

# organized for the climb

58,000 employees  
committed to delivering  
value to shareholders and customers

10 million customers



businesses\*

geographies

functions

committees



group council



- comprises group office members and the heads of each of the businesses and major geographic and functional units.
- meets to review the group's performance versus plan, to communicate group-wide issues and to deal with cross-functional matters.

group office



- seven-member team led by the chief executive officer and including five vice-chairmen and the chief financial officer.
- responsible for the group's overall strategic direction, competitive position, market performance, human resource planning, external relations and risk profile.
- provides strategic direction to operating units.
- meets weekly.

\* Each business segment (e.g. personal & commercial banking) is supported by an operating committee, with a representative from each business, charged with taking a broad view of the entire customer market and developing integrated customer strategies, marketing, sales and operations. Each business unit (e.g. personal financial services) is responsible and accountable for competitive performance and operational excellence in the market it serves.

## results by business segment

We present below the results for 1997 for our major business segments. Page 20 shows the businesses that fall under each of these segments.

**personal and commercial banking** had a return on equity of 27.9% and accounted for 61% of Royal Bank's net income in 1997. A quarter of the revenues were derived from other income. The efficiency ratio of 63.6% was better than the consolidated ratio for the group. The segment's objective is to further improve this ratio by growing revenues faster than expenses.

**wealth management** accounted for 14% of the bank's net income. It recorded a 49.7% return on equity, reflecting the strong returns of the businesses in this segment and the relatively low capital underpinning required for these largely off-balance sheet businesses. Over 80% of revenues were derived from fee income. The efficiency ratio of 77.9% reflected the types of businesses in this segment.

**corporate and investment banking** accounted for 20% of total net income and had a return on equity of 18.7%. Sixty percent of total revenues stemmed from other income. The efficiency ratio was 57.2%. Improving return on equity and overall efficiency continue to be a focus of this segment.

### other

This segment consists largely of the discontinued LDC business, real estate operations, corporate treasury (which manages the bank's market risk position) and the systems and operations groups. The segment accounted for 5% of total earnings, reflecting largely the returns of the LDC portfolio and the corporate treasury group.

RESULTS BY BUSINESS SEGMENT					
FOR THE YEAR ENDED OCTOBER 31, 1997 (\$ MILLIONS, TAXABLE EQUIVALENT BASIS)	PERSONAL & COMMERCIAL BANKING	WEALTH MANAGEMENT	CORPORATE & INVESTMENT BANKING	OTHER (1)	TOTAL
Net interest income	\$3,972	\$ 336	\$ 721	\$ 3	\$5,032
Other income	1,359	1,708	1,097	115	4,279
Gross revenues	5,331	2,044	1,818	118	9,311
Provision for credit losses	226	6	142	6	380
Non-interest expenses	3,390	1,592	1,040	31	6,053
Net income before income taxes	1,715	446	636	81	2,878
Income taxes	677	185	235	(7)	1,090
Non-controlling interest and taxable equivalent adjustment	19	20	59	11	109
Net income	\$1,019	\$ 241	\$ 342	\$ 77	\$1,679
Net income as a % of total net income	61%	14%	20%	5%	100%
Return on equity	27.9%	49.7%	18.7%	2.5%	19.3%
Efficiency ratio	63.6%	77.9%	57.2%	—	65.0%
Average assets	\$100,000	\$12,300	\$109,900	\$17,300	\$239,500
Average loans and acceptances	95,600	6,400	52,400	—	154,400
Average deposits	87,300	17,000	61,900	—	166,200

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

# personal & commercial banking



## personal financial services

residential mortgages  
personal loans  
deposits  
investments  
telephone banking  
pc & internet banking  
money orders & drafts  
safe deposit boxes  
foreign exchange



## card services

*VISA* classic II  
*VISA* classic  
*VISA* classic low rate option  
*VISA* gold  
u.s. dollar *VISA* gold  
canadian plus *VISA*  
*Royal Bank creditline for small business VISA*  
*VISA* purchasing card  
*VISA* corporate card  
FirstView software  
client card with *Interac* debit  
*Mondex* electronic cash card  
merchant *Interac* and credit card acceptance services



## business banking

business deposits & investments  
financing  
leasing  
cash management  
electronic commerce  
business card and merchant pos  
payroll  
trade & foreign exchange  
telephone banking  
pc and internet services  
financial advisory services



## insurance

RBC Underwriting Management Services Inc.  
 > creditor life, disability and job loss insurance through *Royal Bank* and *Royal Trust* distribution networks and *Visa* cards  
 > *Travel HealthProtector*, personal accident insurance and *Royal RecoverAssist*  
 Westbury Life  
 > life & health insurance and annuity products through a network of 5,000 independent brokers  
 RBC Life  
 > life and health insurance and annuity products  
 RBC General Insurance  
 > personal lines home and auto insurance  
 Voyageur Insurance Company  
 > travel insurance via 3,400 travel agents  
 Assured Assistance Inc.  
 > emergency medical assistance to Voyageur Insurance Company and its clients  
 Royal Bank of Canada Insurance Company Ltd. (Barbados)  
 > international reinsurance

PERSONAL & COMMERCIAL BANKING			
(\$ millions, taxable equivalent basis)	% change	1997	1996
Net interest income .....	4%	\$ 3,972	\$ 3,822
Other income .....	14	1,359	1,189
Gross revenues .....	6	5,331	5,011
Provision for credit losses .....	(28)	226	314
Non-interest expenses .....	4	3,390	3,245
Net income before income taxes .....	18	1,715	1,452
Income taxes .....	16	677	585
Non-controlling interest and taxable equivalent adjustment .....	46	19	13
Net income .....	19%	\$ 1,019	\$ 854
Net income as a % of total net income .....	100 b.p.	61%	60%
Return on equity .....	340 b.p.	27.9%	24.5%
Efficiency ratio .....	(120) b.p.	63.6%	64.8%
Average assets .....	12%	\$100,000	\$89,600
Average loans and acceptances .....	11	95,600	86,100
Average deposits .....	—	87,300	87,300



### 1997 Performance

Personal and commercial banking's net income was up 19% from last year and accounted for 61% of the bank's total net income. Earnings reflected a \$70 million (pre-tax) gain from the sale of the payroll business and a \$50 million addition to the general provision, compared to a \$100 million addition to the general provision in 1996. The segment's ROE was up 340 basis points from 1996 to 27.9%.

