

# Royal Bank of Canada Fixed Income Presentation

Q4/2014

Financial information is presented on a consolidated basis in Canadian dollars and is based on International Financial Reporting Standards (IFRS), unless otherwise noted. Our 2014 Annual Report and Q4/2014 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, U.S. and Euro area economies. The forward-looking information contained in this RBC Fixed Income 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 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, competitive and systematic risks and other risks discussed in the Risk management and Overview of other risks sections of our 2014 Annual Report; anti-money laundering; growth in wholesale credit; 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; tax risk and transparency; 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, information management, social media, environmental and third party and outsourcing risk.

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 2014 Annual Report. 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 2014 Annual Report.

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

# Canadian Economy

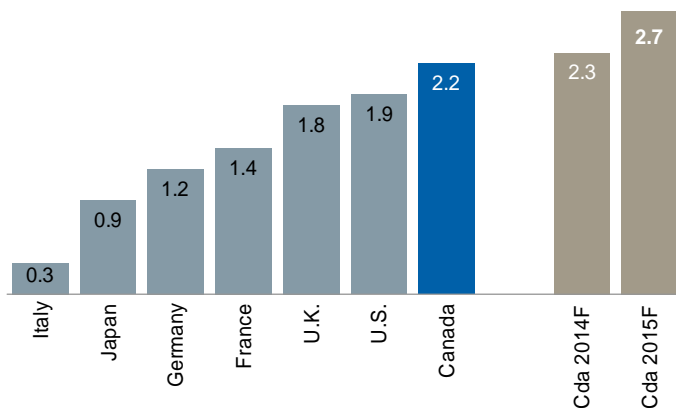
## SECTION I



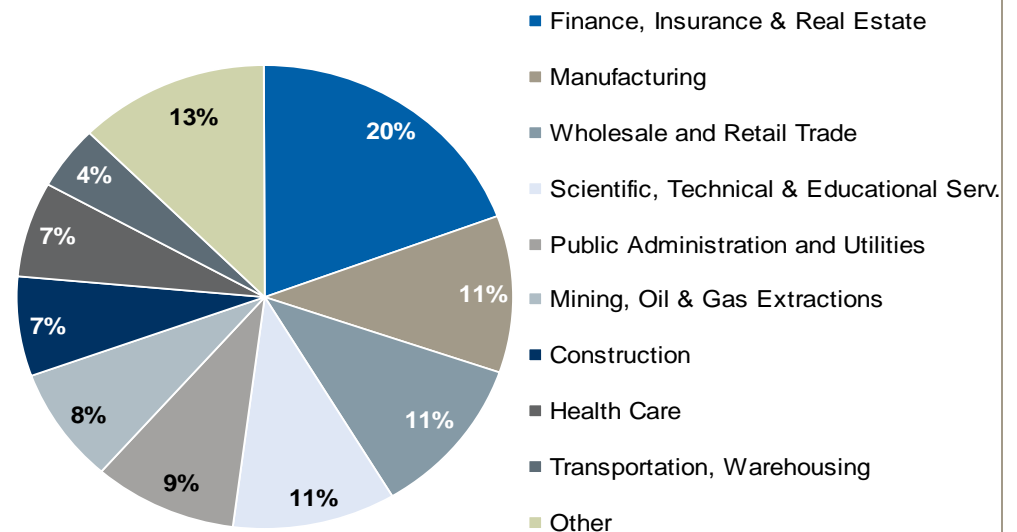
# Canada's strong fiscal position

- Strong rating as a result of fiscal prudence, conservative bank lending practices and solid economy
- Lowest net debt to GDP ratio among G7 peers
- #1 for soundness of banks for the 7<sup>th</sup> consecutive year<sup>(1)</sup>
- A diversified economy supporting balanced economic growth

