# Royal Bank of Canada
# Fixed Income Presentation

Q2/2013

All amounts are in Canadian dollars and are based on financial statements prepared in compliance with International Accounting Standard 34 *Interim Financial Reporting*, unless otherwise noted.
Financial information for full year 2010, 2011 and 2012 is presented on a continuing operations basis.

## Caution regarding forward-looking statements

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 presentation (RBC Fixed Income presentation), in filings with Canadian regulators or the SEC, in reports to shareholders and in other communications. Forward-looking statements in this presentation include, but are not limited to, statements relating to our financial performance objectives, vision and strategic goals. 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 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 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, operational, legal and regulatory compliance, insurance, reputation and strategic risks and other risks discussed in the Risk management and Overview of other risks sections of our 2012 Annual Report and in the Risk management section of our Q2 2013 Report to Shareholders; the impact of changes in laws and regulations, including relating to the *Dodd-Frank Wall Street Reform and Consumer Protection Act* and the regulations issued and to be issued thereunder, the Basel Committee on Banking Supervision's global standards for capital and liquidity reform, over-the-counter derivatives reform, the payments system in Canada, consumer protection measures and regulatory reforms in the U.K. and Europe; general business and economic market conditions in Canada, the United States and certain other countries in which we operate, including the effects of the European sovereign debt crisis, and the high levels of Canadian household debt; cybersecurity; the effects of changes in government fiscal, monetary and other policies; the effects of competition in the markets in which we operate; our ability to attract and retain employees; the accuracy and completeness of information concerning our clients and counterparties; judicial or regulatory judgments and legal proceedings; development and integration of our distribution networks; 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 RBC 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 2012 Annual Report, as updated by the Overview section in our Q2 2013 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 2012 Annual Report and in the Risk management section of our Q2 2013 Report to Shareholders.

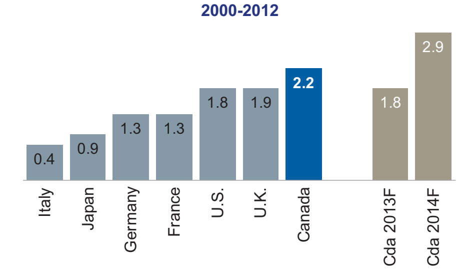
# Canadian Economy

SECTION I

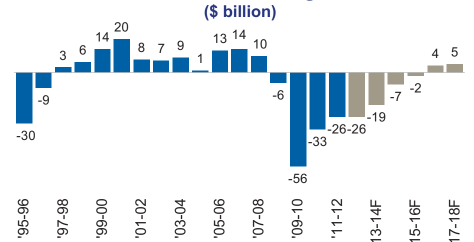
## Strong fiscal position

- 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 5th consecutive year[1]

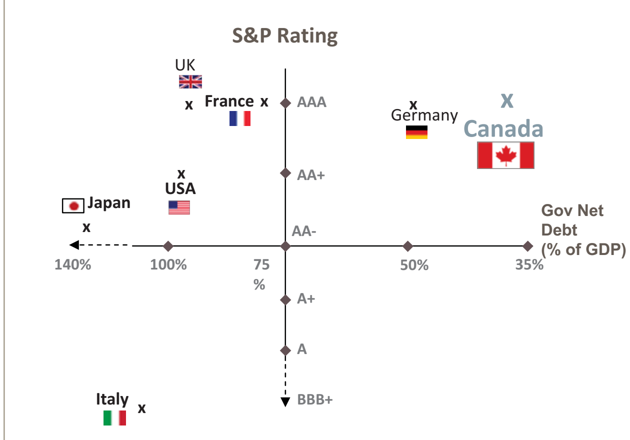
**G7 Real GDP Growth (%)[2]**
**2000-2012**