Revenues were up 5% excluding the payroll gain, reflecting increases in all the businesses, with particularly good growth in insurance and card revenues.

Specific provisions for credit losses were \$176 million, down 18% from last year. The general provision for credit losses, as mentioned, was \$50 million versus \$100 million in 1996.

As expected, the efficiency ratio improved – by 120 basis points in total, and 40 basis points excluding the payroll gain.

**Objectives** The segment's objective is to strengthen Royal Bank's leadership position in the Canadian personal and business market, while selectively pursuing niche global opportunities. We aim to do so by focusing on customer satisfaction, employee satisfaction, business performance (revenue growth, efficiency enhancement and portfolio quality) and corporate reputation and image, utilizing a balanced scorecard approach.

The segment intends to maximize synergies between the businesses to strengthen brand positioning, revenue growth and cost management.

**Strategies** To significantly increase revenues and market share position in the Canadian market, the segment will focus on sales effectiveness, by leveraging strengthened client segmentation and information management and by capitalizing on relationship marketing capabilities. It intends to align channels, products, services, and the sales force to differentiated customer segment needs. The segment also plans to enhance risk management processes through technology.

The strategy is to selectively pursue global market opportunities, implementing a targeted niche segment strategy, with priority on the U.S.A. and Caribbean markets. The segment expects to expand and diversify the distribution of insurance products through acquisitions, strategic alliances, and third-party products to develop new revenue streams.

**Innovation means presenting future ideas now.** This year we introduced North America's first, and Canada's only, Interactive Voice Response Loan System, allowing more than 34,500 client and non-client applicants across the country to apply for credit by phone, all in the time it might take to order pizza. Raising sights almost always means raising standards.



## businesses

## where we stand

## operational review



## personal financial services

- ▶ The largest provider of residential mortgages, personal loans and deposits to 9 million Canadians.
- ▶ Financial services provider in the Caribbean with over 60 units.

- ▶ Improved customer and employee satisfaction levels by 2% and 10% respectively, partially through introduction of problem resolution program.
- ▶ Introduced advanced segmentation and predictive modelling techniques to gain additional insight into customer needs.
- ▶ Enhanced position in the residential mortgage business by introducing financial advice to segments such as first-time home buyers, renovators and home sellers.
- ▶ Offered seven new, targeted GICs and reduced investment processing time by 60%.
- ▶ Launched innovative programs for students, recognizing the lifetime potential of this market.
- ▶ Launched third-party alliance products, reverse mortgages and life annuities, providing choice to clients and incremental revenue streams to the bank.
- ▶ Freed-up staff time to provide financial advice and solutions.
- ▶ Upgraded financial planning accreditations to one-third of staff, while *Royal Learning Network* courses provided more cost-efficient training to employees at 500+ branches via multi-media hardware and software.

- ▶ Introduced *Royal Direct PC* and Internet banking featuring award-winning *Managing Your Money* software. *Royal Direct PC*, Internet and telephone banking is the world's largest alternative delivery channel provider.
- ▶ Grew the mobile sales force, which serves clients when and where they choose, to over 500.
- ▶ Provided market-first enhancements to selected banking machines such as cash-back deposits for lower service fees, U.S.\$ travellers cheques, statement updates and audio banking for clients with disabilities.
- ▶ Provided clients in 44 shared location branches with integrated access to Royal Bank, Royal Trust and RBC Dominion Securities.
- ▶ Professionals' Program in the Bahamas continued to increase market-dominant position with professional and student sectors.
- ▶ Was the only international bank remaining to serve residents of volcano-devastated Montserrat.



## card services

- ▶ Canada's largest provider of *VISA* and debit cards (by number of cards), processing services, and merchant terminals deployed.
- ▶ Serves 5.6 million credit card and 6 million debit card customers.
- ▶ Provides merchants with electronic processing of credit and debit transactions.
- ▶ Founding member of *Mondex* international and world-wide leader in smart payment cards.

- ▶ *VISA* Classic II, one of Canada's fastest growing new cards, continued to expand with over 7,000 retail locations providing cardholder discounts, and with cardholder satisfaction rating of 97%.
- ▶ *Royal Bank CreditLine for small business™ VISA*, an industry first in providing a "hassle-free" scorecard-driven application process, met with exceptional market acceptance.
- ▶ Debit cards led the market in Interac volume and active cardholders; and recent market-leading enhancements of purchase security and extended warranty further strengthens our position.
- ▶ Proprietary Windows-based expense management software, *FirstView*, continued to lead in the North American market, which is reflected in strong market share gains in corporate (travel & entertainment) and purchasing cards.
- ▶ Syndicated Angus Reid industry research indicated market leadership in the cross-selling of the card base.
- ▶ Leveraged expanded database capabilities via direct marketing and alternative delivery channels/segments to aggressively capture new business.

