	Positive	Negative	Positive	Negative	Positive	Negative
Held or issued for trading purposes						
Interest rate contracts						
Forward rate agreements	\$ 21	\$ 23	\$ 19	\$ 27	\$ 55	\$ 51
Swaps	4,715	5,122	3,723	4,337	6,117	6,557
Options purchased	282	—	227	—	359	—
Options written	—	216	—	203	—	224
	5,018	5,361	3,969	4,567	6,531	6,832
Foreign exchange contracts						
Forward contracts	10,888	9,926	8,272	7,857	20,466	18,569
Cross currency swaps	143	106	122	109	184	157
Cross currency interest rate swaps	1,162	1,212	1,270	955	878	1,853
Options purchased	1,027	—	826	—	2,012	—
Options written	—	858	—	733	—	1,686
	13,220	12,102	10,490	9,654	23,540	22,265
Other contracts (3)	575	574	892	1,094	456	341
	\$ 18,813	\$ 18,037	\$ 15,351	\$ 15,315	\$ 30,527	\$ 29,438
Held or issued for other than trading purposes						
Interest rate contracts						
Forward rate agreements			\$ —	\$ —	\$ —	\$ —
Swaps			752	301	600	469
Options purchased			3	—	1	—
Options written			—	8	—	26
			755	309	601	495
Foreign exchange contracts						
Forward contracts			64	43	21	192
Cross currency swaps			1	29	—	53
Cross currency interest rate swaps			101	334	346	103
Options purchased			—	—	5	—
Options written			—	—	—	1
			166	406	372	349
			\$ 921	\$ 715	\$ 973	\$ 844
Total gross fair values before netting			\$ 16,272	\$ 16,030	\$ 31,500	\$ 30,282
Impact of master netting agreements						
With intent to settle net or simultaneously (4)			(18)	(18)	(131)	(131)
Without intent to settle net or simultaneously (5)			(7,913)	(7,913)	(13,395)	(13,395)
Total			\$ 8,341	\$ 8,099	\$ 17,974	\$ 16,756

- (1) The fair values of derivatives are presented on a gross basis before the impact of legally enforceable master netting agreements. The fair values of derivatives are determined using various methodologies including: quoted market prices, where available; prevailing market rates for instruments with similar characteristics and maturities; net present value analysis or other pricing models as appropriate.
- (2) Average fair value amounts are calculated based on month-end balances.
- (3) Comprised of precious metals, commodity and equity-linked contracts.

- (4) Impact of offsetting credit exposures on contracts where the bank both has a legally enforceable master netting agreement in place and intends to settle the contracts on either a net basis or simultaneously.
- (5) Additional impact of offsetting credit exposures on contracts where the bank has a legally enforceable master netting agreement in place but does not intend to settle the contracts on a net basis or simultaneously.

Supplementary Information

Consolidated balance sheet

As at October 31
(C\$ millions)

	1999	1998	1997	1996	1995	1994	1993	1992	1991	1990	1989
Assets											
Cash resources	\$ 23,042	\$ 16,395	\$ 21,392	\$ 23,567	\$ 17,710	\$ 16,449	\$ 10,874	\$ 10,938	\$ 8,820	\$ 8,763	\$ 8,187
Securities	52,736	42,538	33,343	41,261	33,220	27,695	24,011	16,146	13,436	9,449	7,989
Reverse repurchase agreements	20,272	19,907	18,642	11,446	4,591	5,259	5,304	607	600	—	—
Loans											
Residential mortgage	59,242	56,468	53,369	48,120	45,131	44,109	43,781	32,609	29,105	25,734	23,525
Personal	25,255	22,761	20,864	18,440	16,923	16,508	16,487	15,462	14,775	14,392	5,854
Credit card	2,666	1,945	2,324	3,522	3,435	3,321	3,090	2,532	2,571	2,434	2,108
Business and government loans and acceptances	66,887	76,218	73,398	63,561	57,800	54,953	58,364	58,239	60,411	62,930	65,346
	154,050	157,392	149,955	133,643	123,289	118,891	121,722	108,842	106,862	105,490	96,833
Allowance for credit losses	(1,884)	(2,026)	(1,769)	(1,875)	(2,003)	(2,559)	(4,255)	(3,575)	(1,908)	(2,427)	(2,893)
	152,166	155,366	148,186	131,768	121,286	116,332	117,467	105,267	104,954	103,063	93,940
Other											
Premises and equipment	1,274	1,872	1,696	1,785	1,870	1,975	2,057	1,914	1,921	1,800	1,509
Derivative-related amounts (1)	15,151	30,413	14,776	8,598	12,378	—	—	—	—	—	—
Other assets	8,657	14,583	9,044	9,052	5,427	5,385	5,228	3,421	2,621	2,863	3,035
	25,082	46,868	25,516	19,435	19,675	7,360	7,285	5,335	4,542	4,663	4,544
	\$ 273,298	\$ 281,074	\$ 247,079	\$ 227,477	\$ 196,482	\$ 173,095	\$ 164,941	\$ 138,293	\$ 132,352	\$ 125,938	\$ 114,660
Liabilities and shareholders' equity											
Deposits											
Canada	\$ 129,306	\$ 123,533	\$ 122,721	\$ 118,482	\$ 114,778	\$ 106,099	\$ 103,755	\$ 85,203	\$ 80,097	\$ 73,202	\$ 66,371
International	58,591	56,472	50,508	43,335	28,713	29,716	26,644	27,019	24,925	25,966	22,815
	187,897	180,005	173,229	161,817	143,491	135,815	130,399	112,222	105,022	99,168	89,186
Other											
Acceptances	9,257	10,620	10,561	7,423	6,300	6,205	6,302	5,737	7,210	10,369	10,701
Securities sold short	18,740	20,488	13,062	7,063	7,128	5,569	5,362	3,628	2,650	1,523	989
Repurchase agreements	9,396	11,264	9,458	16,526	4,090	5,341	2,533	787	641	29	299
Derivative-related amounts (1)	15,219	29,370	14,732	9,053	12,384	—	—	—	—	—	—
Other liabilities	15,785	13,382	11,175	12,243	10,391	8,079	9,005	5,307	5,986	6,096	5,584
	68,397	85,124	58,988	52,308	40,293	25,194	23,202	15,459	16,487	18,017	17,573
Subordinated debentures	4,596	4,087	4,227	3,602	3,528	3,481	3,410	3,106	3,081	2,299	2,118
Shareholders' equity											
Capital stock											
Preferred	1,973	2,110	1,757	1,725	1,962	2,233	2,215	1,572	1,636	1,129	1,134
Common	3,063	2,923	2,905	2,874	2,908	2,908	2,908	2,908	2,724	2,448	2,307
Retained earnings	7,495	6,803	5,719	4,825	4,194	3,476	2,823	3,041	3,421	2,893	2,361
Accumulated other comprehensive income	(123)	22	254	326	106	(12)	(16)	(15)	(19)	(16)	(19)
	12,408	11,858	10,635	9,750	9,170	8,605	7,930	7,506	7,762	6,454	5,783
	\$ 273,298	\$ 281,074	\$ 247,079	\$ 227,477	\$ 196,482	\$ 173,095	\$ 164,941	\$ 138,293	\$ 132,352	\$ 125,938	\$ 114,660

(1) As the information is not reasonably determinable, amounts for years prior to 1995 have not been restated to reflect the presentation of derivative-related amounts on a gross basis.

