

Report Prepared On: 12/11/12

Structured Product Details

Name	Reverse Convertible Notes linked to Aflac, Inc.
Issue Size	\$213,000
Issue Price	\$1,000
Term	3 Months
Annualized Coupon	19.00%
Pricing Date	May 26, 2009
Issue Date	May 29, 2009
Valuation Date	August 26, 2009
Maturity Date	August 31, 2009
Issuer	Royal Bank of Canada
CDS Rate	181.65 bps
Swap Rate	0.66%
Reference Asset	Aflac, Inc.'s stock
Initial Level	\$36.44
Trigger Price	\$21.86
Conversion Price	\$36.44
Dividend Rate	2.81%
Implied Volatility	65.29%
Delta¹	0.34
Fair Price at Issue	\$979.32
Realized Return	20.10%
CUSIP	78008GW99
SEC Link	www.sec.gov/Archives/edgar/data/1000275/000121465909001393/f52691424b2.txt

Related Research

Research Papers:

www.slcg.com/research.php

- "Are Structured Products Suitable for Retail Investors?" December 2006.
- "Structured Products in the Aftermath of Lehman Brothers," November 2009.
- "What TiVo and JP Morgan Teach Us about Reverse Convertibles," June 2010.

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Reverse Convertible Notes linked to Aflac, Inc.

Description

Royal Bank of Canada issued \$213,000 of Reverse Convertible Notes linked to Aflac, Inc. on May 29, 2009 at \$1,000 per note.

These notes are Royal Bank of Canada-branded reverse convertibles. Reverse convertibles pay periodic interest coupons and at maturity convert into shares of the reference security if the price of the reference stock at the notes' maturity is below its price when the notes were issued and had closed below a specified "trigger" during the term of the notes.

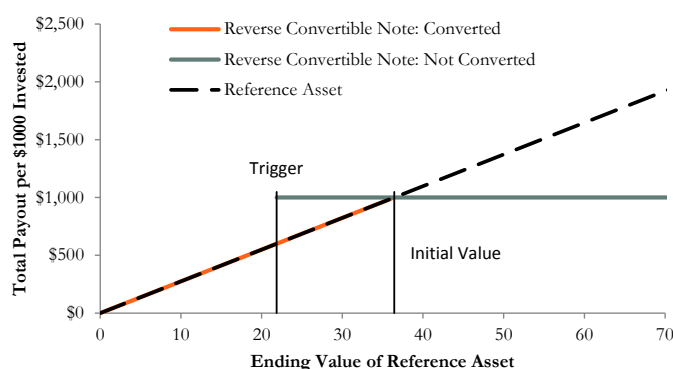
These 3-month notes pay monthly coupons at an annualized rate of 19.00%. In addition to the monthly coupons, at maturity on August 31, 2009 investors will receive the market value of 27.44 shares of Aflac, Inc.'s stock if on August 26, 2009 Aflac, Inc.'s stock price closes below \$36.44 (Aflac, Inc.'s stock price on May 26, 2009) and had ever closed at or below \$21.86 during the term of the notes. Otherwise, investors will receive the \$1,000 face value per note.

Valuation

This Royal Bank of Canada reverse convertible linked to Aflac, Inc.'s stock can be valued as a combination of a note from Royal Bank of Canada and a short down-and-in, at-the-money put option on Aflac, Inc.'s stock. For reasonable valuation inputs this note was worth \$979.32 per \$1,000 when it was issued on May 29, 2009 because investors were effectively being paid only \$41.13 for giving Royal Bank of Canada an option which was worth \$61.82.

There is no active secondary market for most structured products. Structured products, including this note, therefore are much less liquid than simple stocks, bonds, notes and mutual funds. Investors are likely to receive less than the structured product's estimated market value if they try to sell the structured product prior to maturity. Our valuations do not incorporate this relative lack of liquidity and therefore should be considered an upper bound on the value of the structured product.

Payoff Curve at Maturity

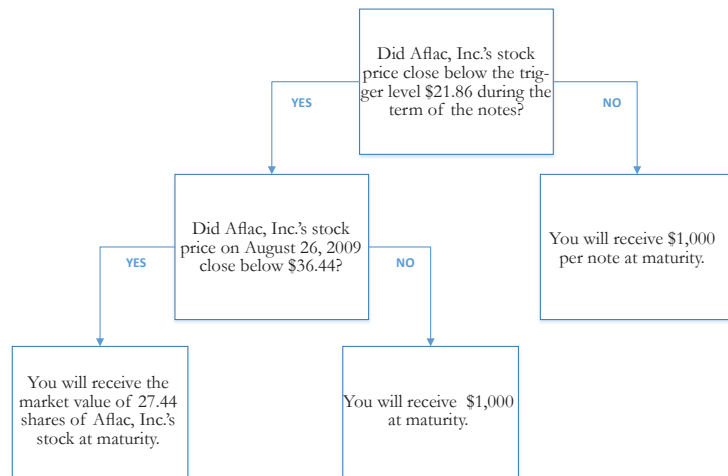


The payoff diagram shows the final payoff of this note given Aflac, Inc.'s stock price (horizontal axis). For comparison, the dashed line shows the payoff if you invested in Aflac, Inc.'s stock directly.