**Canadian Government Budget Balance[3]**
**($ billion)**




**Canada – lowest net debt of all G7 countries[4]**
**(as a % of nominal GDP, 2012)**



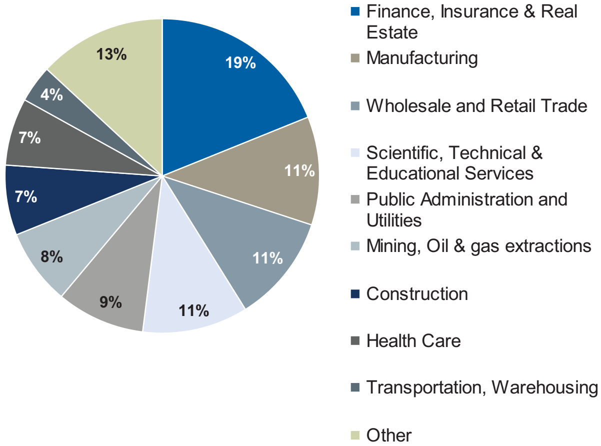



*(1) World Economic Forum, 2012.*
*(2) Averages for the period. National statistics offices, RBC Economics Research.*
*(3) Department of Finance Canada, RBC Economics Research.*
*(4) S&P, International Monetary Fund (IMF), RBC Economics Research.*

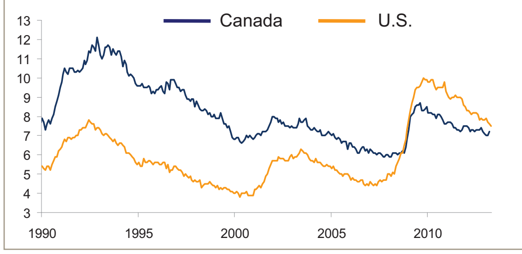
## Attractive economic fundamentals

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

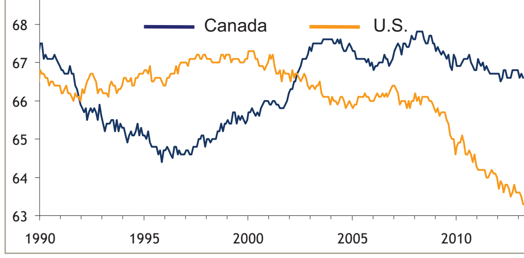
**Canadian GDP by Industry[(1)]**
**(February 2013)**




**Unemployment (%)[(2)]**




**Labour Force Participation Rate[(2)]**

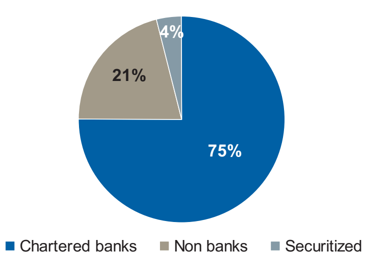




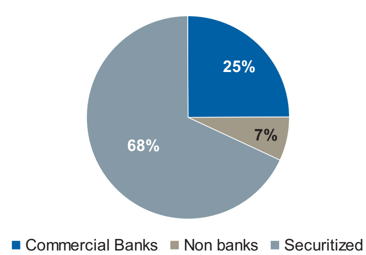

*(1) Statistics Canada. Other includes Information & cultural industries, Other services, Accommodation & food services, Administration and support services and Entertainment industries.*
*(2) Statistics Canada, U.S. Bureau of Labour Statistics, RBC Economics Research as at January 2013.*

## Structural backdrop to the Canadian housing market

**Canadian Residential Mortgage Market[(1)]**
**($1.2 trillion)**




**U.S. Residential Mortgage Market[(2)]**
**(US$9.9 trillion)**




| | Canada[(3)] | U.S.[(3)] |
|---|---|---|
| **Regulation** | ▪ Fully insured if LTV is <u>over</u> 80%<br>– Must meet 5-year fixed rate mortgage standards<br>– Government-backed, on homes <$1 million<br>– Down-payment > 20% on non-owner occupied properties<br>▪ Re-financing cap of 80% on non-insured mortgages | ▪ Agency insured only if conforming and LTV under 80%<br>▪ No regulatory LTV limit – can be over 100%<br>▪ Not government-backed if private insurer defaults |
| **Consumer Behaviour** | ▪ Mortgage interest not tax deductible<br>▪ More incentive to pay off mortgage | ▪ Mortgage interest is tax deductible<br>▪ Less incentive to pay down mortgage |
| **Lender Behaviour** | ▪ Strong underwriting discipline; extensive documentation<br>▪ Most mortgages are held on balance sheet<br>▪ Conservative lending policies have led to low delinquency rates | ▪ Wide range of underwriting and documentation requirements<br>▪ Most mortgages securitized |
| **Lenders Recourse** | ▪ Easy to foreclose on non-performing mortgages, with no stay periods<br>▪ Full recourse against borrowers[(4)] | ▪ Stay period from 90 days to one year to foreclose on non-performing mortgages<br>▪ Limited recourse against borrowers in key states |