- ▶ The adoption of *Mondex* by the 10 largest deposit taking institutions in Canada reaffirmed Royal Bank's 1995 decision to bring this technology to Canada.
- ▶ Successfully launched *Mondex* in Guelph, Ontario, with the support of consumers and 90% of the target merchant community. Plans are in place to introduce *Mondex* to two additional Canadian communities in 1998.
- ▶ Continued the leadership role in smartcard development by working with national and international firms to develop smartcard products for use worldwide.
- ▶ Continued advances in e-commerce with interactive Internet web sites, on-line applications, and Canada's first Secure Electronic Transaction (SET).
- ▶ Received "Best New Solutions Award" at the Retail Strategies and Solutions Conference recognizing the "Debit at the pump" solution with Chevron Canada.
- ▶ A "First to Market" POS terminal was developed and launched for the Ontario Medical Association (OMA), combining debit and credit payments along with Health Card validation.



## financial performance

## objectives and strategies

PERSONAL FINANCIAL SERVICES			
(\$ millions)	% change	1997	1996
Gross revenues .....	4%	\$ 2,888	\$ 2,781
Average residential mortgages .....	15	\$44,900	\$38,900
Average personal loans .....	6	17,000	16,100
Average personal deposits .....	(7)	65,100	70,200
Market share <sup>(1)(2)</sup>			
Residential mortgages .....	90 b.p.	12.7%	11.8%
Personal loans .....	130 b.p.	15.6	14.3
Personal deposits .....	(40) b.p.	13.9	14.3

(1) As a % of all financial institutions in Canada at August 31. Market shares exclude Royal Trust, Action Direct and RBC Dominion Securities – Private Client Division for personal deposits and exclude Royal Trust for residential mortgages. Market shares for the entire group at August 31, 1997 and August 31, 1996 were 16.4% and 15.1% respectively for personal loans, 16.6% and 17.1% respectively for personal deposits and 14.4% and 13.9% respectively for residential mortgages.

(2) Excludes Caribbean.

- Revenues were up 4%, with good growth in both net interest income and other income.
- Residential mortgage and personal loan volumes increased by 15% and 6% respectively.
- Market shares for residential mortgages and personal loans were up 90 basis points and 130 basis points, respectively, while portfolio quality remained sound.
- Lower personal deposit volumes and market share reflected a shift to investment products in the low interest rate environment.
- New personal loan pricing strategy resulted in incremental net interest income of \$16 million.
- More than 77,000 clients were referred among the companies of Royal Bank, resulting in \$5.6 billion of business, including \$2.3 billion from outside the bank and \$2.7 billion in retained business.
- New sales processes and employee training at 250 priority market locations contributed to 15% revenue growth in these locations.
- Caribbean revenues increased 16%.

## Objectives

1. Grow revenues by 5% annually.
2. Grow earnings by 10% annually.
3. Improve efficiency.
4. Maintain leading market shares.

## Strategies

- Focus on proactively providing customer solutions one customer at a time. Build one-on-one relationships with our customers, leveraging the information our customers have entrusted us with.
- Customize information, products and services to meet individual client needs with consistent treatment at all points of contact.
- Reduce administration duties in branches by centralizing functions to enable staff to provide clients with more financial advice.
- Enhance sales automation in all branches by 1999 to streamline processes and enable financial advice/solutions-based conversations with our clients.
- Leverage the distribution network to deliver third-party products for new revenue streams.
- Increase shared locations in Canada to 78 in 1998, and continue to expand this integrated concept in the Caribbean.
- Selectively capitalize on global opportunities.
- Broaden and deepen leadership talent base, reflecting the diversity of our employee population and our communities.

CARD SERVICES			
(\$ millions)	% change	1997	1996
Delinquency ratio <sup>(1)</sup> .....	(27) b.p.	0.80%	1.07%
VISA card spending volumes .....	12	\$18,055	\$16,105
VISA merchant spending volumes .....	9	16,294	14,900

(1) 90 day+ delinquencies as a % of outstandings.

- New accounts increased 30%, indicating future growth in spending and outstanding balances.
- VISA cardholder spending volumes increased 12% and VISA merchant spending volumes went up 9%.
- Debit cardholder volumes grew 51% and debit merchant volumes grew 64%.
- Delinquency ratio declined by 27 basis points.

## Objectives

1. Grow revenues by 10% annually.
2. Increase market share in credit cards by 1% annually to the year 2000.

## Strategies

- Leverage database and direct marketing capabilities to aggressively capture new segments.
- Explore synergies with merchant and alliance partners to provide cost efficiencies and value-added information-based products, potentially combining card functions of debit, e-cash and credit on a relationship card platform.
- Invest in technology to meet customers' evolving needs for customization, information, and the convenience of alternate delivery channels.

## businesses

## where we stand

## operational review



## business banking

- ▶ Canada's largest provider of financial and electronic business banking services to small and medium enterprises and commercial accounts, serving approximately 380,000 customers.
- ▶ Specialized teams of market experts focused on targeted growth segments, which include:
  - ▶ knowledge-based industries
  - ▶ agriculture & agri-business
  - ▶ public sector
  - ▶ franchising
  - ▶ professionals
  - ▶ women entrepreneurs
  - ▶ aboriginals
  - ▶ youth markets.

- ▶ Established Royal Bank Canada Growth Co. to help fill the 'commercialization/company creation gap' in knowledge-based industries and growth sectors.
- ▶ Launched new client-friendly equipment leases for small business, offering leases up to \$50,000 or *Royal Business LeaseLine* leasing services by phone, fax, mail or in-branch. This complemented the card-based *Royal Bank CreditLine for small business*<sup>TM</sup> launched in 1996.
- ▶ Introduced Royal Brick & Mortar loans to offer commercial mortgages at levels suitable for small business, with title insurance, prepayment, and 60-day rate commitment options.
- ▶ Launched business banking client (debit) card, which gives small businesses access to business deposits, payments, transfers and cash at any of Royal Bank's automated banking machines, and is linked to Interac direct payment system.
- ▶ Created National Councils with small business, women and other entrepreneurs complementing advisory councils on ag-biotech and agri-business.
- ▶ Published the first annual guides to "Exporting for Small Business in Canada" and "Guide to Small Business Financing in Canada".