Principal Payback Table

Aflac, Inc.'s Stock	Converted Note Payoff	Non-Converted Note Payoff
\$0.00	\$0.00	
\$3.64	\$100.00	
\$7.29	\$200.00	
\$10.93	\$300.00	
\$14.58	\$400.00	
\$18.22	\$500.00	
\$21.86	\$600.00	\$1,000.00
\$25.51	\$700.00	\$1,000.00
\$29.15	\$800.00	\$1,000.00
\$32.80	\$900.00	\$1,000.00
\$36.44	\$1,000.00	\$1,000.00
\$40.08	\$1,000.00	\$1,000.00
\$43.73	\$1,000.00	\$1,000.00
\$47.37	\$1,000.00	\$1,000.00
\$51.02	\$1,000.00	\$1,000.00
\$54.66	\$1,000.00	\$1,000.00

Maturity Payoff Diagram



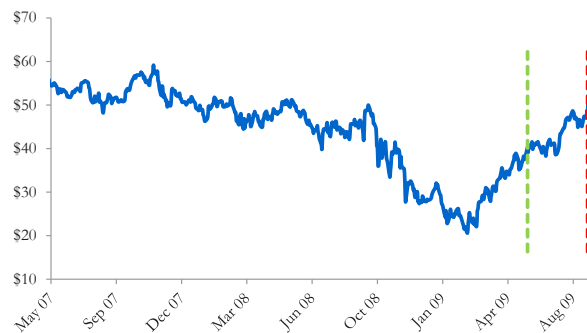
The contingent payoffs of this Reverse Convertible Note.

Analysis

This reverse convertible's 19.00% coupon rate is higher than the yield Royal Bank of Canada paid on its straight debt but, in addition to Royal Bank of Canada's credit risk, investors bear the risk that they will receive shares of Aflac, Inc.'s stock when they are worth substantially less than the face value of the note at maturity.

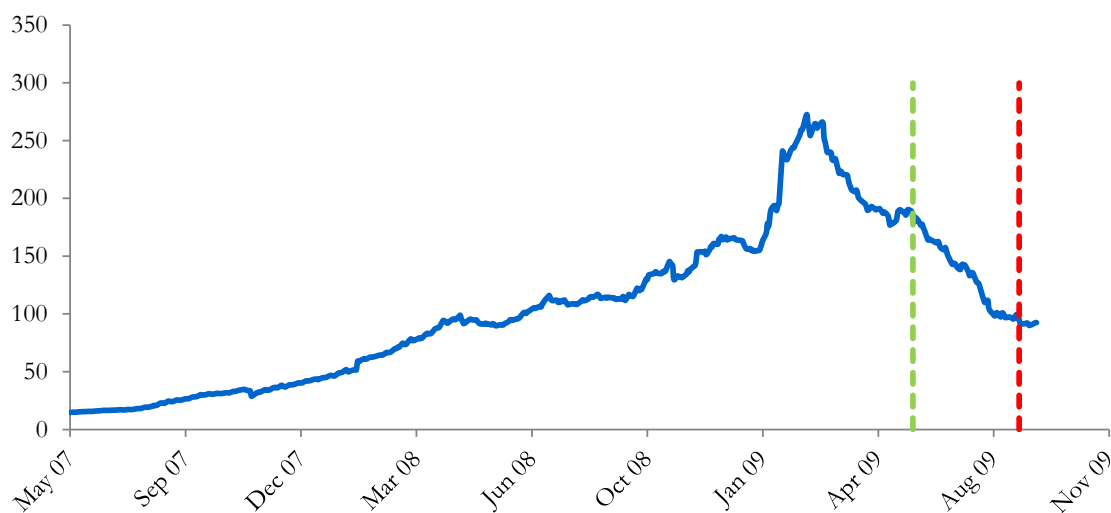
Investors purchasing reverse convertibles effectively sell put options to Royal Bank of Canada and post the note's issue price as collateral to secure satisfaction of the investors' obligations under the option contracts. Royal Bank of Canada pays investors a "coupon" that is part payment for the put options and part interest on the investors' posted collateral. This reverse convertible is fairly priced if and only if the excess of the reverse convertible's "coupon rate" above the interest Royal Bank of Canada pays on its straight debt equals the value of the put option investors are giving to Royal Bank of Canada. Whether the reverse convertible is suitable or not is equivalent to whether selling put options on the reference stock at the option premium being paid by Royal Bank of Canada was suitable for the investor.

