

ROYAL BANK OF CANADA
Form 424B2
September 04, 2018

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(To Prospectus dated January 8, 2016,
Prospectus Supplement dated January 8, 2016 and
Product Supplement EQUITY INDICES ARN-1 dated
December 21, 2017)

3,000,000 Date August 30, 2018
Settlement Date September 7, 2018
Maturity Date October 25, 2019
principal
amount
per
unit
CUSIP
No.
78014F650

Accelerated Return Notes® Linked to
the S&P® Regional Banks Select
Industry™ Index

§ Maturity of approximately 14
months

§ 3-to-1 upside exposure to
increases in the Index, subject to a
capped return of 17.20%

§ 1-to-1 downside exposure to
decreases in the Index, with 100% of
your principal at risk

§ All payments occur at maturity
and are subject to the credit risk of
Royal Bank of Canada

§ No periodic interest payments

§ In addition to the underwriting
discount set forth below, the notes
include a hedging-related charge of
\$0.075 per unit. See “Structuring the
Notes.”

§ Limited secondary market
liquidity, with no exchange listing

§ The notes are unsecured debt
securities and are not savings
accounts or insured deposits of a
bank. The notes are not insured or
guaranteed by the Canada Deposit
Insurance Corporation, the U.S.

Federal Deposit Insurance
Corporation, or any other
governmental agency of Canada or
the United States

The notes are being issued by Royal Bank of Canada (“RBC”). There are important differences between the notes and a conventional debt security, including different investment risks and certain additional costs. See “Risk Factors” and “Additional Risk Factors” beginning on page TS-7 of this term sheet and “Risk Factors” beginning on page PS-6 of product supplement EQUITY INDICES ARN-1.

The initial estimated value of the notes as of the pricing date is \$9.7442 per unit, which is less than the public offering price listed below. See “Summary” on the following page, “Risk Factors” beginning on page TS-7 of this term sheet and “Structuring the Notes” on page TS-12 of this term sheet for additional information. The actual value of your notes at any time will reflect many factors and cannot be predicted with accuracy.

None of the Securities and Exchange Commission (the “SEC”), any state securities commission, or any other regulatory body has approved or disapproved of these securities or determined if this Note Prospectus (as defined below) is truthful or complete. Any representation to the contrary is a criminal offense.

	<u>Per Unit Total</u>	
Public offering price	\$ 10.00	\$39,360,890.00
Underwriting discount	\$ 0.20	\$787,217.80
Proceeds, before expenses, to RBC	\$ 9.80	\$38,573,672.20

The notes:

Are Not FDIC Insured	Are Not Bank Guaranteed	May Lose Value
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Merrill Lynch & Co.
August 30, 2018

Accelerated Return Notes®

Linked to the S&P® Regional Banks Select Industry™ Index, due October 25, 2019

Summary

The Accelerated Return Notes® Linked to the S&P® Regional Banks Select Industry™ Index, due October 25, 2019 (the “notes”) are our senior unsecured debt securities. The notes are not guaranteed or insured by the Canada Deposit Insurance Corporation or the U.S. Federal Deposit Insurance Corporation or secured by collateral. The notes will rank equally with all of our other unsecured and unsubordinated debt. Any payments due on the notes, including any repayment of principal, will be subject to the credit risk of RBC. The notes provide you a leveraged return, subject to a cap, if the Ending Value of the Market Measure, which is the S&P® Regional Banks Select Industry™ Index (the “Index”), is greater than the Starting Value. If the Ending Value is less than the Starting Value, you will lose all or a portion of the principal amount of your notes. Any payments on the notes, will be calculated based on the \$10 principal amount per unit and will depend on the performance of the Index, subject to our credit risk. See “Terms of the Notes” below.

The economic terms of the notes (including the Capped Value) are based on our internal funding rate, which is the rate we would pay to borrow funds through the issuance of market-linked notes and the economic terms of certain related hedging arrangements. Our internal funding rate is typically lower than the rate we would pay when we issue conventional fixed or floating rate debt securities. This difference in funding rate, as well as the underwriting discount and the hedging related charge described below, reduced the economic terms of the notes to you and the initial estimated value of the notes on the pricing date. Due to these factors, the public offering price you pay to purchase the notes is greater than the initial estimated value of the notes.

