Overview of Canadian Bail-in Regime

December 2018

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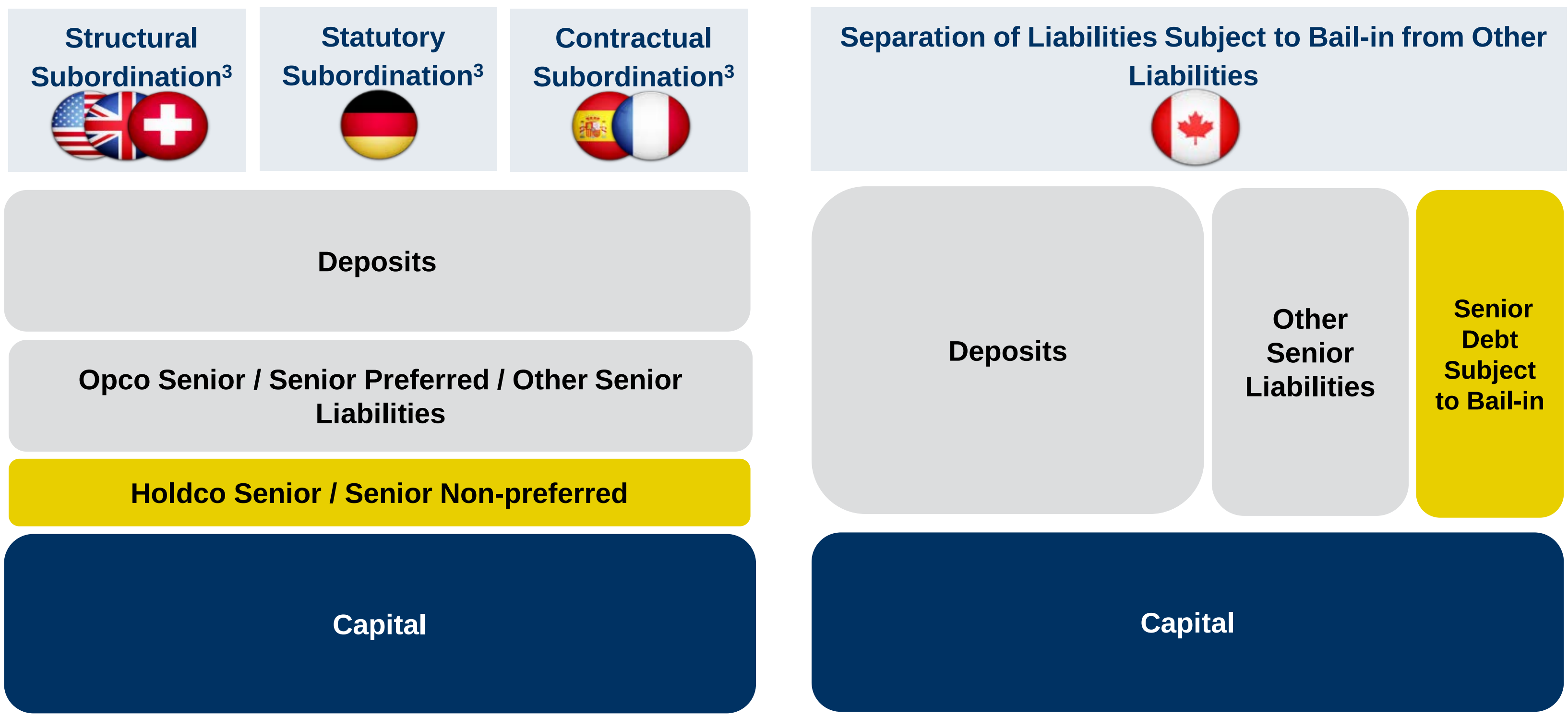
Key Features of the Canadian Bank Bail-in Regime

Single Class of Term Debt

- Since September 23, 2018, Canadian bank term (>400 days) senior unsecured debt that is subject to bail-in is a **single class of debt[1]** and is not subordinated to another class of wholesale senior debt
  - Only format of issuance of Canadian bank term senior unsecured debt[2] after September 23, 2018

Bail-in Debt Ranking in Liquidation – Equal to Deposits and Other Senior Liabilities

- Canadian bank term senior unsecured debt is not structurally, statutorily or contractually subordinated to another class of senior liabilities



TLAC eligible senior debt

[1] Ranks pari passu with other forms of senior debt, except as otherwise prescribed by law and subject to the exercise of bank resolution powers
[2] Excludes structured notes as defined in section 2(6) of the Bank Recapitalization (Bail-in) Conversion Regulations under the CDIC Act
[3] Jurisdictions highlighted are representative and not exhaustive. Indicates approach applicable to G-SIBs in the relevant jurisdictions.