Royal Bank of Canada's Stock Price



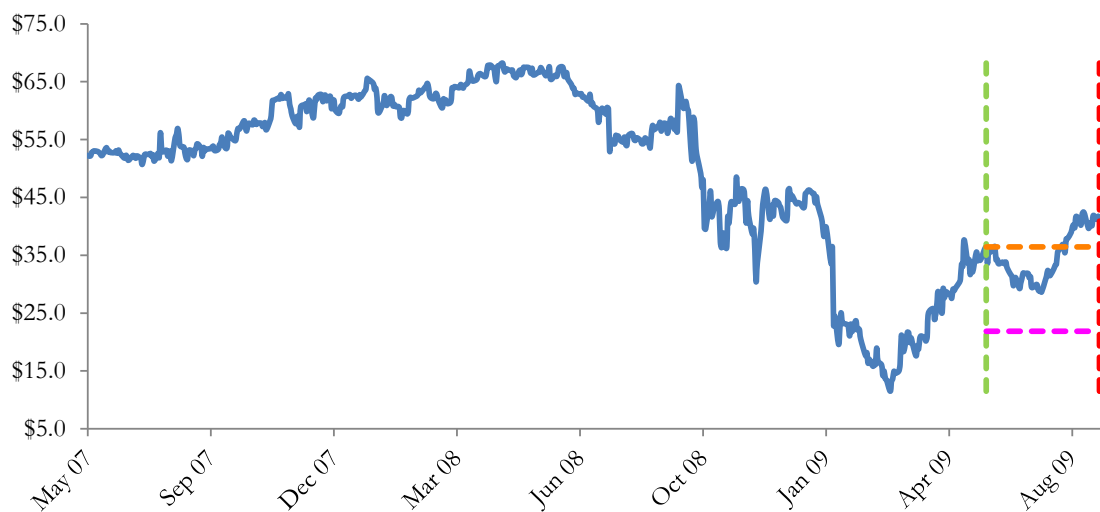
The graph above shows the adjusted closing price of the issuer Royal Bank of Canada for the past several years. The stock price of the issuer is an indication of the financial strength of Royal Bank of Canada. The adjusted price shown above incorporates any stock split, reverse stock split, etc.

Royal Bank of Canada's CDS Rate



Credit default swap (CDS) rates are the market price that investors require to bear credit risk of an issuer such as Royal Bank of Canada. CDS rates are usually given in basis points (bps). One basis point equals 0.01%. Higher CDS rates reflect higher perceived credit risk, higher required yields, and therefore lower market value of Royal Bank of Canada's debt, including outstanding Reverse Convertible Note. Fluctuations in Royal Bank of Canada's CDS rate impact the market value of the notes in the secondary market.

Aflac, Inc.'s Stock Price

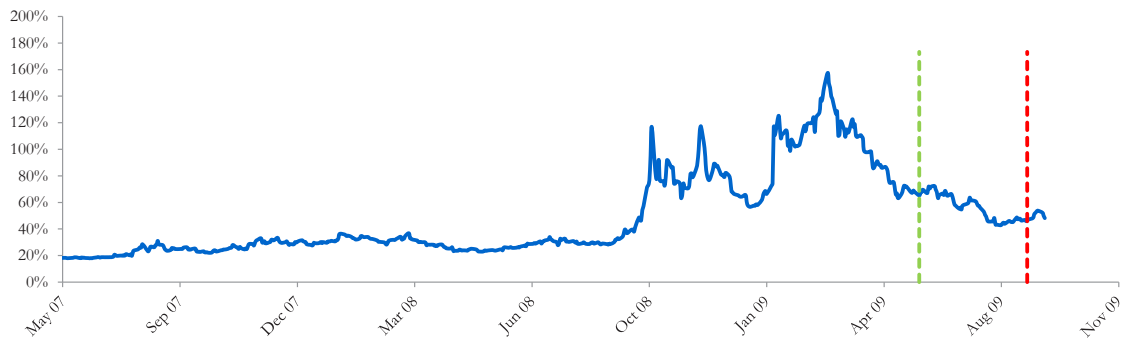


The graph above shows the historical levels of Aflac, Inc.'s stock for the past several years. The final payoff of this note is determined by Aflac, Inc.'s stock price at maturity. Higher fluctuations in Aflac, Inc.'s stock price correspond to a greater uncertainty in the final payout of this Reverse Convertible Note.