- ▶ Introduced Internet electronic banking services, including access to account balances, transaction history and transfer of funds between accounts.
- ▶ New financial EDI payments enabled business customers to move information and payments electronically, with automatic updating of accounts payable and receivable capabilities.
- ▶ The sale of the Payroll and Human Resource Information Business to Automatic Data Processing Inc. (ADP), combined with a simultaneous strategic alliance with ADP, resulted in a wider array of payroll and human resource products and services to business customers.
- ▶ Extended ViaTech to 14 sites across Canada. ViaTech is a national network of Royal Bank and external professionals in finance, taxation, accounting, legal, management, marketing and technical matters focused on the needs of knowledge-based industries. A similar national network, ViaSource, is being created to focus on small business.



## insurance

- ▶ Canada's largest distributor of creditor insurance products by premiums. Serves approximately 1.8 million customers and generates \$232 million of life and disability insurance premiums.
- ▶ Voyageur Insurance Company is Canada's largest provider of travel insurance products in Canada, with \$116 million in premiums, distributed through a network of 3,400 travel agents.
- ▶ Westbury Life ranks 7th in Canada in terms of number of new individual life insurance policies issued.

- ▶ Incorporated RBC Life to focus on direct sales of life annuities, term insurance and other niche products.
- ▶ Implemented a direct marketing program for life annuities for group customers.
- ▶ Incorporated RBC General Insurance to distribute personal lines home and auto insurance.
- ▶ Reached an agreement with HB Group Insurance Management Ltd., a subsidiary of The Co-operators Group, to purchase the technology, systems and expertise necessary to develop a direct response property and casualty insurance operation, commencing in 1998.
- ▶ Successfully launched Hospital Cash insurance product across the country.
- ▶ Broadened travel insurance operations by entering the convention and third party group administration markets.
- ▶ Expanded the operations of the Insurance Service Centre to include central review of branch creditor insurance applications.
- ▶ Developed a strategy for expansion of international reinsurance operations with particular emphasis on the retrocession market.
- ▶ Consistent with strategy to expand existing insurance operations, led a bid to acquire London Insurance Group. Since London Insurance Group was ultimately acquired by another insurer, a \$70 million breakup fee was paid to the bank and, net of expenses, \$65 million was included in the revenues of the Other segment.

## financial performance

## objectives and strategies

BUSINESS BANKING			
(\$ millions)	% change	1997	1996
Gross revenues .....	8%	\$ 1,714	\$ 1,585
Average assets .....	8	\$31,100	\$28,800
Average loans and acceptances .....	8	30,000	27,900
Average deposits .....	6	18,200	17,100
Market Share			
Total business financing <sup>(1)</sup> .....	80 b.p.	14.2%	13.4%
Total bank business financing <sup>(2)</sup> .....	60 b.p.	20.4	19.8
Total business deposits <sup>(1)</sup> .....	380 b.p.	21.8	18.0
Primary relationship <sup>(3)</sup> .....	300 b.p.	22.0	19.0

(1) Of total financial institutions as at August 31, 1997.

(2) Of total banks as at August 31, 1997.

(3) As at April/May 1997.

- Revenues grew by 8%.
- Loans to SMEs (small and medium enterprises), including agriculture accounts, increased by 9% to \$13.2 billion
- Efficiency ratio (excluding gain from sale of payroll business) was 48.0%, down 210 basis points from 1996.
- Market share in business financing increased 80 basis points to 14.2%, and 60 basis points in bank business financing to 20.4%.
- Market share of business deposits increased by 380 basis points to 21.8%.

## Objectives

1. Accelerate revenue growth.
2. Increase volumes faster than market.
3. Further improve efficiency through aggressive use of technology.
4. Maintain portfolio quality.
5. Differentiate the business from other financial institutions in customer satisfaction.
6. Broaden and deepen leadership base.

## Strategies

- Make significant gains in sales effectiveness and management of customer information.
- Continue strengthening risk management processes, leveraging technology to strategically manage portfolio and capital.
- Strengthen alignment of business bankers, key functional support, and human resource practices to strategic objectives.
- Dominate the SME market, lead in targeted growth segments, explore global niche opportunities and expand 'share of wallet' position.
- Profitably align channels, products, services, and sales force to customer segment needs.

INSURANCE			
(\$ millions)	% change	1997	1996
Premiums written			
Creditor life and disability .....	13%	\$232	\$205
Life insurance .....	5	100	95
Travel related .....	5	116	110
Property and casualty .....	—	15	15
International reinsurance .....	550	13	2
	11%	\$476	\$427
Market share of premiums			
Creditor life and disability <sup>(1)</sup> .....	(200)b.p.	26%	28%
New life insurance <sup>(2)</sup> .....	—	2.0	2.0

(1) As a % of eight largest banks in Canada as at January 31, 1997.

(2) As a % of new life insurance premiums in Canada as at June 30, 1997.

- Although creditor life and disability premiums increased by 13%, market share declined. This resulted from competitors becoming more active in this market in which the group already has a high customer penetration rate.
- Total premiums rose by 11%.
- New life insurance premium market share remained steady at 2%.

## Objectives

1. Fulfill customers' personal insurance requirements using different convenient distribution channels.
2. Achieve strong revenue growth in domestic operations.
3. Expand in key select international markets.
4. Achieve annual gross premiums of \$1 billion by the year 2000.

## Strategies

- Expand existing insurance operations through a combination of startup initiatives, joint ventures and acquisitions.
- Focus on technology and matching appropriate products to delivery channels to achieve a low-cost manufacturing and distribution environment.
- Further expand the Insurance Service Centre to provide exceptional customer service to creditor insurance clients and the branch network.
- Pursue new sources of international reinsurance business with a particular focus on the life retrocession, property and casualty and financial reinsurance markets.
- Develop the Global Private Insurance initiative to sell insurance through the bank's Global Private Banking units worldwide.