On the cover page of this term sheet, we have provided the initial estimated value for the notes. This initial estimated value was determined based on our and our affiliates’ pricing models, which take into consideration our internal funding rate and the market prices for the hedging arrangements related to the notes. For more information about the initial estimated value and the structuring of the notes, see “Structuring the Notes” on page TS-12.

Terms of the Notes

Issuer:	Royal Bank of Canada (“RBC”)
Principal Amount:	\$10.00 per unit
Term:	Approximately 14 months
Market Measure:	The S&P® Regional Banks Select Industry™ Index (Bloomberg symbol: "SPSIRBK")
Starting Value:	1,963.67
Ending Value:	The average of the closing levels of the Market Measure on each scheduled calculation day occurring during the Maturity Valuation Period. The calculation days are subject to postponement in the event of Market Disruption Events, as described on page PS-18 of product supplement EQUITY INDICES ARN-1.
Participation Rate:	300%
Capped Value:	\$11.72 per unit, which represents a return of 17.20% over the principal amount.
Maturity Valuation Period:	October 16, 2019, October 17, 2019, October 18, 2019, October 21, 2019 and October 22, 2019
Fees and Charges:	The underwriting discount of \$0.20 per unit listed on the cover page and the hedging related charge of \$0.075 per unit described in “Structuring the Notes” on page TS-12.
Calculation Agent:	Merrill Lynch, Pierce, Fenner & Smith Incorporated (“MLPF&S”).

Redemption Amount Determination

On the maturity date, you will receive a cash payment per unit determined as follows:

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The terms and risks of the notes are contained in this term sheet and in the following:

Product supplement EQUITY INDICES ARN-1 dated December 21, 2017:

<https://www.sec.gov/Archives/edgar/data/1000275/000114036117046985/form424b5.htm>

Series G MTN prospectus supplement dated January 8, 2016:

<https://www.sec.gov/Archives/edgar/data/1000275/000121465916008811/p14150424b3.htm>

Prospectus dated January 8, 2016:

<http://www.sec.gov/Archives/edgar/data/1000275/000121465916008810/j18160424b3.htm>

These documents (together, the “Note Prospectus”) have been filed as part of a registration statement with the SEC, which may, without cost, be accessed on the SEC website as indicated above or obtained from MLPF&S by calling 1-800-294-1322. Before you invest, you should read the Note Prospectus, including this term sheet, for information about us and this offering. Any prior or contemporaneous oral statements and any other written materials you may have received are superseded by the Note Prospectus. Capitalized terms used but not defined in this term sheet have the meanings set forth in product supplement EQUITY INDICES ARN-1. Unless otherwise indicated or unless the context requires otherwise, all references in this document to “we,” “us,” “our,” or similar references are to RBC.

Investor Considerations

You may wish to consider an investment in the notes if:

You anticipate that the Index will increase moderately from the Starting Value to the Ending Value.

You are willing to risk a loss of principal and return if the Index decreases from the Starting Value to the Ending Value.

You accept that the return on the notes will be capped.

You are willing to forgo the interest payments that are paid on conventional interest bearing debt securities.

You are willing to forgo dividends or other benefits of owning the stocks included in the Index.

You are willing to accept a limited or no market for sales prior to maturity, and understand that the market prices for the notes, if any, will be affected by various factors, including our actual and perceived creditworthiness, our internal funding rate and fees and charges on the notes.

You are willing to assume our credit risk, as issuer of the notes, for all payments under the notes, including the Redemption Amount.

The notes may not be an appropriate investment for you if:

You believe that the Index will decrease from the Starting Value to the Ending Value or that it will not increase sufficiently over the term of the notes to provide you with your desired return.

You seek principal repayment or preservation of capital.

You seek an uncapped return on your investment.

You seek interest payments or other current income on your investment.

You want to receive dividends or other distributions paid on the stocks included in the Index.

You seek an investment for which there will be a liquid secondary market.

You are unwilling or are unable to take market risk on the notes or to take our credit risk as issuer of the notes.

We urge you to consult your investment, legal, tax, accounting, and other advisors before you invest in the notes.