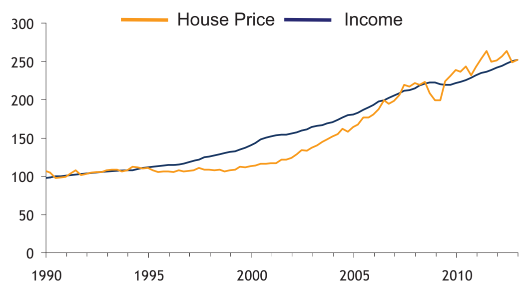
*(1) Bank of Canada, Q4 2012, RBC Economics Research.*
*(2) U.S. Federal Reserve Board, Q3 2012, RBC Economics Research.*
*(3) Current regulation and lenders recourse.*
*(4) Alberta has some limited restrictions on full recourse.*

## Canadian housing market fundamentals remain sound

- The housing market is gradually cooling as activity transitions to more long term sustainable levels
- 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; latest changes causing a restraining effect
- Home price increases have moderated, with absolute declines in some markets such as Vancouver
- 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

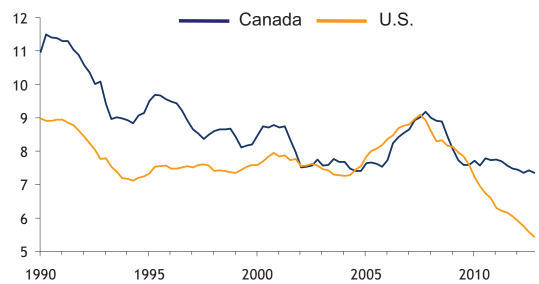
**Canadian House Price & Labour Income[1]**

**(Indexed 1990=100)**




**Household Debt Service Costs[2]**

**(Mortgage & non-mortgage interest payments as a % of PDI)**





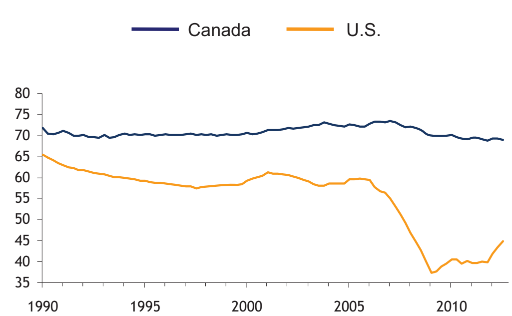

(1) Canadian Real Estate Association, Statistics Canada, RBC Economics Research as at December 2012.
(2) Statistics Canada, Federal Reserve Board, Bureau of Economic Analysis, Office for National Statistics, RBC Economics Research as at December 2012. PDI: Personal disposable income.

## Canadians have significant equity ownership in their homes

- Canadians carry a significant and stable amount of equity in their homes
  - Rate of home ownership is comparable to the U.S., at approximately 68%[1]
- Canadian borrowers are more incented to pay off their mortgage as interest is not tax deductible
- 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

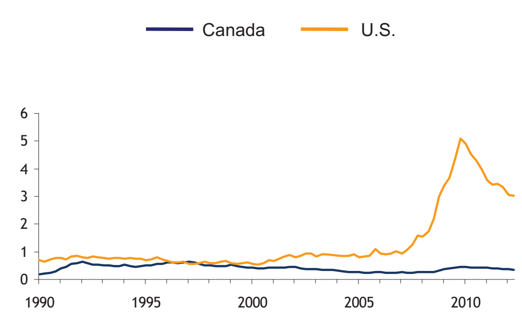
**Homeowners' Equity as % of Total Value of Real Estate Assets[2]**

**(Owners' equity as a % of residential real estate assets)**




**Mortgage Delinquencies[3] (90+ days)**

**(Mortgages 90+ days in arrears as a % of total mortgages)**






(1) Statistics Canada Census and U.S. Census Bureau.
(2) Statistics Canada, Federal Reserve Board, RBC Economics Research as at December 2012.
(3) Canadian Bankers' Association, Mortgage Bankers' Association, RBC Economics Research as at December 2012.