# wealth management



## royal trust

provides:

- personal wealth management services
- investment management
- global private banking
- global securities services

through a network of 152 offices across Canada and in 21 other countries around the world.



## royal mutual funds

offers 27 mutual funds to Canadians and provides sales and client service through the group's branch network in Canada and by telephone through the *Invest by phone*<sup>TM</sup> service of *Royal Direct*.



## rbc dominion securities – private client division

offers full-service securities brokerage, investment advisory and other investment services through a network of over 1,600 investment advisors in 275 branches in Canada and 6 offices around the world.



## royal bank action direct

is an investment dealer for discount brokerage services to Canadian clients who do their own research, make their own decisions and enjoy the convenience of investing by speaking with an investment representative or by using automated telephone or electronic channels such as personal computers.

WEALTH MANAGEMENT			
(\$ millions, taxable equivalent basis)	% change	1997	1996
Net interest income .....	(17)%	\$ 336	\$ 405
Other income .....	61	1,708	1,058
Gross revenues .....	40	2,044	1,463
Provision for credit losses .....	(45)	6	11
Non-interest expenses .....	46	1,592	1,088
Net income before income taxes .....	23	446	364
Income taxes .....	28	185	144
Non-controlling interest .....	–	20	20
Net income .....	20%	\$ 241	\$ 200
Net income as a % of total net income .....	–	14%	14%
Return on equity .....	(70) b.p.	49.7%	50.4%
Efficiency ratio .....	360 b.p.	77.9%	74.3%
Assets under administration			
Institutional .....	49%	\$634,400	\$425,500
Personal .....	58	123,400	78,300
Mutual fund .....	45	24,500	16,900
	50%	\$782,300	\$520,700
Assets under management			
Institutional .....	36%	\$ 27,800	\$ 20,500
Personal .....	–	13,800	13,800
Mutual fund .....	45	24,500	16,900
	29%	\$ 66,100	\$ 51,200
Average assets .....	6%	\$ 12,300	\$ 11,600
Average personal loans .....	(10)	6,400	7,100
Average personal deposits .....	(17)	17,000	20,600

## 1997 Performance

In 1997, the wealth management segment of the group enhanced its reputation as a leading provider of wealth management services through acquisitions and market share growth.

Net income increased by 20% from 1996 and reflected strong growth in the earnings of Royal Trust and Royal Mutual Funds. The segment accounted for 16% of Royal Bank's total net income (excluding the impact of a \$26 million after-tax restructuring charge for the acquisition of Richardson Greenshields), up from 14% last year. Wealth management's return on equity was 49.7% (55.2% excluding the restructuring charge), compared to 50.4% last year. Revenues were up 40% with fee income 61% higher.

Assets under management were up 29%, with more than half of the increase resulting from new business. Assets under administration increased by 50% due in part to RBC Dominion Securities' acquisition of Richardson Greenshields and Royal Trust's acquisition of Montreal Trust's and Scotiabank's institutional custody business.

Excluding restructuring costs of \$51 million from these acquisitions, expenses increased 42% and the efficiency ratio was 75.4%. These reflected strong revenues and, correspondingly, higher expenses at RBC Dominion Securities.

With the integration of Richardson Greenshields, RBC Dominion Securities established itself as the largest Canadian dealer in terms of the number of investment advisors, total client assets, gross revenue, market share and investment research.



Royal Mutual Funds had net sales of \$5.5 billion and the highest sales of any fund company during the 1996-1997 RRSP season. Two new funds – *Royal Monthly Income Fund* and *Royal Premium Money Market Fund* – contributed to the overall growth.

Royal Trust's fee income grew 30%, due to strong growth in investment management, *Global Securities Services* and global private banking. Royal Trust increased its emphasis on financial counselling and now has over 150 accredited financial planners.

Royal Bank Action Direct, the group's discount brokerage arm, experienced record growth in 1997 with assets under administration up 50% to \$5.4 billion and client accounts up 42% to 231,000.

**Objectives** The segment's goal is to further establish its position as Canada's leading provider of wealth management services in Canada and internationally, to increase fee revenue by at least 10% per year and to grow earnings.

**Strategies** The primary focus is to leverage the capabilities of the various Wealth Management business units to improve the quality of service offered to individual clients. The group's referral program has already generated substantial referrals among group companies. The segment plans to extend full financial service offices to other locations within the network, as these have proven to be an extremely effective

means of meeting clients' broad financial service needs.

The segment aims to continue to develop its ability to provide financial advice. A significant number of employees are expected to achieve personal financial planning designations in 1998. Bundled service offerings are being developed to provide clients with a range of choices to support this financial advice.

Internationally, the segment plans to continue to expand by developing alliances in under-represented markets. International investment capability will also be expanded in selected markets.

**Without the team, there is no ascent.** Last year, Royal Bank member companies referred more than 77,000 clients to each other and generated \$5.6 billion in business. Nearly half of this was from the competition and we are raising our sights to attract more new business.



businesses

where we stand

operational review



royal trust

- ▶ Canada's largest investment manager by assets under management and largest custodian by assets under administration.
- ▶ Largest global private banking network of any Canadian financial institution by number of branches.

- ▶ Over 150 employees earned personal financial planning accreditation.
- ▶ Formed distribution alliances for global private banking services with two leading American banks, Norwest and NationsBank.
- ▶ Acquired Montreal Trust's and Scotiabank's institutional and pension custody business.
- ▶ Top ranked provider of Canadian custody (Global Custodian, Fall 1997) and 2nd in the world for global custody (Global Investor, May 1997).