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Hypothetical Payout Profile and Examples of Payments at Maturity

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This graph reflects the returns on the notes, based on the Participation Rate of 300% and the Capped Value of \$11.72 per unit. The green line reflects the returns on the notes, while the dotted gray line reflects the returns of a direct investment in the stocks included in the Index, excluding dividends.

This graph has been prepared for purposes of illustration only.

The following table and examples are for purposes of illustration only. They are based on hypothetical values and show hypothetical returns on the notes. They illustrate the calculation of the Redemption Amount and total rate of return based on a hypothetical Starting Value of 100, the Participation Rate of 300%, the Capped Value of \$11.72 per unit and a range of hypothetical Ending Values. The actual amount you receive and the resulting total rate of return will depend on the actual Starting Value, Ending Value, and whether you hold the notes to maturity. The following examples do not take into account any tax consequences from investing in the notes.

For recent actual levels of the Market Measure, see “The Index” section below. The Index is a price return index and as such the Ending Value will not include any income generated by dividends paid on the stocks included in the Index, which you would otherwise be entitled to receive if you invested in those stocks directly. In addition, all payments on the notes are subject to issuer credit risk.

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Ending Value	Percentage Change from the Starting Value to the Ending Value	Redemption Amount per Unit	Total Rate of Return on the Notes
0.00	-100.00%	\$0.00	-100.00%
50.00	-50.00%	\$5.00	-50.00%
80.00	-20.00%	\$8.00	-20.00%
90.00	-10.00%	\$9.00	-10.00%
94.00	-6.00%	\$9.40	-6.00%
97.00	-3.00%	\$9.70	-3.00%
100.00 ⁽¹⁾	0.00%	\$10.00	0.00%
102.00	2.00%	\$10.60	6.00%
103.00	3.00%	\$10.90	9.00%
105.00	5.00%	\$11.50	15.00%
110.00	10.00%	\$11.72 ⁽²⁾	17.20%
120.00	20.00%	\$11.72	17.20%
130.00	30.00%	\$11.72	17.20%
140.00	40.00%	\$11.72	17.20%
150.00	50.00%	\$11.72	17.20%
160.00	60.00%	\$11.72	17.20%

(1) The hypothetical Starting Value of 100 used in these examples has been chosen for illustrative purposes only. The actual Starting Value is 1,963.67, which was the closing level of the Market Measure on the pricing date.

(2) The Redemption Amount per unit cannot exceed the Capped Value.

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Redemption Amount Calculation Examples

Example 1

The Ending Value is 80.00, or 80.00%

of the Starting Value:

Starting Value: 100.00

Ending Value: 80.00

= \$8.00 Redemption Amount per unit

Example 2

The Ending Value is 102.00, or

102.00% of the Starting Value:

Starting Value: 100.00

Ending Value: 102.00

= \$10.60 Redemption Amount per unit

Example 3

The Ending Value is 130.00, or 130.00% of the Starting Value:

Starting Value: 100.00

Ending Value: 130.00

= \$19.00, however, because the Redemption Amount for the notes cannot exceed the Capped Value, the Redemption Amount will be \$11.72 per unit

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Risk Factors

There are important differences between the notes and a conventional debt security. An investment in the notes involves significant risks, including those listed below. You should carefully review the more detailed explanation of risks relating to the notes in the “Risk Factors” sections beginning on page PS-6 of product supplement EQUITY INDICES ARN-1, page S-1 of the MTN prospectus supplement, and page 1 of the prospectus identified above. We also urge you to consult your investment, legal, tax, accounting, and other advisors before you invest in the notes. Depending on the performance of the Index as measured shortly before the maturity date, your investment may result in a loss; there is no guaranteed return of principal.

Your return on the notes may be less than the yield you could earn by owning a conventional fixed or floating rate debt security of comparable maturity.

Payments on the notes are subject to our credit risk, and actual or perceived changes in our creditworthiness are expected to affect the value of the notes. If we become insolvent or are unable to pay our obligations, you may lose your entire investment.

Your investment return is limited to the return represented by the Capped Value and may be less than a comparable investment directly in the stocks included in the Index.