## 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(1)
  - 20.6% of Canada’s population is foreign born (6,775,800), highest proportion among the G8 population(1)
  - 62.5% of all new immigrants to Canada move to Toronto, Vancouver or Montreal(1)
- RBC’s exposure to condo development is limited – less than 3% of our total commercial loan book and 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**




(1) National Household Survey, May 8, 2013. Statistics Canada

# Royal Bank of Canada

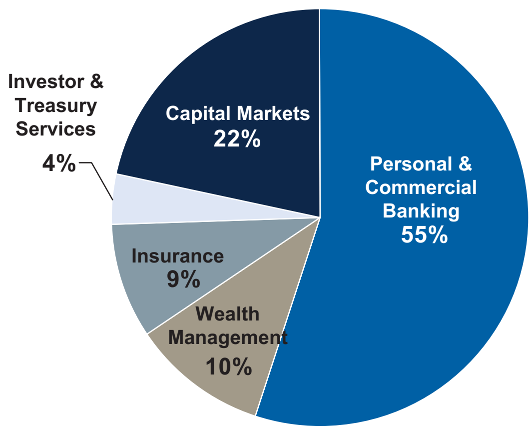
## SECTION II

## 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

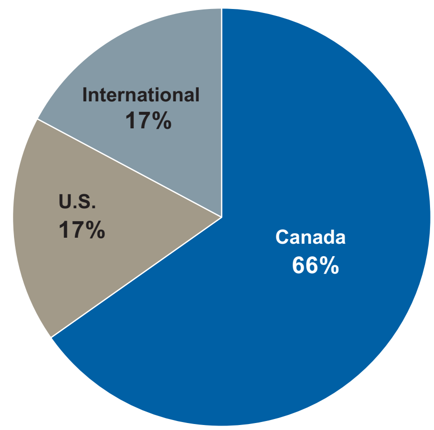
### Earnings by business segment(1)(2)

*Average Q3/2012 to Q2/2013*




### Revenue by geography(1)

*Average Q3/2012 to Q2/2013*






*(1) Amounts exclude Corporate Support. For further information, see the Business segment results and Results by geographic segment sections of our Q2 2013 Report to Shareholders.*
*(2) Excluding certain items of note related to our acquisition and integration of the remaining 50% stake in RBC Dexia Investor Services, renamed RBC Investor Services (RBCIS). These are non-GAAP measures. For additional information see slide 22 and our Q2 2013 Report to Shareholders.*

## Extending our lead in Canada with selective global growth

### Strategic goals

- **In Canada, to be the undisputed leader in financial services**
- **Globally, to be a leading provider of capital markets 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

*Canada*
- Building on leading market positions
- Extending our sales power
- Eliminating costs and reinvesting for the future

*Caribbean / U.S.*
- Building on strengths in innovation and technology to differentiate the client experience in the Caribbean and U.S.

#### Wealth Management

- Building a high-performing global asset management business
- Focusing on high net worth and ultra-high net worth clients to build global leadership
- Leveraging RBC and RBC Wealth Management strengths and capabilities

#### Insurance

- Improving distribution efficiency and deepening client relationships
- Making it easier for clients to do business with us
- Pursuing select international opportunities to grow our reinsurance business