Key Features of the Canadian Bank Bail-in Regime (continued)

No Creditor Worse Off Principle

- No Creditor Worse Off principle designed to ensure that bailed-in senior creditors should not incur greater losses through resolution than liquidation
  - Under the CDIC compensation regime, holders are entitled to receive, to the extent positive, the difference between liquidation and resolution value
- Because of the No Creditor Worse Off principle, recovery value would not depend solely on the value of the common shares received in a bail-in conversion and would still factor in the liquidation value (liquidation value is required to be computed assuming no bail-in conversion occurs). Given the characteristics of Canadian bail-in debt, including the pari passu ranking in liquidation and absence of depositor preference and structural subordination, liquidation value would generally be expected to be higher for a given amount of loss, if all else is equal, under the Canadian regime than would be the case under bail-in/TLAC regimes in jurisdictions where some or all of these characteristics are not applicable.

No Legislative or Administrative Prohibition Against Government Financial Assistance

- Regulatory intent is to use the bail-in tool to reduce government and taxpayer exposure, however, there is no statutory prohibition against government financial assistance

Statutory Regime

- Unlike contractual regime of Canadian NVCC capital instruments, there is no set conversion multiplier
- Partial bail-in is permissible
- Senior debt might not be bailed-in even if NVCC instruments are converted

Management Incentives to Recapitalize Early

- Potential dilution risk from equity conversion of NVCC capital provides management incentive to recapitalize the bank early

Participation in Equity – Post Resolution

- If bail-in is triggered, conversion into equity of the bank or an affiliate has the potential to result in realizable value

Protection for Senior Debt Holders

- Consistent with U.S., acceleration rights[1] upon non-payment of principal or interest is allowed in Canada, but not in Europe[2]
- Relative creditor hierarchy maintained through conversion formulas in Canadian bank resolution framework

[1] Subject to 30 business day grace period and subject to bail-in conversion powers until repaid in full

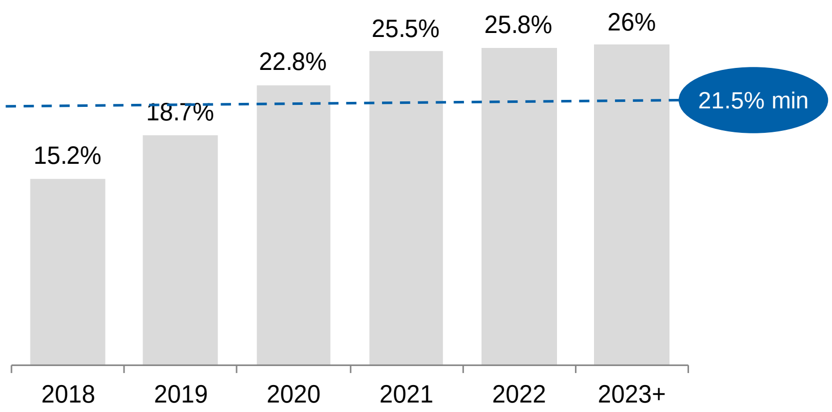
[2] Excluding UK

RBC's Approach to Meeting TLAC Requirements

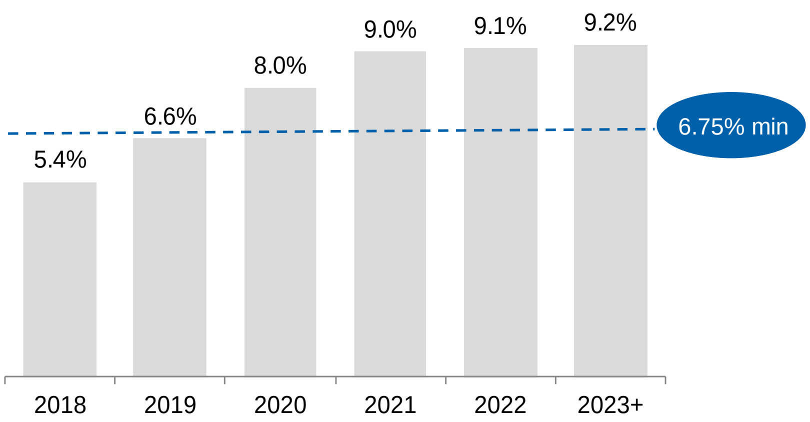
No Incremental Funding Needs

- We expect to meet TLAC requirements in advance of the November 1, 2021 compliance date simply by refinancing upcoming maturities
- Rating agencies have adopted a forward-looking view, taking into account expected final TLAC builds based on rollover of all existing long-term senior debt
  - Accelerating issuance to support ratings profile is unnecessary

