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 strategic priorities are to grow and diversify revenues, improve efficiency, maintain a high-quality risk profile, effectively manage the balance sheet and capital, and provide opportunities for capable, committed employees.

for you

Profile Royal Bank is Canada's largest financial institution as measured by market capitalization, revenues and net income. We have leading positions in most Canadian financial services markets and operations in 35 other countries. We serve nearly 10 million individual and business customers around the world. **In Canada,** we have leading market shares in residential mortgages, personal loans and deposits, and business loans. We are Canada's largest money manager and the second largest provider of mutual funds (first among bank-owned fund companies). Royal Bank owns the largest and most profitable investment dealer, RBC Dominion Securities, the second largest discount broker, Royal Bank Action Direct, and is a significant provider of creditor life and disability, individual life and travel insurance. Our domestic delivery network includes more than 1,400 branches, 4,200 automated banking machines, 570 self-service account updaters, and 77,000 proprietary point of sale merchant terminals. With 1.7 million customers, Royal Direct, our alternative delivery channel provider, is among the world's largest such providers, giving clients access to services via telephone, personal computer and the internet.

Internationally, we provide corporate and investment banking, trade finance, correspondent banking, treasury and securities custody services to business customers. The bank also has a retail network in the Caribbean and substantial global private banking operations. Our international network includes 106 offices in 35 countries.

Milestones › On January 23, Royal Bank and Bank of Montreal announced a proposed merger of equals (details, pg. 70). Subsequent to year end, on December 14, Finance Minister Paul Martin announced that the proposed merger would not be allowed. In light of this announcement, on December 15, Royal Bank and Bank of Montreal terminated their agreement to merge. › Named Canada's most respected corporation for the second time in four years in the annual survey of The Globe and Mail's Report on Business Magazine. › Ranked first in North America for quality of internet banking services by the U.K.-based Lafferty Group.

focus on 1998

Personal and commercial banking:

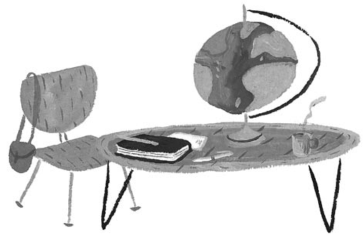
for individual customers

› In October, completed acquisition of Atlanta-based Security First Network Bank (SFNB), *The World's First Internet Bank*™, and an interest in Security First Technologies, a web-banking software development company. In addition to providing customers with service via the internet, telephone and customer representatives around the clock, SFNB offers ATM access and debit/credit card platforms.

› In April, acquired the Canadian life, health, disability and travel insurance businesses of Nebraska-based Mutual of Omaha companies, with annual premiums of over $120 million.

› In June, opened Canadian call centre with 300 employees in Winnipeg. Today, with call centres in Manitoba, Ontario, Quebec and New Brunswick, Royal Bank has 1,800 employees providing 24-hour service to some 1.7 million telephone and PC banking clients across rural and urban Canada. › In June, RBC Insurance launched a group life and health plan specifically designed for small business, the first such product offered directly by a bank-owned insurance company.

› In July, RBC Insurance began offering home and auto insurance products in Ontario via direct mail and telephone sales. The goal is to provide these products across Canada by the end of 2000.



Personal and commercial banking:

for business customers

› In February, launched *Connect@work*™, a one-stop internet package through a strategic alliance with AT&T Canada.
› In June, launched a simplified new business deposit opening process, effectively profiling a complete array of deposit, loan and cash management product and service choices.
› In October, launched a full range of financing options up to $100,000 for small business customers through a one-page application accessible by phone, fax, mail, internet, in person, or an account manager.

Wealth management: › Royal Mutual Funds launched 11 new funds – in November 1997, three *Royal Strategic Index Funds*™ managed by James O'Shaughnessy, author of "What Works on Wall Street"; in April, two new funds, *Royal Balanced Growth Fund*™ and *Royal Canadian Value Fund*™; and in October, six new index funds with the lowest all-inclusive fees in Canada.

› In November 1997, Royal Mutual Funds acquired a 40% stake in Synergy Asset Management, a new mutual fund company offering an array of load funds.
› In January, discount brokerage *Royal Bank Action Direct* introduced the internet trading service *NetAction*™ providing full portfolio access and allowing investors to place equity, option and mutual fund orders at discount prices. The service also provides up-to-date order status, and real-time stock quotes from North American exchanges. Over 875 Canadian mutual funds are also available.