#### Investor & Treasury Services

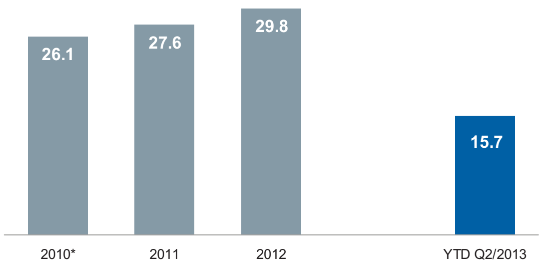
- Establishing a specialist custody bank with an integrated funding and liquidity business
- Focusing on organic growth through deeper client relationships, cross-selling and promoting the RBC brand
- Leverage Investor & Treasury Services as a driver of enterprise growth strategies

#### Capital Markets

- Extending our leadership position in Canada
- Expanding and strengthening client relationships in the U.S.
- Building on core strengths and capabilities in the U.K., Europe and Asia
- Optimizing capital use to earn high risk-adjusted returns on assets and equity

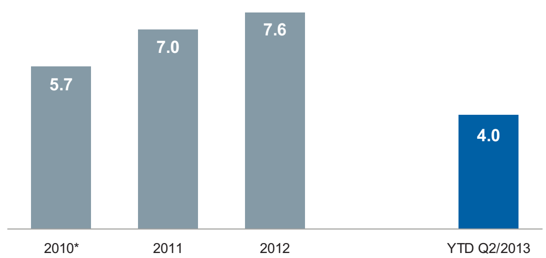
# Strong financial profile

### Revenue ($ billions)



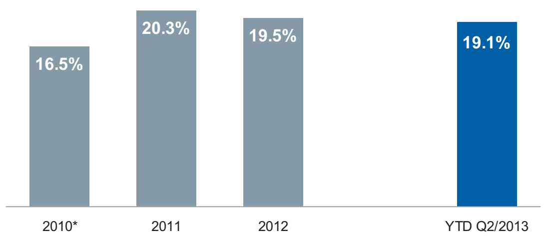

** Based on Canadian GAAP.*

### Net Income ($ billions)




** Based on Canadian GAAP.*

### Return on Equity




** Based on Canadian GAAP.*

### Q2/2013 Basel III Capital ratios – "All-in" basis(1)

- Common Equity Tier 1 9.1%
- Tier 1 Capital 11.2%
- Total Capital 14.0%

### Credit ratings(2)

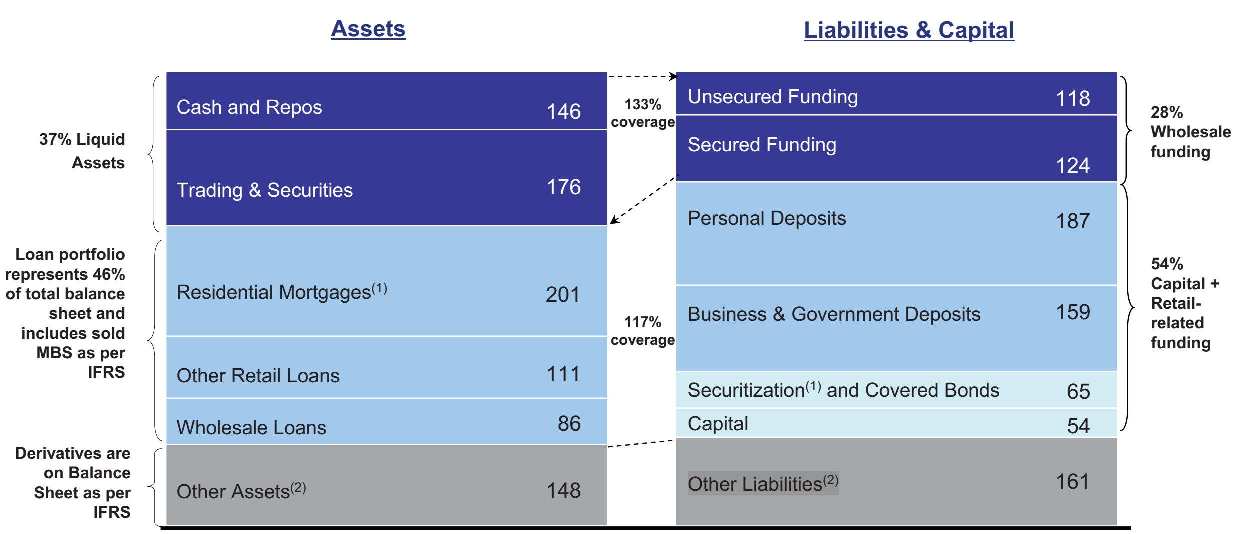
| Moody's | S&P | Fitch | DBRS |
|---|---|---|---|
| **Aa3** | **AA-** | **AA** | **AA** |
| *Stable* | *Stable* | *Stable* | *Stable* |