Consolidated statement of income

For the year ended October 31

(C\$ millions, except per share amounts)

	1999	1998	1997	1996	1995	1994	1993	1992	1991	1990	1989
Interest income											
Loans	\$ 10,386	\$ 10,426	\$ 9,354	\$ 9,490	\$ 9,820	\$ 8,693	\$ 8,156	\$ 8,957	\$ 10,670	\$ 11,238	\$ 10,045
Securities	2,080	1,890	2,140	2,430	2,154	1,629	1,295	1,012	896	1,063	909
Assets purchased under reverse repurchase agreements (1)	893	1,169	568	366	237	206	91	—	—	—	—
Deposits with banks	841	822	1,009	922	817	479	321	421	613	666	676
	14,200	14,307	13,071	13,208	13,028	11,007	9,863	10,390	12,179	12,967	11,630
Interest expense											
Deposits	7,636	7,732	6,548	7,115	7,362	5,477	4,995	5,868	7,940	9,081	7,789
Other liabilities	1,161	1,172	1,139	1,126	792	761	567	322	209	145	108
Subordinated debentures	286	339	384	322	335	290	263	272	271	220	206
	9,083	9,243	8,071	8,563	8,489	6,528	5,825	6,462	8,420	9,446	8,103
Net interest income	5,117	5,064	5,000	4,645	4,539	4,479	4,038	3,928	3,759	3,521	3,527
Provision for credit losses	760	575	380	570	580	820	1,750	2,050	605	420	1,380
Net interest income after provision for credit losses	4,357	4,489	4,620	4,075	3,959	3,659	2,288	1,878	3,154	3,101	2,147
Non-interest revenue											
Capital market fees	1,209	1,118	1,172	764	434	567	456	356	258	264	294
Trading revenues	1,106	752	606	368	362	345	414	387	238	234	220
Deposit and payment service charges	688	664	690	701	681	661	649	654	601	560	492
Investment management and custodial fees	547	495	404	319	286	278	101	82	69	71	58
Mutual fund revenues	479	447	354	241	190	202	64	37	16	14	16
Card service revenues	362	305	332	282	278	258	203	183	197	197	173
Securitization revenues	220	226	9	—	—	—	—	—	—	—	—
Gain on sale of securities	28	343	37	107	17	49	169	14	11	—	—
Other	852	647	684	484	490	503	395	389	568	404	404
	5,491	4,997	4,288	3,266	2,738	2,863	2,451	2,102	1,958	1,744	1,657
Non-interest expenses											
Human resources	4,096	3,688	3,427	2,933	2,581	2,675	2,386	2,170	2,072	1,889	1,706
Occupancy	564	508	559	507	473	500	593	476	394	334	302
Equipment	677	585	605	492	506	460	473	382	335	287	238
Communications	699	665	587	523	461	450	377	372	372	362	321
Other	1,105	1,064	893	712	654	576	586	517	445	444	389
	7,141	6,510	6,071	5,167	4,675	4,661	4,415	3,917	3,618	3,316	2,956
Net income before income taxes	2,707	2,976	2,837	2,174	2,022	1,861	324	63	1,494	1,529	848
Income taxes	974	1,128	1,106	795	741	655	(5)	(65)	495	555	305
Net income before non-controlling interest	1,733	1,848	1,731	1,379	1,281	1,206	329	128	999	974	543
Non-controlling interest	8	76	77	49	23	37	29	21	16	9	14
Net income	\$ 1,725	\$ 1,772	\$ 1,654	\$ 1,330	\$ 1,258	\$ 1,169	\$ 300	\$ 107	\$ 983	\$ 965	\$ 529
Preferred share dividends	157	145	131	144	164	168	154	123	103	96	65
Net income available to common shareholders	\$ 1,568	\$ 1,627	\$ 1,523	\$ 1,186	\$ 1,094	\$ 1,001	\$ 146	\$ (16)	\$ 880	\$ 869	\$ 464
Earnings per share (loss)											
Basic	\$ 5.01	\$ 5.27	\$ 4.93	\$ 3.78	\$ 3.48	\$ 3.19	\$ 0.46	\$ (0.05)	\$ 2.92	\$ 3.00	\$ 1.64
Fully diluted	4.97	5.17	4.85	3.78	3.48	3.19	0.46	(0.05)	2.91	2.96	1.63
Goodwill-adjusted basic (2)	5.22	5.49	5.14	3.90	3.60	3.34	0.58	0.01	2.98	3.06	1.69

(1) Amounts for assets purchased under reverse repurchase agreements are included in loans for 1989 to 1992.

(2) Goodwill-adjusted basic earnings per share is computed by adding back goodwill amortization after tax charged to net income in each year and reducing average common equity by the unamortized goodwill.

Consolidated statement of changes in shareholders' equity

For the year ended October 31

(C\$ millions)