› For the third year in a row, Royal Mutual Funds was the top-selling fund company during the January-February RRSP season. Three funds – Balanced, Bond and Dividend – were among the top 10 choices of Canadian investors, from more than 1,000 funds.
› In March, Royal Bank was named world's Best Offshore Banking Group by Financial Times of London, based on its extensive range of financial services for clients, its global network, level of service, and effective communications.
› In October, completed the acquisition of the North American businesses of Credit Suisse Private Banking North America, with approximately $1 billion in client assets.

Corporate and investment banking:

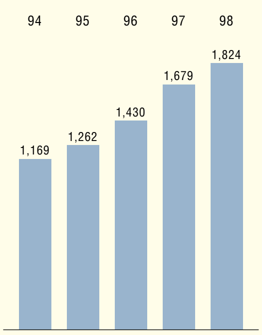
› In January, RBC Dominion Securities entered into an agreement to acquire 25% of Hartley Poynton Limited, Australia's second largest independent investment dealer. The acquisition expands RBC DS global mining capabilities, complementing its existing operations in North America and Europe and a similar strategic alliance with Board of Executors Limited (BOE) of South Africa.

› Royal Bank announced an agreement with New York-based IntraLinks to offer loan syndication services to clients and investors through the internet. Royal Bank's Toronto, New York and London-based syndications groups now have access to the internet for the secure distribution of large loan transactions within countries and across international borders.

› In March, acquired from Société Générale the bond business of Hambros Bank Limited which, in addition to its main location in London, includes offices in Sydney, Johannesburg, Toronto and Tokyo. This resulted in a stronger trading and distribution presence internationally and expanded Eurobond and government bond capabilities.

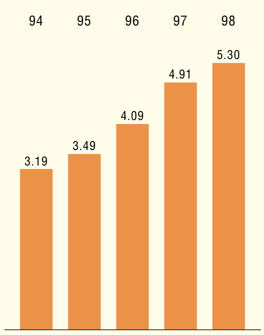
	% GROWTH 1998/1997	1998	1997	1996	1995	1994
Earnings *(For the year ended October 31)*						
Gross revenues *($ millions) (1)*	8%	$10,086	$9,311	$7,941	$7,317	$7,391
Provision for credit losses *($ millions)*	51	575	380	440	580	820
Non-interest expenses *($ millions)*	6	6,399	6,053	5,112	4,657	4,661
Net income *($ millions)*	9	1,824	1,679	1,430	1,262	1,169
Return on assets	–	.70%	.70%	.70%	.69%	.70%
Return on common shareholders' equity	(90) b.p.	18.4%	19.3%	17.6%	16.6%	16.8%
Goodwill-adjusted return on common shareholders' equity *(2)*	(120) b.p.	20.4%	21.6%	18.9%	18.1%	18.9%
Balance sheet *(As at October 31) ($ millions)*						
Total assets	12%	$274,399	$244,774	$231,498	$196,030	$173,079
Loans	6	165,254	156,267	135,791	119,577	115,386
Deposits	4	180,005	173,229	161,817	143,491	135,815
Subordinated debentures	(3)	4,087	4,227	3,602	3,528	3,481
Preferred shares	20	2,144	1,784	1,752	1,990	2,266
Common shareholders' equity	13	9,748	8,606	7,662	7,042	6,323
Capital ratios *(As at October 31)*						
Common equity to risk-adjusted assets	40 b.p.	6.2%	5.8%	6.0%	5.8%	5.3%
Tier 1 capital ratio	60 b.p.	7.4	6.8	7.0	6.9	6.4
Total capital ratio	50 b.p.	10.5	10.0	9.4	9.8	9.6
Common share information *(For the year ended October 31)*						
Shares outstanding *(thousands)*						
– end of year	–%	308,791	308,335	310,529	314,155	314,155
– average	–	308,662	308,906	314,121	314,155	314,155
– average fully diluted	1	322,020	319,065	314,121	314,155	314,155
Earnings per share						
– basic	9	$ 5.44	$ 5.01	$ 4.09	$ 3.49	$ 3.19
– fully diluted	8	5.30	4.91	4.09	3.49	3.19
– goodwill-adjusted basic *(2)*	8	5.64	5.20	4.21	3.62	3.34
Dividends per share	16	1.76	1.52	1.33	1.18	1.16
Share price – High	21	92.20	76.45	44.40	31.38	31.88
– Low	31	57.50	44.00	29.75	25.88	25.13
– Close – October 31	(6)	71.10	75.35	44.30	30.13	28.38
Book value per share – October 31	13	31.57	27.91	24.67	22.42	20.13
Market capitalization *($ billions)*	(5)	22.0	23.2	13.8	9.5	8.9
Number of: *(As at October 31)*						
Employees – Total	3%	60,035	58,133	54,728	55,721	55,987
Full-time equivalent	5	53,468	50,719	48,205	49,011	49,208
Service delivery units						
Domestic	(2)	1,422	1,453	1,493	1,577	1,596
International *(3)*	1	106	105	103	105	97
	(2)	1,528	1,558	1,596	1,682	1,693
Automated banking machines	2	4,317	4,248	4,215	4,079	3,948