Expected build up of TLAC RWA ratio[1]



Expected build up of TLAC leverage ratio[1]



Cushion in Excess of TLAC Requirements

- Since this is a single class of debt and our liquidity needs are in excess of TLAC needs, our TLAC ratio is expected to be in excess of minimum requirements
  - As a result, a lower proportion of this single class of senior debt will have to be bailed-in for a given amount of loss

[1] Based on static balance sheet, assuming rollover of existing long term debt into TLAC eligible new senior debt. Assumes bullet issuance. If all issuance was in callable format with no incentive to redeem, TLAC ratio would be 29% of RWA and 10% of leverage exposure. Holds other balance sheet components constant (RWA, Leverage Exposures, Outstanding Capital)

Comparison with RBC Legacy Senior Long Term Debt[1]

	New Senior Debt	Legacy Senior Debt
Issuing Entity	Operating company	
Format	Senior unsecured (single class of debt)	
Ranking in Liquidation	Pari passu with deposits and other senior liabilities[2]	
Governing Law	In accordance with local law or Canadian law, as applicable	
Bail-in Provision	Governed by Canadian law	No
Other Resolution Powers	Bridge Bank Order, Vesting Order, Receivership Order	
Participation in Equity - Post Resolution	Yes. Conversion to equity of the bank or an affiliate allows participation in upside[3], if any	No
Acceleration Rights Upon Failure to Pay P&I	Yes	
Ratings[4] (Moody's, S&P, Fitch, DBRS)	A2 / A / AA / AA (Low)	Aa2 / AA- / AA / AA

[1] Refers to senior long term debt issued prior to September 23, 2018
[2] Except as otherwise prescribed by law and subject to the exercise of bank resolution powers
[3] Assuming bail-in is triggered. If other resolution powers are exercised, debt holders could be exposed to losses in a manner similar to a write-down of their claims.
[4] Based on public announcements by the rating agencies. A credit rating is not a recommendation to buy, sell or hold securities, and it may be subject to revision or withdrawal at any time by the assigning rating agency organization.

Comparison Across Jurisdictions

	Canada	United States	Japan	United Kingdom	France
Instrument Type	Opco Senior	Holdco Senior	Holdco Senior	Holdco Senior[3]	Opco Non-Preferred Senior
Ranking in Liquidation	Pari passu with deposits and other senior liabilities	Structural Subordination	Structural Subordination	Structural Subordination[3]	Contractual Subordination
Depositor Preference	No	Yes	Yes	Yes	Yes
Participation in Equity - Post resolution	Conversion to equity of the bank or an affiliate allows participation in upside, if any[1]	N/A[2]	Uncertain given possibility of writedown	Uncertain given possibility of writedown	Uncertain given possibility of writedown
Acceleration Rights Upon Failure to Pay P&I	Yes	Yes	Yes	Yes	No[4]

Because of the No Creditor Worse Off principle, recovery value would not depend solely on the value of the common shares received in a bail-in conversion and would still factor in the liquidation value (liquidation value is required to be computed assuming no bail-in conversion occurs). Given the characteristics of Canadian bail-in debt, including the pari passu ranking in liquidation and absence of depositor preference and structural subordination, liquidation value would generally be expected to be higher for a given amount of loss, if all else is equal, under the Canadian regime than would be the case under bail-in/TLAC regimes in jurisdictions where some or all of these characteristics are not applicable.

[1] Assuming only bail-in is triggered. If other resolution powers are exercised, debt holders could be exposed to losses in a manner similar to a write-down of their claims.

[2] No bail-in power. In resolution, debtholders could potentially receive partial recoveries (analogous to a write-down) or have their claims satisfied through the issuance of new securities (analogous to a bail-in conversion).

[3] Applicable in practice for G-SIBs' issuance of non-capital bail-in debt.

[4] The terms of senior non-preferred do not include acceleration rights upon failure to pay principal and interest; however, there is no statutory restriction in this regard. Once resolution proceedings are underway, holders may declare an event of default for failure to meet payment obligations.