	1999	1998	1997	1996	1995	1994	1993	1992	1991	1990	1989
Preferred shares											
Balance at beginning of year	\$ 2,110	\$ 1,757	\$ 1,725	\$ 1,962	\$ 2,233	\$ 2,215	\$ 1,572	\$ 1,636	\$ 1,129	\$ 1,134	\$ 943
Issued	296	300	—	—	—	—	612	—	526	—	400
Converted	—	—	—	—	—	—	—	—	—	—	(187)
Redeemed for cancellation	(393)	—	—	(236)	(267)	—	—	(99)	(5)	(4)	(11)
Share issuance costs	(9)	(7)	—	—	—	—	(11)	—	(8)	—	(6)
Translation adjustment	(31)	60	32	(1)	(4)	18	42	35	(6)	(1)	(5)
Balance at end of year	\$ 1,973	\$ 2,110	\$ 1,757	\$ 1,725	\$ 1,962	\$ 2,233	\$ 2,215	\$ 1,572	\$ 1,636	\$ 1,129	\$ 1,134
Common shares											
Balance at beginning of year	\$ 2,923	\$ 2,905	\$ 2,874	\$ 2,908	\$ 2,908	\$ 2,908	\$ 2,908	\$ 2,724	\$ 2,448	\$ 2,307	\$ 1,959
Issued	192	18	69	—	—	—	—	184	276	141	348
Purchased for cancellation	(52)	—	(38)	(34)	—	—	—	—	—	—	—
Balance at end of year	\$ 3,063	\$ 2,923	\$ 2,905	\$ 2,874	\$ 2,908	\$ 2,908	\$ 2,908	\$ 2,908	\$ 2,724	\$ 2,448	\$ 2,307
Retained earnings											
Balance at beginning of year (1)	\$ 6,803	\$ 5,719	\$ 4,825	\$ 4,194	\$ 3,476	\$ 2,839	\$ 3,041	\$ 3,421	\$ 2,893	\$ 2,361	\$ 2,210
Net income	1,725	1,772	1,654	1,330	1,258	1,169	300	107	983	965	529
Dividends – preferred	(157)	(145)	(131)	(144)	(164)	(168)	(154)	(123)	(103)	(96)	(65)
common	(588)	(543)	(469)	(418)	(371)	(364)	(364)	(361)	(352)	(337)	(313)
Issuance costs of preferred shares redeemed	(7)	—	—	(1)	(5)	—	—	(3)	—	—	—
Premium paid on common shares purchased	(281)	—	(160)	(136)	—	—	—	—	—	—	—
Balance at end of year	\$ 7,495	\$ 6,803	\$ 5,719	\$ 4,825	\$ 4,194	\$ 3,476	\$ 2,823	\$ 3,041	\$ 3,421	\$ 2,893	\$ 2,361
Accumulated other comprehensive income											
Unrealized gains and losses on available for sale securities (2)	\$ (85)	\$ 56	\$ 283	\$ 349	\$ 126						
Unrealized foreign currency translation gains and losses	(38)	(34)	(29)	(23)	(20)	(12)	(16)	(15)	(19)	(16)	(19)
	\$ (123)	\$ 22	\$ 254	\$ 326	\$ 106	\$ (12)	\$ (16)	\$ (15)	\$ (19)	\$ (16)	\$ (19)
Shareholders' equity at end of year	\$ 12,408	\$ 11,858	\$ 10,635	\$ 9,750	\$ 9,170	\$ 8,605	\$ 7,930	\$ 7,506	\$ 7,762	\$ 6,454	\$ 5,783
Comprehensive income											
Net income	\$ 1,725	\$ 1,772	\$ 1,654	\$ 1,330	\$ 1,258	\$ 1,169	\$ 300	\$ 107	\$ 983	\$ 965	\$ 529
Change in unrealized gains and losses on available for sale securities (2)	(141)	(227)	(66)	223	126						
Change in unrealized foreign currency translation gains and losses	(4)	(5)	(6)	(3)	(8)	4	(1)	4	(3)	3	6
Total comprehensive income	\$ 1,580	\$ 1,540	\$ 1,582	\$ 1,550	\$ 1,376	\$ 1,173	\$ 299	\$ 111	\$ 980	\$ 968	\$ 535

(1) Retained earnings at the beginning of 1994 was increased by \$16 million as a result of the adoption of SFAS No. 109, *Accounting for Income Taxes*.(2) Effective fiscal 1995, the bank adopted SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*.

Risk profile

As at October 31,

(C\$ millions)

	1999	1998	1997	1996	1995	1994	1993	1992	1991	1990	1989
Impaired loans											
Beginning of year	\$ 2,001	\$ 1,819	\$ 2,376	\$ 2,944	\$ 4,424	\$ 7,582	\$ 7,056	\$ 3,924	\$ 4,203	\$ 3,516	\$ 3,549
Net additions (reductions)	743	628	81	384	(255)	(1,128)	1,643	3,639	909	1,822	1,063
Charge-offs and adjustments	(1,040)	(446)	(638)	(952)	(1,225)	(2,030)	(1,117)	(507)	(1,188)	(1,135)	(1,096)
End of year	\$ 1,704	\$ 2,001	\$ 1,819	\$ 2,376	\$ 2,944	\$ 4,424	\$ 7,582	\$ 7,056	\$ 3,924	\$ 4,203	\$ 3,516
As a % of loans (including acceptances)	1.1%	1.3%	1.2%	1.8%	2.4%	3.7%	6.2%	6.5%	3.7%	4.0%	3.6%
Allowance for credit losses											
Specific	\$ 786	\$ 1,176	\$ 932	\$ 1,091	\$ 1,439	\$ 1,962	\$ 2,667	\$ 1,867	\$ 449	\$ 451	\$ 440
Country risk	34	40	436	444	930	940	1,107	1,383	1,509	2,012	2,602
General allocated	790	—	—	—	—	—	—	—	—	—	—
General unallocated (1)	290	850	750	700	300	300	550	325	—	—	—
Total	\$ 1,900	\$ 2,066	\$ 2,118	\$ 2,235	\$ 2,669	\$ 3,202	\$ 4,324	\$ 3,575	\$ 1,958	\$ 2,463	\$ 3,042
As a % of loans (including acceptances)	1.2%	1.3%	1.4%	1.7%	2.2%	2.7%	3.6%	3.3%	1.8%	2.3%	3.1%
As a % of loans (including acceptances) and reverse repos	1.1%	1.2%	1.3%	1.5%	2.1%	2.6%	3.4%	3.3%	1.8%	2.3%	3.1%
As a % of impaired loans, excluding LDCs	112%	103%	94%	77%	60%	52%	52%	41%	18%	25%	41%
Provision for credit losses											
Specific	\$ 530	\$ 555	\$ 330	\$ 470	\$ 580	\$ 1,070	\$ 1,775	\$ 2,025	\$ 705	\$ 420	\$ 280
Country risk	—	(80)	—	(300)	—	—	(250)	(300)	(100)	—	1,100
General	230	100	50	400	—	(250)	225	325	—	—	—
Total	\$ 760	\$ 575	\$ 380	\$ 570	\$ 580	\$ 820	\$ 1,750	\$ 2,050	\$ 605	\$ 420	\$ 1,380
Provision as a % of average loans (including acceptances)	.49%	.37%	.27%	.45%	.48%	.67%	1.61%	1.93%	.57%	.43%	1.54%
Provision as a % of average loans (including acceptances) and reverse repos	.43%	.32%	.24%	.43%	.46%	.65%	1.58%	1.93%	.57%	.43%	1.54%
Specific provisions as a % of average loans (including acceptances) and reverse repos	.30%	.31%	.21%	.36%	.46%	.84%	1.60%	1.90%	.67%	.43%	.31%
Net charge-offs	\$ 958	\$ 692	\$ 528	\$ 1,001	\$ 1,105	\$ 1,979	\$ 1,187	\$ 547	\$ 1,010	\$ 1,000	\$ 872
As a % of average loans	.62%	.45%	.37%	.79%	.91%	1.63%	1.09%	.51%	.96%	1.02%	.97%

(1) As at October 31, 1999, the general allowance has been separated into two components, general allocated allowance and general unallocated allowance. In prior years, this split was not made and the total general allowance is shown as unallocated.

