



## Guarded Growth: Absolute Return Notes

### What are the key features of Absolute Return Notes?

- **Absolute Return Feature:** Provides the investor with a positive return if the underlying index performance is *negative* at maturity. This feature typically applies to the first 10-30% decline in the underlying index, depending on the Note
- **Partial or contingent principal protection against a market correction:** These Notes typically limit exposure to a market correction of usually 10-30%, either in the form of a Buffer (partial principal protection) or Barrier (contingent principal protection), depending on the Note and subject to the credit risk of the issuer<sup>1</sup>. Usually, the absolute return feature applies down to the relevant Buffer or Barrier level
- **Upside participation** in the positive performance of the underlying index. In some cases, participation can be greater than 100% of the underlying index performance
- **Senior unsecured debt** issued by Royal Bank of Canada (RBC)
- **Flexibility** to be linked to the performance of a broad-based benchmark equity index (the “underlying index”), such as the S&P 500<sup>®</sup> Index, and/or other underlying indexes, ETFs, sectors and single stocks
- **Complement or an alternative** to traditional equity investments such as ETFs and mutual funds for their potential to outperform in one or more of the following types of return environments, depending on the structure: bearish, moderately bearish, moderately bullish, or bullish

### Why would an investor purchase Absolute Return Notes?

An investor would allocate a portion of their diversified portfolio to Absolute Return Notes if they:

- **Are concerned about a market decline** and want a positive return even if the market return is negative at maturity. The absolute return feature would only apply down to the stated Buffer or Barrier level
- **Want participation in market gains** with the potential to outperform, depending on the terms of the Note

- **Are comfortable with partial or full principal at risk** should the level of the underlying index be lower than the Buffer or Barrier at the maturity of the Note
- **Are interested in an investment that may generate** long-term capital gain or loss for U.S. federal income tax purposes if they hold the Note for more than one year
- **Are comfortable with assuming the credit risk** of the issuer, Royal Bank of Canada
- **Are comfortable with holding** the Notes until their stated maturity

### Selected Risk Factors

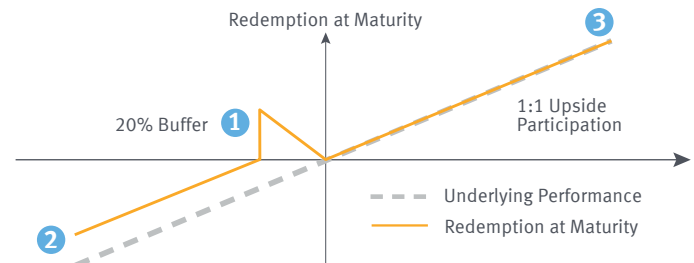
- **Limitation of Absolute Return Feature:** Only applicable down to the stated Buffer or Barrier level; below such level the absolute return feature will not apply
- **Potential Loss of Principal:** Investors will lose some or a substantial portion of their initial investment if the underlying index declines by more than the Buffer or Barrier at the maturity of the note. Investors in a Note with a Barrier feature could lose all of their initial investment.
- **No Dividends:** Investors do not receive dividends paid by the underlying index or its constituent stocks
- **Limited Secondary Markets:** Notes may have a limited or no secondary market. Prior to maturity, the price at which the Notes can be sold, if at all, may be at a substantial discount from the principal amount
- **Credit Risk:** Notes are senior, unsecured debt of the issuer and, as such, any market-linked return and payments at maturity are subject to issuer’s credit risk
- **Complex Investments:** Notes have some complex features and may not be suitable for all investors

### ABSOLUTE RETURN BUFFER NOTES – PAYOFF PROFILE AT MATURITY

The following illustrates the hypothetical payouts of an Absolute Return Buffer Note linked to an underlying index and assumes a 20% Buffer and 100% participation.

#### Hypothetical Example

Issuer	Royal Bank of Canada
Term	5 Years
Underlying	Benchmark Equity Index
Buffer	20%
Absolute Return Feature	Absolute return down to a negative index return of 20%
Upside Participation	100%



#### Absolute Return Buffer Note: Return Scenarios at Maturity

Scenarios	Index Return	Note Return*	Note Payoff
1 Index return is negative but not by more than the Buffer Level	-5% -20%	+5% +20%	Absolute Return Feature
2 Index return is less than the Buffer Level	-25% -50%	-5% -30%	1:1 loss from Buffer
3 Index return is positive	+20% +50%	+20% +50%	100% Upside participation

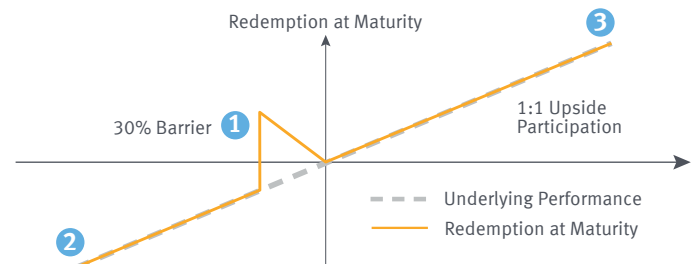
\*Note redemption at maturity equals invested principal increased or reduced by the Note Return

### ABSOLUTE RETURN BARRIER NOTES – PAYOFF PROFILE AT MATURITY

The following illustrates the hypothetical payouts of an Absolute Return Barrier Note linked to an underlying index and assumes a 30% Barrier and 100% participation.

