

# Royal Bank of Canada

## Overview of Canadian Bail-in Regime

October 2024



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# 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 document, in filings with Canadian regulators or the SEC, in reports to shareholders and in other communications. In addition, our representatives may communicate forward-looking statements orally to analysts, investors, the media and others. Forward-looking statements in this document include, but are not limited to, statements relating to the no creditor worse off principle and the mechanics of a bail-in conversion. The forward-looking statements contained in this document are presented for the purpose of providing an overview of the Canadian bank bail-in regime and may not be appropriate for other purposes. Forward-looking statements are typically identified by words such as “believe”, “expect”, “suggest”, “seek”, “foresee”, “forecast”, “schedule”, “anticipate”, “intend”, “estimate”, “goal”, “commit”, “target”, “objective”, “plan”, “outlook”, “timeline” and “project” and similar expressions of future or conditional verbs such as “will”, “may”, “might”, “should”, “could”, “can” or “would” or negative or grammatical variations thereof.

By their very nature, forward-looking statements require us to make assumptions and are subject to inherent risks and uncertainties, both general and specific in nature, 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, that our financial performance, environmental & social or other objectives, vision and strategic goals will not be achieved and that our actual results may differ materially from such predictions, forecasts, projections, expectations or conclusions.

We caution readers not to place undue reliance on our forward-looking 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, but are not limited to: credit, market, liquidity and funding, insurance, operational, regulatory compliance (which could lead to us being subject to various legal and regulatory proceedings, the potential outcome of which could include regulatory restrictions, penalties and fines), strategic, reputation, legal and regulatory environment, competitive, model, systemic risks and other risks discussed in the risk sections of our 2023 Annual Report and the Risk management section of our Q3 2024 Report to Shareholders, including business and economic conditions in the geographic regions in which we operate, Canadian housing and household indebtedness, information technology, cyber and third-party risks, geopolitical uncertainty, environmental and social risk (including climate change), digital disruption and innovation, privacy and data related risks, regulatory changes, culture and conduct risks, the effects of changes in government fiscal, monetary and other policies, tax risk and transparency, and our ability to anticipate and successfully manage risks arising from all of the foregoing factors. Additional factors that could cause actual results to differ materially from the expectations in such forward-looking statements can be found in the risk sections of our 2023 Annual Report and the Risk management section of our Q3 2024 Report to Shareholders, as may be updated by subsequent quarterly reports.

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, as well as the inherent uncertainty of forward-looking statements. Material economic assumptions underlying the forward-looking statements contained in this document are set out in the Economic, market and regulatory review and outlook section and for each business segment under the Strategic priorities and Outlook sections in our 2023 Annual Report, as updated by the Economic, market and regulatory review and outlook section of our Q3 2024 Report to Shareholders. Such sections may be updated by subsequent quarterly reports. 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 2023 Annual Report and the Risk management section of our Q3 2024 Report to Shareholders, as may be updated by subsequent quarterly reports.