**G7 Real GDP Growth (%)<sup>(2)</sup>**  
2000-2013

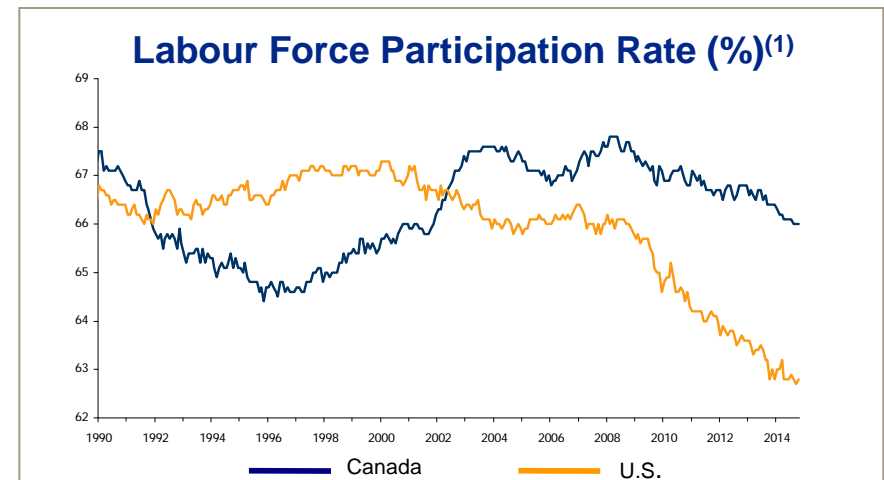
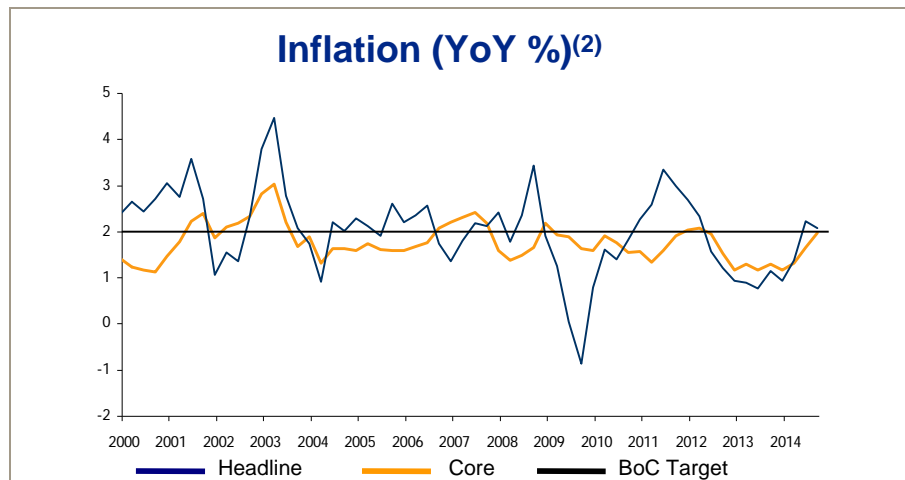
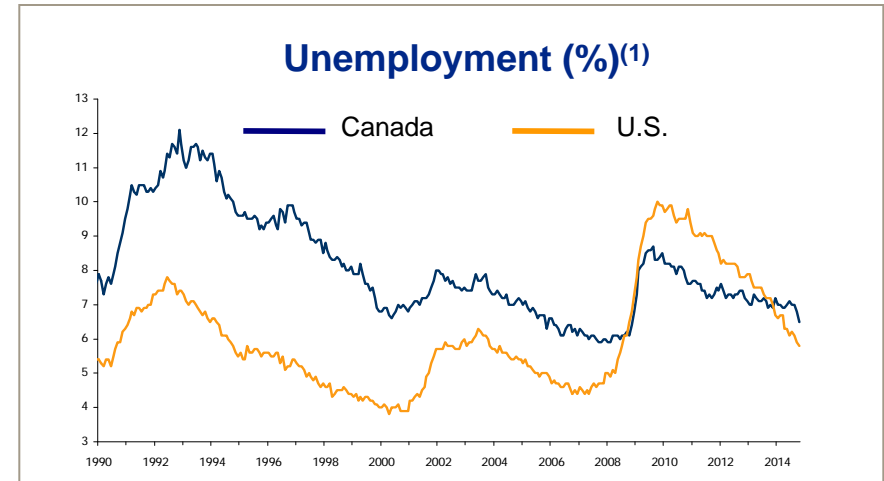


**Canadian GDP by Industry<sup>(3)</sup>**  
(August 2014)



# Attractive economic fundamentals

- Core inflation expected to remain stable around the mid-point of the Bank of Canada's 1-3% target range
- Unemployment rates are trending favourably and are indicative of underlying conditions remaining firm
- Labour force participation trend predominantly reflects an aging population rather than worker discouragement



# Structural backdrop to the Canadian housing market

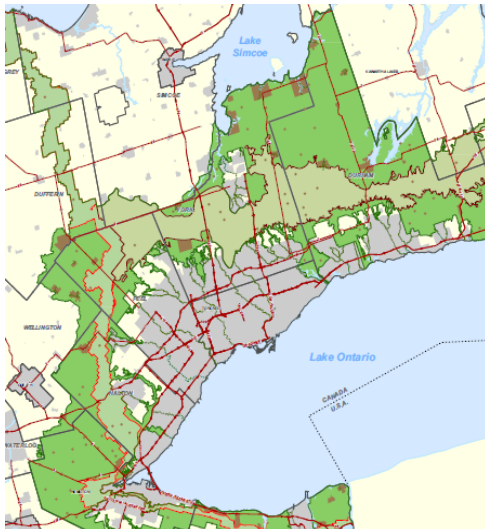
	Canada <sup>(1)</sup>	U.S. <sup>(1)</sup>
<b>Regulation</b>	<ul style="list-style-type: none"> <li>Government influences mortgage underwriting policies through control of insurance eligibility rules</li> <li>Fully insured if loan-to-value (LTV) is <u>over</u> 80% <ul style="list-style-type: none"> <li>Must 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 <u>under</u> 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>



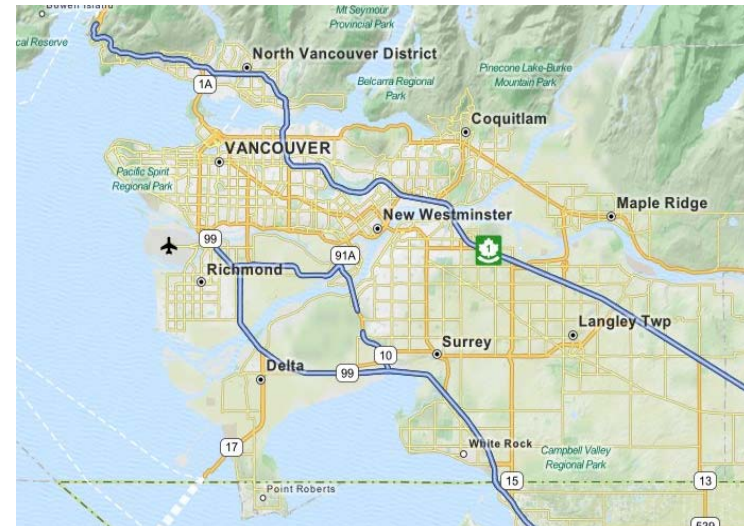
# The Toronto and Vancouver downtown condo markets

- 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 nations<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 – about 2% of our total commercial loan book<sup>(2)</sup>
  - Condo mortgages represent just over 9% of our residential mortgage portfolio