(1) *Capital calculated to include all regulatory adjustments that will be required by 2019 but retaining the phase-out rules for non-qualifying capital. Please refer to the Capital Management section of our Q2 2013 Report to Shareholders for details on Basel III requirements.*
(2) *Based on long-term senior debt ratings.*

# Strength of a high quality liquid balance sheet

**$868 billion**
**(as at April 30, 2013)**






(1) *Securitized agency MBS are on balance sheet as per IFRS.*
(2) *Other assets include C$91B 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)[1]

| | RBC | Peer Avg. |
|---|---|---|
| 3 Year | 6% | 7% |
| 5 Year | 9% | 2% |
| 10 Year | 12% | 6% |

### Dividend

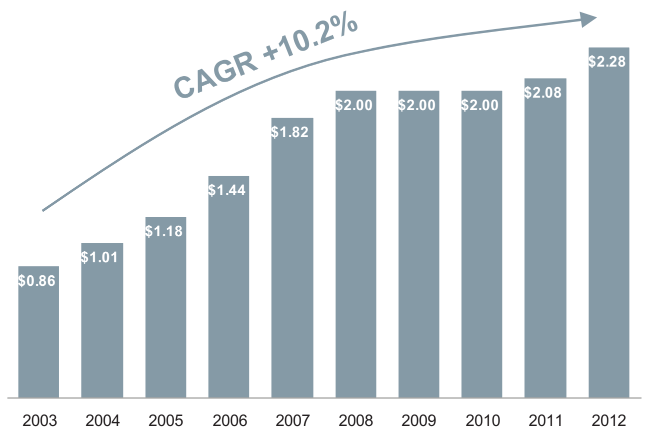
- Current quarterly dividend: $0.63
- Q2/2013 payout ratio of 49% was in line with our target of 40-50%

### Share buybacks

- Repurchase of $128 million (2.1 million common shares) as at April 30, 2013
- Normal course issuer bid to repurchase up to 30 million common shares remains in effect until October 31, 2013

### Dividend history ($ per share)

- RBC has increased the dividend 4 times since May 2011, a total increase of 26%




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



(1) *Annualized TSR as at May 24, 2013. Based on the global peer group approved by our Board of Directors. For the list of peers, please refer to our 2012 Annual Report.*

# Global Funding Strategy

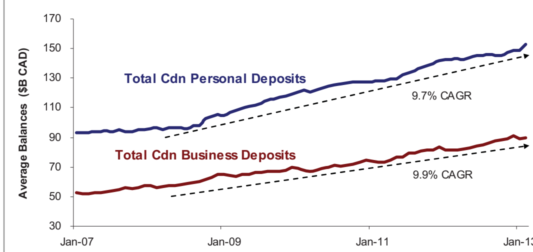
## SECTION III

## Strong deposit growth – leveraging strength of distribution

### Gaining Canadian market share

- Initiated successful strategies to grow relationship deposit base
- Between Oct 2010 to Feb 2013, our share of the Canadian personal deposit market has grown from 18.7% to 20.1%
- Leveraging our Wealth Management network with targeted strategies and product development
- Canadian relationship business deposits continue to grow at faster pace than the market

### RBC Canadian Deposits
**($billions)**




### 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 Deposits
**($billions)**

| | Oct 2010 | April 2013 |
|---|---|---|
| HISA[(1)] | $ 18 | $ 25 |
| Advisory Channel Deposits[(2)] | $ 13 | $ 29 |
| Other Personal Deposits | $ 131 | $ 133 |
| Business Deposits | $ 131 | $ 159 |
| **Total Deposits** | **$ 293** | **$ 346** |

