

Report Prepared On: 01/20/14

Structured Product Details

Name	Reverse Convertible Notes linked to Market Vectors Gold Miners ETF
Issue Size	\$745,000
Issue Price	\$1,000
Term	3 Months
Annualized Coupon	13.00%
Pricing Date	October 28, 2013
Issue Date	October 31, 2013
Valuation Date	January 28, 2014
Maturity Date	January 31, 2014
Issuer	Royal Bank of Canada
CDS Rate	102.53 bps
Swap Rate	0.24%
Reference Asset	Market Vectors Gold Miners ETF's stock
Initial Level	\$26.52
Trigger Price	\$21.22
Conversion Price	TBD
Dividend Rate	1.73%
Implied Volatility	38.86%
Delta¹	0.46
Fair Price at Issue	\$970.32
CUSIP	78010UHM2
SEC Link	www.sec.gov/Archives/edgar/data/1000275/000121465913006000/g1029130424b2.htm

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 Market Vectors Gold Miners ETF

Description

Royal Bank of Canada issued \$745,000 of Reverse Convertible Notes linked to Market Vectors Gold Miners ETF on October 31, 2013 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.

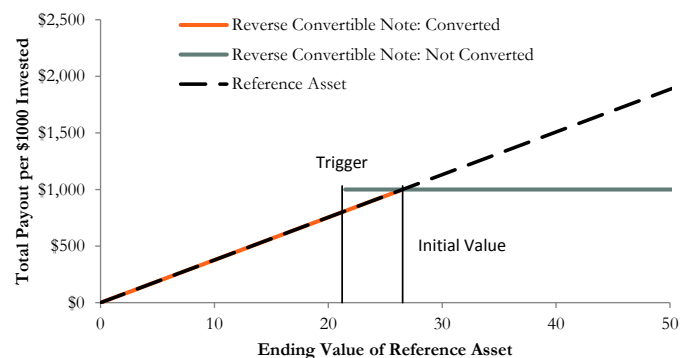
These 3-month notes pay monthly coupons at an annualized rate of 13.00%. In addition to the monthly coupons, at maturity on January 31, 2014 investors will receive the market value of 37.71 shares of Market Vectors Gold Miners ETF's stock if on January 28, 2014 Market Vectors Gold Miners ETF's stock price closes below \$26.52 (Market Vectors Gold Miners ETF's stock price on October 28, 2013) and had ever closed at or below \$21.22 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 Market Vectors Gold Miners ETF'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 Market Vectors Gold Miners ETF's stock. For reasonable valuation inputs this note was worth \$970.32 per \$1,000 when it was issued on October 31, 2013 because investors were effectively being paid only \$28.57 for giving Royal Bank of Canada an option which was worth \$58.25.

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

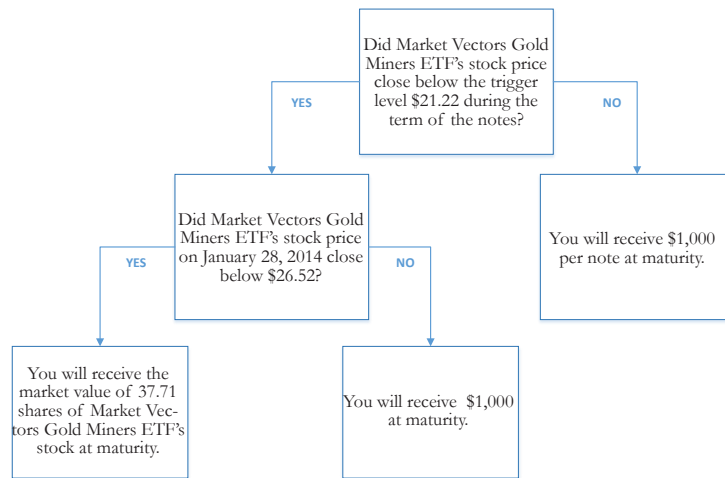


The payoff diagram shows the final payoff of this note given Market Vectors Gold Miners ETF's stock price (horizontal axis). For comparison, the dashed line shows the payoff if you invested in Market Vectors Gold Miners ETF's stock directly.

