

# Royal Bank of Canada Fixed Income Presentation

Q1/2014

All amounts are in Canadian dollars. Financial information is based on financial statements prepared in compliance with International Accounting Standard 34 *Interim Financial Reporting* and is presented on a consolidated basis unless otherwise noted. Our Q1 2014 Report to Shareholders and Supplementary Financial Information are available on our website at [rbc.com/investorrelations](http://rbc.com/investorrelations).



Investor Relations





# Caution regarding forward-looking statements

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From time to time, we make written or oral forward-looking statements within the meaning of certain securities laws, including the “safe harbour” provisions of the *United States Private Securities Litigation Reform Act of 1995* and any applicable Canadian securities legislation. We may make forward-looking statements in this RBC Fixed Income Presentation, in filings with Canadian regulators or the United States (U.S.) Securities and Exchange Commission, in reports to shareholders and in other communications. Forward-looking statements in this Fixed Income Presentation include, but are not limited to, statements relating to our financial performance, objectives, vision and strategic goals, the housing market in Canada and the Canadian economy. The forward-looking information contained in this presentation is presented for the purpose of assisting the holders of our securities and financial analysts in understanding our financial position and results of operations as at and for the periods ended on the dates presented, and our financial performance, objectives, vision and strategic goals and priorities, and may not be appropriate for other purposes. Forward-looking statements are typically identified by words such as “believe”, “expect”, “foresee”, “forecast”, “anticipate”, “intend”, “estimate”, “goal”, “plan” and “project” and similar expressions of future or conditional verbs such as “will”, “may”, “should”, “could” or “would”.

By their very nature, forward-looking statements require us to make assumptions and are subject to inherent risks and uncertainties, which give rise to the possibility that our predictions, forecasts, projections, expectations or conclusions will not prove to be accurate, that our assumptions may not be correct and that our financial performance objectives, vision and strategic goals, the Canadian economy and the Canadian housing market will not be achieved. We caution readers not to place undue reliance on these statements as a number of risk factors could cause our actual results to differ materially from the expectations expressed in such forward-looking statements. These factors – many of which are beyond our control and the effects of which can be difficult to predict – include: credit, market, liquidity and funding, insurance, regulatory compliance, operational, strategic, reputation and competitive risks and other risks discussed in the Risk management and Overview of other risks sections of our 2013 Annual Report; the impact of regulatory reforms, including relating to the Basel Committee on Banking Supervision’s (BCBS) global standards for capital and liquidity reform, the *Dodd-Frank Wall Street Reform and Consumer Protection Act* and the regulations issued and to be issued thereunder, over-the-counter derivatives reform, the payments system in Canada, the U.S. *Foreign Account Tax Compliance Act* (FATCA), and regulatory reforms in the United Kingdom (U.K.) and Europe; the high levels of Canadian household debt; cybersecurity; the business and economic conditions in Canada, the U.S. and certain other countries in which we operate; the effects of changes in government fiscal, monetary and other policies; our ability to attract and retain employees; the accuracy and completeness of information concerning our clients and counterparties; the development and integration of our distribution networks; model, information technology and social media risk; and the impact of environmental issues.

We caution that the foregoing list of risk factors is not exhaustive and other factors could also adversely affect our results. When relying on our forward-looking statements to make decisions with respect to us, investors and others should carefully consider the foregoing factors and other uncertainties and potential events. Material economic assumptions underlying the forward looking-statements contained in this Fixed Income Presentation are set out in the Overview and outlook section and for each business segment under the heading Outlook and priorities in our 2013 Annual Report, as updated by the Overview section in our Q1 2014 Report to Shareholders. Except as required by law, we do not undertake to update any forward-looking statement, whether written or oral, that may be made from time to time by us or on our behalf.

Additional information about these and other factors can be found in the Risk management and the Overview of other risks sections in our 2013 Annual Report and in the Risk management section of our Q1 2014 Report to Shareholders.

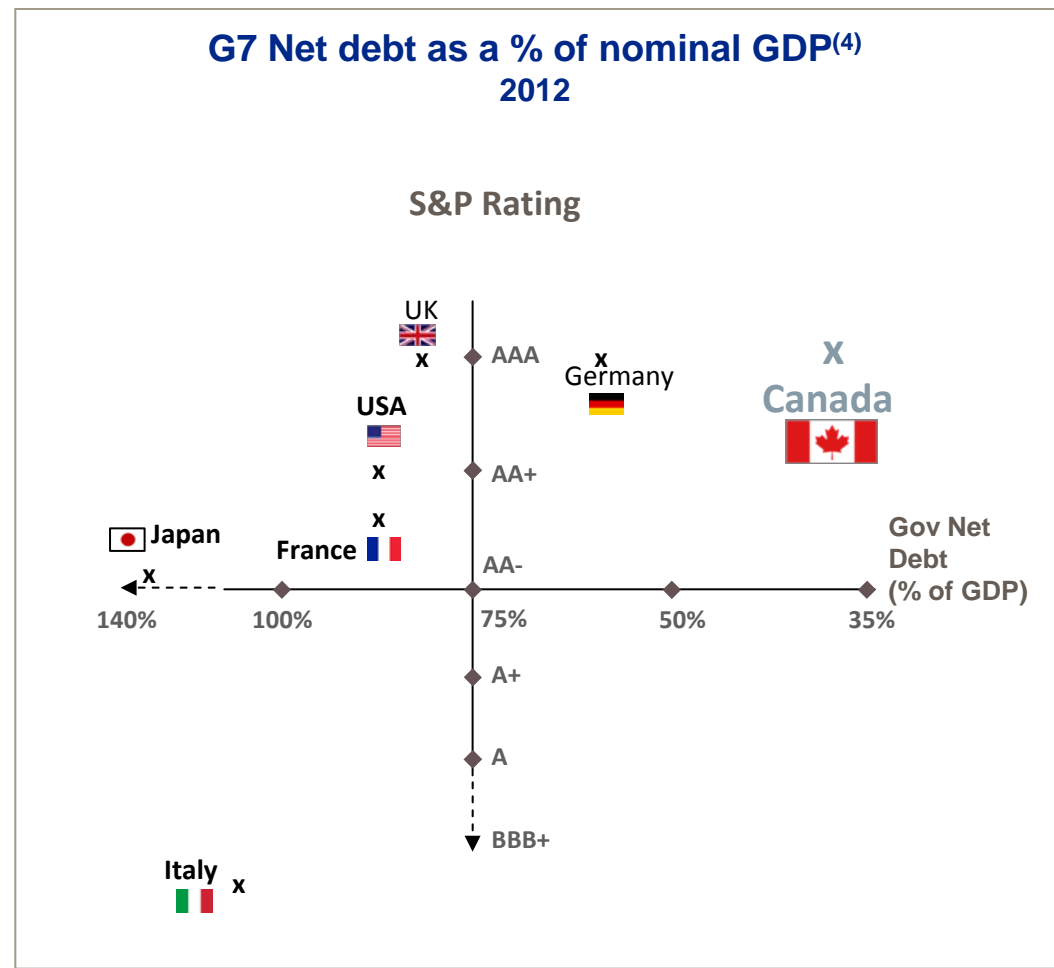
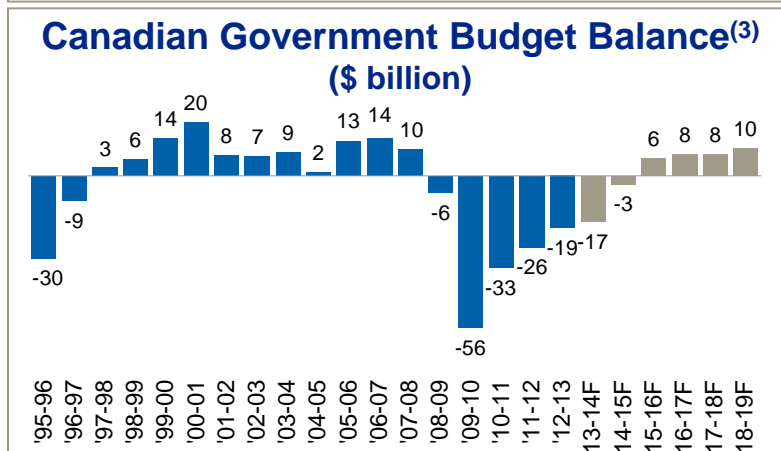
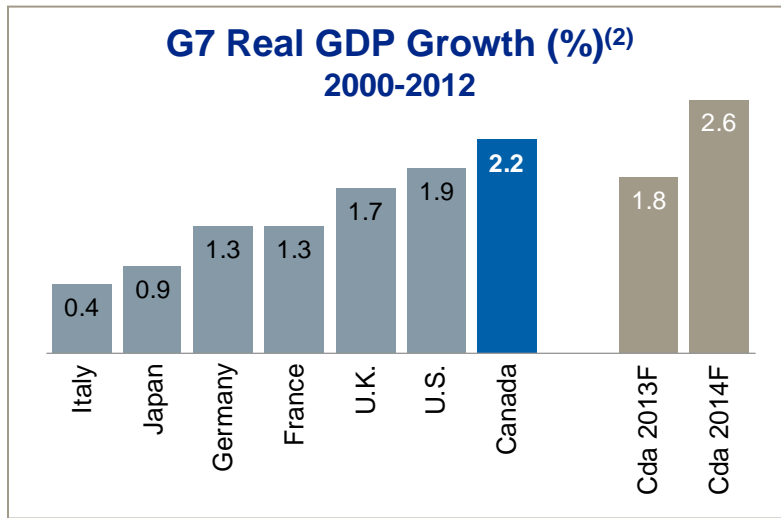
Information contained in or otherwise accessible through the websites mentioned does not form part of this Fixed Income Presentation . All references in this Fixed Income Presentation to websites are inactive textual references and are for your information only.