**“Green belt” surrounding Greater Toronto area**

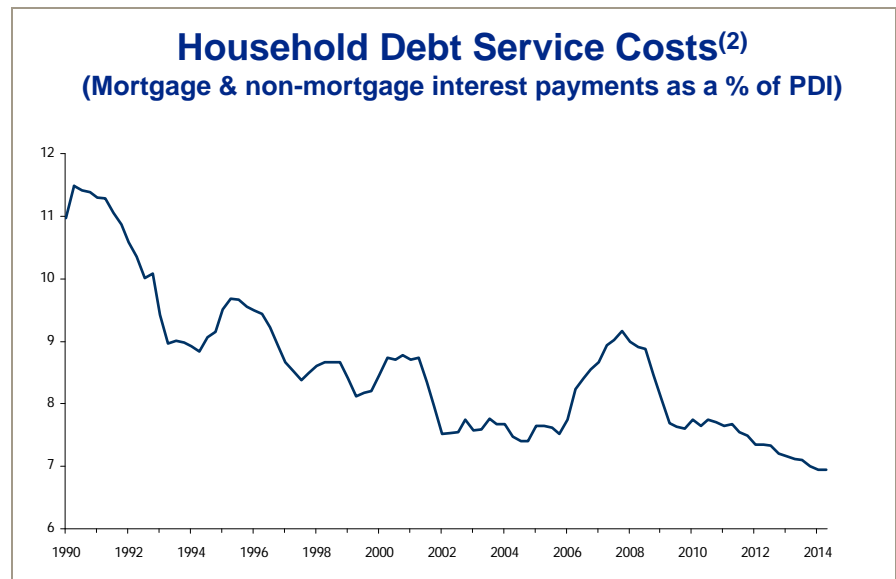
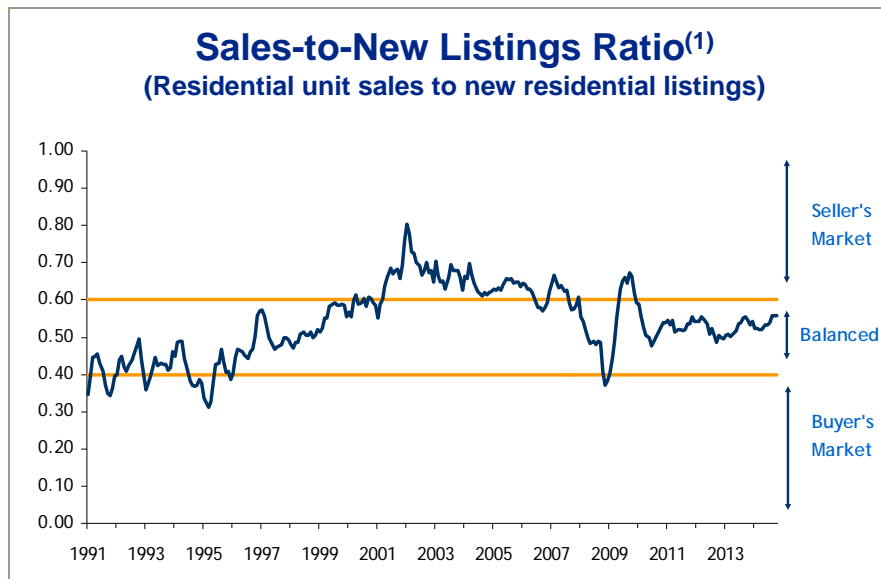


