

Report Prepared On: 04/29/13

## Structured Product Details

<b>Name</b>	Trigger Yield Optimization Notes linked to Market Vectors Gold Miners ETF
<b>Issue Size</b>	\$2.52 million
<b>Issue Price</b>	\$54.88
<b>Term</b>	6 Months
<b>Annualized Coupon</b>	11.80%
<b>Pricing Date</b>	October 7, 2011
<b>Issue Date</b>	October 13, 2011
<b>Valuation Date</b>	April 9, 2012
<b>Maturity Date</b>	April 13, 2012
<b>Issuer</b>	Royal Bank of Canada
<b>CDS Rate</b>	104.74 bps
<b>Swap Rate</b>	0.58%
<b>Reference Asset</b>	Market Vectors Gold Miners ETF's stock
<b>Initial Level</b>	\$54.88
<b>Trigger Price</b>	\$38.42
<b>Conversion Price</b>	\$54.88
<b>Dividend Rate</b>	0.73%
<b>Implied Volatility</b>	44.97%
<b>Delta<sup>1</sup></b>	0.34
<b>Fair Price at Issue</b>	\$53.88
<b>Realized Return</b>	12.49%
<b>CUSIP</b>	78010W871
<b>SEC Link</b>	<a href="http://www.sec.gov/Archives/edgar/data/1000275/000121465911003420/f1010110424b2.htm">www.sec.gov/Archives/edgar/data/1000275/000121465911003420/f1010110424b2.htm</a>

## Related Research

### Research Papers:

[www.slcg.com/research.php](http://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.

**Mike Yan, Ph.D.,**  
Senior Financial Economist, SLCG  
(+1) 703.539.6780  
[MikeYan@slcg.com](mailto:MikeYan@slcg.com)

## Trigger Yield Optimization Notes linked to Market Vectors Gold Miners ETF

### Description

Royal Bank of Canada issued \$2.52 million of Trigger Yield Optimization Notes linked to Market Vectors Gold Miners ETF on October 13, 2011 at \$54.88 per note.

These notes are Royal Bank of Canada-branded single observation reverse convertibles. Single observation reverse convertibles pay periodic interest coupons and at maturity convert into shares of the reference security if the price of the reference security at the notes' maturity is below the trigger price determined when the notes were issued.

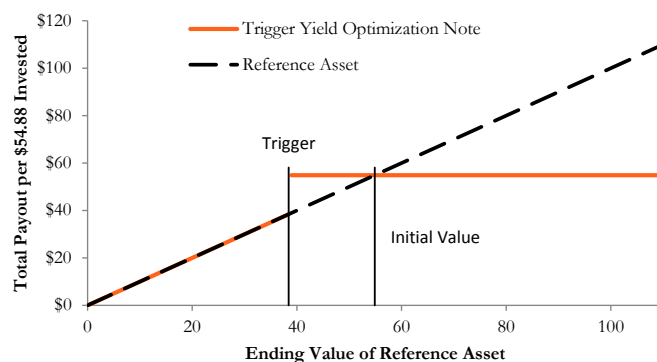
These 6-month notes pay monthly coupons at an annualized rate of 11.80%. In addition to the monthly coupons, on April 13, 2012 investors will receive the market value of one share of Market Vectors Gold Miners ETF's stock if on April 9, 2012 Market Vectors Gold Miners ETF's stock closes below \$38.42 (70% of Market Vectors Gold Miners ETF's stock price on October 7, 2011). Otherwise, investors will receive the \$54.88 face value per note.

### Valuation

This Royal Bank of Canada single observation 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 European out-of-the-money cash-or-nothing binary put option, and a short European out-of-the-money put option on Market Vectors Gold Miners ETF's stock. For reasonable valuation inputs this note was worth \$53.88 per \$54.88 when it was issued on October 13, 2011 because investors were effectively being paid only \$2.79 for giving Royal Bank of Canada options which were worth \$3.79.

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

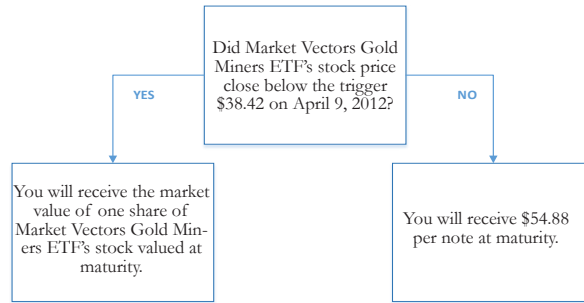


The payoff diagram shows the final payoff of this note given Market Vectors Gold Miners ETF's stock price (horizontal axis). For comparison, the dashed line shows the payoff if you invested in Market Vectors Gold Miners ETF's stock directly.

