

Overview of Canadian Bail-in Regime

Q2 2020





Notice to Investors

It should be noted that regulators have significant discretion with respect to bank resolution and insolvency regimes and how regulators will exercise that discretion will depend upon their understanding of the particular facts and circumstances at the relevant time, which may be complex and rapidly evolving. This will result in substantial uncertainty with respect to recovery values and other economic and legal effects of those regimes on holders and beneficial owners of securities in any particular resolution or insolvency. For a description of Canadian bank resolution powers and the risk factors attaching to bail-in notes reference is made to <http://www.rbc.com/investorrelations/assets-custom/pdf/Bail-in-Disclosure.pdf>.

Nothing in this document shall be considered as an offer to sell or solicitation of an offer to buy any security or other instrument of RBC or any of its affiliates or as an inducement to enter into any investment activity, and no part of this document shall form the basis of or be relied upon in connection with any contract, commitment, or investment decision whatsoever. Offers to sell, sales, solicitation of offers to buy, or purchases of securities issued by RBC or any affiliate thereof may only be made or entered into pursuant to appropriate offering materials or a prospectus prepared and distributed in accordance with the laws, regulations rules and market practices of the jurisdictions in which such offers or sales may be made. No person should use this document or any part thereof as the basis for making a decision to purchase or sell any security at any time.

This document is only being distributed to and is only directed at (i) persons who are outside the United Kingdom (ii) to investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order") or (iii) high net worth entities, and other persons to whom it may lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as "Relevant Persons"). Royal Bank of Canada's securities are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such securities will be engaged in only with, Relevant Persons. Any person who is not a Relevant Person should not act or rely on this document or any of its contents.

Certain defined terms used in this presentation have the meanings indicated in Annex A.



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, in other filings with Canadian regulators or the SEC, in reports to shareholders, and in other communications, including statements by our President and Chief Executive Officer. Forward-looking statements in this presentation include, but are not limited to, statements relating to our financial performance objectives, vision and strategic goals, investment activity in the oil & gas sector, and the potential continued impacts of the coronavirus (COVID-19) pandemic on our business operations, financial results and financial condition, and on the global economy and financial market conditions, including projected economic indicators for 2020 with respect to Canada, the United States and the Euro Area. 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, as well as 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, insurance, operational, regulatory compliance, strategic, reputation, legal and regulatory environment, competitive and systemic risks and other risks discussed in the risk sections of our 2019 Annual Report and the Risk management and Significant Developments: COVID-19 sections of our Q2 2020 Report to Shareholders; including information technology and cyber risk, privacy, data and third party related risks, geopolitical uncertainty, Canadian housing and household indebtedness, regulatory changes, digital disruption and innovation, climate change, the business and economic conditions in the geographic regions in which we operate, the effects of changes in government fiscal, monetary and other policies, tax risk and transparency, environmental and social risk and the emergence of widespread health emergencies or public health crises such as pandemics and epidemics, including the COVID-19 pandemic and its impact on the global economy and financial market conditions and our business operations, financial results and financial condition.

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 presentation are set out in the Economic, market and regulatory review and outlook section and for each business segment under the Strategic priorities and Outlook headings in our 2019 Annual Report, as updated by the Economic, market and regulatory review and outlook and Significant Developments: COVID-19 sections of our Q2 2020 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 sections of our 2019 Annual Report and the Risk management section of our Q2 2020 Report to Shareholders.