- ▶ Personal Trust assets exceeded \$20 billion for the first time.
- ▶ Transition of TD Bank's pension and institutional clients to Royal Trust was completed ahead of schedule.
- ▶ Increased institutional investment management assets by 36%.



royal mutual funds

- ▶ Canada's third largest mutual fund company as measured by assets under management.
- ▶ Largest among no-load mutual fund providers.

- ▶ Balances exceeded \$20 billion for the first time.
- ▶ New *Royal Monthly Income Fund* offered investors steady monthly pay-outs which can be a combination of interest, dividends and capital gains. Now exceeds \$250 million.
- ▶ Launched *Royal Premium Money Market Fund* as a liquid, flexible, convenient choice for large short-term investments which now has over \$800 million in assets.
- ▶ Completed merger of similar Royal Trust Mutual Funds and Royal Bank Royfunds.

- ▶ Introduced *Personal Investment Planner*, a tool which provides a framework for offering client-driven financial advice and investment recommendations.
- ▶ Received top ranking for telephone client service in the independent L. S. Dalbar industry survey.



rbc dominion securities – private client division

- ▶ Canada's largest investment advisor in RSP/RIFs, non-registered investment assets, mutual funds, equities and wealth management.

- ▶ Over \$78 billion of investment assets.
- ▶ Assets in the *Sovereign Investment Program* increased to \$1.7 billion, up 148% from last year.
- ▶ New fee-based, non-discretionary *Advisor Account* exceeded \$1 billion in assets.
- ▶ Introduced *Compass Financial Plan* to help clients develop a comprehensive financial plan.

- ▶ Introduced *WealthBuilder RSP, Family ESP, and Royal Choices Group RSP*.
- ▶ Completed the integration of Richardson Greenshields.



royal bank action direct

- ▶ Canada's second largest discount broker.
- ▶ Among the top 10 discount brokerage firms in North America in terms of number of accounts.

- ▶ Welcomed over 75,000 new client accounts.
- ▶ Introduced *Value RSP* to appeal to mutual fund investors and a premium package, *Select Service*.
- ▶ Completed national roll-out of *PCAction*, PC-based investment system.
- ▶ Made touchtone telephone trading and quote system, *TelAction*, available 24 hours a day, 7 days a week.

- ▶ Opened second Investor Centre in Toronto.
- ▶ Expanded investment information available for clients through *Research Source*, the *Action Direct Investor* newsletter and the web site.
- ▶ *Mutual Fund Marketplace* now exceeds 700 funds from over 50 fund families.
- ▶ At year end, 22% of all transactions were completed electronically.

## financial performance

## objectives and strategies

ROYAL TRUST			
(\$ millions)	% change	1997	1996
Gross revenues	15%	\$ 880	\$ 764
Fee revenues	30	\$ 617	\$ 475
Assets under administration			
Institutional	49	\$635,300	\$425,500
Personal	27	41,500	32,700
Mutual fund	45	24,500	16,900
	48	\$701,300	\$475,100
Assets under management			
Institutional	36	\$ 27,800	\$ 20,500
Personal	—	13,800	13,800
Mutual fund	45	24,500	16,900
	29	\$ 66,100	\$ 51,200
Average personal loans	4	\$ 1,450	\$ 1,400
Average personal deposits	(10)	13,300	14,800
Average residential mortgages	(14)	4,750	5,550

- Fee revenues increased 30%.
- 29% of gross revenues were generated outside Canada.
- Net income was up 20%.
- Assets under management grew 29%.
- Assets under administration grew 48%.

## Objectives

1. Grow fee revenues by at least 10% annually.
2. Get top ratings for client service.

## Strategies

- Continue to build the financial advisory competency of our employees.
- Continue to expand investment management capabilities in Canada and globally.
- Extend the group's shared office concept to provide better overall financial advice and services.
- Expand Global Private Banking distribution in new markets through alliances with local providers.
- Build *Global Securities Services* sales outside Canada.

MUTUAL FUNDS			
(\$ millions)	% change	1997	1996
Gross revenues (1)	50%	\$ 227	\$ 151
Mutual fund balances			
Equity	58	\$ 7,900	\$ 5,000
Money market	27	6,100	4,800
Fixed income	11	4,200	3,800
Balanced	91	6,300	3,300
	45	\$24,500	\$16,900
Market share (2)			
Assets	10 b.p.	8.8%	8.7%
Number of fund accounts	47	3,124,000	2,122,000

(1) These amounts are after deducting fees paid to the investment manager, and to the brokers and Royal Trust branches for distributing the funds.

(2) As a % of total mutual fund assets in Canada.

- Revenues were up 50%.
- Market share increased to 8.8%.
- Mutual fund assets increased 45% to \$24.5 billion.

## Objective

1. Increase mutual fund revenues by at least 15% annually.

## Strategies

- Launch innovative new products including 3 new *Strategic Index Funds* that offer a disciplined application of a defined investment strategy.
- Continue to explore and deliver products through alternative channels.
- Enhance advisory capabilities within network.

RBC DOMINION SECURITIES – PRIVATE CLIENT DIVISION			
(\$ millions)	% change	1997	1996
Gross revenues	74%	\$ 877	\$ 503
Assets under administration (1)	86	\$78,000	\$ 42,000

(1) Include Royal Mutual Funds.

- Revenues increased 74%.
- Assets under administration were up 86%.

## Objectives

1. Grow revenues by 15% annually.
2. Attain \$90 billion in assets under administration in 1998.

## Strategies

- Re-inforce core positioning of investment advice and service.
- Expand distribution aggressively.
- Provide comprehensive tools to ensure a customized client approach.
- Focus on asset gathering and fee-based services.
- Train investment advisors to become the best in North America.