# Canadian Economy

## SECTION I

# Strong fiscal position

- Strong rating as a result of fiscal prudence, conservative bank lending practices and solid economy
- Lowest net debt to GDP ratio among G-7 peers
- Proactively responded to crisis with strong fiscal stimulus and monetary policy
- #1 for soundness of banks for the 6<sup>th</sup> consecutive year<sup>(1)</sup>



## Investor Relations – Fixed Income Presentation

(1) World Economic Forum, 2013.

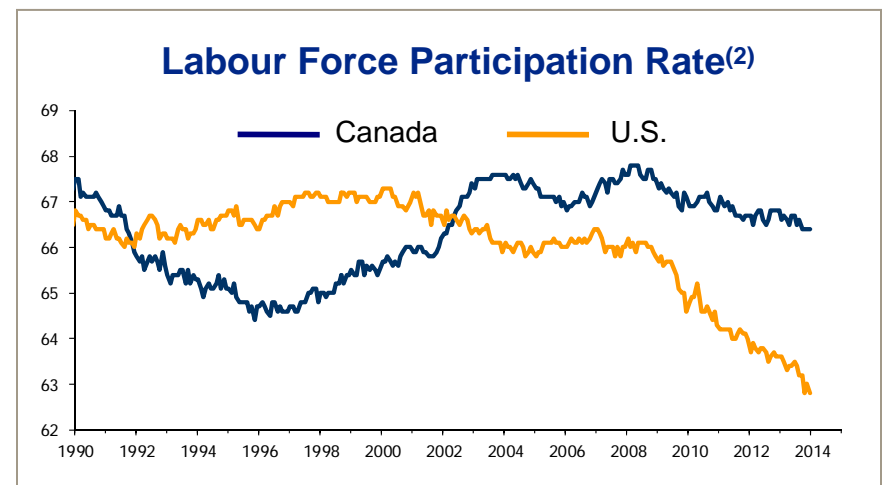
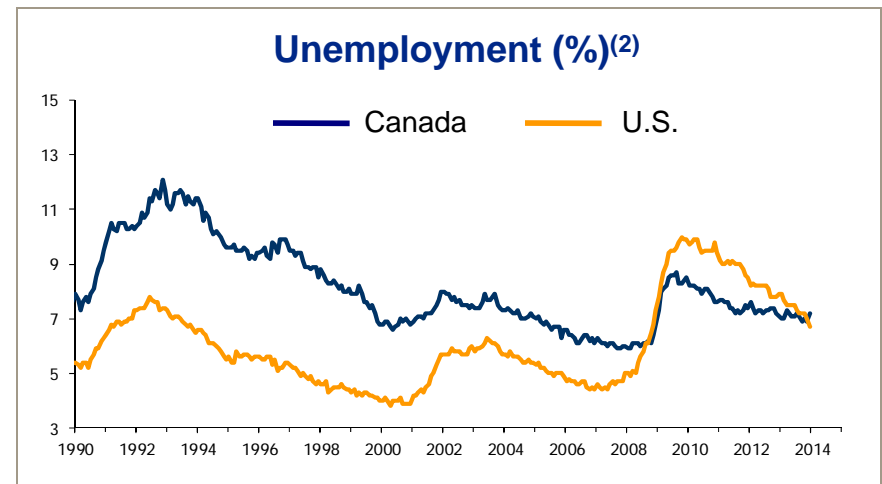
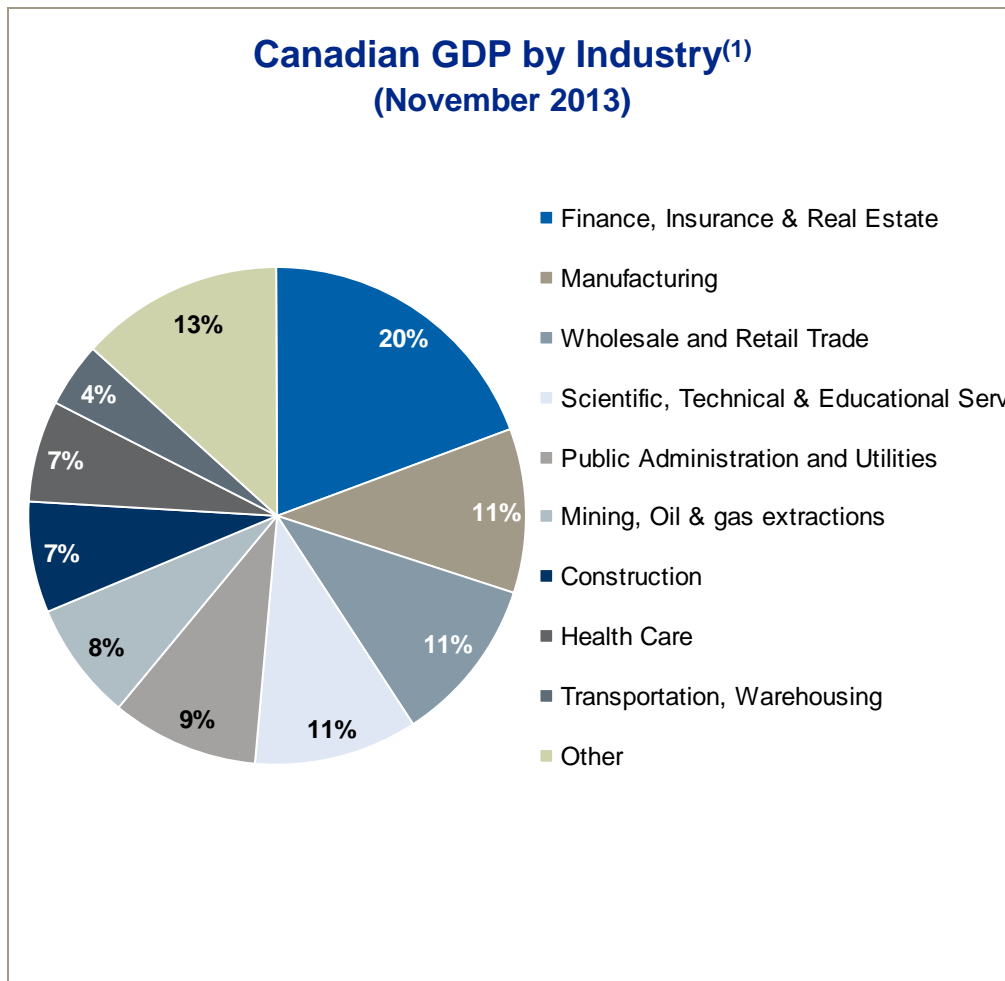
(2) National statistics offices, RBC Economics Research.