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

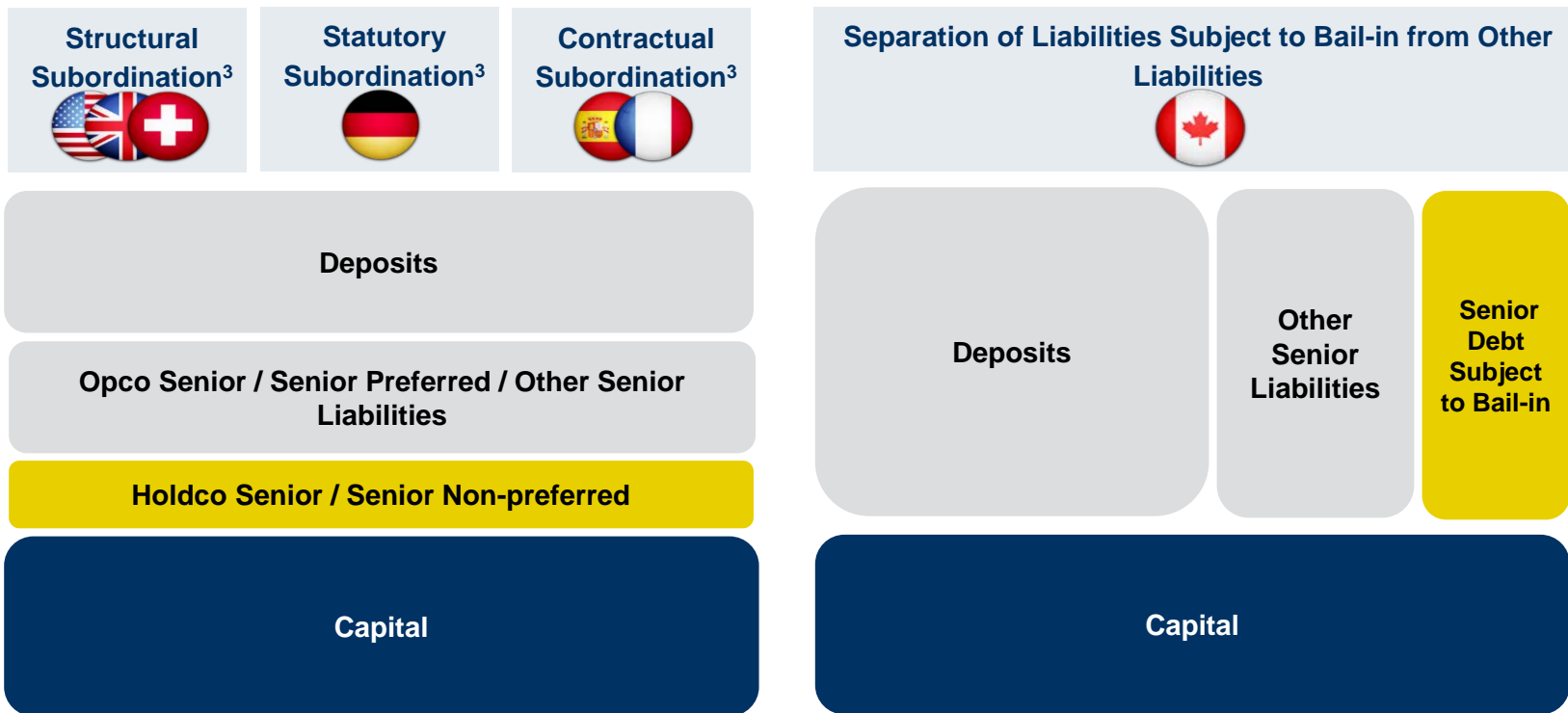
Key Features of the Canadian Bank Bail-in Regime

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 debt² 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 rights¹ upon non-payment of principal or interest is allowed in Canada, but not in Europe²
- 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