The initial estimated value of the notes is an estimate only, determined as of a particular point in time by reference to our and our affiliates’ pricing models. These pricing models consider certain assumptions and variables, including our credit spreads, our internal funding rate on the pricing date, mid-market terms on hedging transactions, expectations on interest rates and volatility, price-sensitivity analysis, and the expected term of the notes. These pricing models rely in part on certain forecasts about future events, which may prove to be incorrect.

The public offering price you pay for the notes exceeds the initial estimated value. If you attempt to sell the notes prior to maturity, their market value may be lower than the price you paid for them and lower than the initial estimated value. This is due to, among other things, changes in the level of the Index, our internal funding rate, and the inclusion in the public offering price of the underwriting discount and the hedging related charge, all as further described in “Structuring the Notes” on page TS-12. These factors, together with various credit, market and economic factors over the term of the notes, are expected to reduce the price at which you may be able to sell the notes in any secondary market and will affect the value of the notes in complex and unpredictable ways.

The initial estimated value does not represent a minimum or maximum price at which we, MLPF&S or any of our affiliates would be willing to purchase your notes in any secondary market (if any exists) at any time. The value of your notes at any time after issuance will vary based on many factors that cannot be predicted with accuracy, including the performance of the Index, our creditworthiness and changes in market conditions.

A trading market is not expected to develop for the notes. Neither we nor MLPF&S is obligated to make a market for, or to repurchase, the notes. There is no assurance that any party will be willing to purchase your notes at any price in any secondary market.

Our business, hedging and trading activities, and those of MLPF&S and our respective affiliates (including trades in shares of companies included in the Index), and any hedging and trading activities we, MLPF&S or our respective affiliates engage in for our clients’ accounts, may affect the market value and return of the notes and may create conflicts of interest with you.

The Index sponsor may adjust the Index in a way that affects its level, and has no obligation to consider your interests. You will have no rights of a holder of the securities represented by the Index, and you will not be entitled to receive securities or dividends or other distributions by the issuers of those securities.

While we, MLPF&S or our respective affiliates may from time to time own securities of companies included in the Index, we, MLPF&S and our respective affiliates do not control any company included in the Index, and have not verified any disclosure made by any other company.

There may be potential conflicts of interest involving the calculation agent, which is MLPF&S. We have the right to appoint and remove the calculation agent.

The U.S. federal income tax consequences of the notes are uncertain, and may be adverse to a holder of the notes. See “Summary of U.S. Federal Income Tax Consequences” below and “U.S. Federal Income Tax Summary” beginning on page PS-29 of product supplement EQUITY INDICES ARN-1. For a discussion of the Canadian federal income tax

consequences of investing in the notes, see “Tax Consequences – Canadian Taxation” in the prospectus dated January 8, 2016.

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Additional Risk Factors

The stocks included in the Index are concentrated in one sector.

All of the stocks included in the Index are issued by companies in the financial services sector, and more specifically, the regional banking sector. As a result, the stocks that will determine the performance of the notes are concentrated in one sector. Although an investment in the notes will not give holders any ownership or other direct interests in the stocks underlying the Index, the return on an investment in the notes will be subject to certain risks associated with a direct equity investment in companies in the regional banking sector, including those discussed below. In addition, profitability of these companies is largely dependent on the availability and cost of capital funds, and can fluctuate significantly when interest rates change. Credit losses resulting from financial difficulties of borrowers can negatively impact the sector. Regional banks operating in certain geographic locations may be particularly sensitive to downturns in specific industries or sectors where a significant portion of their borrowers and other customers may be located or operate. Banks may also be subject to severe price competition. The regional banking industry is highly competitive and failure to maintain or increase market share may result in lost market share. Accordingly, by investing in the notes, you will not benefit from the diversification which could result from an investment linked to companies that operate in multiple sectors.

Economic conditions have adversely impacted the stock prices of many companies in the financial services sector, and may do so during the term of the notes.