**Principal Payback Table**

Market Vectors Gold Miners ETF's Stock	Note Payoff
\$0.00	\$0.00
\$5.49	\$5.49
\$10.98	\$10.98
\$16.46	\$16.46
\$21.95	\$21.95
\$27.44	\$27.44
\$32.93	\$32.93
\$38.42	\$38.42
\$43.90	\$54.88
\$49.39	\$54.88
<b>\$54.88</b>	<b>\$54.88</b>
\$60.37	\$54.88
\$65.86	\$54.88
\$71.34	\$54.88
\$76.83	\$54.88
\$82.32	\$54.88

**Maturity Payoff Diagram**



*The contingent payoffs of this Trigger Yield Optimization Note.*

**Analysis**

This single observation reverse convertible's 11.80% 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 those shares are worth substantially less than the face value of the note at maturity.

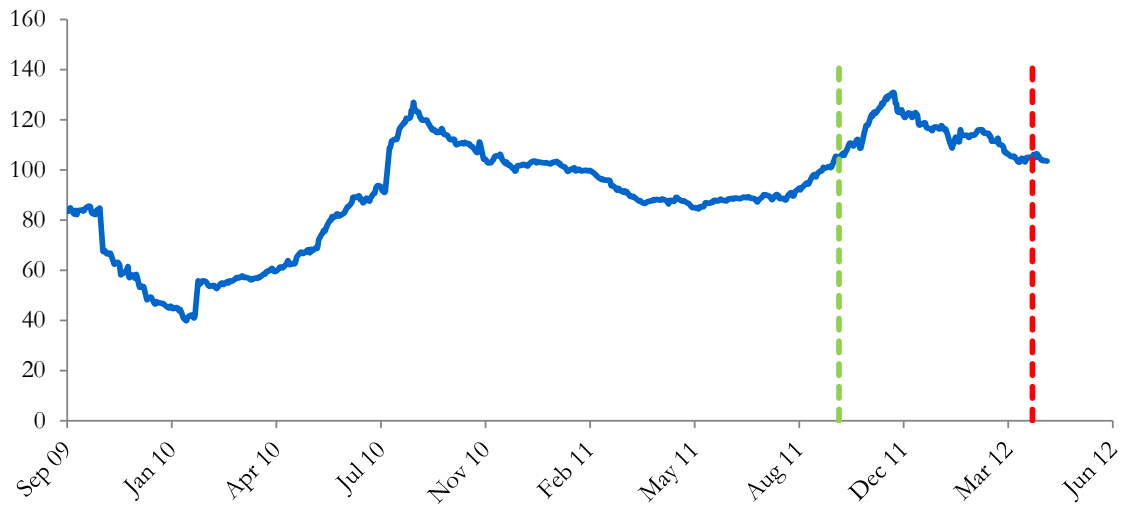
Investors purchasing these reverse convertibles effectively sell put options to Royal Bank of Canada and post the note's issue price as collateral to secure satisfaction of the investors' obligations under the option contracts. Royal Bank of Canada pays investors a "coupon" that is part payment for the put options and part interest on the investors' posted collateral. This reverse convertible is fairly priced if and only if the difference between the reverse convertible's "coupon rate" and interest paid on Royal Bank of Canada's straight debt equals the value of the put option investors are giving to Royal Bank of Canada. Whether this reverse convertible is suitable or not is identically 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**



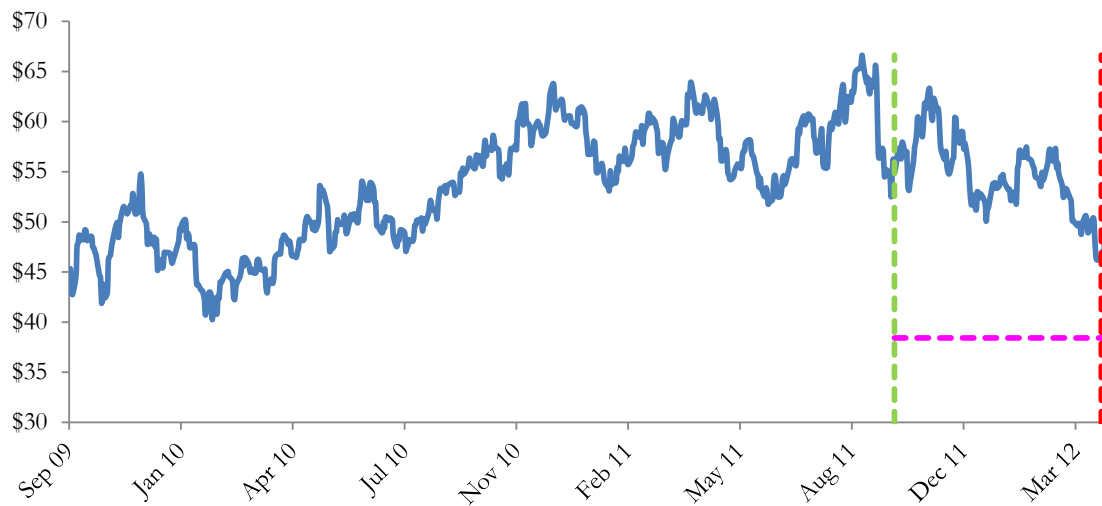
*The graph above shows the adjusted closing price of the issuer Royal Bank of Canada for the past several years. The stock price of the issuer is an indication of the financial strength of Royal Bank of Canada. The adjusted price shown above incorporates any stock split, reverse stock split, etc.*