(3) Department of Finance Canada, RBC Economics Research.

(4) S&P, International Monetary Fund (IMF), RBC Economics Research.

# Attractive economic fundamentals

- A diversified economy resulting in balanced economic growth
- Stable inflation remaining close to lower level of the 1-3% target range
- Canada's unemployment rates are trending favourably and have shown less volatility to global shocks



(1) Source: Statistics Canada, RBC Economics Research.

(2) Statistics Canada, Bureau of Labor Statistics, RBC Economics Research.



# Structural backdrop to the Canadian housing market

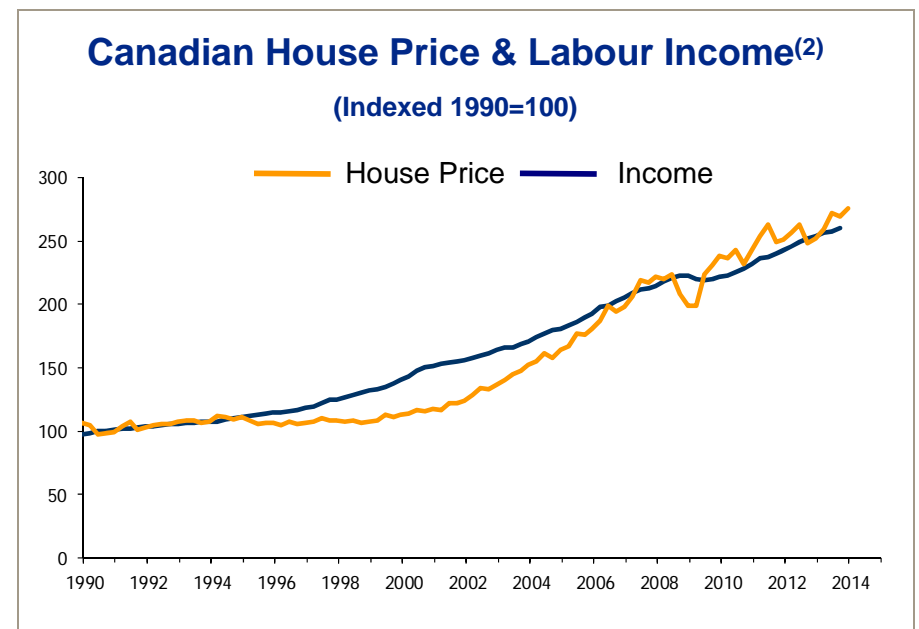
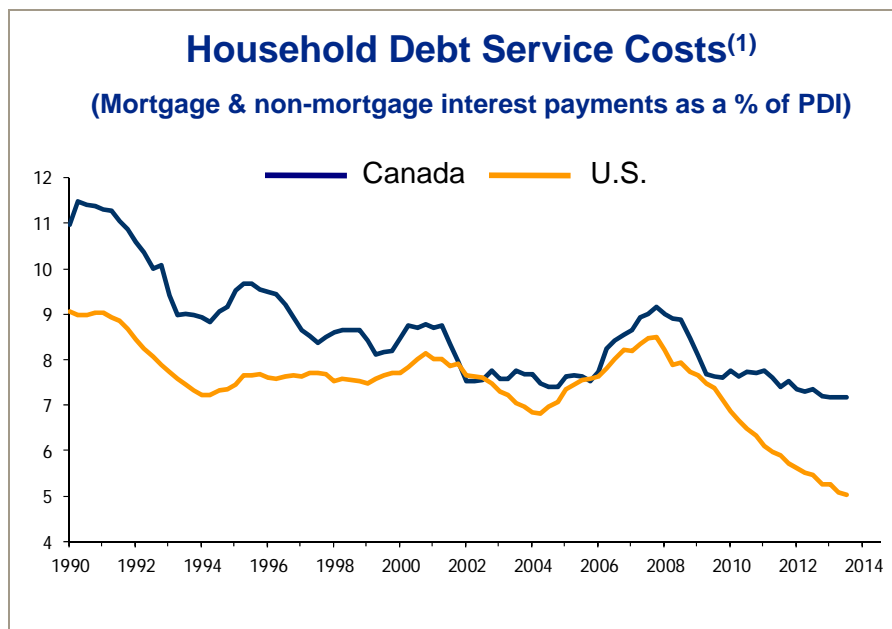
	Canada <sup>(1)</sup>	U.S. <sup>(1)</sup>
<b>Regulation</b>	<ul style="list-style-type: none"> <li>Government influences mortgage underwriting policies through control of insurance eligibility rules</li> <li>Fully insured if LTV is <u>over</u> 80%               <ul style="list-style-type: none"> <li>Must meet 5-year fixed rate mortgage standards</li> <li>Government-backed, on homes &lt;\$1 million</li> <li>Down-payment &gt; 20% on non-owner occupied properties</li> </ul> </li> <li>Re-financing cap of 80% on non-insured mortgages</li> </ul>	<ul style="list-style-type: none"> <li>Agency insured only if conforming and LTV under 80%</li> <li>No regulatory LTV limit – can be over 100%</li> <li>Not government-backed if private insurer defaults</li> </ul>
<b>Consumer Behaviour</b>	<ul style="list-style-type: none"> <li>Mortgage interest not tax deductible</li> <li>Greater incentive to pay off mortgage</li> </ul>	<ul style="list-style-type: none"> <li>Mortgage interest is tax deductible</li> <li>Less incentive to pay down mortgage</li> </ul>
<b>Lender Behaviour</b>	<ul style="list-style-type: none"> <li>Strong underwriting discipline; extensive documentation</li> <li>Most mortgages are held on balance sheet</li> <li>Conservative lending policies have historically led to low delinquency rates</li> </ul>	<ul style="list-style-type: none"> <li>Wide range of underwriting and documentation requirements</li> <li>Most mortgages securitized</li> </ul>
<b>Lenders Recourse</b>	<ul style="list-style-type: none"> <li>Ability to foreclose on non-performing mortgages, with no stay periods</li> <li>Full recourse against borrowers<sup>(2)</sup></li> </ul>	<ul style="list-style-type: none"> <li>Stay period from 90 days to one year to foreclose on non-performing mortgages</li> <li>Limited recourse against borrowers in key states</li> </ul>

(1) Current regulation and lenders recourse.

(2) Alberta has some limited restrictions on full recourse.