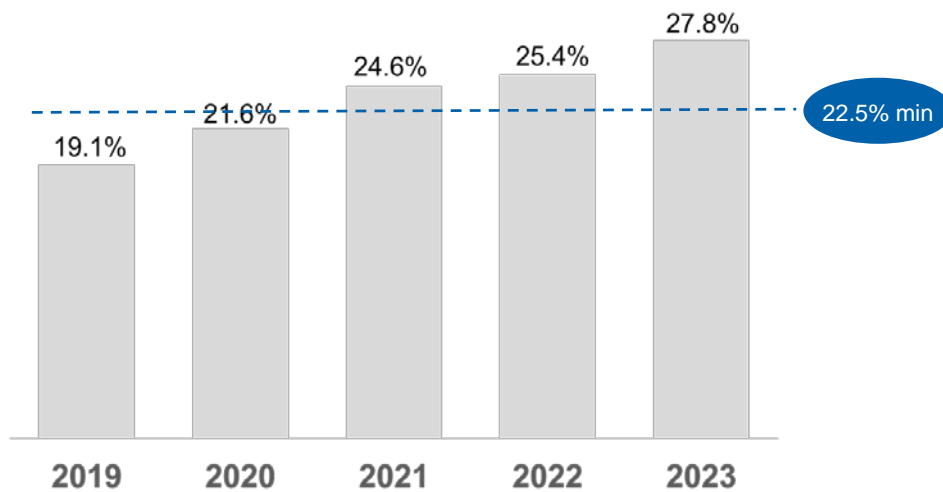
² Excluding UK

RBC's Approach to Meeting TLAC Requirements

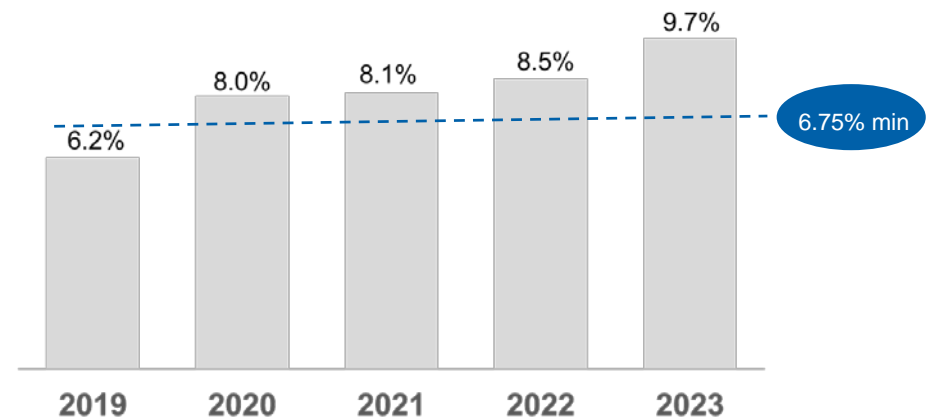
➤ No Incremental Funding Needs

- We expect to meet TLAC requirements in advance of the November 1, 2021

Expected build up of TLAC RWA ratio



Expected build up of TLAC leverage ratio



➤ 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

Comparison with RBC Legacy Senior Long Term Debt¹

	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	
Ratings⁴ (Moody's, S&P, Fitch, DBRS)	A2 / A / AA / AA	Aa2 / AA- / AA+ / AA (high)

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



					
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

<p>Excluded Liabilities</p> <p>Insured Deposits</p> <p>Uninsured Deposits¹</p> <p>Secured & Covered</p> <p>Short Term Debt</p> <p>Structured Notes²</p> <p>Derivative Liabilities</p> <p>Other Liabilities</p> <p>22.5% of RWA</p> <p>Bail in debt</p> <p>Long Term Unsecured Debt</p> <p>Prefs & Sub Debt NVCC</p> <p>Capital Providers (Equity)</p>	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 22.5% of RWA and 6.75% of leverage exposure
	Grandfathering	Yes, all senior instruments issued before implementation date of legislation
	Sequencing and preconditions	<ol style="list-style-type: none"> 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	<ul style="list-style-type: none"> • Only senior unsecured debt that is tradable and transferable • Original term to maturity of 400 days or more¹ • Issued or renegotiated after the implementation of the final bail-in rule (September 23, 2018)
	Form of bail-in	Equity Conversion
	Disclosure requirements	<p>All D-SIBs required to:</p> <ul style="list-style-type: none"> • 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
		<ul style="list-style-type: none"> • 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

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