ROYAL BANK ACTION DIRECT			
(\$ millions)	% change	1997	1996
Assets under administration (1)	50%	\$ 5,400	\$ 3,600
Number of accounts	42	231,000	163,000

(1) Include Royal Mutual Funds.

- Assets under administration were up 50%.
- Number of accounts increased 42%.
- Revenues were up 31%, despite price pressures.
- Market share of accounts increased to 17% from 16%.
- Transaction volume was up 50%.
- Handled over 7 million incoming calls.
- Provided approximately 2 million quotes per month on *PCAction*.

## Objectives

1. Grow revenues by 20% annually.
2. Market share of 25% of accounts by year 2000.

## Strategies

- Substantially increase brand equity and market awareness by establishing Investor Centres and increasing merchandising.
- Invest in technology enhancements to give clients convenient, 24 hour, multi-channel access and links to the group.
- Introduce Internet trading system, *NetAction* in 1998.

# corporate & investment banking



## corporate banking

a complete range of credit and operating services delivered through an international network of relationship managers

- loan trading
  - loan syndications
  - project and structured finance
  - tax structured finance
  - asset securitization
  - global cash management
- managing risk through:
- advanced portfolio management
  - sophisticated credit mitigation techniques



## financial institutions & trade

correspondent banking services provided to 3,500 of the world's largest financial institutions:

- credit services
- deposit services
- collection services
- clearing services
- payment services

non-bank financial institution services provided to insurance companies, finance companies, and investment dealers around the world:

- credit products
  - operating products
  - treasury products
- global trade & commodity finance services:
- letters of credit
  - guarantees
  - receivables financing



## rbc dominion securities – institutional division

rbc ds global markets:

- foreign exchange including currency risk management 24 hours a day, through an extensive global sales and trading network
- fixed income and capital market services including: origination and distribution of new products, secondary market sales and trading of government, provincial, municipal, and corporate debt instruments, interest rate derivatives, swaps, risk management
- money markets: overnight funding, commercial paper, all major currency funding, Canadian dollar securities funding

investment banking:

- advisory services for mergers, acquisitions, divestitures and reorganizations
- equity & debt underwriting
- advisory services for new issues, mergers, acquisitions

equity trading & sales services to institutional investors:

- comprehensive Canadian research products
- trading & sale of listed equities and equity-related products
- distribution of new issues
- North American and international structured product solutions

CORPORATE & INVESTMENT BANKING			
(\$ millions, taxable equivalent basis)	% change	1997	1996
Net interest income .....	18%	\$ 721	\$ 609
Other income .....	23	1,097	891
Gross revenues .....	21	1,818	1,500
Provision for credit losses .....	(67)	142	424
Non-interest expenses .....	27	1,040	822
Net income before income taxes .....	150	636	254
Income taxes .....	312	235	57
Non-controlling interest and taxable equivalent adjustment .....	26	59	47
Net income .....	128%	\$ 342	\$ 150
Net income as a % of total net income .....	1,000 b.p.	20%	10%
Return on equity .....	1,060 b.p.	18.7%	8.1%
Efficiency ratio .....	240 b.p.	57.2%	54.8%
Average assets .....	29%	\$109,900	\$85,400
Average loans and acceptances .....	38	52,400	37,900
Average deposits .....	50	61,900	41,400





### 1997 Performance

Corporate and investment banking accounted for 20% of the bank's net income in 1997 compared to 10% in 1996 when a \$300 million addition to the general provision reduced earnings. Return on equity improved to 18.7%.

Revenues increased by 21%, with net interest income up 18% and other income 23% higher due largely to improved performance at RBC Dominion Securities' (RBC DS) institutional division.

Non-interest expenses were similarly higher due to greater variable compensation costs at RBC DS.

Specific provisions for credit losses were \$142 million versus \$124 million last year, as recoveries were lower in 1997.

The efficiency ratio deteriorated to 57.2%, reflecting the greater contribution of RBC DS, which has a much higher efficiency ratio than the other businesses in this segment due to its variable incentive compensation.

**Objectives** The major objective of this segment is to become more responsive in providing integrated corporate and investment banking solutions to meet the financing and balance sheet needs of our corporate and government clients. In addition, the segment continues to broaden the range of products available to our customers in the United States including leveraged lending, securitization, trade and receivables financing, equity derivatives and other similar initiatives.

**Strategies** To achieve our objectives, we plan to meld the three businesses serving corporate and government customers more closely, and provide seamless delivery of a full range of corporate and investment banking products and services in Canada, and more selectively in other markets. To improve profitability, the segment plans to focus on individual account profitability and on demarketing accounts with unacceptable returns. Increased liquidity of the loan portfolio will be achieved through securitization, loan trading and other means.

**Look up!** The outstanding success of our Loan Syndication and Project Finance strategies in Latin America have quickly made us the 7th largest co-arranger in the world. It's the kind of entry that some can only dream about. We call it a good start and plan on even better results.



## businesses

## where we stand

## operational review



## corporate banking

- ▶ Serves more than 1,000 corporate and institutional clients in Canada, the USA, Europe, Latin America and Asia.
- ▶ Delivers all the capabilities of the group to clients around the world.
- ▶ Leads in market position and importance domestically according to independent benchmarking.

- ▶ Enhanced global syndications capability through units in Toronto, New York, London and Singapore.
- ▶ Established a loan trading unit in New York.
- ▶ Formed a global project & structured finance group.
- ▶ Expanded in tax-structured financing.
- ▶ Accelerated North American securitization activity.
- ▶ Launched a leveraged lending unit in the U.S.A.
- ▶ Followed a portfolio management approach, using credit derivatives and other such tools to manage risk.

- ▶ Continued focus on relationship management with professional staff supported by sophisticated information and delivery systems.
- ▶ Expanded and refined focus on selected industries including forest products, mining and metals, media/telecommunications, public sector, specialized manufacturing (including automotive and aircraft financing) and energy.
- ▶ Ranked among top 10 banks in the world in the energy sector by the UK-based publication, *Petroleum Economist*.