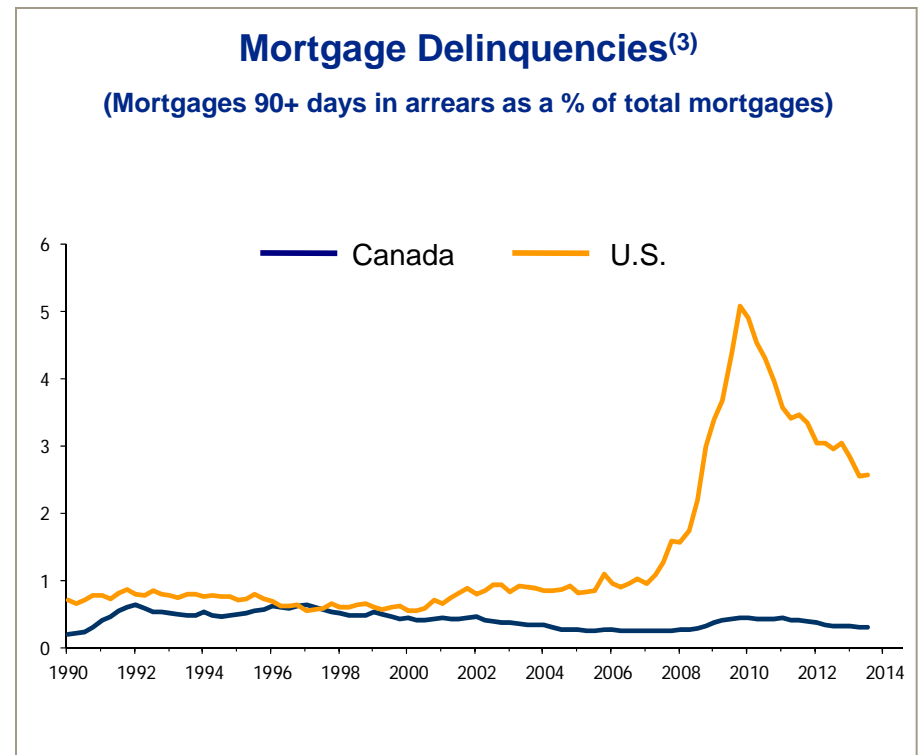
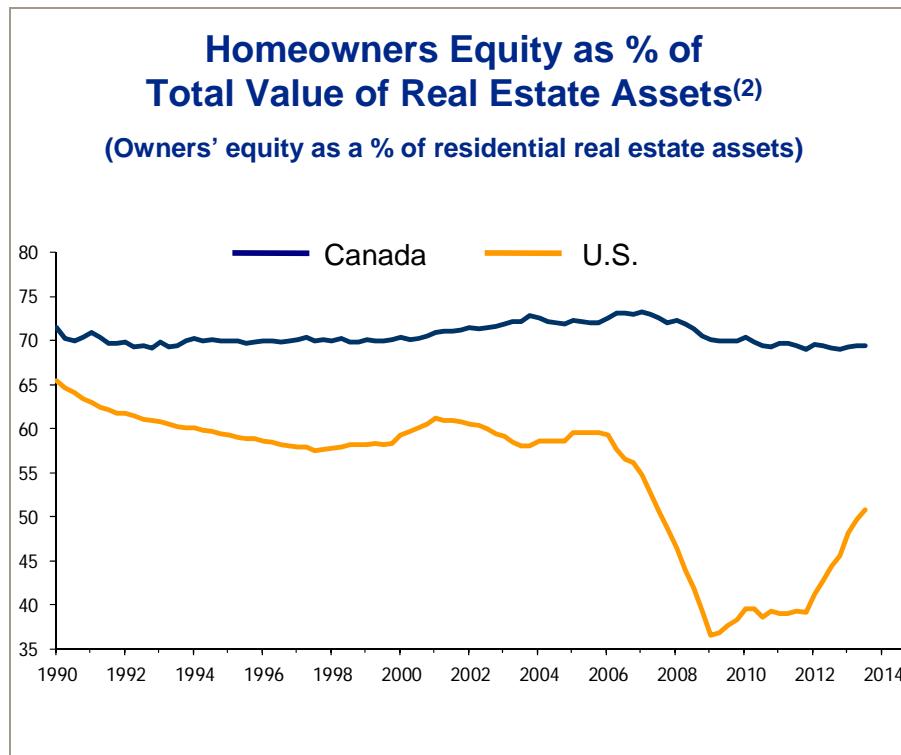
# Canadian housing market fundamentals remain sound

- We expect housing activity will continue to moderate to more sustainable levels over the medium term, in line with household formation in Canada
- Housing affordability is at reasonable levels in most markets with supply and demand in balance
  - Positive demographics and low interest rates
  - Policy measures promoting a healthy housing market
- Household debt service costs ratios are well within the mean, with little movement towards higher risk
- Lenders maintaining strong underwriting discipline and require extensive documentation
  - Most mortgages held on balance sheet and conservative lending policies have led to low delinquency rates



# Canadians have significant equity ownership in their homes

- Canadians carry a significant and stable amount of equity in their homes
- Canadian borrowers are more incented to pay off their mortgage as interest is not tax deductible yet rate of home ownership is comparable to the U.S., at approximately 69%<sup>(1)</sup>
- Mortgage delinquency rates remain low in Canada and have been stable through recent credit cycle
- RBC stress tests its residential mortgage and broader retail portfolios to dramatic movements in house prices, interest rates and unemployment





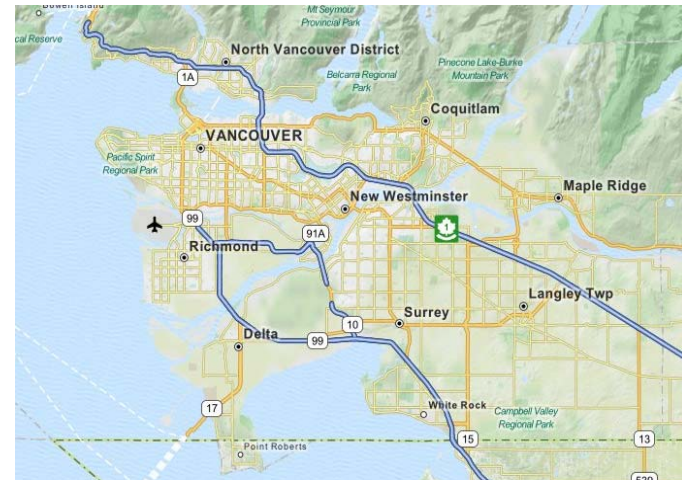
# The Toronto and Vancouver downtown condo markets

- Undeveloped land around Toronto / Vancouver is limited, causing shift to centralized condo housing
  - ‘Green belt’ surrounding Toronto has limited urban sprawl, increasing the demand for condos in the core
  - Vancouver is restricted in its ability for urban sprawl due to land constraints away from the city centre
- Canada has one of the highest per capita rates of permanent immigration in the world<sup>(1)</sup>
  - 20.6% of Canada’s population is foreign born (6.8 million), highest proportion among the G8 population<sup>(1)</sup>
  - 62.5% of all new immigrants to Canada move to Toronto, Vancouver or Montreal<sup>(1)</sup>
- RBC’s exposure to condo development is limited – less than 3% of our total commercial loan book
  - Condo mortgages represent just over 9% of our residential mortgage portfolio