(1) Taxable equivalent net interest income and other income.
(2) Goodwill-adjusted return on common shareholders' equity and goodwill-adjusted basic earnings per share are computed by adding back goodwill amortization charged to net income in each year and reducing average common shareholders' equity by the unamortized goodwill.
(3) International service delivery units include branches, representative offices, agencies and subsidiaries.



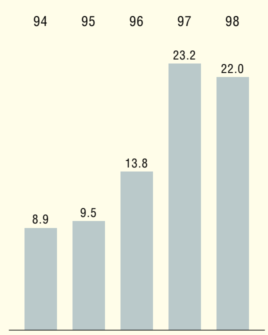
NET INCOME
($ millions)

Record earnings



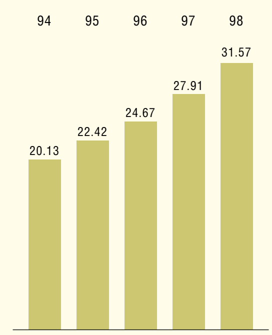
FULLY DILUTED EARNINGS PER SHARE
($)

8% growth in EPS



MARKET CAPITALIZATION
($ billions, at October 31)

Market cap 33% higher than #2 Canadian bank



BOOK VALUE PER SHARE
($, at October 31)

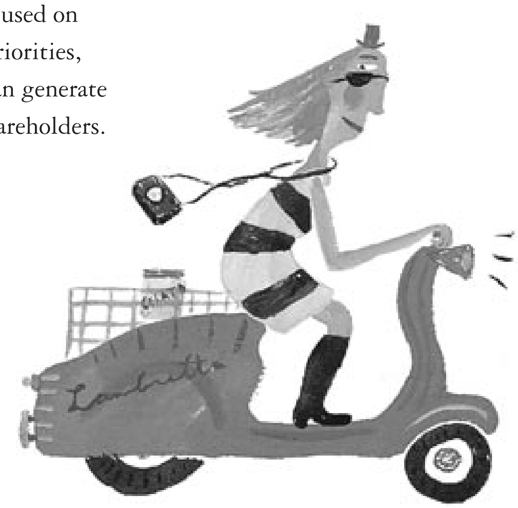
Book value up 13%

Dear fellow investor,

This report documents a year of considerable accomplishment for Royal Bank. In an economic and financial market environment marked by uncertainty and volatility, and unlike several global banks that recorded large losses on their trading or emerging market exposures, Royal Bank successfully stayed the course.

By focusing on our strategic priorities, high-return personal and commercial banking and wealth management businesses, and the needs of our key stakeholders, we generated record results for the fifth consecutive year.

We compare our performance against specific objectives for the year, as well as against our medium-term (3-5 year) goals. Our objectives for the year relate to six key areas – return to shareholders (or valuation), earnings growth, revenue growth, efficiency improvement, portfolio quality, and balance sheet and capital management. By staying focused on the last four (our strategic priorities, mentioned on page 1), we can generate consistent returns for our shareholders. Page 7 shows our 1998 objectives in all six areas, our performance compared to them, and our objectives for 1999. These objectives do not factor in the impact of the proposed merger with Bank of Montreal.



staying focused

on our priorities
our high-return businesses
our stakeholders

Return to shareholders

Six months into the fiscal year, in April, our share price hit an all-time high of $92.20, up 22% from October 31, 1997. This followed on the heels of share price appreciation of 70% in 1997 (the highest in the industry) and 47% in 1996. However, at year end, our share price stood at $71.10, down 5.6% from a year earlier, amid a sharp decline in equity markets and evidence of weakening economic growth in Canada. Although our drop was less than the declines of 6.3% for the TSE Banks and Trusts Index and 9.3% for the TSE 300, our total return was not in the first quartile of the return for the TSE Banks and Trusts Index.