Financial highlights

(C\$ millions,

except per share amounts)

	1999	1998	1997	1996	1995	1994	1993	1992	1991	1990	1989
Performance ratios											
Return on common equity	15.3%	17.6%	18.3%	15.7%	16.2%	16.8%	2.4%	(.3)%	15.5%	17.5%	10.1%
Goodwill-adjusted return on common equity (1)	16.9%	19.6%	20.3%	17.0%	17.7%	18.9%	3.1%	.1%	16.4%	18.7%	10.9%
Return on assets	.64%	.68%	.69%	.65%	.68%	.70%	.21%	.08%	.76%	.79%	.47%
Return on assets after preferred dividends	.58%	.62%	.64%	.58%	.59%	.60%	.10%	(.01)%	.68%	.71%	.41%
Net interest margin (2)	1.91%	1.95%	2.10%	2.28%	2.49%	2.72%	2.88%	2.93%	2.95%	2.97%	3.21%
Non-interest revenue as a % of gross revenues	51.6%	49.5%	46.0%	41.1%	37.4%	38.7%	37.4%	34.5%	33.8%	32.6%	31.4%
Efficiency ratio (3)	67.1%	64.5%	65.1%	65.1%	63.9%	63.1%	67.4%	64.3%	62.5%	61.9%	56.0%
Average balances and year-end off-balance sheet data											
Averages											
Total assets (4)	\$ 270,000	\$ 261,500	\$ 239,800	\$ 205,200	\$ 183,900	\$ 166,700	\$ 142,500	\$ 136,200	\$ 130,100	\$ 121,700	\$ 112,700
Loans	155,635	154,954	142,349	126,849	121,069	121,741	108,562	106,376	105,231	98,414	89,772
Deposits	184,796	178,688	166,249	147,391	136,686	133,550	114,835	108,609	102,847	95,758	88,001
Common equity	10,268	9,255	8,303	7,543	6,749	5,964	6,052	6,313	5,693	4,965	4,618
Total equity	12,481	11,227	10,044	9,488	8,942	8,233	8,116	7,938	6,913	6,089	5,468
Assets under administration (5)	967,800	829,200	783,300	522,100	407,700	346,800	274,300				
Assets under management (5)	81,600	73,400	67,700	51,200	40,400	39,100	33,100				
Capital ratios (Cdn) (6)											
Tier 1 capital	\$ 12,026	\$ 11,593	\$ 10,073	\$ 9,037	\$ 8,421	\$ 7,660	\$ 6,910	\$ 6,740	\$ 6,938	\$ 5,712	\$ 5,096
Total capital	16,698	16,480	14,705	12,069	11,913	11,525	10,941	10,483	10,686	8,525	7,634
Total risk-adjusted assets	149,078	157,064	147,672	128,163	121,350	120,158	117,043	114,298	113,975	115,035	106,218
Common equity/risk-adjusted assets	7.1%	6.2%	5.8%	6.0%	5.8%	5.3%	4.9%	5.2%	5.4%	4.6%	4.4%
Tier 1 capital ratio	8.1%	7.4%	6.8%	7.0%	6.9%	6.4%	5.9%	5.9%	6.1%	5.0%	4.8%
Total capital ratio	11.2%	10.5%	10.0%	9.4%	9.8%	9.6%	9.3%	9.2%	9.4%	7.4%	7.2%
Capital ratios (U.S.) (7)											
Tier 1 capital	\$ 11,334	\$ 10,796	\$ 9,556	\$ 8,740	\$ 8,612	\$ 7,660	\$ 6,910	\$ 6,740	\$ 6,938	\$ 5,712	\$ 5,096
Total capital	15,991	15,990	14,666	12,245	12,399	11,525	10,941	10,483	10,686	8,525	7,634
Total risk-adjusted assets	149,537	157,720	149,392	128,804	120,593	120,158	117,043	114,298	113,975	115,035	106,218
Common equity/risk-adjusted assets	7.0%	6.1%	5.8%	6.0%	5.9%	5.3%	4.9%	5.2%	5.4%	4.6%	4.4%
Tier 1 capital ratio	7.6%	6.8%	6.4%	6.8%	7.1%	6.4%	5.9%	5.9%	6.1%	5.0%	4.8%
Total capital ratio	10.7%	10.1%	9.8%	9.5%	10.3%	9.6%	9.3%	9.2%	9.4%	7.4%	7.2%
Common share information (8)											
Shares outstanding (in thousands)											
As at October 31	308,884	308,791	308,335	310,529	314,155	314,155	314,155	314,155	306,460	293,267	286,674
Average basic	313,079	308,662	308,906	314,121	314,155	314,155	314,155	310,543	301,807	290,243	282,586
Average fully diluted	316,152	316,813	316,026	314,121	314,155	314,155	314,155	310,543	303,265	295,945	290,113
Dividends per share	\$ 1.88	\$ 1.76	\$ 1.52	\$ 1.33	\$ 1.18	\$ 1.16	\$ 1.16	\$ 1.16	\$ 1.16	\$ 1.16	\$ 1.10
Book value per share	33.78	31.60	28.83	25.88	22.98	20.13	18.09	18.82	19.91	18.10	16.16
Share price – High (9)	84.25	92.20	76.45	44.40	31.38	31.88	28.88	29.00	27.50	25.69	24.38
Low (9)	59.30	57.50	44.00	29.75	25.88	25.13	22.00	21.50	20.50	19.75	16.88
Close (9)	63.45	71.10	75.35	44.30	30.13	28.38	27.25	24.13	27.00	20.75	24.25
Price/earnings multiple (10)	14.4	14.5	12.4	9.8	8.2	8.9	–	–	8.2	7.7	12.7
Dividend yield (11)	2.6%	2.4%	2.5%	3.6%	4.1%	4.1%	4.6%	4.6%	4.8%	5.1%	5.3%
Dividend payout ratio (12)	37%	33%	31%	35%	34%	36%	–	–	40%	39%	67%
Other information											
Number of employees (13)	51,891	51,776	48,816	46,205	49,011	49,208	52,745	49,628	50,547	50,106	47,989
Automated banking machines	4,585	4,317	4,248	4,215	4,079	3,948	3,981	3,828	3,651	3,142	2,334
Service delivery units											
Canada	1,410	1,422	1,453	1,493	1,577	1,596	1,731	1,661	1,645	1,617	1,560
International (14)	99	106	105	103	105	97	95	83	102	48	47
Total	1,509	1,528	1,558	1,596	1,682	1,693	1,826	1,744	1,747	1,665	1,607