### 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 Trigger Yield Optimization 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

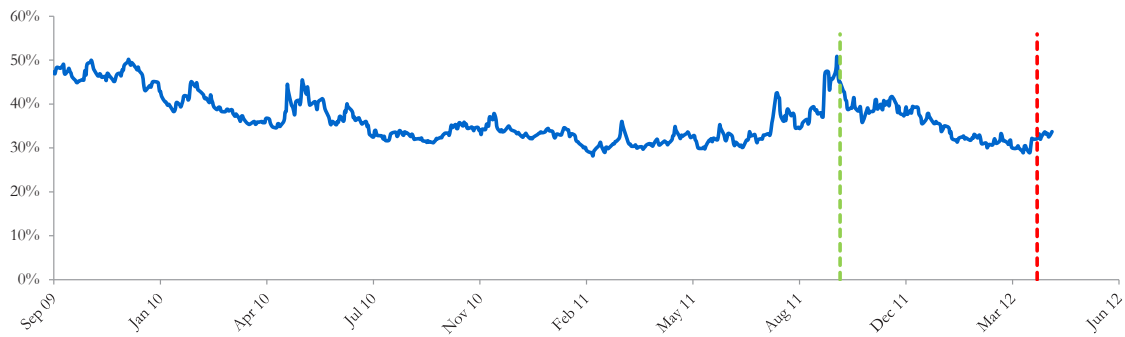


The graph above shows the historical levels of Market Vectors Gold Miners ETF's stock for the past several years. The final payoff of this note is determined by Market Vectors Gold Miners ETF's stock price at maturity. Higher fluctuations in Market Vectors Gold Miners ETF's stock price correspond to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

### Realized Payoff

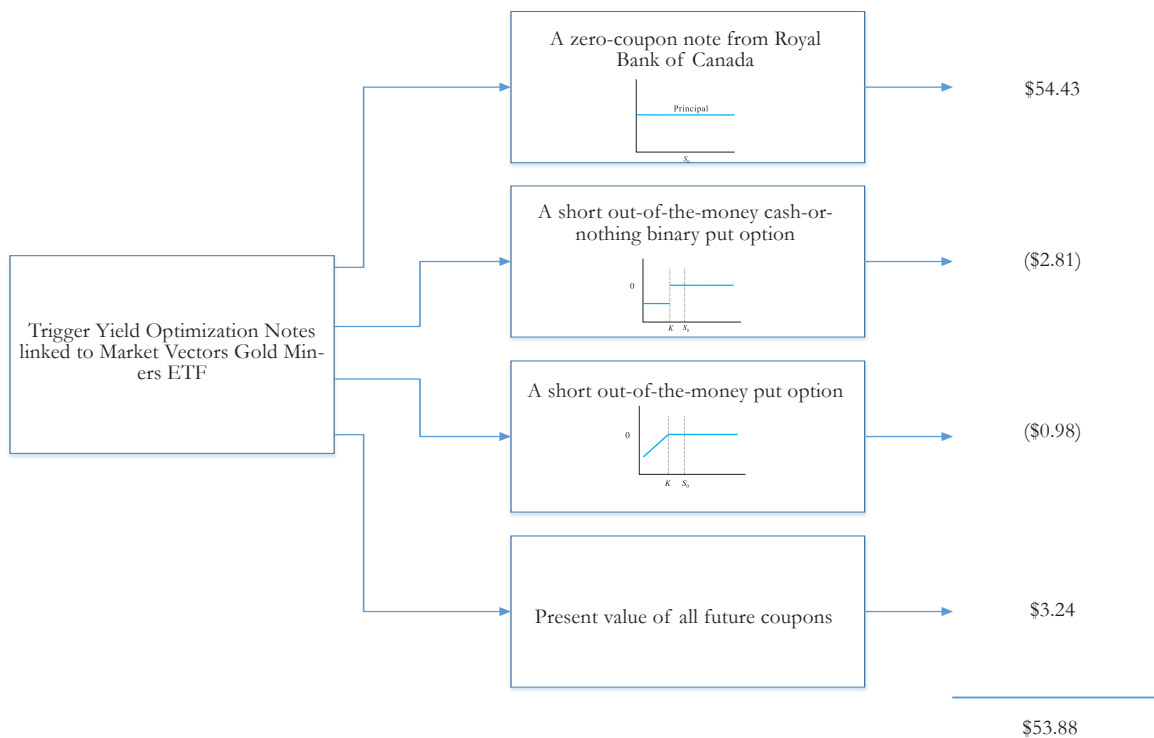
This note matured on April 13, 2012 and investors received \$54.88 per note.

### 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 7, 2011 was 44.97%, meaning that options contracts on Market Vectors Gold Miners ETF's stock were trading at prices that reflect an expected annual volatility of 44.97%. 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 Trigger Yield Optimization 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 Trigger Yield Optimization Note.

1. Delta measures the sensitivity of the price of the note to the Market Vectors Gold Miners ETF's stock price on October 7, 2011.
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 7, 2011.
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.