Summary of TLAC/Bail-in Regime

Excluded Liabilities

Insured Deposits

Uninsured Deposits[1]

Secured & Covered

Short Term Debt

Structured Notes[2]

Derivative Liabilities

Other Liabilities

21.5% of RWA

Bail in debt

Long Term Unsecured Debt

Prefs & Sub Debt NVCC

Capital Providers (Equity)

TLAC Compliance Date	November 1, 2021
Scope of Banks	D-SIBs as designated by OSFI
TLAC eligibility	Regulatory capital + bail-in debt with remaining term to maturity > 1 year[3]
Min. requirement	Minimum TLAC ratio of 21.5% of RWA and 6.75% of leverage exposure
Grandfathering	Yes, all senior instruments issued before implementation date of legislation
Sequencing and preconditions	1. Federal authorities bring bank into resolution 2. Full conversion of bank's NVCC instruments must occur prior to or concurrently with bail-in
Scope of bail-in instruments	• Only senior unsecured debt that is tradable and transferable • Original term to maturity of 400 days or more[1] • Issued or renegotiated after the implementation of the final bail-in rule (September 23, 2018)
Form of bail-in	Equity Conversion
Disclosure requirements	All D-SIBs required to: • Include specific disclosure related to the conversion power in any agreement governing an eligible liability as well as any accompanying offering document • Include a clause in the contractual provisions governing any eligible liability through which investors provide express submission to the Canadian bail-in regime • Provide continuous disclosure of TLAC ratios starting in Q1 2019

- Bail-in is not the only path in Canada to resolve a failing bank. Canadian authorities have other powers, including "vesting order", "receivership order", "bridge bank resolution order" etc. The government retains full discretion to use other powers
- Conversion into equity under the Canadian bail-in regime has the potential to result in realizable value, potentially in excess of principal amount

[1] Yankee CD's with original term > 400 days are in-scope of bail-in
[2] As per definition of structured notes in section 2(6) of the Bank Recapitalization (Bail-in) Conversion Regulations under the CDIC Act
[3] Provided such bail-in debt meets certain other requirements

Mechanics of the Bail-in Conversion

When Can a Bail-in Occur?

- CDIC's bail-in power is activated when the Superintendent of the Office of the Superintendent of Financial Institutions determines the D-SIB has reached a point of non-viability, and the federal government, relying on a recommendation from the Minister of Finance, authorizes CDIC to take temporary control or ownership of the D-SIB
- NVCC capital instruments must be converted before or concurrently with bail-in debt
- CDIC has a number of tools to assist or resolve a failing institution, including bail-in, restructuring the bank, replacing its directors, and using the bank's existing employees and contractors to ensure the essential services of the bank are maintained
  - CDIC would use the tool that in its view is most appropriate in the situation with the goal of returning the bank to viability

What are the Terms of Conversion?

- CDIC has discretion to determine the amount of bail-in instruments converted, the conversion formula, and timing, subject to the following parameters:
  - **Adequate recapitalization** must be a key consideration in determining the magnitude and rate of conversion
  - **Order of conversion** – CDIC can only convert bail-in debt if NVCC instruments and subordinate-ranking bail-in instruments have been or are concurrently being converted
  - **Equal treatment** – CDIC must convert equally ranking bail-in instruments in the same proportion and for the same number of common shares per dollar of the converted claim
  - **Relative creditor hierarchy** – bail-in debt must be converted into more common shares per dollar than holders of subordinate-ranking bail-in and NVCC instruments that are converted
- Debt may only be converted to common shares of the Bank or any affiliate and may not be written down under the bail-in power

No Creditor Worse Off Principle

- CDIC would compensate a member institution's holders of bail-in instruments that are converted out of the deposit insurance fund if they are made worse off as a result of the resolution actions by CDIC than they would have been if the bank was liquidated or wound up
  - The amount of compensation would be based on CDIC's estimate of the difference between the liquidation value of an instrument (if the bank was wound up without being subject to resolution measures) and the resolution value of the instrument

Annex A

Glossary	
CD	Certificate of deposit
CDIC	Canada Deposit Insurance Corporation
D-SIB	Domestic systemically important bank
DBRS	DBRS, Inc.
G-SIB	Global systemically important bank
Fitch	Fitch Ratings, Inc.
Holdco	Holding Company
Moody’s	Moody’s Investors Service
NVCC	Non-viability contingent capital
OpCo	Operating Company
OSFI	Office of the Superintendent of Financial Institutions
P&I	Principal and interest
RWA	Risk-weighted assets
S&P	S&P Global Ratings
TLAC	Total loss-absorbing capacity
TSR	Total shareholder return