However, we started the year with the highest valuation and, similarly, at October 31, 1998, we had the highest share price relative to book value of 2.3x (based on third quarter book value) and the highest price/earnings multiples on both 1998 and 1999 earnings (based on analysts' average estimates). With the highest valued shares, it is difficult, if not impossible, to keep recording the largest share price increases. Our objective for 1999 is to maintain our valuation levels in the top quartile of the TSE Banks and Trusts Index.

We raised our common share dividend twice during the year, by 16% in total over 1997. The dividend payout ratio was 32% this year, up from 30% in 1997.

Earnings growth

Growth in fully diluted earnings per share of 8% fell somewhat short of our 10-15% target for 1998. We had not anticipated as severe a market correction as we experienced this year. For 1999, our targeted growth rate is 4-7%, based on expectations of slower economic growth next year of around 2%, little change in interest rates and no significant weakening of capital markets from the level in early December 1998.

Our 18.4% ROE was within the 17-19% medium-term goal disclosed in the 1997 annual report. Although we have one of the highest ROEs in the industry in Canada, we have now widened our 3-5 year goal range to 17-20% as we believe in raising our sights and want to keep our ROE comparable to strong North American performers.

Staying focused on our strategic priorities

Revenue growth and diversification With revenue growth of 8%, we met our 5-10% objective for 1998. Loan growth was strong, as were fees from wealth management operations. However, margins narrowed once again. With a slowing economy and expectations of more moderate loan growth in 1999, we are targeting revenue growth in the mid-single digits.

Efficiency improvement We lowered our efficiency ratio by 160 basis points from last year to 63.4%. This fell slightly short of our 200 basis point improvement target, as we couldn't immediately cut expenses to match the revenue decline in the fourth quarter.

Our objective for 1999 is to continue to grow expenses at a lower rate than revenues, which should further improve our efficiency ratio. It is critical that we do so in a low revenue growth environment. In fact, our number one priority in 1999 will be cost control.

Our 3-5 year efficiency goal is 59.5% and each of our business segments has aggressive targets for efficiency enhancement, shown on page 32. Efficiency is discussed in more detail on pages 39-40.

Strong credit quality Although the provision for credit losses ratio was somewhat above the objective for 1998, it remained below our medium-term goal of .35%-.45%. We added another $100 million to our general provision this year, bringing it to $850 million. For 1999, our objective is to remain in the lower half of that target range, that is within .35%-.40%.

Net impaired loans continued to fall this year. We also reduced our Asian exposure by 30% compared to a year ago, and took higher related provisions that now result in a coverage ratio of 82%.

98 performance versus objectives

Objective 1: Provide a total return to common shareholders that is in the top quartile of the return for the TSE Banks and Trusts Index.
Performance: -3.3%, in third quartile.

Objective 2: Grow earnings per share by 10-15%.
Performance: Fully diluted earnings per share up 8%.

Objective 3: Grow total revenues by 5-10% and enhance market shares in traditional banking products.
Performance: Revenues increased 8% from a year ago. Market shares* (compared to all financial institutions in Canada) increased to 14.9% from 14.3% for residential mortgages, to 16.0% from 15.7% for personal loans, but decreased to 16.1% from 16.4% for personal deposits.

Objective 4: Improve the efficiency ratio by 200 basis points to 63.0%.
Performance: Efficiency ratio improved by 160 basis points to 63.4%.

Objective 5: Achieve a ratio of provision for credit losses to average loans and bankers' acceptances close to 1997's level of .25%.
Performance: .32%

Objective 6: Grow risk-adjusted assets at a pace that will permit us to attain, by the first half of 1998, capital ratio targets of 6% for common equity to risk-adjusted assets and 7% for the Tier 1 capital ratio.
Performance: Risk-adjusted assets growth held at 6% in 1998. Exceeded capital ratio targets by first half of 1998 and continued to do so at October 31, 1998, with common equity to risk-adjusted assets ratio of 6.2% and Tier 1 capital ratio of 7.4%.

performance versus other targets	**Target:** Return on common shareholders' equity of 17-19%. **Performance:** 18.4%.	**Target:** Dividend payout ratio of 30-40%. **Performance:** 32%.

99 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 fully diluted earnings per share by 4-7%.

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.

Objective 4: Expense growth
Contain expense growth to a rate lower than the rate of revenue growth.

Objective 5: Portfolio quality
Achieve a ratio of specific provisions for credit losses to average loans and bankers' acceptances of .35%-.40%

Objective 6: Balance sheet and capital management
Maintain strong capital ratios through careful growth in risk-adjusted assets.