**Reduced reliance on wholesale funding**

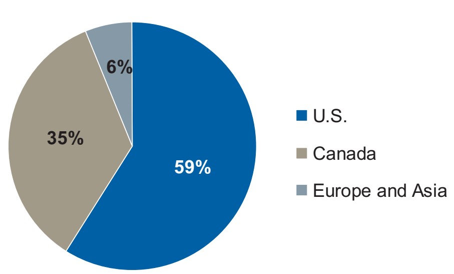


(1) *High Interest Savings Account; Includes CAD and USD deposits.*
(2) *Sourced largely from RBC Wealth Management network*

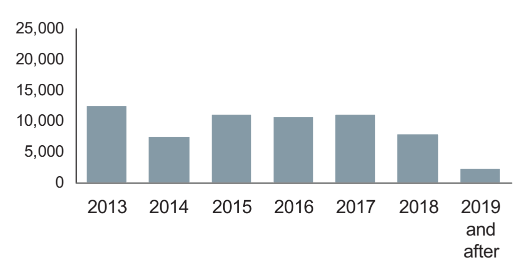
## Wholesale funding strategy

- 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

### Well Diversified by Geography (1)
**(April 30, 2013)**




### Well Balanced Maturity Profile (1)
**(April 30, 2013)**




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



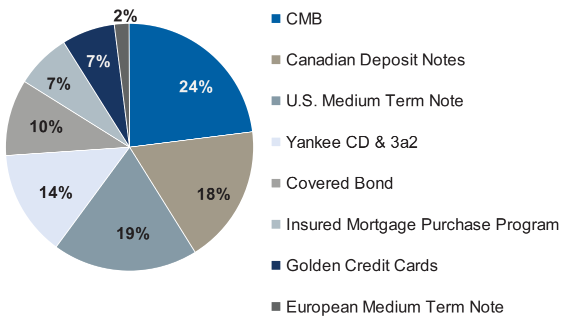
(1) *RBC term unsecured and covered bonds.*

## Well diversified wholesale funding platform

- Variety of programs allows for greater diversification and cost effectiveness

| Canada | U.S. | Europe and Asia |
|---|---|---|
| ▪ Canadian Shelf (C$15 billion)<br>▪ Securitizations (Cdn mortgage bonds, NHA MBS[(1)] and credit cards) | ▪ SEC Registered Shelf (US$25 billion)<br>▪ SEC Registered Covered Bonds (US$12 billion) | ▪ European Debt Issuance Program (US$40 billion)<br>▪ Covered Bond Program (Euro 15 billion)<br>▪ Japanese Issuance Programs (JPY 1 trillion) |

### Well Diversified by Product
**(April 30, 2013)**




### Recent deals in fiscal 2013

- C$1.25BN 5-year unsecured notes at Libor+51bps
- US$1.5BN 2-year unsecured at Libor+21bps
- US$2BN 3-year unsecured notes at Libor+37bps
- US$1.5BN 3-year SEC registered covered bonds at Libor+20bps



*(1) National Housing Act Mortgage Backed Securities.*

## RBC Covered Bond Program

### Globally active covered bond program

- Launched in 2007 - C$10.5 billion equivalent is currently outstanding (EUR, CAD, USD and CHF)
- Minimal amount of RBC's covered pool consists of Vancouver and Toronto condos (includes Toronto, Vancouver and surrounding municipalities of both cities)
- In June 2012, we lowered the maximum cover pool asset percentage from 97% to 93%; currently at 91.1%

### Canadian Legislative Changes

- New Canadian legislation introduced that will protect covered bond investors from claims on collateral from depositors and unsecured debt holders
- Only uninsured residential mortgages will be permitted as collateral

### U.S. Registration

- The SEC registration of our covered bond program was approved in July 2012
  - Issued inaugural SEC registered covered bond in September 2012; US$2.5BN 5-year at Libor+35
  - US$1.5BN 3-year SEC registered covered bond issued in November 2012 at Libor+20

**RBC is the first bank to have its covered bond program registered with the SEC**

# 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%
- Limited CMHC insurance availability to homes with a purchase price of less than $1 million 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