## “Green belt” surrounding Greater Toronto area



## Vancouver limited by mountains, sea, U.S. border



# Royal Bank of Canada

## SECTION II

Investor Relations



# RBC's key strengths

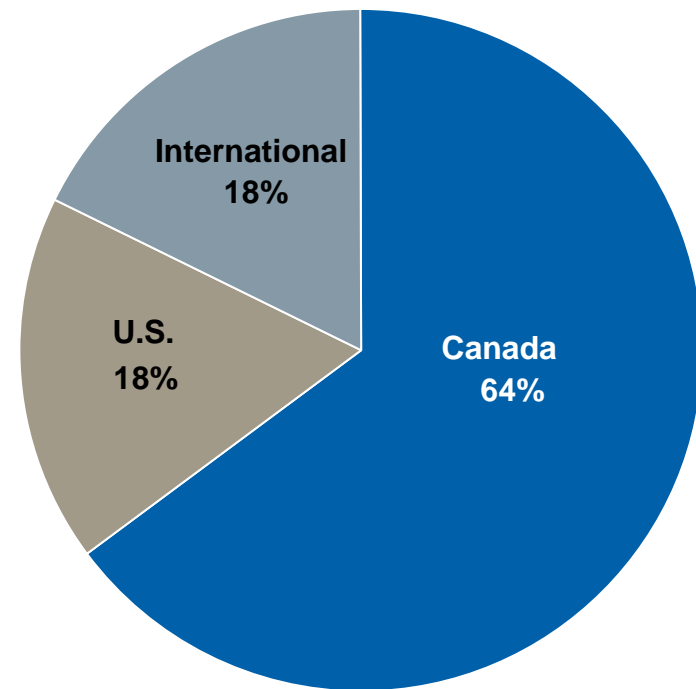
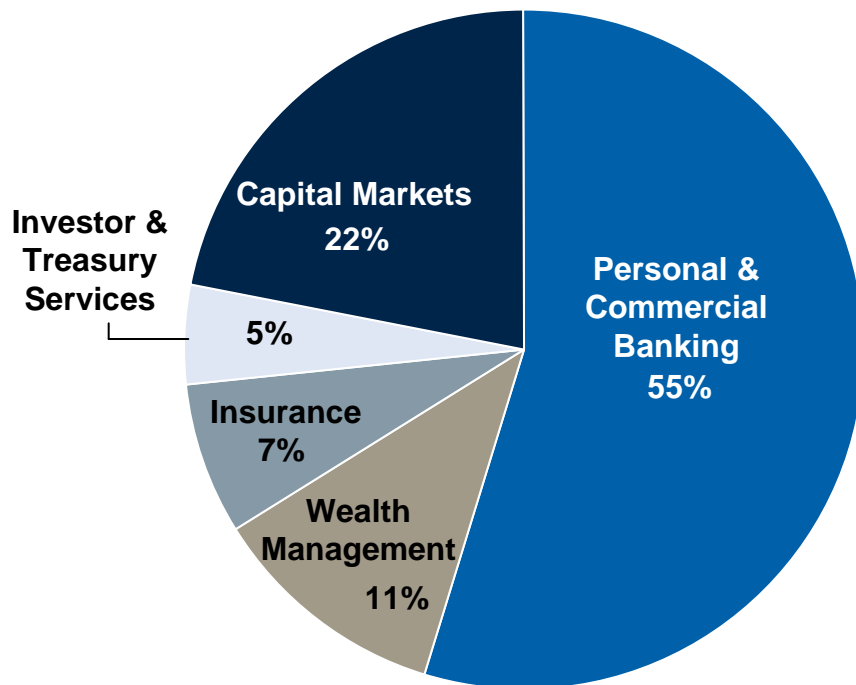
- Diversified business mix, with the right balance of retail and wholesale
- Almost two-thirds of revenue from Canada
- Strategic approach in key businesses in the U.S. and select international markets

## Earnings by business segment<sup>(1)</sup>

Latest twelve months ended January 31, 2014

## Revenue by geography<sup>(1)</sup>

Latest twelve months ended January 31, 2014





# Strategic priorities

## Strategic goals

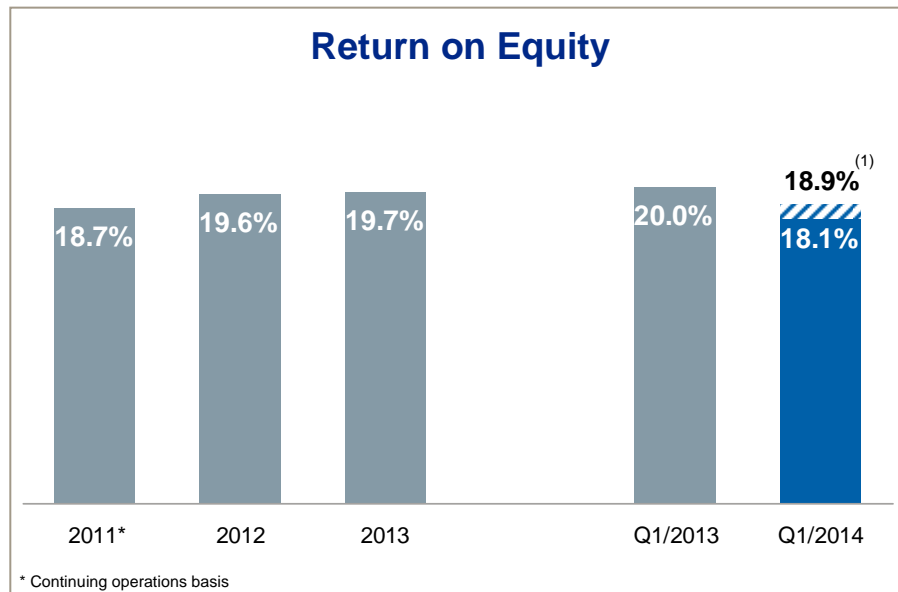
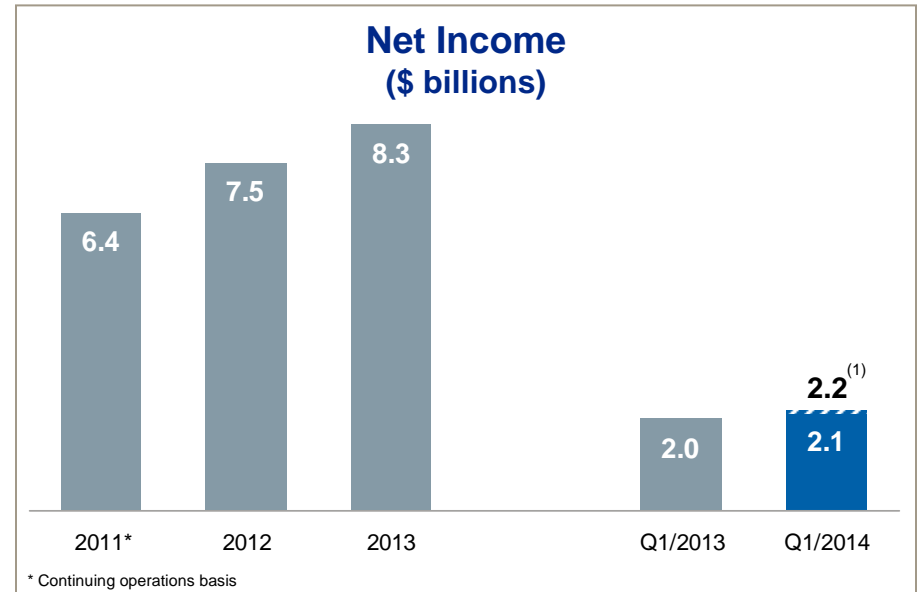
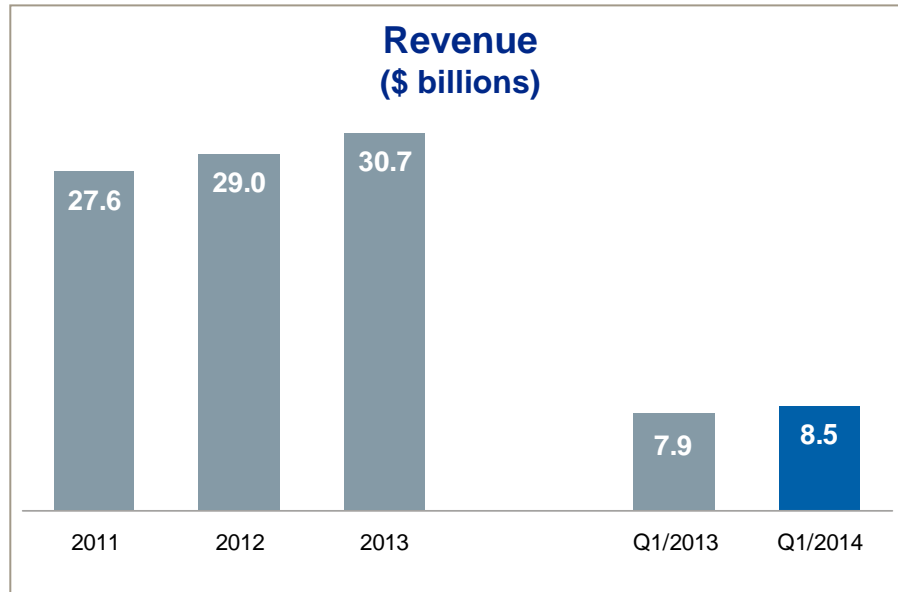
- In Canada, to be the undisputed leader in financial services
- Globally, to be a leading provider of capital markets, investor and wealth management solutions
- In targeted markets, to be a leading provider of select financial services complementary to our core strengths