**Vancouver limited by mountains, sea, U.S. border**



# Canadian housing market fundamentals remain sound

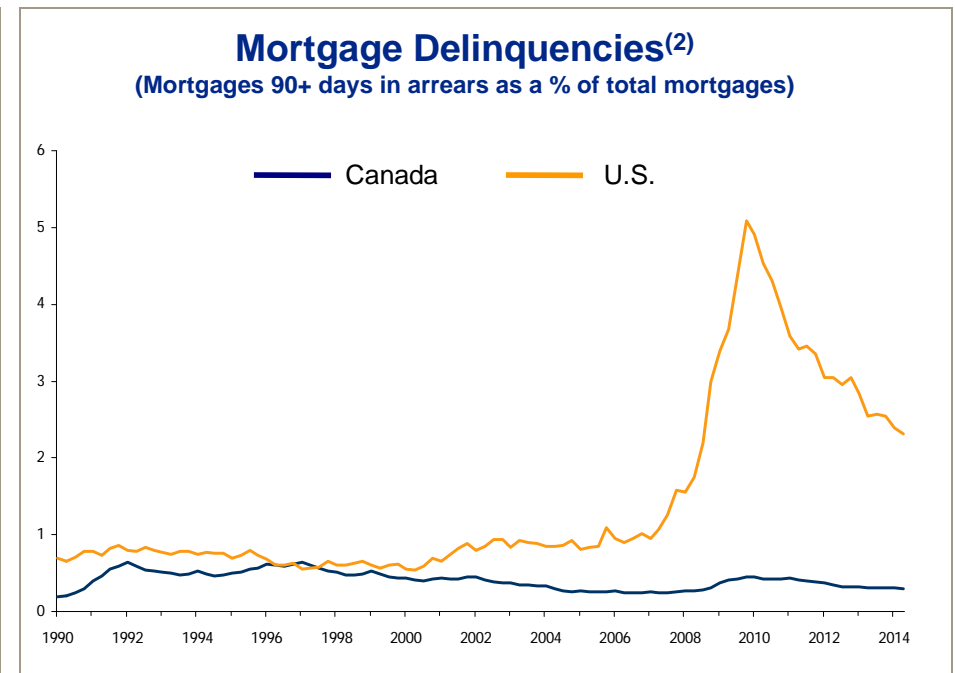
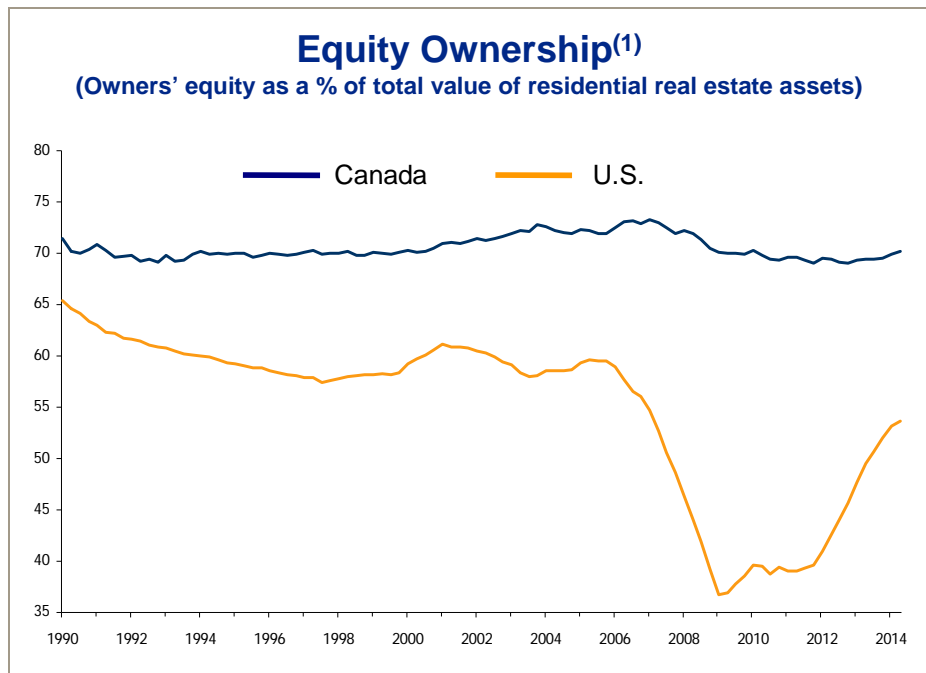
- Balanced demand-supply conditions continue to prevail in the vast majority of markets in Canada
- Housing affordability is at reasonable levels across Canada with tensions concentrated in a few local markets
- Steady population growth, household income gains and low interest rates are supporting balanced conditions
  - Policy measures promote a healthy housing market
- Housing market activity is expected to gradually ease to lower, more sustainable levels over the medium-term, in line with household formation in Canada
- Household debt service costs ratios remain historically low, with little movement towards higher risk
- Lenders maintaining strong underwriting discipline and require extensive documentation
  - Most mortgages being 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
- The pace of mortgage accumulation has stabilized to a more sustainable range of growth
- Mortgage delinquency rates remain low in Canada and have been stable throughout recent credit cycles
- RBC stress tests its residential mortgage and broader retail portfolios for dramatic movements in house prices, GDP, interest rates and unemployment rates



# Royal Bank of Canada

## SECTION II

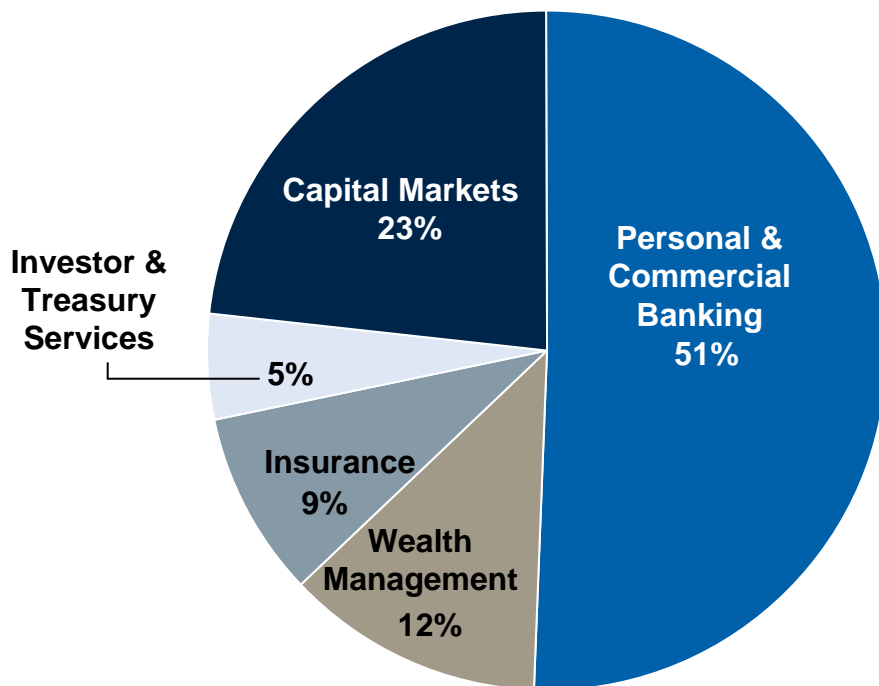


## A diversified business model – RBC's key strength

- 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

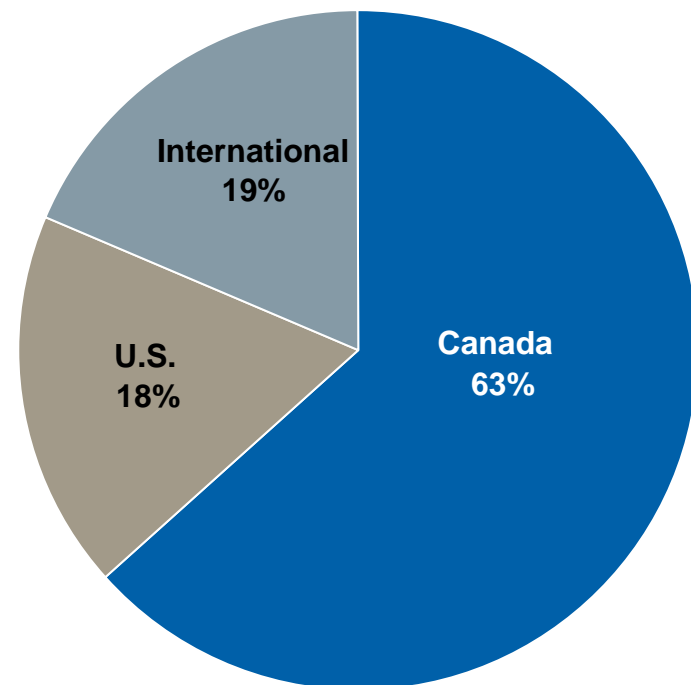
### Earnings by business segment<sup>(1)</sup>