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

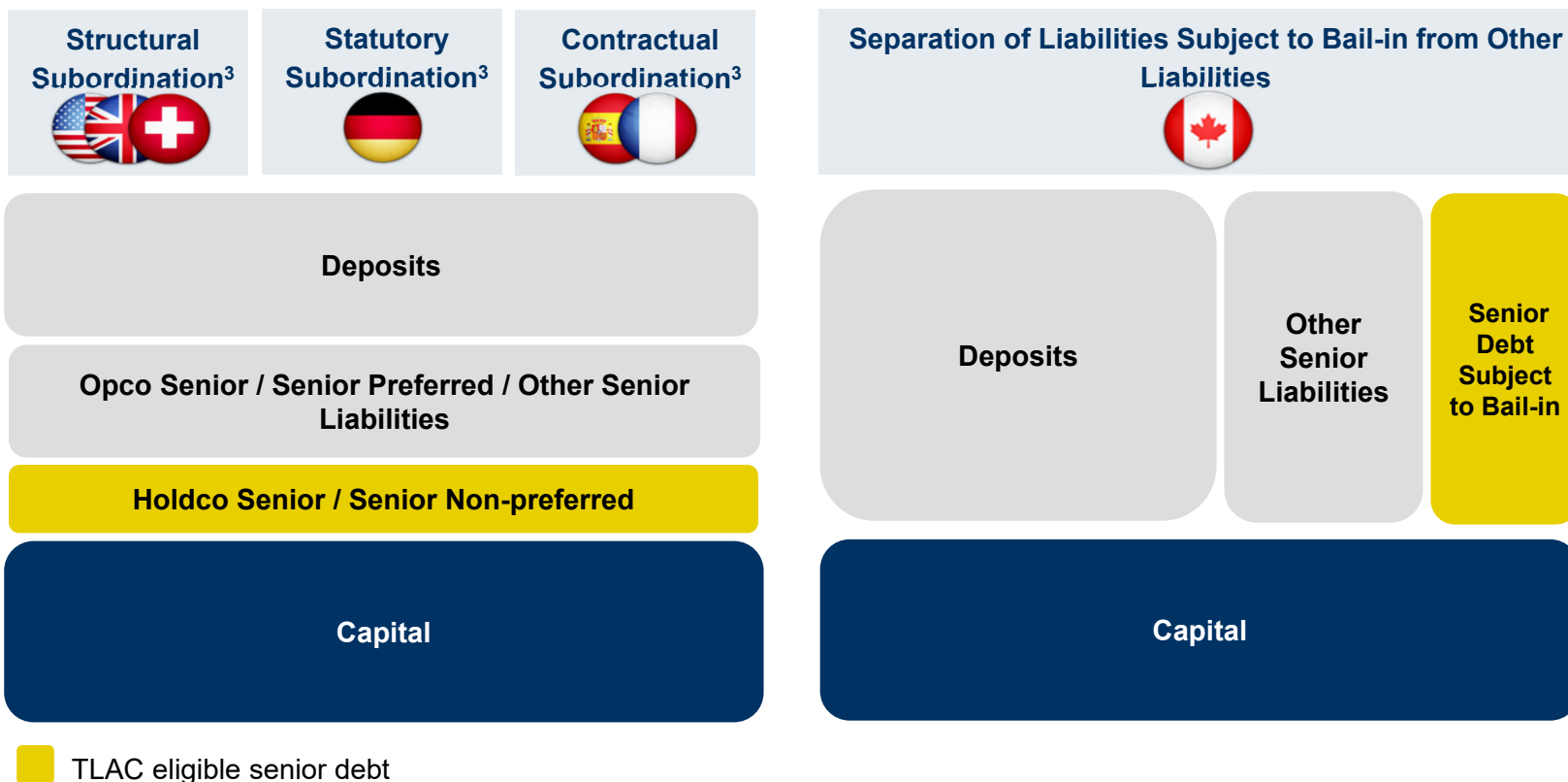
# Key Features of the Canadian Bank Bail-in Regime

## ➤ 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**<sup>1</sup> and is not subordinated to another class of wholesale senior debt
  - Only format of issuance of Canadian bank term senior unsecured debt<sup>2</sup> 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



<sup>1</sup> Ranks pari passu with other forms of senior debt, except as otherwise prescribed by law and subject to the exercise of bank resolution powers.

<sup>2</sup> Excludes structured notes as defined in section 2(6) of the Bank Recapitalization (Bail-in) Conversion Regulations under the CDIC Act.

<sup>3</sup> 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). The particular characteristics of the Canadian bail-in debt regime, including the pari passu ranking in liquidation and absence of depositor preference and structural subordination, could result in a higher liquidation value for a given amount of loss, if all else is equal, than would be the case where these characteristics are not applicable. See slides 3 and 7 for information on the bail-in regimes of other jurisdictions.

## ➤ No Legislative or Administrative Prohibition Against Government Financial Assistance

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

## ➤ Statutory Regime

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

## ➤ Management Incentives to Recapitalize Early

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

## ➤ Participation in Equity – Post Resolution

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

## ➤ Protection for Senior Debt Holders

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

<sup>1</sup> Subject to 30 business day grace period and subject to bail-in conversion powers until repaid in full.

<sup>2</sup> Excluding UK.