In recent years, economic conditions in the U.S. have resulted, and may continue to result, in significant losses among many companies that operate in the financial services sector. These conditions have also resulted, and may continue to result, in a high degree of volatility in the stock prices of financial institutions, and substantial fluctuations in the profitability of these companies. Numerous financial services companies have experienced substantial decreases in the value of their assets, taken action to raise capital (including the issuance of debt or equity securities), or even ceased operations. Further, companies in the financial services sector have been subject to unprecedented government actions and regulation, which may limit the scope of their operations, the types of loans and other financial commitments they can make, the interest rates and fees they can charge, the prices they can charge and the amount of capital they must maintain, and, in turn, result in a decrease in value of these companies. Any of these factors may have an adverse impact on the level of the Index. As a result, the level of the Index may be adversely affected by economic, political, or regulatory events affecting the financial services sector or one of the sub-sectors of the financial services sector.

This in turn could adversely impact the market value of the notes and decrease the Redemption Amount.

There are uncertainties regarding the Index because of its limited performance history.

The Index was first published in September 2011. Accordingly, there is limited trading history available for the Index upon which you can evaluate its prior performance, and it may perform in unexpected ways. Because the Index's past historical performance is limited, your investment in the notes may involve a greater risk than investing in securities linked to one or more indices with an established record of performance. The historical Index levels should not be taken as an indication of future performance, and no assurance can be given as to the Index closing level on any given date.

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The Index

All disclosures contained in this term sheet regarding the Index, including, without limitation, its make-up, method of calculation, and changes in its components, have been derived from publicly available sources. The information reflects the policies of, and is subject to change by, S&P Dow Jones Indices LLC (the “Index sponsor”). The Index sponsor, which licenses the copyright and all other rights to the Index, has no obligation to continue to publish, and may discontinue publication of, the Index. The consequences of the Index sponsor discontinuing publication of the Index are discussed in the section entitled “Description of ARNs—Discontinuance of an Index” beginning on page PS-19 of product supplement EQUITY INDICES ARN-1. None of us, the calculation agent, or MLPF&S accepts any responsibility for the calculation, maintenance or publication of the Index or any successor index.

The Index

The Index is managed by S&P Dow Jones Indices LLC (“S&P”) and is an equal-weighted index that is designed to measure the performance of stocks in the S&P Total Market Index that both (i) are classified under the Global Industry Classification Standard (“GICS[®]”) in the regional banks sub-industry and (ii) satisfy certain liquidity and market capitalization requirements. The S&P Total Market Index tracks all eligible U.S. common stocks listed on the NYSE, NYSE Arca, NYSE American, Nasdaq Global Select Market, Nasdaq Select Market, Nasdaq Capital Market, Bats BZX, Bats BYX, Bats EDGA, Bats EDGX exchanges and IEX. The index is one of the 21 sub-industry sector indices S&P maintains that are derived from a portion of the stocks comprising the S&P Total Market Index. An equal-weighted index is one where every stock has the same weight in the Index. As such, the Index must be rebalanced from time to time to re-establish the proper weighting. The Index was launched in September 2011.

Eligibility for Inclusion in the Index

Selection for the Index is based on a company’s GICS[®] classification, as well as liquidity and market capitalization requirements. In addition, only U.S. companies are eligible for inclusion in the Index. GICS[®] classifications are determined by S&P using criteria it has selected or developed. Index and classification system sponsors may use very different standards for determining sector designations. In addition, many companies operate in a number of sectors, but are listed only in one sector. As a result, sector comparisons between indices with different sponsors may reflect differences in methodology as well as actual differences in the sector composition of the indices.

To be eligible for inclusion in the Index, stocks must be in the S&P Total Market Index and satisfy the following combined liquidity and market capitalization criteria: (i) a float-adjusted market capitalization above \$500 million with a float-adjusted liquidity ratio above 90% or (ii) a float-adjusted market capitalization above \$400 million with a float-adjusted liquidity ratio above 150%. The float-adjusted liquidity ratio is defined as the dollar value traded over the previous 12 months divided by the float-adjusted market capitalization as of the Index’s rebalancing reference date. All stocks in the related GICS[®] sub-industry satisfying the above requirements are included in the Index and the total number of stocks in the Index should be at least 35. If there are fewer than 35 stocks in the Index, the market capitalization requirements may be relaxed to reach at least 22 stocks. With respect to liquidity, the length of time to evaluate liquidity is reduced to the available trading period for companies that recently became public or companies that were spun-off from other companies, the stocks of which therefore do not have 12 months of trading history.