For the year ended October 31, 2014



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

For the year ended October 31, 2014



# Key strategic priorities aligned to our long-term goals

## Strategic goals

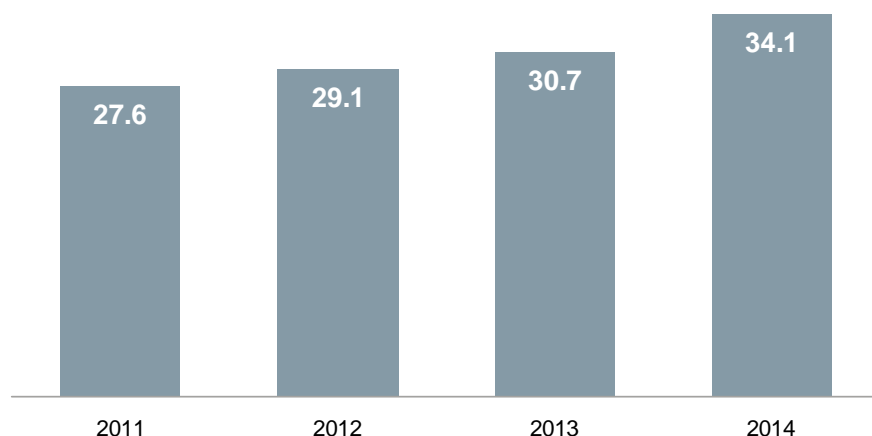
- In Canada, to be the undisputed leader in financial services
- Globally, to be a leading provider of capital markets, investor and wealth management solutions
- In targeted markets, to be a leading provider of select financial services complementary to our core strengths

## Strategic priorities

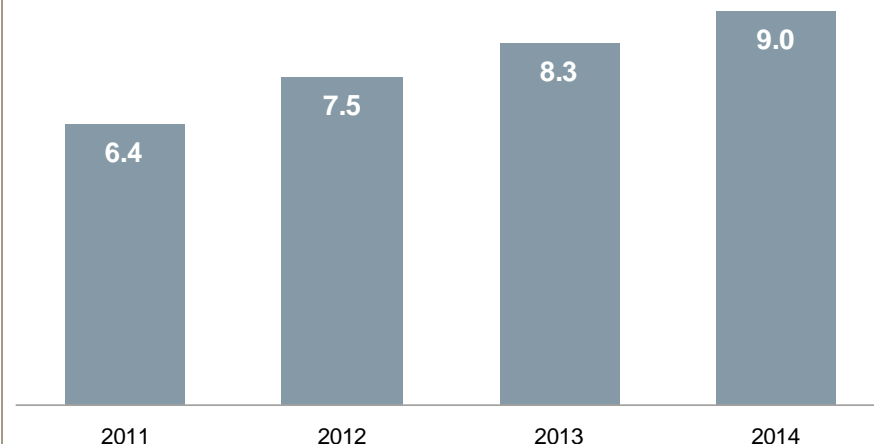
Personal & Commercial Banking	Wealth Management	Insurance	Investor & Treasury Services (I&TS)	Capital Markets
<ul style="list-style-type: none"> <li>▪ Offering a differentiated experience: value for money, advice, access and service</li> <li>▪ Making it easier to do business with us and be the lower 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, asset servicing and payments, with an integrated funding and liquidity management business</li> <li>▪ Focusing on organic growth through developing new client relationships, deepening existing relationships and promoting the RBC brand</li> <li>▪ Leveraging I&amp;TS as a driver of enterprise growth strategies with a focus on cross-selling and deposit gathering</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

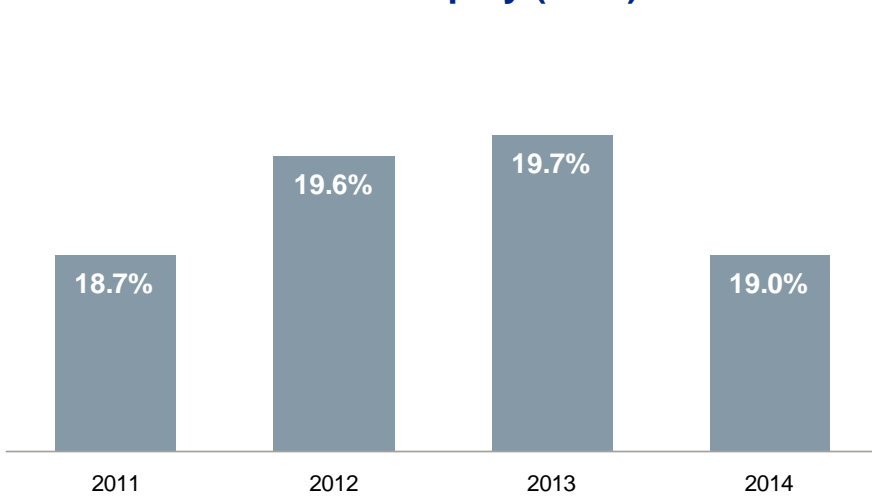
**Revenue**  
(\$ billions)



