

Royal Bank of Canada

Issuer View • 18 July 2023

Author: Melanie Kiene, CIAA

Headquartered in Toronto, Royal Bank of Canada (RBC) is the largest Canadian bank by assets. It has been declared a global systemically important bank (G-SIB) by the Financial Stability Board. RBC is therefore subject to the more stringent capital requirements of the lowest G-SIB category (additional capital buffer: 1%). As a universal bank, RBC with approximately 98,000 employees (Q2 2023), offers over 17 million customers a broad spectrum of financial products and services. RBC is active in 29 countries. As at Q2 2023, 60% of income from the previous twelve months was generated in Canada, while the USA accounted for 24%. Moreover, according to its own information, RBC ranks among the top ten largest banks in the world (as measured by market capitalisation; Q2 2023). RBC reports across four main segments: Personal & Commercial Banking (PCB; 52% of income in the period Q2 2022 to Q2 2023), Capital Markets (22%), Wealth Management (21%) and Insurance (5%). RBC is among the market leaders in all core areas of Canadian business. The domestic market also plays a huge role in the lending business with a share of 75% in the loan portfolio (Q2 2023), while the USA and remaining countries account for a share of 19% and 6% respectively. The loan portfolio is divided into five segments: residential mortgages (50%; Q2 2023), wholesale (35%), personal loans (11%), credit cards (3%) and small businesses (1%). On 29 November 2022, the HSBC Group approved the sale of the subsidiary HSBC Canada to RBC (purchase price: CAD 13.5bn; expected closing of the transaction: Q1 2024). The financial year of RBC ends on 31 October.

Rating	Outlook
Fitch AA-	Stable
Moody's A1	Stable
S&P AA-	Stable

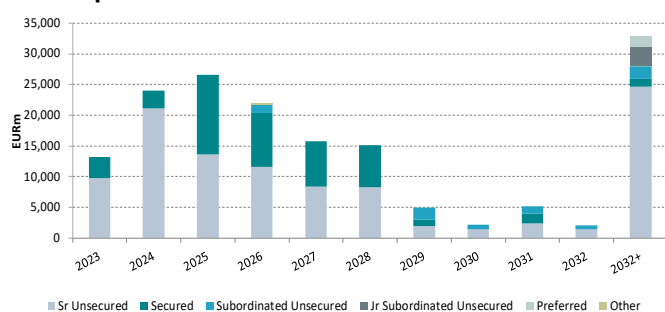
Homepage

www.rbcroyalbank.com

Balance Sheet

(EURm)	2021Y	2022Y	2023Q2
Net Loans to Customers	500,515	608,074	555,367
Total Securities	480,004	586,228	520,642
Total Deposits	738,552	863,800	776,632
Tier 1 Common Capital	52,720	57,061	54,190
Total Assets	1,190,176	1,421,782	1,296,434
Total Risk-weighted Assets	385,403	452,277	396,576

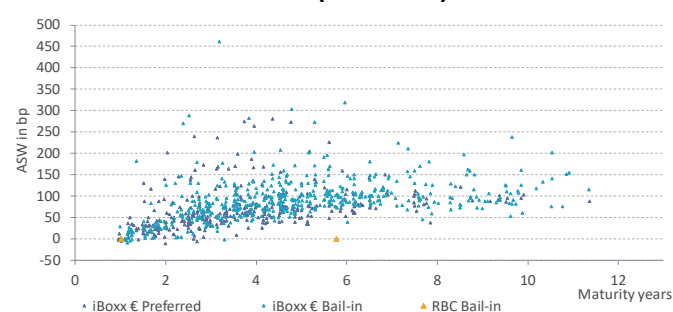
Redemption Profile



Income Statement

(EURm)	2021Y	2022Y	2023Q2
Net Interest Income	13,325	16,528	4,174
Net Fee & Commission Inc.	13,377	14,645	3,466
Net Trading Income	1,595	1,460	591
Operating Expense	17,249	19,345	5,119
Credit Commit. Impairment	-448	362	420
Pre-tax Profit	13,744	14,630	3,025

Senior Unsecured Bonds (EUR BMK)



Company Ratios

	2021Y	2022Y	2023Q2
Net Interest Margin	1.26	1.27	1.43
ROAE	17.25	15.28	13.32
Cost-to-Income	56.53	56.33	59.78
Core Tier 1 Ratio	13.68	12.62	13.66
Liquidity Coverage Ratio	123.31	124.98	135.40
IFRS Tier 1 Leverage Ratio	4.73	4.41	4.51
NPL/ Loans at Amortised Cost	-	-	-
Reserves/Loans at Amort. Cost	0.58	0.46	0.52

As of: 18.07.2023; Source: Bloomberg, S&P Global Market Intelligence, NORD/LB Markets Strategy & Floor Research

Strengths / Opportunities

- Capitalisation
- Market position in Canada
- Risk management culture

Risks / Weaknesses

- Private household debt level in Canada
- Dependency on wholesale funding
- Volatility in the capital markets segment