#### Hypothetical Example

Issuer	Royal Bank of Canada
Term	5 Years
Underlying	Benchmark Equity Index
Barrier Percentage	30%
Absolute Return Feature	Absolute return down to a negative index return of 30%
Upside Participation	100%



#### Absolute Return Barrier Note: Return Scenarios at Maturity

Scenarios	Index Return	Note Return*	Note Payoff
1 Index return is negative but not by more than the Barrier Level	-10% -30%	+10% +30%	Absolute Return Feature
2 Index return is negative by more than the Barrier Percentage (i.e. -30.01% to -100%)	-31% -50%	-31% -50%	1:1 loss from initial level
3 Index return is positive	+20% +50%	+20% +50%	100% Upside participation

\*Note redemption at maturity equals invested principal increased or reduced by the Note Return

These examples are provided for illustrative purposes only. They should not be taken as an indication or prediction of future investment results and are intended merely to illustrate the impact that various return scenarios could have on an investor's return at maturity, assuming all other variables remain constant. The actual performance of the Note may bear little relation to the examples shown.

### About Royal Bank of Canada (RBC)

- 5th largest bank in N. America, by market capitalization<sup>1</sup>
- Well-diversified, global financial institution with over 80,000 employees in 40+ countries servicing over 16 million clients
- Approximately US\$954 billion in total assets<sup>2</sup>
- One of the highest rated banks globally (S&P AA- / Moody's Aa2)<sup>3</sup>

### Selected Risk Factors

An investment in the Notes involves significant risks that will be explained in the applicable offering documents. Before investing in a Note investors should carefully read the offering documents to understand the potential risks. Some general risk considerations for Notes include, but are not limited to the following:

- The Notes are unsecured debt obligations of RBC. Investors are dependent on the ability of RBC to pay all amounts due on the Notes, and therefore they are subject to RBC's credit risk and to changes in the market's view of the creditworthiness of RBC.
- Investors could lose some or a substantial portion of their principal if there is a decline in the level of the underlying index. Investors in a Note with a Barrier feature could lose all of their initial investment.
- Notes are typically sold at par and include fees and costs such as commissions, hedging costs and projected profits of RBC or its affiliates. Therefore, the estimated initial value (EIV) of a Note on the issue date will be less than the issue price that an investor pays for the Note. Any EIV of a Note does not represent RBC's estimate of the future value of the Note, or any price for which an investor may be able to sell it.
- The Notes will not be listed on any securities exchange. RBC and its affiliates are not obligated to maintain a secondary market and may cease market-making activities at any time. Any secondary market may not provide significant liquidity or trade at prices advantageous to the investor.
- The return on the Notes may be lower than the return investors could earn on other investments during the same term. The return on the Notes may be less than the return investors could earn if it bought a conventional debt security of RBC.
- Investing in the Notes is not the same as owning the components of the underlying index or a security directly linked to the underlying index or its components.
- The activities of RBC or its affiliates may conflict with investor's interests and may adversely affect the value of the Notes. Also an affiliate of RBC will serve as the calculation agent for the Notes who will exercise its judgment when performing its functions. Since the decisions the calculation agent makes will affect the payments on the Notes, the calculation agent may have a conflict of interest with respect to such decisions.
- Many economic and market factors will influence the value of the Notes.
- Significant aspects of the tax treatment of Notes may be complex and uncertain. Investors should consult with their tax advisor before investing in any Notes to determine the effects of their individual circumstances.
- The Notes have complex features and may not be suitable for all investors.

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(1) US\$110 billion, as of April 30, 2018, per International Financial Reporting Standards (IFRS) (2) Latest three months ended April 30, 2018 unless otherwise noted. Excludes Corporate Support. These are non-GAAP measures. For additional information, refer to the Royal Bank of Canada Q2 2018 Investor Presentation (3) A credit rating reflects the creditworthiness of RBC is not a recommendation to buy, sell or hold the notes, and may be subject to revision or withdrawal at any time by the assigning rating organization. The ratings do not provide an indication of the expected performance of the notes. The notes themselves will not be independently rated. Each rating should be evaluated independently of any other rating.

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