**Net Income**  
(\$ billions)



**Return on Equity (ROE)<sup>(1)</sup>**



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

Common Equity Tier 1	9.9%
Tier 1 Capital	11.4%
Total Capital	13.4%

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

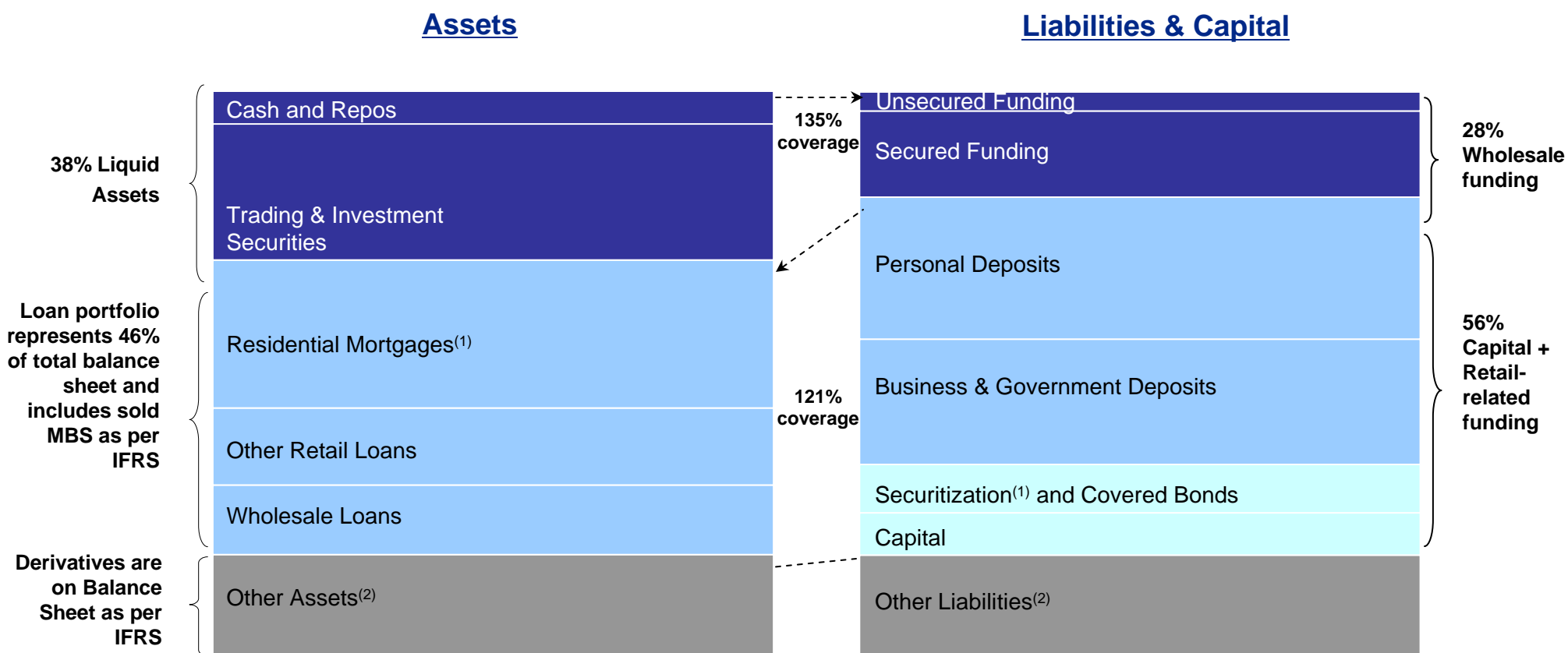
Moody's	S&P	Fitch	DBRS
<b>Aa3</b>	<b>AA-</b>	<b>AA</b>	<b>AA</b>
Negative	Negative	Stable	Stable

## Investor Relations – Fixed Income Presentation

(1) ROE may not have a standardized meaning under GAAP principles and may not be comparable to similar measures disclosed by other financial institutions. For additional information, see 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 2014 Annual Report for details on Basel III requirements. (3) Based on long-term senior debt ratings.

# Strength of a high quality liquid balance sheet

**\$941 billion**  
(as at October 31, 2014)



# History of delivering value to our shareholders

Total shareholder return (TSR) <sup>(1)</sup>		
	RBC	Peer Avg.
3 Year	23%	19%
5 Year	12%	8%
10 Year	14%	5%

## Dividend

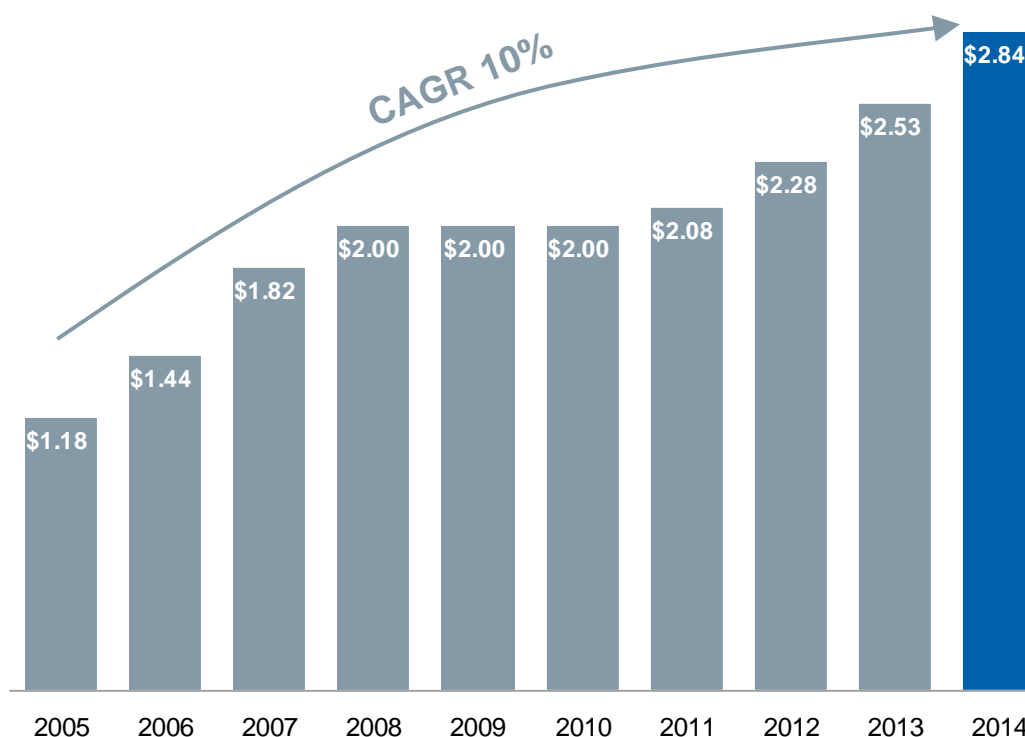
- Current quarterly dividend: \$0.75
- FY2014 payout ratio of 47%, in line with our target of 40-50%