** Market share numbers reflect new information from the Bank of Canada that now includes securitized uninsured mortgage and personal credit balances. 1997 comparable market share numbers have been restated to reflect this change.*

Strong trading revenues even under the extremely volatile conditions of the fourth quarter reflected our avoidance of large proprietary trading positions and limited involvement in exotic currencies and structured derivative transactions, consistent with our cautious approach to risk. Our hedge fund portfolio remains small as well.

Maintaining strong credit quality will be our number two priority for 1999, following tight cost control.

Balance sheet and capital management

We exceeded our capital ratio targets for 1998 through controlled growth in risk-adjusted assets, strong internal capital generation, and debenture and preferred share issuances. We intend to maintain strong capital ratios in 1999. We have raised our 3-5 year capital ratio goals by 100-200 basis points, as shown on page 32, in order to compare more favourably with well-capitalized North American banks over the medium term.

Staying focused on our high-return businesses

We are staying focused as well on our high-return, high-P/E multiple businesses – the personal and commercial banking and wealth management segments. These recorded ROEs of 30% and 48% respectively, grew core earnings by 12% and 7% respectively, and together accounted for 76% of our total earnings this year. Wealth management's goal is to account for 25% of total earnings in five years, up from the current 16%. This would have very positive implications for our overall ROE.

We've been growing the businesses through an active referral program, by putting different units of the group under one roof, through aggressive product launches, a heightened sales focus and through acquisitions. The three small acquisitions in these two segments this year are mentioned on page 15.

We also reorganized the wealth management group recently for greater synergies between the private client brokerage business and the other businesses in the segment.

We have recently reorganized the corporate and investment banking group as well, as described on page 27 under "strategies". As of November 1, 1998, all of the businesses serving corporate, government and institutional clients will co-ordinate efforts under the RBC Dominion Securities operating structure. There is significant opportunity for enhancing returns through integrated financial solutions for clients and careful management of credit.

Staying focused on
our stakeholders

To meet our obligations to all our stakeholders, we remained focused on meeting or exceeding their needs.

For our shareholders, we remain focused on maintaining above-average valuations, generating superior returns, growing high-return businesses, making acquisitions that add shareholder value and providing solid dividends.

For our customers, we are focused on providing innovative products and solutions that represent good value, and making our customers feel valued.

For our 60,000 employees, we are focused on providing a learning environment that is critical for achieving the innovation and renewal needed to thrive in a rapidly changing environment. Our level of employee commitment compares favourably with top North American companies. Our employees are dedicated to providing dependable and caring service to our 10 million clients. Their openness to change is demonstrated in the strong support the proposed merger with Bank of Montreal has received from the majority of our employees.

For our communities, we are focused on supporting them in a variety of ways, as an employer, taxpayer, corporate donor and substantial purchaser of goods and services. Further information on communities, employees and customers is provided on page 100.

looking ahead

We intend to generate sound returns for you, our owners, with our strong shareholder orientation, clear objectives and solid fundamentals.

John E. Cleghorn
Chairman & Chief Executive Officer

Financial sector developments

In past Annual Reports we have emphasized the importance of the broad forces of technological change, globalization, intensifying competition and industry consolidation which are shaping the financial services landscape, both in Canada and abroad. In response to these forces of change, in September, the Task Force on the Future of Canadian Financial Services, chaired by Harold MacKay, issued its report (the "MacKay Report") on the future of the Canadian financial services industry – the most thorough review of all of the issues facing the industry since the Porter Commission Report three decades ago. This report was followed by Parliamentary hearings and reports by both the Senate and House Committees responsible for financial sector policy. Both Parliamentary Committee reports have, in large measure, supported the recommendations of the MacKay Report. That report highlighted the need for a legislative and regulatory framework that enables the financial industry to flexibly adapt to the unabating forces of technological change, globalization and consolidation.

Technology

The pace of technological change continues to accelerate at a rapid pace. The ability to develop and access leading edge technology is a key success factor for any financial institution.

As the MacKay Report noted:

> For established providers, technology is a double-edged sword. While it offers new opportunities to serve consumers better, it can give advantage to new competitors and threaten existing franchises. This is especially true for institutions with legacy technology and distribution systems requiring complex and costly re-engineering or replacement.