# Comparison with RBC Legacy Senior Long Term Debt

	New Senior Debt	Legacy Senior Debt <sup>1</sup>
<b>Issuing Entity</b>	Operating company	
<b>Format</b>	Senior unsecured (single class of debt)	
<b>Ranking in Liquidation</b>	Pari passu with deposits and other senior liabilities <sup>2</sup>	
<b>Governing Law</b>	In accordance with local law or Canadian law, as applicable	
<b>Bail-in Provision</b>	Governed by Canadian law	No
<b>Other Resolution Powers</b>	Bridge Bank Order, Vesting Order, Receivership Order	
<b>Participation in Equity - Post Resolution</b>	Yes. Conversion to equity of the bank or an affiliate allows participation in upside <sup>3</sup> , if any	No
<b>Acceleration Rights Upon Failure to Pay P&amp;I</b>	Yes	
<b>Ratings<sup>4</sup> (Moody's, S&amp;P, Fitch, DBRS)</b>	A1 / A / AA- / AA	Aa1 / AA- / AA / AA (high)






<sup>1</sup> Refers to senior long term debt issued prior to September 23, 2018

<sup>2</sup> Except as otherwise prescribed by law and subject to the exercise of bank resolution powers

<sup>3</sup> 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.

<sup>4</sup> As of October 2024, 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 <sup>3</sup>	Opco Non-Preferred Senior
Ranking in Liquidation	Pari passu with deposits and other senior liabilities	Structural Subordination	Structural Subordination	Structural Subordination <sup>3</sup>	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 resolved bank's equity value, if any <sup>1</sup>	N/A <sup>2</sup>	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 <sup>4</sup>

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). The particular characteristics of the Canadian bail-in debt regime, including the pari passu ranking in liquidation and absence of depositor preference and structural subordination, could result in a higher liquidation value for a given amount of loss, if all else is equal, than would be the case where these characteristics are not applicable. See slide 3 for information on the bail-in regimes of other jurisdictions.

<sup>1</sup> 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.

<sup>2</sup> 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).

<sup>3</sup> Applicable in practice for G-SIBs' issuance of non-capital bail-in debt.

<sup>4</sup> 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.

# 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



# Summary of TLAC/Bail-in Regime

<p><b>Excluded Liabilities</b></p> <p>Insured Deposits</p> <p>Uninsured Deposits<sup>1</sup></p> <p>Secured &amp; Covered</p> <p>Short Term Debt</p> <p>Structured Notes<sup>2</sup></p> <p>Derivative Liabilities</p> <p>Other Liabilities</p>	<b>TLAC Compliance Date</b>	November 1, 2021
	<b>Scope of Banks</b>	D-SIBs as designated by OSFI
	<b>TLAC eligibility</b>	Regulatory capital + bail-in debt with remaining term to maturity > 1 year <sup>3</sup>
	<b>Min. requirement</b>	Minimum TLAC ratio of 25.1% of RWA and 7.25% of leverage exposure <sup>4</sup>
	<b>Grandfathering</b>	Yes, all senior instruments issued before implementation date of bail-in legislation
	<b>Sequencing and preconditions</b>	<ol style="list-style-type: none"> <li>1. Federal authorities bring bank into resolution</li> <li>2. Full conversion of bank's NVCC instruments must occur prior to or concurrently with bail-in</li> </ol>
	<b>Scope of bail-in instruments</b>	<ul style="list-style-type: none"> <li>• Only senior unsecured debt that is tradable and transferable</li> <li>• Original term to maturity of 400 days or more<sup>1</sup></li> <li>• Issued or renegotiated after the implementation of the final bail-in rule (September 23, 2018)</li> </ul>
	<b>Form of bail-in</b>	Equity Conversion
<p><b>25.1% of RWA</b></p> <p><b>Bail in debt</b></p> <p>Long Term Unsecured Debt</p>	<b>Disclosure requirements</b>	<p>All D-SIBs required to:</p> <ul style="list-style-type: none"> <li>• Include specific disclosure related to the conversion power in any agreement governing an eligible liability as well as any accompanying offering document</li> <li>• Include a clause in the contractual provisions governing any eligible liability through which investors provide express submission to the Canadian bail-in regime</li> <li>• Provide continuous disclosure of TLAC ratios starting Q1 2019</li> </ul>
<p><b>Prefs, Sub Debt and LRCN NVCC</b></p> <p><b>Capital Providers (Equity)</b></p>	<ul style="list-style-type: none"> <li>• 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</li> <li>• Conversion into equity under the Canadian bail-in regime has the potential to result in realizable value</li> </ul>	

<sup>1</sup> Yankee CDs with original term > 400 days are in-scope of bail-in

<sup>2</sup> As per definition of structured notes in section 2(6) of the Bank Recapitalization (Bail-in) Conversion Regulations under the CDIC Act

<sup>3</sup> Provided such bail-in debt meets certain other requirements

<sup>4</sup> As at July 2024

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