Principal Payback Table

Market Vectors Gold Miners ETF's Stock	Converted Note Payoff	Non-Converted Note Payoff
\$0.00	\$0.00	
\$2.65	\$100.00	
\$5.30	\$200.00	
\$7.96	\$300.00	
\$10.61	\$400.00	
\$13.26	\$500.00	
\$15.91	\$600.00	
\$18.56	\$700.00	
\$21.22	\$800.00	
\$23.87	\$900.00	\$1,000.00
\$26.52	\$1,000.00	\$1,000.00
\$29.17	\$1,000.00	\$1,000.00
\$31.82	\$1,000.00	\$1,000.00
\$34.48	\$1,000.00	\$1,000.00
\$37.13	\$1,000.00	\$1,000.00
\$39.78	\$1,000.00	\$1,000.00

Maturity Payoff Diagram



The contingent payoffs of this Reverse Convertible Note.

Analysis

This reverse convertible's 13.00% 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 Market Vectors Gold Miners ETF'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



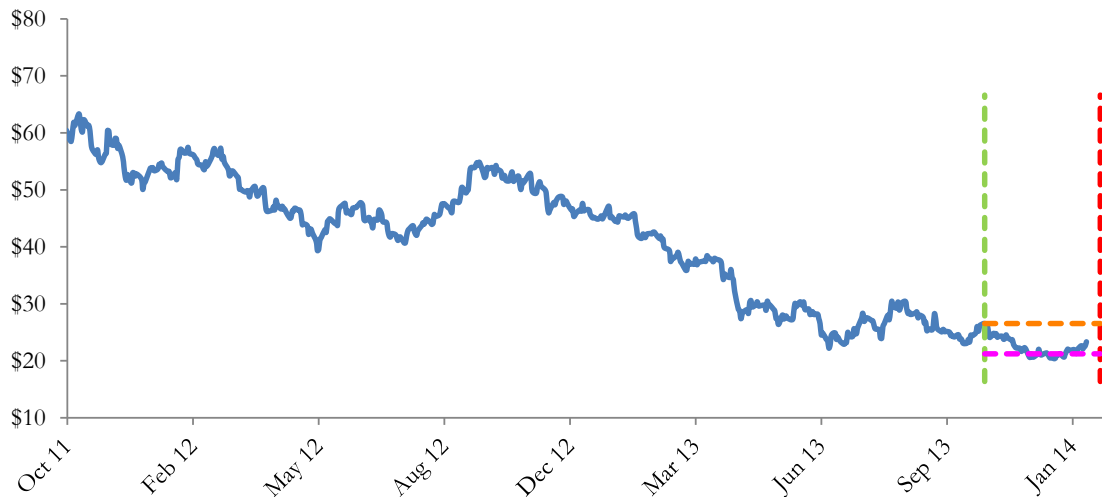
The graph above shows the adjusted closing price of the issuer Royal Bank of Canada for the past several years. The stock price of the issuer is an indication of the financial strength of Royal Bank of Canada. The adjusted price shown above incorporates any stock split, reverse stock split, etc.

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.