Globalization

Large corporations have for some time been able to tap foreign or domestic sources for their financing needs. New technology, coupled with consumer acceptance of new delivery channels, mean that the services of foreign providers are available to mid-market and even retail consumers. The branchless delivery of small business loans being introduced by new foreign competitors, and the arrival of American-based credit card providers, present increasing options for Canadian consumers. They also present challenges for established Canadian players who operate full service branch networks and also provide all other alternative delivery channels.

The move towards freer trade in financial services is also changing the competitive landscape. WTO, NAFTA, and the Canada-US Free Trade Agreement have been implemented, and there are initiatives on the horizon to further liberalize trade in financial services.

Industry Consolidation

In other areas of the world, and even in other segments of financial services in Canada, these changes are driving industry consolidation.

1998 saw combinations among financial institutions of unprecedented scale, both in-market, cross-pillar, and cross-border. BankAmerica-NationsBank and Banc One-First Chicago NBD announced mergers. The creation of Citigroup through the merger of Citicorp and Travelers Group was followed by the announcement of Deutsche Bank's intended acquisition of Bankers Trust, surpassing the Citigroup transaction to create the largest bank in the world, with assets in excess of U.S.$825 billion. In Canada, Midland Walwyn was acquired by Merrill Lynch, one of the world's largest brokerage firms, and Great-West Life completed its acquisition of London Life.

Financial Services Reform

One of the principal themes running through the MacKay Report was the desirability of facilitating competition, from both foreign and domestic providers.

In this regard, the MacKay Report made recommendations that would further intensify competition in Canada. These included further easing foreign entry, broadening access to the payments system and encouraging new domestic entrants in the deposit taking sector.

The MacKay Report also made a number of important recommendations to enhance consumer protection, broaden access to capital for small businesses, and improve the supervisory system.

Royal Bank supports the MacKay Report recommendations, including initiatives to further increase competition in Canada. However, we need the necessary flexibility to adapt to the challenges created by change, including the flexibility to pursue mergers as a legitimate business strategy.

Proposed Merger

In this context, we had proposed a merger with the Bank of Montreal. Despite various reports prepared for the government, including the MacKay Report, which recognized mergers as a legitimate business strategy, on December 14, 1998, Finance Minister Paul Martin announced that the proposed merger would not be allowed. In light of the Finance Minister's announcement, on December 15, 1998, Royal Bank and Bank of Montreal terminated their agreement to merge. The Minister has further indicated that a new policy framework governing the financial services sector, including a review process for mergers between major banks, will be brought forward. The government will not consider any merger among major banks until the new policy framework is in place. We will urge government to ensure that the policy framework provides flexibility to the financial services sector to adapt to change, to meet the changing needs of our customers cost-effectively, and to serve the national interest.

The BEARS

1 | How are you responding to the slowdown in economic growth and weakness in capital markets? By realigning our strategic priorities – placing cost control and risk management above revenue growth. We want expenses to grow more slowly than revenues next year. Our businesses, particularly those that are capital-market related (brokerage, investment banking, trading, mutual funds and investment management), are controlling costs. We've cut capital expenditures and delayed non-critical projects. Should the environment improve, we can increase spending. The reverse is harder to do.

your questions: our answers

Focus on Shareholder Value

2 | In order to enhance shareholder value, what new balance do you plan to strike between dividend increases, share repurchases and acquisitions? We continue to target a dividend payout ratio of 30-40%. We believe that sustainable, profitable growth is the best route to shareholder value creation, and accordingly announced some acquisitions this year (details, page 15) and the proposed merger with Bank of Montreal. Since the proposed merger has been denied by the Minister of Finance, we will redouble our efforts to develop growth avenues. In the interim, we will examine the appropriateness of common share buybacks, in light of our ongoing objective to build a strong capital position.

MONOLINES

3 | How are you dealing with the recent entry into Canada of foreign competitors? We're being aggressive with new product development and client retention strategies. These competitors have a cost advantage over us due to their economies of scale, which we hoped to also enjoy with our proposed merger with Bank of Montreal. Since that avenue is no longer open, we are examining all aspects of our cost base to remain competitive and generate good returns for our shareholders.