## Strategic priorities

Personal & Commercial Banking	Wealth Management	Insurance	Investor & Treasury Services (I&TS)	Capital Markets
<ul style="list-style-type: none"> <li>▪ Offering a differentiated experience: value for money, advice, access and service</li> <li>▪ Making it easier to do business with us and be the lower cost producer</li> <li>▪ Converging into an integrated multi-channel network</li> <li>▪ Enhancing client experience and improving efficiency in the Caribbean and U.S.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Building a high-performing global asset management business</li> <li>▪ Focusing on high net worth and ultra-high net worth clients to build global leadership</li> <li>▪ Leveraging RBC and RBC Wealth Management strengths and capabilities</li> </ul>	<ul style="list-style-type: none"> <li>▪ Improving distribution efficiency and deepening client relationships</li> <li>▪ Making it easier for clients to do business with us</li> <li>▪ Pursuing select international opportunities to grow our reinsurance business</li> </ul>	<ul style="list-style-type: none"> <li>▪ Providing excellence in custody and asset servicing, with an integrated funding and liquidity management business</li> <li>▪ Focusing on organic growth through client relationships, cross-selling and promoting the RBC brand</li> <li>▪ Leveraging I&amp;TS as a driver of enterprise growth strategies</li> </ul>	<ul style="list-style-type: none"> <li>▪ Maintaining our leadership position in Canada</li> <li>▪ Expanding and strengthening client relationships in the U.S.</li> <li>▪ Building on core strengths and capabilities in Europe and Asia</li> <li>▪ Optimizing capital use to earn high risk-adjusted returns on assets and equity</li> </ul>



# Strong financial profile



### Q1/2014 Basel III Capital ratios – “All-in” basis<sup>(2)</sup>

Common Equity Tier 1	9.7%
Tier 1 Capital	11.5%
Total Capital	13.5%

### Credit ratings<sup>(3)</sup>

Moody's	S&P	Fitch	DBRS
Aa3	AA-	AA	AA
Stable	Stable	Stable	Stable

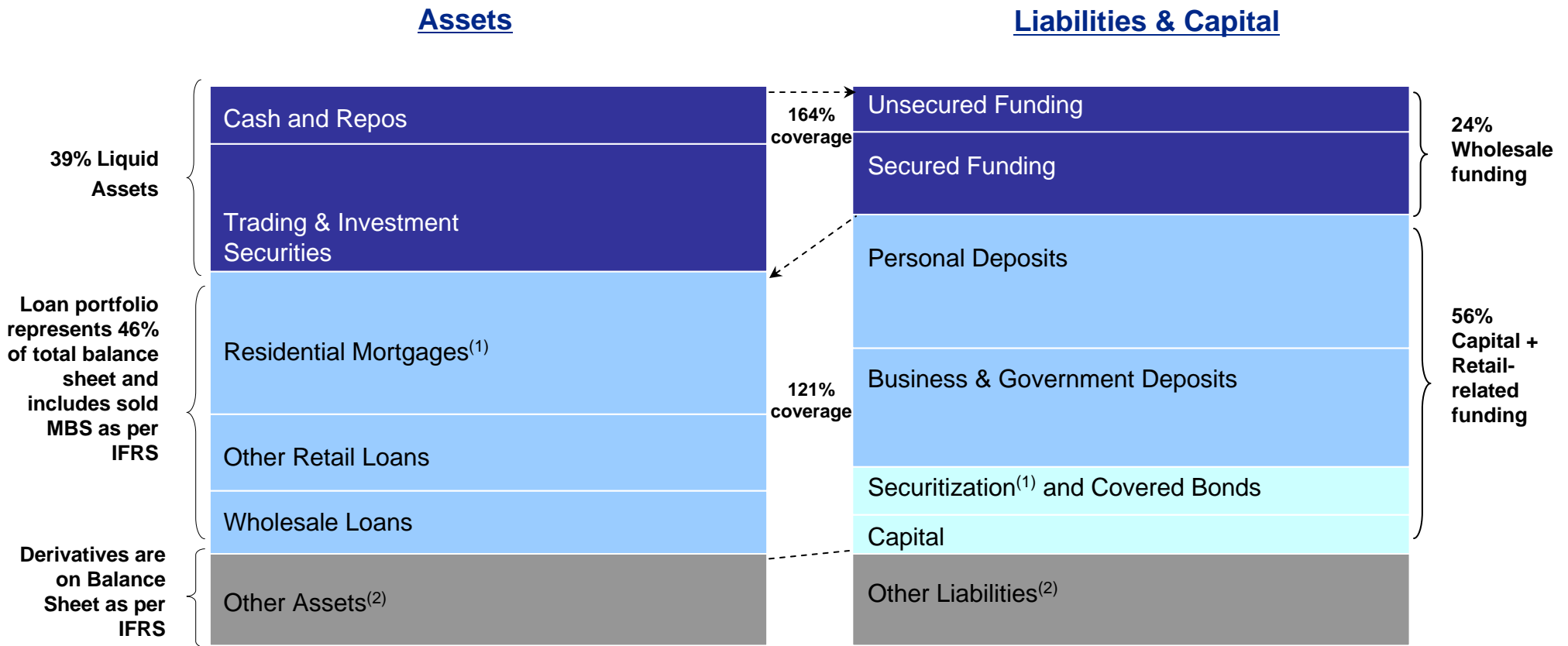
## Investor Relations – Fixed Income Presentation

(1) Adjusted for specified items which include the loss of \$60 million (before and after-tax) related to the sale of RBC Jamaica and a provision of \$40 million (\$32 million after-tax) related to post-employment benefits and restructuring charges in the Caribbean. These are non-GAAP measures. For further information, see Q1/2014 Report to Shareholders and slide 23. (2) Capital calculated to include all regulatory adjustments that will be required by 2019 but retaining the phase-out rules for non-qualifying capital. Refer to the Capital Management section of our 2013 Annual Report for details on Basel III requirements. (3) Based on long-term senior debt ratings.



# Strength of a high quality liquid balance sheet

**\$905 billion**  
(as at January 31, 2014)



(1) Securitized agency MBS are on balance sheet as per IFRS. (2) Other assets include C\$79 billion of derivatives related to assets, largely offset by derivatives related liabilities in Other liabilities. Under IFRS derivative amounts with master netting agreements cannot be offset and the gross derivative assets and liabilities are reported on balance sheet.



