RBC Capital Markets

RBC Extendible Step Up Notes

Extendible Step Up Notes pay investors fixed coupons that step up if the note is extended. In exchange for an uncertain maturity date, the investor receives above market yields relative to GICs and bonds of a similar term and credit quality.

Features

- Fixed coupons
- Subsequent coupons step up to a higher rate
- Extendible at the Issuer's option
- Enhanced returns
- Principal protection by the Issuer when held to maturity

EXAMPLE: 5 YEAR EXTENDIBLE STEP UP NOTE

Issuer: Royal Bank of Canada
Term: 5 Years
Extension Frequency: Annual
Coupon Frequency: Semi-Annual

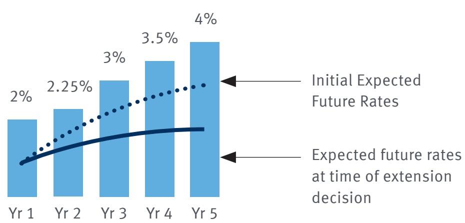
Term	Coupon	Semi-Annual Yield
Year 1	2.00%	2.00%
Year 2	2.25%	2.12%
Year 3	3.00%	2.41%
Year 4	3.50%	2.67%
Year 5	4.00%	2.92%

Investors receive semi-annual coupons while the Issuer, Royal Bank of Canada (RBC), has the right to extend the maturity in each year to a maximum term of 5 years. In year 1, investors are paid a 2.00% coupon. If RBC extends the note for another year, the coupon for year 2 would step up to 2.25%. If, at the end of year 2, RBC decides to redeem the note investors would receive their initial investment and earn a 2.12% semi-annual yield. Should RBC extend the note to final maturity, in year 5, investors would receive a 4.00% coupon in the final year and earn an overall semi-annual yield to maturity of 2.92%.

Extension Decision

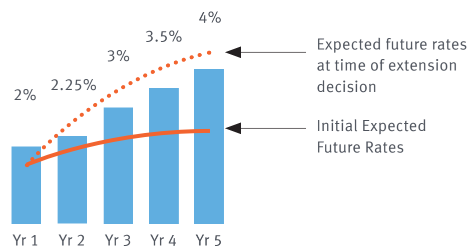
The Issuer's decision to extend a note depends on the expectation of future rates.

SCENARIO #1: INTEREST RATES DECREASE



If an Issuer expects future interest rates to decrease, it will increase the likelihood that the notes will be redeemed prior to the final maturity date as the Issuer would be able to refinance at lower coupons.

SCENARIO #2: INTEREST RATES INCREASE



If an Issuer expects future interest rates to increase, it will decrease the likelihood that the notes will be redeemed prior to the final maturity date as the issuer would prefer to continue paying the lower coupons of the note.

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