- Goodwill-adjusted return on common equity is computed by adding back goodwill amortization after tax charged to net income in each year and reducing average common equity by the unamortized goodwill.
- Net interest income as a percentage of average assets.
- Non-interest expenses as a percentage of taxable equivalent net interest income and non-interest revenue.
- As the information is not reasonably determinable, amounts for years prior to 1995 have not been restated to reflect the presentation of derivative-related amounts on a gross basis.
- Amounts prior to 1996 are as at September 30. Assets under administration and assets under management balances were not reported prior to the acquisition of Royal Trust in 1993.
- Using guidelines issued by the Office of the Superintendent of Financial Institutions Canada and Canadian GAAP financial information.

- Using guidelines issued by the Board of Governors of the Federal Reserve Board in the United States and U.S. GAAP financial information.
- Common shares were split on a 2-for-1 basis in February 1990 and all related data has been restated accordingly.
- High and low price of common shares traded on the Toronto Stock Exchange during the year and the closing price on the last trading day of October.
- Average of high and low common share price divided by fully diluted earnings per share. The multiples for 1993 and 1992 are not meaningful.
- Dividends per common share divided by the average of high and low share price.
- Common dividends as a percentage of net income after preferred dividends. The ratios for 1993 and 1992 are not meaningful.
- On a full-time equivalent basis.
- International service delivery units since 1991 include (in addition to branches) representative offices, agencies and subsidiaries.

Quarterly highlights

(C\$ millions, except per share amounts; taxable equivalent basis)

	1999				1998			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Statement of income								
Net interest income	\$ 1,344	\$ 1,283	\$ 1,252	\$ 1,273	\$ 1,292	\$ 1,257	\$ 1,253	\$ 1,299
Provision for credit losses	(235)	(175)	(175)	(175)	(100)	(100)	(250)	(125)
Non-interest revenue	1,520	1,357	1,306	1,308	1,171	1,201	1,461	1,164
Non-interest expenses	(1,892)	(1,722)	(1,695)	(1,832)	(1,675)	(1,604)	(1,657)	(1,574)
Income taxes	(256)	(289)	(254)	(210)	(248)	(292)	(322)	(303)
Non-controlling interest	(2)	(2)	(2)	(2)	(17)	(20)	(17)	(22)
Net income	\$ 479	\$ 452	\$ 432	\$ 362	\$ 423	\$ 442	\$ 468	\$ 439
Basic earnings per share	\$ 1.41	\$ 1.31	\$ 1.26	\$ 1.03	\$ 1.25	\$ 1.30	\$ 1.41	\$ 1.31
Fully diluted earnings per share	1.40	1.30	1.25	1.03	1.22	1.28	1.38	1.29
Goodwill-adjusted basic earnings per share (1)	1.46	1.37	1.31	1.09	1.30	1.36	1.46	1.37
Performance ratios								
Return on common equity	16.6%	15.6%	15.8%	12.9%	15.9%	17.1%	19.5%	17.9%
Goodwill-adjusted return on common equity (1)	18.3%	17.3%	17.5%	14.4%	17.7%	19.1%	21.7%	20.1%
Return on assets	.69%	.66%	.68%	.53%	.62%	.67%	.75%	.68%
Return on assets after preferred dividends	.63%	.60%	.62%	.48%	.56%	.61%	.70%	.63%
Net interest margin	1.94%	1.86%	1.96%	1.87%	1.89%	1.90%	2.01%	2.02%
Non-interest revenue as a % of gross revenues	53.1%	51.4%	51.1%	50.7%	47.5%	48.9%	53.8%	47.3%
Efficiency ratio	66.1%	65.2%	66.3%	71.0%	68.0%	65.3%	61.1%	63.9%
Balance sheet								
Assets								
Cash resources and securities	\$ 75,778	\$ 72,187	\$ 65,981	\$ 63,788	\$ 58,933	\$ 51,565	\$ 51,760	\$ 57,176
Reverse repurchase agreements	20,272	25,452	22,395	17,461	19,907	25,045	27,362	22,172
Residential mortgages	59,242	59,959	58,729	57,553	56,468	54,878	53,038	54,388
Personal loans	25,255	24,369	24,193	23,209	22,761	22,083	21,957	21,339
Credit cards	2,666	2,193	2,206	2,058	1,945	1,692	1,499	2,399
Business and government loans	66,887	68,876	69,501	73,018	76,218	77,899	76,706	76,614
Allowance for credit losses	(1,884)	(1,940)	(1,850)	(2,153)	(2,026)	(2,021)	(1,930)	(1,772)
Other assets	25,082	27,652	26,158	31,900	46,868	30,179	21,548	26,056
	\$ 273,298	\$ 278,748	\$ 267,313	\$ 266,834	\$ 281,074	\$ 261,320	\$ 251,940	\$ 258,372
Liabilities and shareholders' equity								
Deposits – Canada	\$ 129,306	\$ 129,036	\$ 123,290	\$ 123,482	\$ 123,533	\$ 121,459	\$ 123,345	\$ 124,311
Deposits – International	58,591	61,424	60,207	56,231	56,472	55,173	51,283	56,315
Other liabilities	68,397	70,728	66,750	70,593	85,124	68,329	61,236	62,065
Subordinated debentures	4,596	4,678	4,631	4,332	4,087	4,735	4,735	4,769
Total equity	12,408	12,882	12,435	12,196	11,858	11,624	11,341	10,912
	\$ 273,298	\$ 278,748	\$ 267,313	\$ 266,834	\$ 281,074	\$ 261,320	\$ 251,940	\$ 258,372
Selected average balances and off-balance sheet data								
Averages								
Total assets	\$ 274,900	\$ 273,300	\$ 261,700	\$ 269,900	\$ 271,600	\$ 262,700	\$ 256,100	\$ 255,300
Loans	154,938	155,580	154,929	157,540	157,361	155,431	153,263	153,273
Deposits	189,334	185,639	182,092	182,031	182,380	177,082	175,022	180,100
Common equity	10,466	10,433	10,222	9,977	9,599	9,348	9,149	8,965
Total equity	12,790	12,696	12,346	12,113	11,749	11,465	11,022	10,759
Assets under administration	967,800	927,600	893,800	861,600	829,200	865,500	853,000	794,400
Assets under management	81,600	81,400	79,300	77,200	73,400	75,200	74,300	68,300
Provision for credit losses								
Specific	\$ 5	\$ 175	\$ 175	\$ 175	\$ 100	\$ 180	\$ 175	\$ 100
Country risk	–	–	–	–	–	(80)	–	–
General	230	–	–	–	–	–	75	25
	\$ 235	\$ 175	\$ 175	\$ 175	\$ 100	\$ 100	\$ 250	\$ 125
Impaired loans as a % of loans (including acceptances)	1.11%	1.21%	1.12%	1.27%	1.27%	1.25%	.97%	1.05%
Capital ratios (Canadian basis)								
Common equity/risk-adjusted assets	7.1%	7.1%	7.0%	6.8%	6.2%	6.2%	6.2%	5.8%
Tier 1	8.1%	8.4%	8.1%	7.9%	7.4%	7.3%	7.4%	6.7%
Total	11.2%	11.6%	11.4%	11.3%	10.5%	10.7%	10.8%	10.0%
Capital ratios (U.S. basis)								
Common equity/risk-adjusted assets	7.0%	7.0%	7.0%	6.7%	6.1%	6.1%	6.1%	5.7%
Tier 1	7.6%	7.7%	7.5%	7.3%	6.8%	6.9%	6.9%	6.3%
Total	10.7%	11.1%	11.0%	10.9%	10.1%	10.3%	10.5%	9.9%
Common share information								
Shares outstanding (in thousands)								
End of period	308,884	313,146	313,902	313,662	308,791	308,774	308,730	308,609
Average basic	311,235	313,766	313,769	313,569	308,784	308,755	308,671	308,438
Average fully diluted	313,948	316,587	316,927	316,798	316,483	317,141	316,878	316,476
Dividends per share	\$ 0.48	\$ 0.48	\$ 0.46	\$ 0.46	\$ 0.46	\$ 0.46	\$ 0.42	\$ 0.42
Book value per share	33.78	33.52	33.05	32.23	31.60	30.89	30.09	29.63
Share price – High	67.90	72.50	80.70	84.25	82.00	92.50	92.20	82.50
Low	59.30	62.80	68.45	65.30	57.50	81.50	77.30	71.10
Close	63.45	65.25	71.10	78.10	71.10	82.00	85.40	76.35
Dividend yield	3.0%	2.8%	2.5%	2.5%	2.6%	2.1%	2.0%	2.2%
Dividend payout ratio	34%	37%	37%	45%	37%	35%	30%	32%