Covered Bonds

Author: Melanie Kiene, CIIA

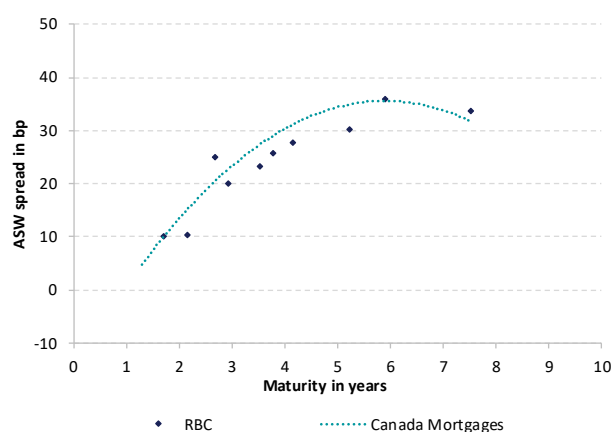
Mortgage cover pool comprises the equivalent of EUR 74.8bn

The Royal Bank of Canada acts as issuer of mortgage covered bonds. The mortgage cover pool had a volume of the equivalent of EUR 74.8bn (CAD 110.2bn) as of the reporting date of 31 May 2023. With outstanding covered bonds in the volume of EUR 46.9bn (CAD 69.1bn), an overcollateralisation ratio of 54.9% is derived, which is significantly above the legally required minimum coverage (legally: 3.0%; voluntarily: 51.9%). Although all cover assets are denominated in Canadian dollars, only 12.1% of the covered bonds were issued in CAD. At 37.5%, the euro is the most important currency in the issues, followed by USD denominated covered bonds at 32.9%. The Royal Bank of Canada is currently represented in the iBoxx EUR Covered with ten issues, whose outstanding volume totals EUR 16.0bn.

Programme data

31 May 2023	Mortgage
Covered bonds outstanding	EUR 46,940m (CAD 69,132m)
Cover pool volume	EUR 74,834m (CAD 110,214m)
Current OC (nominal / regulatory)	54.9% / 3.0%
Type	100% Residential
Country	100% Canada
Number of borrowers ¹	371,031
Number of loans/exposures ¹	447,170
Average loan/exposure size ¹	EUR 167,350 (CAD 246,471)
WA unindexed LTV	62.1% / 50.1%
Fixed interest (Cover Pool / CBs)	68.0% / 59.4%
WAL (Cover Pool / CBs) ¹	2.1y / 3.7y
CB Rating (Fitch / Moody's / S&P)	AAA / Aaa / AAA

Spread overview (BMK) – Canada



Source: issuer, rating agencies, Bloomberg, NORD/LB Markets Strategy & Floor Research

Mortgage cover pool: 100% residential primary cover

The mortgage cover pool contains exclusively (CAD 110.2bn or EUR 74.8bn) primary cover. Substitute cover assets are not included in the cover pool. The cover assets are entirely residential loans, of which 83.3% were owner-occupied as of the above-mentioned reporting date. The remaining 16.7% are shown as buy-to-let. With regard to the further subdivision of the residential assets, the bulk is accounted for by houses in the "Detached" category (share of the cover pool: 70.0%), followed by "Apartment (Condominium)" with 13.6%. In terms of geographic distribution of cover assets, Ontario dominates with 44.8%, followed by British Columbia with 24.1% and Quebec with 12.4% of the cover pool. All loans are repaid and 68.0% of the cover assets were concluded with a fixed interest agreement. The granularity is also reflected in the average loan volume, which is EUR 167,350 (CAD 246,471). Arrears (at least 90 days) are reported as at 31 May 2023 with an NPL ratio of 0.07%.

Regulatory and rating

The three rating agencies Fitch, Moody's and S&P consistently rate the Mortgage Covered Bonds of the Royal Bank of Canada with the best rating (AAA / Aaa / AAA). In addition, the securities benefit from a preferred risk weight of 20% in accordance with the CRR. In our view, the EUR benchmarks are also suitable as Level 2A assets in the context of LCR management and are eligible for repo transactions with the ECB.

Appendix

Contacts at NORD/LB

Markets Strategy & Floor Research



Dr Frederik Kunze
Covered Bonds/Banks
+49 172 354 8977
frederik.kunze@nordlb.de



Dr Norman Rudschuck
SSA/Public Issuers
+49 152 090 24094
norman.rudschuck@nordlb.de



Melanie Kiene
Covered Bonds/Banks
+49 172 169 2633
melanie.kiene@nordlb.de



Stefan Rahaus
Covered Bonds/Banks
+49 172 6086 438
stefan.rahaus@nordlb.de

Sales

Institutional Sales	+49 511 9818-9440
Sales Sparkassen & Regionalbanken	+49 511 9818-9400
Sales MM/FX	+49 511 9818-9460
Sales Europe	+352 452211-515

Origination & Syndicate

Origination FI	+49 511 9818-6600
Origination Corporates	+49 511 361-2911

Treasury

Collat. Management/Repos	+49 511 9818-9200
Liquidity Management	+49 511 9818-9620 +49 511 9818-9650

Trading

Covereds/SSA	+49 511 9818-8040
Financials	+49 511 9818-9490
Governments	+49 511 9818-9660
Länder/Regionen	+49 511 9818-9550
Frequent Issuers	+49 511 9818-9640

Sales Wholesale Customers

Firmenkunden	+49 511 361-4003
Asset Finance	+49 511 361-8150

Relationship Management

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Öffentliche Kunden	rm-oek@nordlb.de

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