# History of delivering value to our shareholders

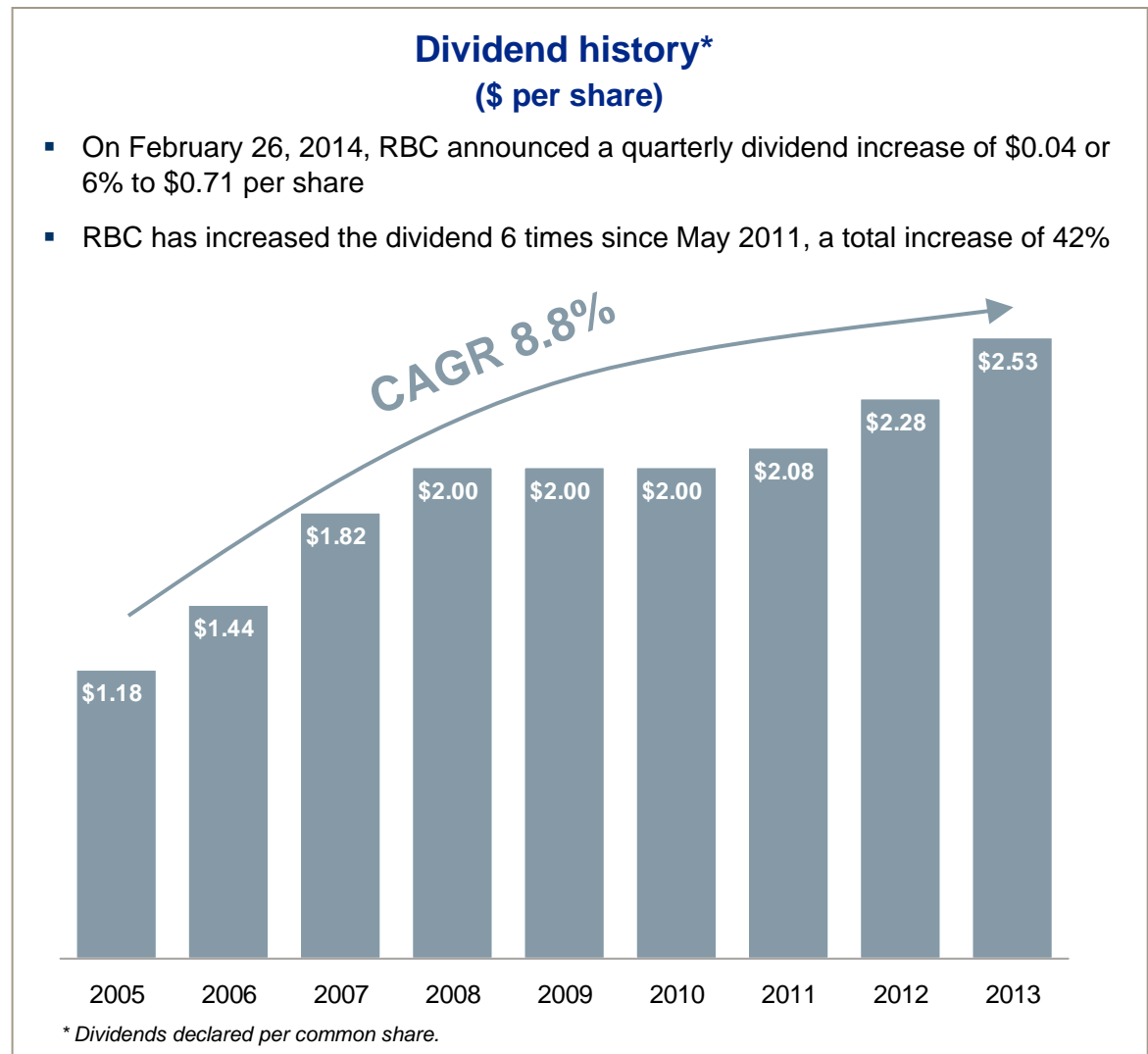
Total shareholder return (TSR) <sup>(1)</sup>		
	RBC	Peer Avg.
3 Year	13%	9%
5 Year	25%	23%
10 Year	12%	5%

### Dividend

- Current quarterly dividend: \$0.67
- Q1/2014 payout ratio of 48%, in line with our target of 40-50%

### Share buybacks

- 2014 normal course issuer bid to repurchase up to 30 million common shares



**Our goal is to maximize shareholder returns by achieving top quartile TSR over 3-5 years**

# Global Funding Strategy

## SECTION III

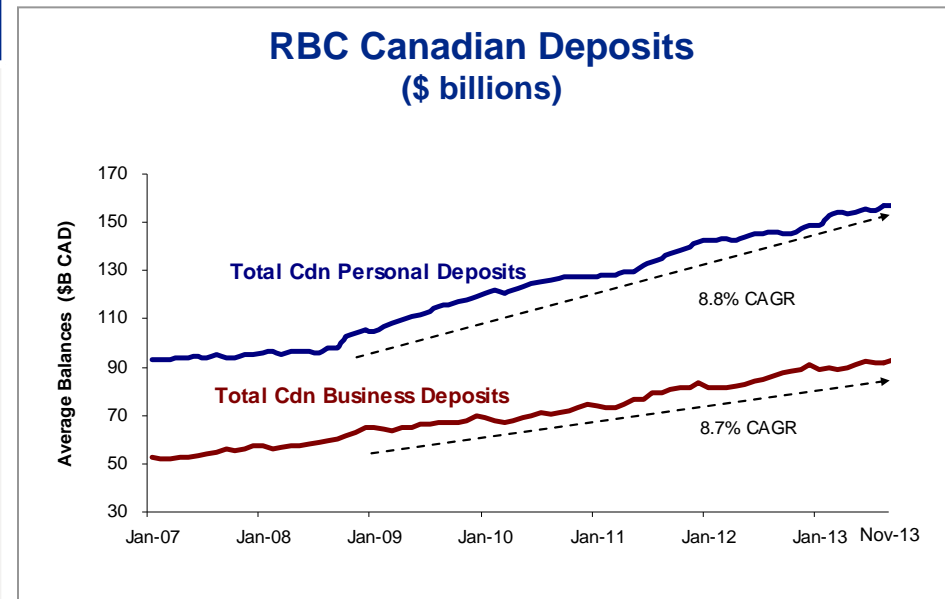




# Strong deposit growth

## Gaining Canadian market share

- Initiated successful strategies to grow relationship deposit base
- Between October 2010 to November 2013, our share of the Canadian personal deposit market has grown from 18.7% to 20.0%<sup>(1)</sup>
- Leveraging our Wealth Management network with targeted strategies and product development
- Canadian relationship business deposits continue to grow at faster pace than the market



## Leveraging our international reach

- Acquired the remaining 50% of RBC Investor Services deposits
- U.S. retail bank operates as a deposit gatherer
- Supporting deposit growth in Channel Islands and other offshore wealth management centres

### RBC Relationship Deposits (\$ billions)

	Oct 2010	Jan 2014
HISA <sup>(2)</sup>	\$ 18	\$ 27
Advisory Channel Deposits <sup>(3)</sup>	\$ 13	\$ 30
Other Personal Deposits	\$ 131	\$ 142
Business Deposits	\$ 131	\$ 176
<b>Total Deposits</b>	<b>\$ 293</b>	<b>\$ 375</b>

## Leveraging the strength of our distribution

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<sup>(1)</sup> Canadian deposit market is based on Canadian Banking personal deposits and Wealth Management advisory channel deposits. Source: OSFI (M4 report).

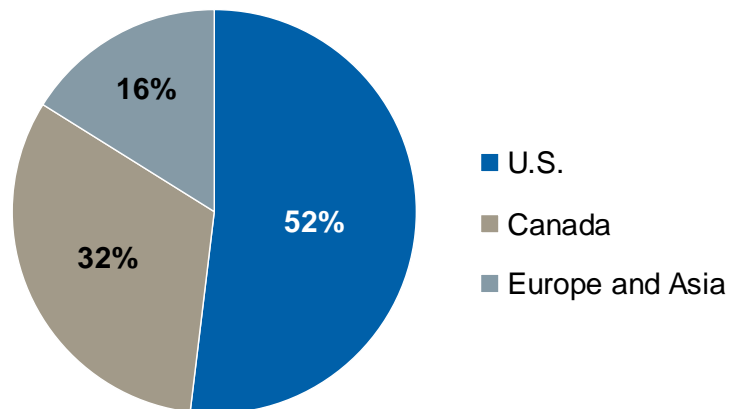
<sup>(2)</sup> High Interest Savings Account; Includes CAD and USD deposits.