(1) Goodwill-adjusted return on common equity and goodwill-adjusted basic earnings per share are computed by adding back goodwill amortization after tax charged to net income in each quarter and reducing common equity by the unamortized goodwill.

Directors and Executive Officers

Directors

JOHN E. CLEGHORN,
F.C.A. (1987)
Toronto
Chairman and
Chief Executive Officer
Royal Bank of Canada

THEODORE M. ALLEN (1992)*
Calgary
President and
Chairman of the Board
United Grain Growers Limited

GEORGE A. COHON,
O.C. (1988)
Toronto
Senior Chairman
and Chairman of the
Executive Committee
McDonald's Restaurants
of Canada Limited

G.N. (MEL) COOPER,
C.M., O.B.C. (1992)
Victoria
Chairman and
Chief Executive Officer
Seacoast Communications
Group Inc.

JOHN T. FERGUSON,
F.C.A. (1990)
Edmonton
Chairman of the Board
Princeton Developments Ltd.
Chair of the Board
TransAlta Corporation

L. YVES FORTIER,
C.C., Q.C. (1992)
Montreal
Chairman
Ogilvy Renault

THE HON. PAULE GAUTHIER,
P.C., O.C., Q.C. (1991)
Quebec City
Senior Partner
Desjardins Ducharme
Stein Monast

G. WALLACE F. MCCAIN,
O.C. (1986)*
Toronto
Chairman
Maple Leaf Foods Inc.

J. EDWARD NEWALL,
O.C. (1984)
Calgary
Chairman of the Board
NOVA Chemicals Corporation

DAVID P. O'BRIEN (1996)
Calgary
Chairman, President and
Chief Executive Officer
Canadian Pacific Limited

ROBERT B. PETERSON (1992)
Toronto
Chairman, President and
Chief Executive Officer
Imperial Oil Limited

HARTLEY T. RICHARDSON
(1996)
Winnipeg
President and
Chief Executive Officer
James Richardson & Sons,
Limited

KENNETH C. ROWE,
F.C.I.S. (1985)
Halifax
Chairman and
Chief Executive Officer
I.M.P. Group International Inc.

GUY SAINT-PIERRE,
O.C. (1990)
Montreal
Chairman of the Board
SNC-Lavalin Group Inc.

ROBERT T. STEWART (1988)
Vancouver
Company Director

ALLAN R. TAYLOR,
O.C. (1983)
Toronto
Retired Chairman and
Chief Executive Officer
Royal Bank of Canada

JOHN A. TORY,
Q.C. (1971)*
Toronto
President
Thomson Investments Limited

SHEELAGH D. WHITTAKER
(1993)
Toronto
Chair, President and
Chief Executive Officer
EDS Systemhouse Inc.

VICTOR L. YOUNG,
O.C. (1991)
St. John's
Chairman and
Chief Executive Officer
Fishery Products International
Limited

* Not standing for re-election on
February 23, 2000.

The date appearing after the name of
each director indicates the year in
which the individual became a director.
The term of office of each director
will expire at the next annual meeting,
scheduled for February 23, 2000.

Executive Officers – Group Management Committee

JOHN E. CLEGHORN
Chairman and
Chief Executive Officer

PETER W. CURRIE
Vice-Chairman and
Chief Financial Officer

GORDON J. FEENEY
Deputy Chairman

ANTHONY S. FELL**
Deputy Chairman, Royal Bank
Chairman, RBC Dominion
Securities Inc.

SUZANNE B. LABARGE
Vice-Chairman and
Chief Risk Officer

MARTIN J. LIPPERT
Vice-Chairman and
Chief Information Officer

W. REAY MACKAY
Vice-Chairman
Wealth Management

GORDON M. NIXON**
Deputy Chairman and
Chief Executive Officer
RBC Dominion Securities Inc.