Emerging MARKETS

4 | What are your outstanding exposures to Asia, Latin America, Russia and hedge funds? Our earning assets in Asia and Latin America are shown in table 24 on page 55. Including off-balance sheet amounts, our total net outstanding exposures (net of the related allowance for credit losses) at October 31, 1998 were $7.3 billion in Asia, $4.0 billion in Latin America and $54 million in Russia. Net impaired loans in these regions were just $54 million, $1 million and $5 million, respectively, at year end due to the steps we've taken to control risk. First, we deal mostly with top-tier banks and companies, many of them subsidiaries of foreign multinationals or well-known household names. Second, many local companies are exporters who are paid in hard currencies. For example, two-thirds of our Russian exposure is to exporters, with risk mitigated by the receipt of payments from offshore multinational buyers. Third, our exposures have been declining, and will likely continue to do so, as much of them are short term. Fourth, our exposures are largely denominated in U.S. dollars. Finally, we have senior risk officers responsible for those regions, who are working to ensure sound risk management of their portfolios.

Our mark-to-market exposure to hedge funds (after deducting collateral) has fluctuated between U.S.$5 and U.S.$10 million from mid-August to October 31, 1998. The exposure is largely in the form of swaps.

5 | Has your international strategy changed following the emerging market weaknesses?

Our international presence is outlined below. Since we had a conservative international business strategy to begin with, very little adjustment has been required. In Asia, following a rigorous review, we have scaled back our corporate and investment banking activities. The bank's exposure to emerging markets in Latin America and Asia is discussed on the previous page.

In the United States, we intend to expand selectively, largely in fee-based businesses like investment management, private banking and specialized insurance products. We will also explore attractive niche opportunities in the personal and commercial banking areas. The acquisition of Atlanta-based Security First Network Bank provides a foundation for expansion. The North American private banking operations of Credit Suisse, also acquired this year, is another example of the type of business opportunity that fits our U.S. strategy well. In corporate and investment banking, profitability targets for each client relationship will be achieved through the prudent allocation of capital, the provision of value-added investment banking solutions and loan portfolio management techniques.

United States › Close to 12% of Royal Bank's $238 billion of earning assets are located in the U.S., where the bank provides corporate and investment banking, trade finance, treasury and capital market products to U.S. multinational corporations and financial institutions, and subsidiaries of Canadian corporations. Royal Bank ranks in the top 10 in North American commercial paper-backed multi-seller securitization conduits and in the top 20 in loan syndications. Offices are located in New York, Chicago, Los Angeles, Boston, Miami and Houston.

Latin America › From offices in Mexico, Argentina, Chile, Brazil, Colombia, Venezuela and Uruguay, Royal Bank provides services to leading financial institutions and large corporations throughout South and Central America. Services are focused on correspondent banking, trade finance, treasury, multinational banking and global private banking.

Asia Pacific › The bank has a presence in eight markets – Japan, Taiwan, Hong Kong, South Korea, Singapore, China, Thailand and Australia, where it is selectively focused in areas such as short-term financing of inter-regional trade, global private banking, corporate and investment banking and trading. As part of our strategic initiatives in global mining, we acquired 25% of Hartley Poynton Limited, one of the leading Australian resource-based investment dealers.

Europe › Royal Bank has the largest presence in Europe of any Canadian bank. In addition to offices in the U.K., France, Germany, Spain, the Netherlands and Switzerland, the bank operates in South Africa and the U.A.E. Over 9% of the bank's earning assets are located in Europe. Through its wealth management division, the bank provides global private banking, investment management and trust and global custody services. Its corporate and investment banking division provides a range of lending and capital markets services, correspondent banking, treasury and fixed income products and services. During the year, Royal Bank completed the acquisition of the bond business of Hambros Bank Limited. We also acquired a minority interest in BOE Securities, part of a major South African banking group.

Caribbean › Royal Bank has a 100-year tradition and major presence in the Caribbean with 49 units and over 1,000 employees. Services offered include brokerage, global private banking, reinsurance, trust services and retail and commercial banking.

the canadian economy

Canada's economic fundamentals remain solid and are providing a buffer in an environment of weaker global growth prospects, softer commodity prices and heightened risk aversion. That said, however, a number of downside risks exist that could intensify in the period ahead, suggesting continued caution is warranted in these uncertain times.

The Canadian economy is expected to expand by around 3% in 1998, compared to a more robust 3.8% gain in 1997. The slowing reflects the downdraft from weaker international markets, falling commodity prices and volatile equity markets. The downward adjustment to world growth prospects, including some moderation in the pace of U.S. economic growth, suggests export prospects for Canada will weaken in the period ahead. This, coupled with weakness in corporate profits, points to a curtailment of investment spending and hiring which will act to further slow Canadian growth to an expected 2% level in 1999.

The moderation in economic activity will leave the current degree of excess capacity in the economy intact, favouring continued low inflation. Moreover, the disinflationary forces from global markets will also act as a weight on prices, and should lead Canadian inflation to remain below the midpoint of the Bank of Canada's 1-3% target range.