Market Vectors Gold Miners ETF's Stock Price

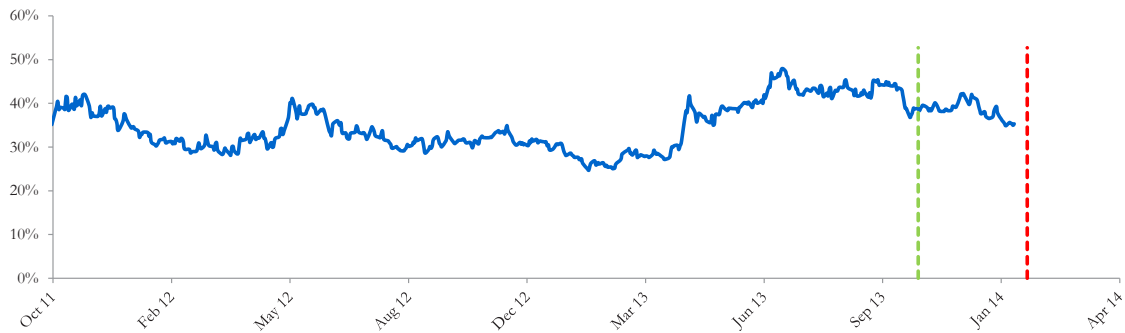


The graph above shows the historical levels of Market Vectors Gold Miners ETF's stock for the past several years. The final payoff of this note is determined by Market Vectors Gold Miners ETF's stock price at maturity. Higher fluctuations in Market Vectors Gold Miners ETF's stock price correspond to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

Realized Payoff

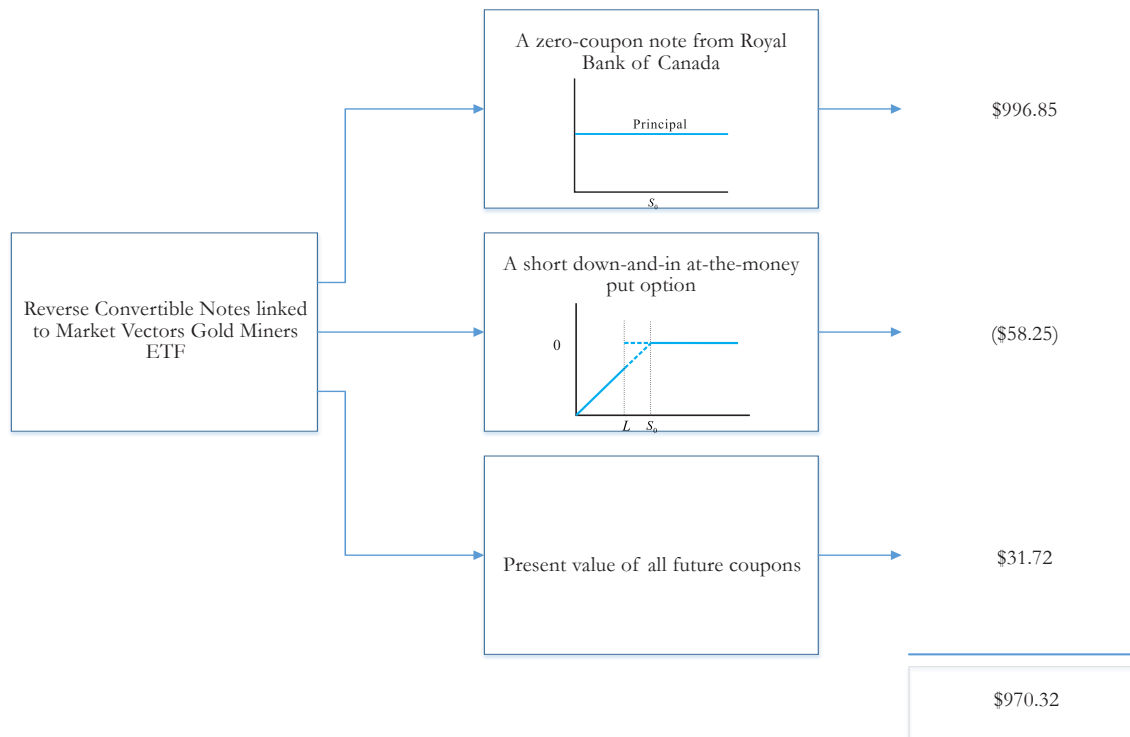
This product will mature on January 31, 2014.

Reference Asset Market Vectors Gold Miners ETF's Stock's Implied Volatility



The annualized implied volatility of Market Vectors Gold Miners ETF's stock on October 28, 2013 was 38.86%, meaning that options contracts on Market Vectors Gold Miners ETF's stock were trading at prices that reflect an expected annual volatility of 38.86%. The higher the implied volatility, the larger the expected fluctuations of Market Vectors Gold Miners ETF'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 Market Vectors Gold Miners ETF's stock price on October 28, 2013.
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 Market Vectors Gold Miners ETF's stock on October 28, 2013.
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.