## Share buybacks

- Announced normal course issuer bid on October 27, 2014 to repurchase up to 12 million common shares

## Annual dividend history\* (\$ per share)

- RBC increased its dividend 2 times in 2014, a total increase of 12%



\* Dividends declared per common share.

**Our goal is to maximize shareholder returns by achieving TSR above our peer average**

### Investor Relations – Fixed Income Presentation

(1) Annualized TSR is calculated based on common share price appreciation plus reinvested dividend income. Source: Bloomberg, as at October 31, 2014. RBC is compared to our global peer group. The peer group average excludes RBC; for the list of peers, please refer to our 2014 Annual Report.



# Global Funding Strategy

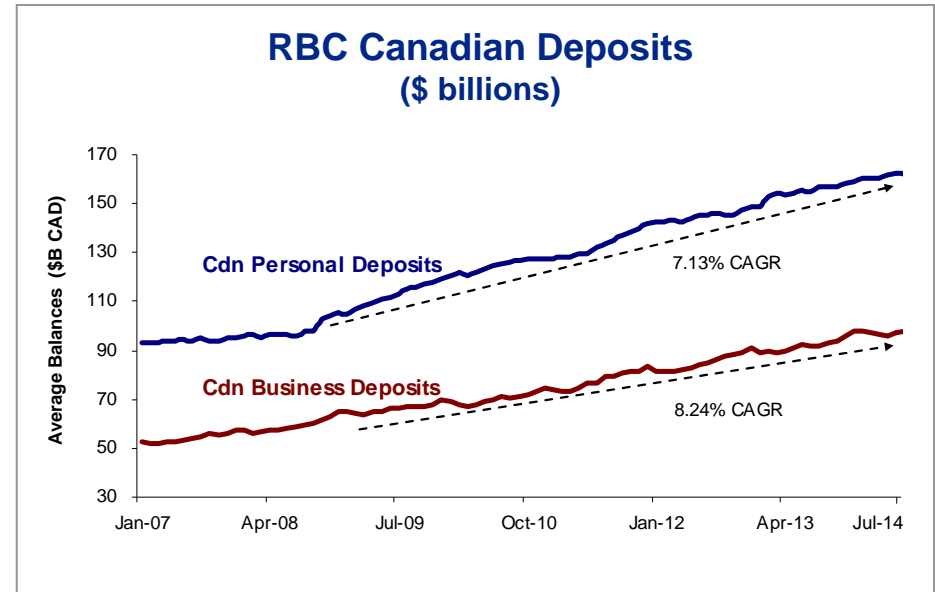
## SECTION III



# Strong deposit growth

## Gaining Canadian market share

- Initiated successful strategies to grow relationship deposit base
- Leveraging our Wealth Management network with targeted strategies and product development
- Canadian relationship deposits continue to grow at a faster pace than the market
- Between October 2010 and July 2014, our share of the Canadian personal deposit market has grown from 18.7% to 20.2%<sup>(1)</sup>



## Leveraging our international reach

- Strong deposit growth in our International Wealth Management and Investor Services platforms

**RBC Relationship Deposits (\$ billions)**

	Oct 2010	Oct 2014
HISA <sup>(2)</sup>	\$18	\$28
Advisory Channel Deposits <sup>(3)</sup>	\$13	\$32
Other Personal Deposits	\$131	\$149
Business Deposits	\$131	\$185
<b>Total Deposits</b>	<b>\$293</b>	<b>\$394</b>

## Leveraging the strength of our distribution channels

### Investor Relations – Fixed Income Presentation

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

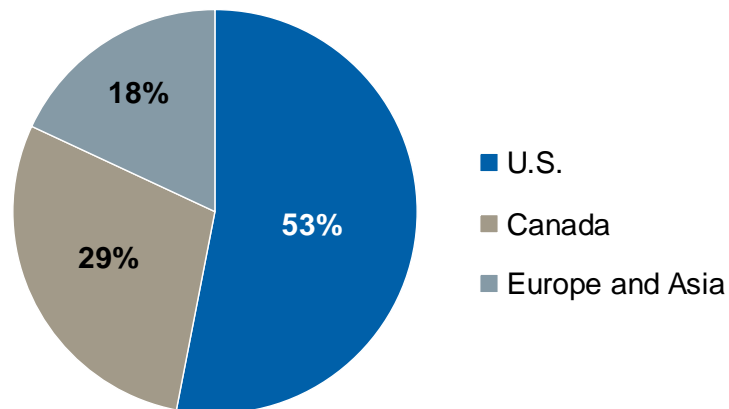
<sup>(2)</sup> High Interest Savings Account; Includes CAD and USD deposits.