The slower growth pattern alongside low inflation points to continued low interest rates. At the time of writing, three-month treasury bill yields were just below 5% while long-term yields were around the 5.2% mark. We see room for further easing by the Bank of Canada in the year ahead, a view largely priced into markets, suggesting little change in interest rates beyond the very short-term rates.

Alongside downward adjustments to the outlook for global commodity prices, the Canadian dollar remains on the defensive given a still-high economic dependence on commodities. Barring any further weakness in commodity prices, however, low inflation and further progress in reducing debt suggest the Canadian dollar is likely to rebound moderately from its current low level of 65.2 cents U.S. over the forecast horizon.

Caution regarding forward-looking statements

Royal Bank, from time to time, makes written and oral forward-looking statements, including 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, but are not limited to statements regarding the Year 2000 issue, objectives for 1999 and the medium-term, strategies to achieve those objectives, outlook for the Canadian economy, and commentary on its proposed merger with Bank of Montreal.

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 Canadian and/or global economic conditions including fluctuations in currencies, 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.

How we've grown:

general development of the business

Acquisitions have played a key role in Royal Bank's growth. Deregulation of the financial services industry in the late 1980s provided the bank with the opportunity to initially acquire, and subsequently add to, stakes in the brokerage, trust and insurance businesses. These acquisitions enabled the bank to generate a larger proportion of fee-based income and to transform itself from a bank to a provider of a broad array of financial services. This year, the bank made acquisitions in the insurance, private banking, internet banking and bond trading and distribution businesses. Key acquisitions in the last six years are summarized below:

ACQUISITION	KEY BENEFITS (1)
Voyageur Insurance Company – 1993	Over $100 million in annual premiums Canada's largest travel insurance provider Products offered through more than 4,000 travel agencies
Royal Trust – 1993	Canada's largest money manager Highly ranked in global custody Large mutual fund family Strong in global private banking Upscale banking business
Kidder Peabody's equity derivatives team – 1995	Broadens product offering to retail, institutional and corporate clients
Westbury Canadian Life Insurance Company – 1996	$90 million in annual premiums Strong balance sheet Innovative products
TD Bank and Trust's institutional and pension custody business – 1996	$47 billion in assets under administration A blue-chip client base Greater economies of scale Incremental revenues
Richardson Greenshields (investment dealer) – 1997	Over $300 million in revenues $17 billion in private client assets 580 investment advisors
Montreal Trust's and Scotiabank's institutional and pension custody business – 1997	$120 billion in assets under administration Strong pension and fund manager client base Greater economies of scale Incremental revenues
Mutual of Omaha's Canadian life, health, disability and travel insurance businesses – 1998	Over $120 million in annual premiums 100,000 additional policies 500 sales agents Broadens product line
Security First Network Bank – 1998	Technology for fully-functional banking and financial management over the internet Web banking software development Banking license in the U.S.
Hambros Bank's bond business – 1998	Expanded Eurobond and government bond capabilities Stronger international trading and distribution presence
Credit Suisse Private Banking North America – 1998	$1 billion in client assets Greater economies of scale Incremental revenues Rapid accretion to earnings

(1) At time of acquisition.

These acquisitions have contributed to the following trends since 1993:

- Other income has risen to 49% of total revenues in 1998 from 37% in 1993.
- Capital market fees have soared 145% to $1.1 billion from $456 million five years ago.
- Fees from investment management and custodial services and from mutual funds now account for 19% of total other income, up from 7% in 1993.

A sharp increase in off-balance sheet assets has generated these higher fees. Assets under management were $73 billion at October 31, 1998, up 121% from $33 billion five years ago.

While fee-based businesses have grown significantly, Royal Bank has retained its leading positions in traditional banking businesses. It continues to have the highest market shares in residential mortgages, personal loans and personal deposits.

To support this growth, meet customers' needs for alternative delivery channels and reduce costs, the bank has invested in telephone banking, PC banking, secure internet banking, debit cards and stored-value cards.

Competition As the bank has entered and expanded into new lines of business, its competition has grown to include investment dealers, mutual fund companies, money managers, custody service providers, insurance companies, virtual banks and specialty financial service providers. Key competitive factors include the range and features of financial products, their pricing, distribution and service quality. Competition is intensifying as foreign providers of credit cards, mutual funds, small business loans, consumer finance and investment banking services are increasingly entering Canada.