<sup>(3)</sup> Sourced largely from RBC Wealth Management network.

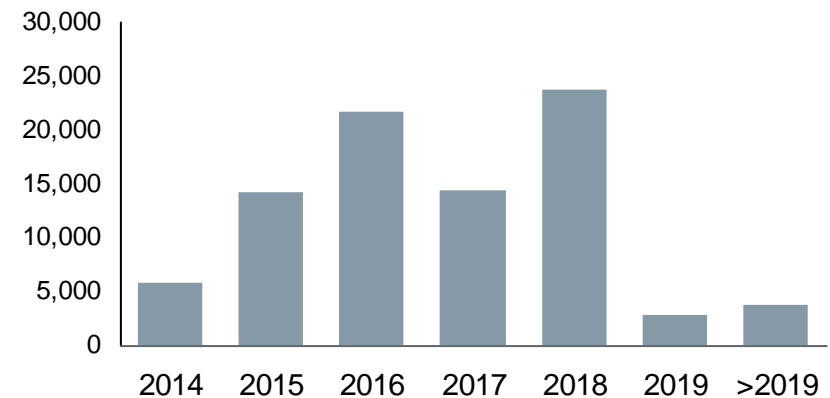
# Wholesale funding strategy

- Well diversified across products, currencies, investor segments and geographic regions
- Raise majority of funding in international markets to preserve significant domestic capacity which can be tapped in stressed market conditions
- Regular issuance in all major markets to promote investor engagement and secondary market liquidity
- Well balanced maturity profile that is reflective of the maturity profile of our asset base

## Diversified by Geography <sup>(1)</sup> January 31, 2014



## Well Balanced Maturity Profile <sup>(1)</sup> January 31, 2014



**Large retail deposit base complemented by well diversified wholesale funding mix**

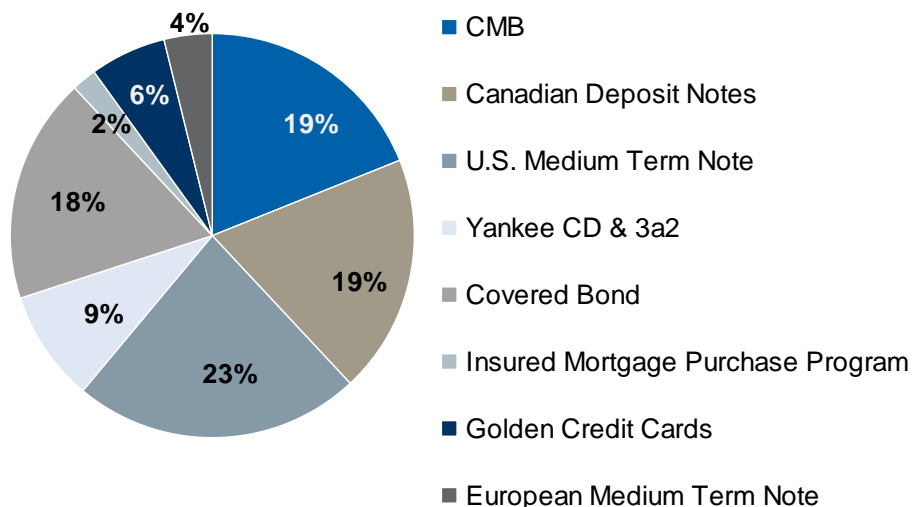
# Well diversified wholesale funding platform

- Variety of programs allows for greater diversification and cost effectiveness

Canada	U.S.	Europe and Asia
<ul style="list-style-type: none"> <li>Canadian Shelf (C\$15 billion)</li> <li>Securitizations (Cdn mortgage bonds, NHA MBS<sup>(1)</sup> and credit cards)</li> </ul>	<ul style="list-style-type: none"> <li>SEC Registered Shelf (US\$25 billion)</li> <li>SEC Registered Covered Bonds (US\$12 billion)</li> </ul>	<ul style="list-style-type: none"> <li>European Debt Issuance Program (US\$40 billion)</li> <li>Covered Bond Program (Euro 23 billion)</li> <li>Japanese Issuance Programs (JPY 1 trillion)</li> </ul>

## Well Diversified by Product

January 31, 2014



## Recent deals

- US\$2.5BN 3-year unsecured notes at Libor+33bps
- US\$1.6BN 2-year FRN at Libor+22bps
- C\$2BN 5-year unsecured notes at Libor+64bps
- EUR 1.5BN 5-year covered bond at Libor+34bps
- AUD 1.5BN 3-year FRN at Libor+45bps
- US\$2BN 5-year SEC registered covered bond at Libor+43bps

# RBC Covered Bond Program

## Globally Active

- Active program in five different currencies: EUR, CAD, USD, CHF and AUD
  - C\$22 billion currently outstanding
- Five benchmark transactions since July 2013:

EUR 1.5 billion 5-year	US\$2 billion 5-year
US\$1.75 billion 3-year	EUR 2 billion 7-year
AUD 1.25 billion 3-year	

## Strong Issuer

- Largest Canadian bank by market capitalization
- Strong credit ratings; Aa3/AA-/AA/AA<sup>(1)</sup>
- Well capitalized and consistent profitability
- Well diversified business mix

## Canadian Legislative Changes



- New Canadian legislation protects claims of covered bond investors and overrides any other conflicting law related to bankruptcy and insolvency
  - Extensive regulatory oversight and pool audit requirements
  - Mandatory property value indexation beginning June 2014

## U.S. Registration



- U.S. covered bond program is SEC registered
  - Issued US\$7.75 billion across four deals since September 2012
  - Index eligible and Trace eligible

# Appendix – Legislation and Policies

## SECTION IV

# Legislation and policies – promoting a healthy housing market

## July 2012

- Maximum amortization on government-backed insured mortgages reduced to 25 years from 30 years
- Maximum amount that can be borrowed on a mortgage refinancing lowered to 80% from 85%
- CMHC insurance availability is limited to homes with a purchase price of <\$1 million lowered from \$3.5 million
- Set the borrower's maximum gross debt service ratio at 39% and maximum total debt service ratio at 44%

## March 2011

- Maximum amortization on government-backed insured mortgages reduced to 30 years from 35 years
- Maximum amount that can be borrowed on a mortgage refinancing lowered to 85% from 90%

## February 2010

- Borrowers must meet the standards for a five-year fixed rate mortgage
- Maximum amount that can be borrowed on a mortgage refinancing lowered to 90% from 95%
- Minimum down payment of 20% is required in order to qualify for government-backed mortgage insurance on non-owner-occupied properties

## July 2008

- Maximum amortization on government-backed insured mortgages reduced to 35 years from 40 years
- A minimum 5% down payment is required in order to qualify for government-backed insured mortgages
- Additional – minimum credit score requirements, new loan documentation standards, setting a maximum of 45% on borrowers total debt service ratio



## Note to users

We use a variety of financial measures to evaluate our performance. In addition to generally accepted accounting principles (GAAP) prescribed measures, we use certain non-GAAP measures we believe provide useful information to investors regarding our financial condition and result of operations. Readers are cautioned that non-GAAP measures, such as earnings and revenue excluding Corporate Support and specified items do not have any standardized meanings prescribed by GAAP, and therefore are unlikely to be comparable to similar measures disclosed by other financial institutions.

Additional information about our non-GAAP measures can be found under the “Key performance and non-GAAP measures” section of our Q1 2014 Report to Shareholders and our 2013 Annual report.

Definitions can be found under the “Glossary” sections in our Q1 2014 Supplementary Financial Information and our 2013 Annual Report.

### Investor Relations Contacts

Amy Cairncross, VP & Head	(416) 955-7803
Lynda Gauthier, Director	(416) 955-7808
Christopher Taylor, Associate Director	(416) 955-7872

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