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

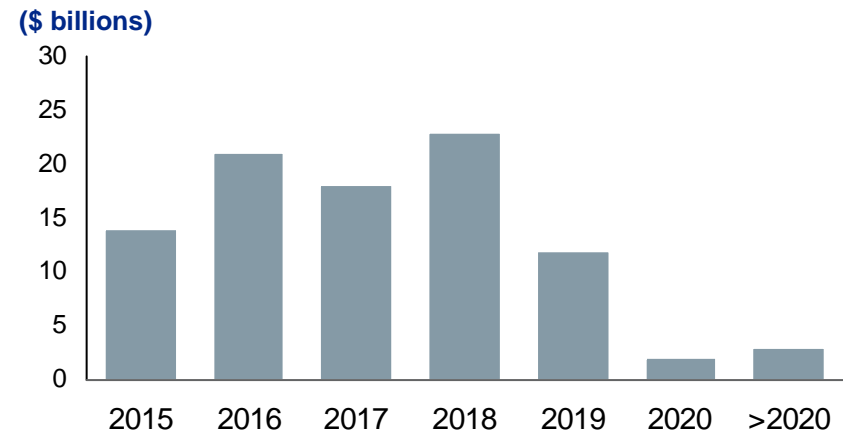
# Wholesale funding strategy

- 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> October 31, 2014



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



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

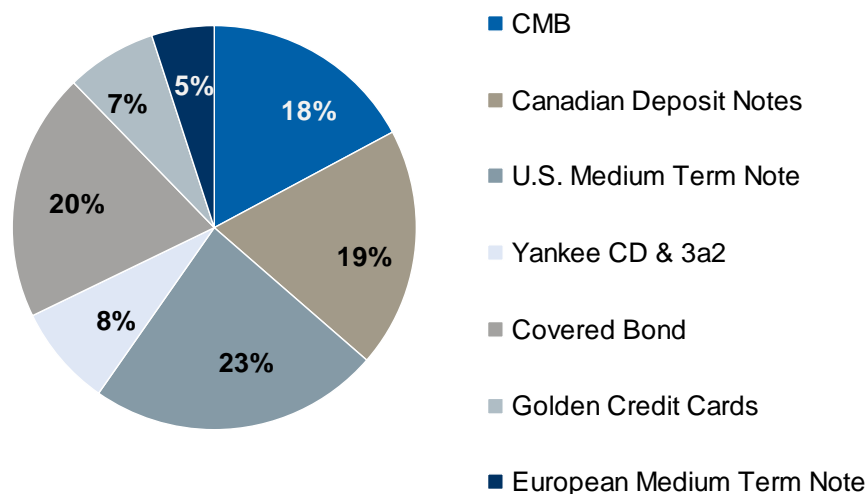
## Well diversified wholesale funding platform

- 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 (Canadian 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 (EUR 23 billion)</li> <li>Japanese Issuance Programs (JPY 1 trillion)</li> </ul>

### Well Diversified by Product

October 31, 2014



### Recent deals

- US\$1.3BN 3-year unsecured notes at Libor+26bps
- US\$1.75BN 5-year covered bond at Libor+27bps
- A\$750MM 5-year covered bond at Libor+24bps
- EUR 1BN 5-year covered bond at Libor+29bps (EUR Mid Swaps+7bps)
- GBP 325MM 5-year unsecured FRN at Libor+44bps
- US\$1.65BN 5-year unsecured notes at Libor+53bps
- C\$1.75BN 7-year unsecured notes at Libor+56bps

# RBC Covered Bond Program



## Globally Active

- Active program in five different currencies: EUR, CAD, USD, CHF and AUD
  - C\$25 billion currently outstanding
- Five benchmark transactions since October 2013
  - US\$ 1.75 billion 5-year    AUD 750 million 5-year
  - EUR 1 billion 5-year        EUR 1.5 billion 5-year
  - US\$2 billion 5-year

## 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

## 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

## 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

## SECTION IV



# 2015 Economic Outlook

	Projected Economic Indicators for 2015 <sup>(1)</sup>					
	GDP Growth	Inflation	Unemployment Rate	Interest Rate (3 mth T-bills)	Current Account Balance/GDP <sup>(2)</sup>	Budget Surplus/GDP <sup>(3)</sup>
Canada	2.7%	1.4%	6.5%	1.85	-2.1	-0.1
U.S.	3.3%	1.7%	5.7%	1.30	-2.0	-2.6
Euro Area	1.0%	0.8%	11.2%	NA	2.6	-2.4

## Canada

- Economic growth in Canada is expected to improve in FY2015 as business investment and exports are expected to strengthen supported by accommodative monetary policy and lessening global economic uncertainty
- Consumer spending expected to remain firm while housing market activity is anticipated to moderate to more sustainable levels after a period of exceptional gains

## U.S.

- Economic conditions are expected to improve in FY2015 as strengthening labour market conditions support higher consumer spending and housing market gains
- The U.S. Federal Reserve is expected to begin to raise the fed funds rate mid-year as a sustained above-potential pace of economic growth is expected to be supported by higher inflation and stronger labour market

## Euro area

- The Euro area economy is expected to grow at a relatively lacklustre pace in 2015 as headwinds continue to persist across the region
- Significant monetary stimulus by the European Central Bank will curb downside risks to inflation and a lower exchange rate will support positive economic growth
- Structural reforms are expected to keep growth subdued in parts of the Euro zone



# Legislation and policies – promoting a healthy housing market

## April 2014

- CMHC discontinued offering mortgage insurance on second homes and to self-employed individuals without 3<sup>rd</sup> party income validation

## 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

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We use a variety of financial measures to evaluate our performance. In addition to generally accepted accounting principles (GAAP) prescribed measures, we use certain key performance and 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, certain key performance measures, such as ROE, and 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 2014 Annual report.

Definitions can be found under the “Glossary” sections in our Q4/2014 Supplementary Financial Information and our 2014 Annual Report.

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