Realized Payoff

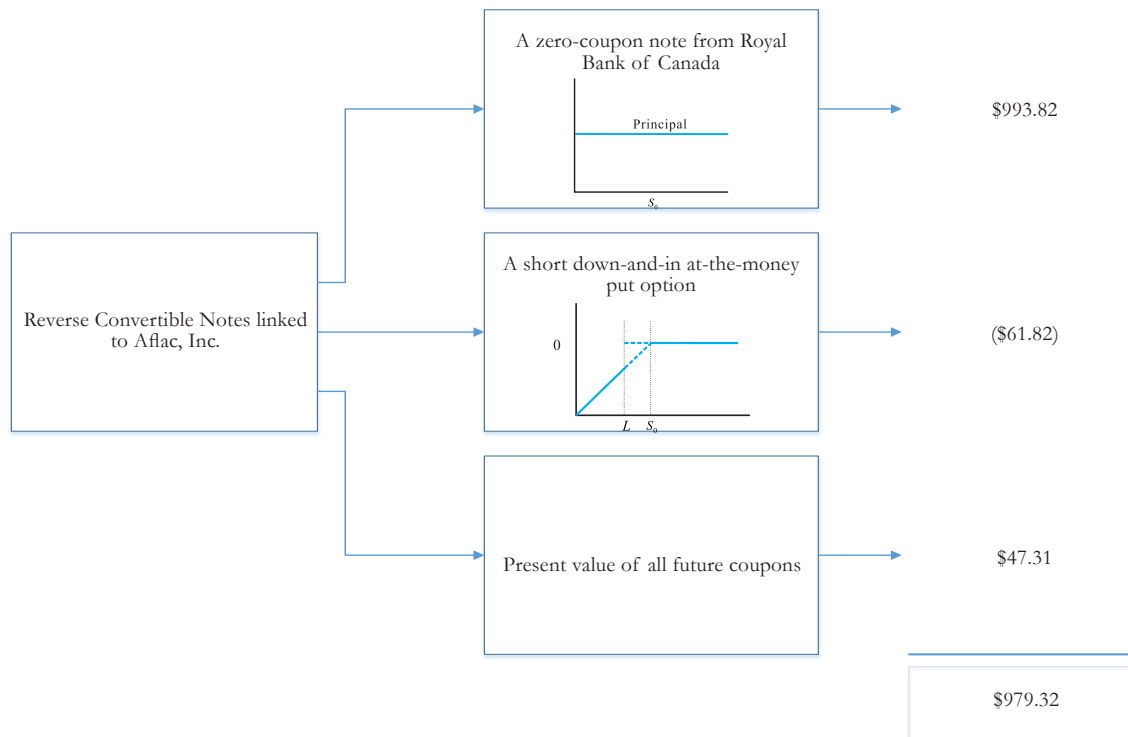
This note matured on August 31, 2009 and investors received \$1,000.00 per note.

Reference Asset Aflac, Inc.'s Stock's Implied Volatility



The annualized implied volatility of Aflac, Inc.'s stock on May 26, 2009 was 65.29%, meaning that options contracts on Aflac, Inc.'s stock were trading at prices that reflect an expected annual volatility of 65.29%. The higher the implied volatility, the larger the expected fluctuations of Aflac, Inc.'s stock price and of the Note's market value during the life of the Notes.

Decomposition of this Reverse Convertible Note



This note can be decomposed into different components, and each component can be valued separately. The chart above shows the value of each component of this Reverse Convertible Note.

1. Delta measures the sensitivity of the price of the note to the Aflac, Inc.'s stock price on May 26, 2009.
2. CDS rates can be considered a measure of the probability that an issuer will default over a certain period of time and the likely loss given a default. The lower the CDS rate, the lower the default probability. CDS rate is given in basis points (1 basis point equals 0.01%), and is considered as a market premium, on top of the risk-free rate, that investors require to insure against a potential default.
3. Fair price evaluation is based on the Black-Scholes model of the Aflac, Inc.'s stock on May 26, 2009.
4. Calculated payout at maturity is only an approximation, and may differ from actual payouts at maturity.
5. Our evaluation does not include any transaction fees, broker commissions, or liquidity discounts on the notes.