## financial institutions & trade

- ▶ Exclusive agent for just under 50% of the world's largest banks in settling their Canadian dollar interbank payments.
- ▶ Leading bank to Canadian insurance industry.
- ▶ Maintains trade lines in over 130 countries.

- ▶ Launched *Tradeview*, a new suite of electronic products giving electronic banking access to Canadian importers and exporters.
- ▶ Provided Internet access to correspondent banking clients seeking account balances and transactions.
- ▶ Invested in Northstar Trade Finance Inc., a company which provides medium-term loans to support Canadian exporters.

- ▶ Opened offices in Los Angeles, Houston and Boston through RBC Trade Finance (USA) Inc.



## rbc dominion securities – institutional division

- ▶ Leading provider of comprehensive capital market products, debt and equity underwritings for Canadian corporations, innovative financing instruments, income trusts, real estate finance, corporate brokerage, advice on mergers, acquisitions and divestitures.
- ▶ Top-ranked dealer in research, sales and trading of Canadian equities.
- ▶ Canada's largest commercial paper agent and provider of securities and securities financing.
- ▶ Canada's most profitable foreign exchange bank.
- ▶ Active market maker in US\$-based currency, pairs, EMS crosses, and currencies of Asia, Eastern Europe, and Latin America.

- ▶ Lead-managed 73 debt and equity financings, and co-managed a further 147 transactions, to raise an aggregate \$35.7 billion for clients, a result which surpasses all other Canadian competitors.
- ▶ Led the structuring and distribution of 16 royalty and income trusts for an aggregate value of \$3.5 billion.
- ▶ Advised on 9 of the top 15 M&A transactions in Canada in 1997.
- ▶ Advised Loram Corporation in an assessment of private sale and public market alternatives for its three main businesses, resulting in Loram realizing proceeds in excess of \$2 billion.
- ▶ Played a key role in developing the Canadian high-yield debt market, lead managing three transactions for proceeds of \$560 million.
- ▶ Merged fixed income, money market and foreign exchange operations, including their derivatives, of Royal Bank, RBC DS, and Richardson Greenshields to form Global Markets trading group.

- ▶ Increased volumes of domestic securities lent and/or financed by 25%.
- ▶ Significantly expanded the research team to provide broader and more specialized coverage of Canadian industry.
- ▶ Expanded global mining research, sales and trading specialists and increased investment in South African securities dealers, SMK Securities (PTY) Limited, to 25%.
- ▶ Introduced Index Linked Structured Notes and GICs.
- ▶ Developed equity monetization products for corporate and high net worth clients.
- ▶ Expanded equity derivatives business in Europe.

## financial performance

## objectives and strategies

CORPORATE BANKING			
(\$ millions)	% change	1997	1996
Gross revenues .....	(2)%	\$ 417	\$ 426
Average assets .....	23	\$25,000	\$20,300
Average loans and acceptances .....	21	\$23,100	\$19,100

- Despite an increase in loans and acceptances, revenues declined slightly due to narrower spreads, particularly outside Canada.
- Efficiency ratio rose slightly and is now competitively positioned in the mid-40s.
- Specific provisions for credit losses declined this year.

## Objectives

1. Achieve top quartile risk-adjusted returns.

## Strategies

- Maintain position as a low-cost producer.
- Ensure a sound and diversified portfolio.
- Focus on financial partnerships with core clients.
- Expand internationally by providing solutions to clients in selected industries.
- Enhance fee-based businesses such as securitization, syndication and secondary loan funding.

FINANCIAL INSTITUTIONS & TRADE			
(\$ millions)	% change	1997	1996
Gross revenues .....	19%	\$ 369	\$ 309
Average assets .....	56	\$10,300	\$6,600
Average letters of credit .....	33	\$11,800	\$8,900
Total payment volumes (thousands) .....	15	3,700	3,230
Payment errors (per 10,000 payments) .....	(21)	1.9	2.4

- Revenues increased 19%.
- Average assets were 56% higher with the increase well dispersed geographically and largely in short-term credits to banks and corporations.
- Average letters of credit balances were up 33%.

## Objectives

1. Grow revenues by at least 10% annually.
2. Become a top 20 global trade bank by the year 2001.

## Strategies

- Use technology to develop new products and delivery channels, and to reduce costs.
- Grow and internationally diversify revenues from products provided to insurance companies.

RBC DOMINION SECURITIES – INSTITUTIONAL DIVISION			
(\$ millions)	% change	1997	1996
Gross revenues .....	35%	\$ 1,032	\$ 765
Average assets .....	28%	\$74,600	\$58,500

- Revenues grew by 35% with strong performance in all areas.
- Revenues from Global Markets grew by 28% to \$556 million.
- Revenues from Institutional Equity increased 44% to \$258 million.
- Investment banking revenues grew 46% to \$218 million.

## Objectives

1. Maintain position as market leader in debt and equity financing and merger and acquisition advice.
2. Build upon top presence in equity and fixed income sales, trading and research with new product capabilities which provide innovative solutions.
3. Become one of the world's top ten foreign exchange banks.
4. Focus on maximizing long-term profitability.

## Strategies

- Focus on industry specialization and coordination of the group's corporate lending function with targeted efforts of RBC DS division.
- Remain the leading investment dealer serving Canadian institutional clients.
- Foster still greater interdepartmental cooperation on innovative solutions in the debt and equity capital markets, building upon recent high yield debt and equity derivative success.
- Invest in technology to better monitor cross-market flows.
- Control costs by centralizing operations, rationalizing systems and investing in electronic platforms.
- Expand selectively internationally to augment product expertise for preferred industry sectors.