JAMES T. RAGER
Vice-Chairman
Personal & Commercial Banking

W. JAMES WESTLAKE**
President and
Chief Executive Officer
RBC Insurance Holdings Inc.

** Effective December 1, 1999. Prior to
December 1, 1999, Anthony S. Fell was
also Chief Executive Officer of RBC
Dominion Securities.

Corporate Governance

A strong and effective Board of Directors will play a key role in guiding the bank into the 21st century. The corporate governance policies of Royal Bank are designed to strengthen the ability of the Board of Directors to supervise management and to enhance long-term shareholder value.

In a rapidly changing environment, corporate governance must be subject to constant review and improvement. With this principle in mind, the board established an independent committee, the Corporate Governance Committee, to monitor the effectiveness of the board and manage the bank's governance system, adapting it to changing needs and circumstances.

Responsibilities: Key functions of the board include succession planning, selecting senior management, evaluating management performance and effectiveness, reviewing strategy and major business decisions, identifying risks, and assessing the integrity and effectiveness of the bank's internal controls and management information systems. The board specifies those matters that require its approval and delegates others to management.

Composition: The strength of the board is built upon the background, diversity, qualities, skills and experience of its members. In consultation with outside consultants, the Corporate Governance Committee recommends to the board candidates suitable for nomination. Nominees are selected for qualities such as business judgment, integrity, business or professional expertise, international experience, residency, and familiarity with geographic regions relevant to the bank's strategic priorities.

Currently, there are 19 directors. The Corporate Governance Committee reviews the composition and mandates of the board's five committees. Significant elements of the mandates and activities of the board committees are described on page 81.

Independence: To ensure board independence from management, an independent director, the chairman of the Corporate Governance Committee, serves as a liaison between the board and senior management. Following every board meeting, this director chairs sessions attended only by non-management directors.

Board policy permits no more than two board members from management. Currently only one director, the Chairman and Chief Executive Officer, is from management.

The bank complies with the provisions of the *Bank Act* and the guidelines of The Toronto Stock Exchange with regard to directors being "affiliated" with or "related" to the bank. As of October 31, 1999, only two directors are "affiliated" with and only three are "related" to the bank. In both cases, this is considerably below the limits required by the *Bank Act* and suggested in the stock exchange guidelines.

All committees of the board consist solely of outside directors, a majority of whom are unrelated to the bank.

To further strengthen independence, the Human Resources Committee and the board annually evaluate the CEO. In consultation with outside consultants, they determine the compensation of the CEO and other senior management.

Information: The board has timely access to the information it needs to carry out its duties. Directors help set the agenda for board meetings, receive a comprehensive package of information prior to each board and committee meeting, and attend annual off-site strategy planning sessions. As well, after each committee meeting, the full board receives a report on the committee's work. A Director's Guide, focusing on roles and responsibilities of board members, is provided for directors, as well as an ongoing education program.

Communications: The bank is committed to openness, excellence and timeliness in its communications. The investor relations staff provides information to current and potential investors and responds to their inquiries. It is bank policy that every shareholder inquiry receives a prompt response from an appropriate officer. Senior executives, including the Chief Executive Officer and Chief Financial Officer, meet regularly with financial analysts and institutional investors. The bank's quarterly earnings conference calls with analysts and institutional investors are broadcast live on the Internet, so that interested retail investors and members of the public can listen. The bank also makes significant disclosure documents available on its investor relations website at: www.royalbank.com/investorrelation

(A more detailed description of Royal Bank's corporate governance program is contained in the Management Proxy Circular issued in connection with the Annual Meeting.)

Mandates and activities of board committees

Royal Bank's Board of Directors delegates certain work to board committees. This allows in-depth analysis of issues by the committees and more time for the full board to discuss and debate items of business. Each committee annually evaluates its effectiveness in carrying out its mandate.

AUDIT COMMITTEE

- reviews matters prescribed by the *Bank Act*, including annual and quarterly financial statements, and returns specified by the Office of the Superintendent of Financial Institutions Canada.
- meets separately with the shareholders' auditors, the Chief Internal Auditor and senior management to monitor the effectiveness of internal control procedures and management information systems, controls, procedures and accounting practices.
- requires management to implement and maintain appropriate internal control procedures and reviews, evaluates and approves those procedures.
- reviews investments and transactions that could adversely affect the well-being of the bank.
- reviews offering documents relating to the issue of securities of the bank.
- reviews and approves policies and programs related to liquidity management and capital management to ensure compliance with the Canada Deposit Insurance Corporation Standards of Sound Business and Financial Practices (the "CDIC Standards") and reviews measures implemented to ensure compliance with CDIC's Internal Control Standard, which includes guidelines on information technology controls, valuation policies and procedures, safeguarding controls, accounting and record keeping controls, management information systems, and independent inspections and audits.

Members: G.N. Cooper, L.Y. Fortier (Chair), G.W.F. McCain, J.E. Newall, K.C. Rowe, A.R. Taylor

CONDUCT REVIEW AND RISK POLICY COMMITTEE

- reviews bank procedures for complying with the rules of the *Bank Act* concerning "related parties".
- establishes and monitors procedures for restricting the use of confidential information, dealing with complaints, disclosing information to customers, and resolving conflicts of interest.
- approves risk principles and reviews other significant investment, lending and other credit policies, standards and procedures in respect of a portfolio of loans, position risk, investments, foreign exchange risk, interest rate risk and other credit exposures.
- reviews the amount, nature, characteristics, concentration and quality of the bank's credit portfolio, as well as all significant exposures to credit risk and the adequacy of the bank's provisions for credit losses.
- reviews credits to directors or entities in which they are partners, directors or officers.
- reviews credits for amounts exceeding authorities delegated to management.
- reviews and approves the risk policies and procedures recommended by the bank's management and annually reviews the credit risk management, real estate appraisals, securities portfolio management, foreign exchange and interest rate risk management policies and programs to ensure compliance with the CDIC Standards.

Members: T.M. Allen, J.T. Ferguson, P. Gauthier, R.B. Peterson (Chair), R.T. Stewart, V.L. Young

CORPORATE GOVERNANCE COMMITTEE

- makes recommendations regarding the effectiveness of the system of corporate governance, including the board program and forward agenda for board and committee meetings, the frequency and content of meetings, the need for any special meetings, communication processes between the board and management, mandates of board committees, and policies governing size and composition of the board.
- assesses the performance of the board including its committees, and monitors directors' performance. As part of this process, directors periodically evaluate in writing the performance of the board and its committees, and the resulting data is analyzed by an independent outside consultant.
- reviews the credentials of directors standing for re-election.
- identifies and recommends to the board candidates suitable for nomination as directors, in consultation when necessary with independent outside consultants.
- reviews shareholder proposals and recommends to the board the bank's response to the proposals.
- advises management in the planning of the annual strategy meeting attended by directors and senior management.
- reviews the compensation of directors and, based on a report from an independent outside consultant, recommends appropriate adjustments.

Members: L.Y. Fortier, G.W.F. McCain, J.E. Newall, D.P. O'Brien, G. Saint-Pierre (Chair), J.A. Tory

HUMAN RESOURCES COMMITTEE

- reviews and approves principles for employee recruitment, hiring, training, compensation and evaluation.
- reviews the bank's pension plan performance.
- reviews management succession plans for executive officers.
- reviews the bank's major compensation policies and recommends executive incentive programs to the board.
- reviews the position description for the CEO, selects the CEO, approves the corporate objectives the CEO is responsible for meeting, and annually evaluates the CEO's performance against those objectives.
- recommends to the board the remuneration of the CEO and other senior executives.

Members: G.A. Cohon, D.P. O'Brien, H.T. Richardson, G. Saint-Pierre, J.A. Tory (Chair), S.D. Whittaker, V.L. Young

PUBLIC POLICY COMMITTEE

- reviews whether the conduct of the bank's businesses is ethical and socially responsible.
- oversees the bank's communications policy, including processes for communicating with customers, employees, shareholders, and the community.
- reviews policies designed to create a positive corporate image.
- reviews the bank's policy on and budget for political donations.
- reviews the charitable contributions policy and budget.

Members: G.A. Cohon, G.N. Cooper, P. Gauthier (Chair), H.T. Richardson, A.R. Taylor, S.D. Whittaker

Shareholder Information

ANNUAL MEETING

The Annual Meeting of common shareholders will be held on Wednesday, February 23, 2000 at 9:00 a.m. (Eastern time) in Constitution Hall of the Metro Toronto Convention Centre, 255 Front Street West, Toronto, Ontario, Canada.

PRINCIPAL ADDRESSES

Toronto street address:

Royal Bank of Canada
200 Bay Street
Toronto, Ontario, Canada
Tel: (416) 974-5151
Fax: (416) 955-7800

Toronto mailing address:

P.O. Box 1
Royal Bank Plaza
Toronto, Ontario
Canada M5J 2J5

Montreal street address:

1 Place Ville Marie
Montreal, Quebec, Canada
Tel: (514) 874-2110
Fax: (514) 874-6582
Telex: 055-61086

Montreal mailing address:

Royal Bank of Canada
P.O. Box 6001
Montreal, Quebec
Canada H3C 3A9

INTERNET

www.royalbank.com

TRANSFER AGENT AND REGISTRAR

MAIN AGENT

Montreal Trust Company of Canada
Street address:
1800 McGill College Avenue
Montreal, Quebec
Canada H3A 3K9
Tel: (514) 982-7555, or
1-800-564-6253
Fax: (514) 982-7635
www.montrealtrust.com
Telex: 055-61286

Mailing address:

P.O. Box 890, Station "B"
Montreal, Quebec
Canada H3B 3K5

CO-TRANSFER AGENTS (CANADA)

Montreal Trust Company of Canada
1465 Brenton Street
5th Floor
Halifax, Nova Scotia
B3J 3S9

151 Front Street West
8th Floor
Toronto, Ontario
M5J 2N1

Western Gas Tower
530 – 8th Avenue South West
6th Floor
Calgary, Alberta
T2P 3S8

Scotia Centre
1783 Hamilton Street
Suite 660
Regina, Saskatchewan
S4P 2B6

Mezzanine Level
200 Portage Avenue
Winnipeg, Manitoba
R3C 3X2

510 Burrard Street
Vancouver, British Columbia
V6C 3B9

CO-TRANSFER AGENT (U.S.A.)

The Bank of New York
101 Barclay Street
New York, N.Y. 10286

CO-TRANSFER AGENT (UNITED KINGDOM)

Computershare Services plc
Securities Services – Registrars
P.O. Box No. 82, The Pavilions,
Bridgwater Road, Bristol
BS99 7NH England

STOCK EXCHANGE LISTINGS (Symbol: RY)

COMMON SHARES LISTED ON:

Canada: Toronto Stock Exchange

U.S.A.: New York Stock Exchange

Switzerland: Electronic Stock Exchange (EBS)

U.K.: London Stock Exchange

All preferred shares are listed on the Toronto Stock Exchange.

VALUATION DAY PRICE

For capital gains purposes, the Valuation Day (December 22, 1971) cost base for the bank's common shares, adjusted for prior stock splits, is \$7.38 per share.

DIVIDEND DATES FOR 2000

Subject to approval by the Board of Directors.

	Record dates	Payment dates
Common shares and preferred shares series H, I, J, K, N, O and P	Jan. 25	Feb. 24
	Apr. 24	May 24
	Jul. 25	Aug. 24
	Oct. 25	Nov. 24
Preferred shares series E	Last trading day of each month	12th day of the following month

SHAREHOLDER CONTACT

For change of address, shareholders are requested to write to the bank's transfer agent, Montreal Trust Company of Canada, at their mailing address, and for dividend and estate transfers, shareholders are requested to call the Transfer Agent at (514) 982-7555, or 1-800-564-6253.

Other shareholder inquiries may be directed to our Investor Relations Department, by writing to 123 Front Street West, 6th Floor, Toronto, Ontario, Canada M5J 2M2 or by calling (416) 955-7806.

DIRECT DEPOSIT SERVICE

Shareholders may have their dividends deposited by electronic funds transfer directly to an account at any financial institution that is a member of the Canadian Payments Association. To arrange for this, please write to Montreal Trust Company of Canada at their mailing address.

INSTITUTIONAL INVESTOR,
BROKER AND SECURITY
ANALYST CONTACT

Institutional investors, brokers
and security analysts requiring
financial information should
contact the Senior Vice-President,
Investor Relations, by writing to
123 Front Street West,
6th Floor, Toronto,
Ontario M5J 2M2
or by calling (416) 955-7803 or
by fax to (416) 955-7800.

COMMON SHARE
REPURCHASE

The bank is engaged in a normal
course issuer bid through the
facilities of The Toronto
Stock Exchange. During the
1-year period beginning
June 25, 1999, and ending
June 23, 2000, the bank may
repurchase up to 10,912,979
shares in the open market at
market prices. The amount and
timing of the purchases are to
be determined by the bank.

A copy of the bank's Notice of
Intention to file a Normal Course
Issuer Bid may be obtained,
without charge, by contacting the
Secretary of the bank at the
bank's Toronto mailing address.

La Banque Royale publie aussi son
Rapport annuel en français.

Legal Deposit, fourth quarter, 1999
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OF CANADA