Current Composition of the Index

As of June 29, 2018, the Index was comprised of the stocks of 123 companies. As of June 29, 2018, the top ten constituents in the Index were as follows: Signature Bank, CIT Group Inc., M&T Bank Corporation, KeyCorp, People’s United Financial Inc., Comerica Incorporated, Huntington Bancshares Incorporated, First Republic Bank, SunTrust Banks Inc. and Regions Financial Corporation.

Calculation of the Total Return of the Index

The price return index is calculated as the Index market value divided by the divisor. The total return calculation begins with the price return of the Index. Given the Index is an equal-weighted index, the market capitalization of each stock used in the calculation of the Index market value is redefined so that each stock has an equal weight in the Index on each rebalancing date. The adjusted market capitalization for each stock in the Index is calculated as the product of the stock price, the number of shares outstanding, the stock’s float factor and the adjustment factor. A stock’s float factor refers to the number of shares outstanding that are available to investors. S&P indices exclude shares closely held by control groups from the Index calculation because such shares are not available to investors.

For each stock, S&P calculates an Investable Weight Factor (IWF) which is the percentage of total shares outstanding that are included in the Index calculation.

The adjustment factor for each stock is assigned at each rebalancing date and is calculated by dividing a specific constant set for the purpose of deriving the adjustment factor (often referred to as modified Index shares) by the number of stocks in the Index multiplied by the float adjusted market value of such stock on such rebalancing date. Adjustments are also made to ensure that no stock in the Index will have a weight that exceeds the value that can be traded in a single day for a theoretical portfolio of \$2 billion. Theoretical portfolio values are reviewed annually and any updates are made at the discretion of the Index committee, as defined below.

The maximum basket liquidity weight for each stock in the Index will be calculated using the ratio of its three-month median daily value traded to the theoretical portfolio value of \$2 billion. Each stock's weight in the Index is then compared to its maximum basket liquidity weight and is set to the lesser of (1) its maximum basket liquidity weight or (2) its initial equal weight. All excess weight is redistributed

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across the Index to the uncapped stocks. If necessary, a final adjustment is made to ensure that no stock in the Index has a weight greater than 4.5%. No further adjustments are made if the latter step would force the weight of those stocks limited to their maximum basket liquidity weight to exceed that weight. If the Index contains exactly 22 stocks as of the rebalancing effective date, the Index will be equally weighted without basket liquidity constraints.

If a company has more than one share class line in the S&P Total Market Index, such company will be represented once by the primary listing (generally the most liquid share line). In the event that a company issues a secondary share class to the Index share class holders by means of a mandatory distribution, the newly issued share class line will be added to the Index on the distribution ex-date, provided that the distributed class is not considered to be de minimis. Both share class lines will then remain in the Index until the next rebalancing, at which time only the primary share class line will be considered for continued inclusion.

The Index is calculated by using the divisor methodology used in all S&P equity indices. The initial divisor was set to have a base value of 1,000 on June 20, 2003. The Index level is the Index market value divided by the Index divisor. In order to maintain Index series continuity, it is also necessary to adjust the divisor at each rebalancing. Therefore, the divisor (after rebalancing) equals the Index market value (after rebalancing) divided by the Index value before rebalancing. The divisor keeps the Index comparable over time and is one manipulation point for adjustments to the Index, which we refer to as maintenance of the Index.

Once the price return Index has been calculated, the total return Index is calculated. First, the total daily dividend for each stock in the Index is calculated by multiplying the per share dividend by the number of shares included in the Index. Then the Index dividend is calculated by aggregating the total daily dividends for each of the Index stocks (which may be zero for some stocks) and dividing by the divisor for that day. Next the daily total return of the Index is calculated as a fraction minus 1, the numerator of which is the sum of the Index level plus the Index dividend and the denominator of which is the Index level on the previous day. Finally, the total return Index for that day is calculated as the product of the value of the total return Index on the previous day times the sum of 1 plus the Index daily total return for that day.

Maintenance of the Index

The composition of the Index is reviewed quarterly. Rebalancing occurs after the closing of the relevant U.S. trading markets on the third Friday of the month ending that quarter. The reference date for float-adjusted market capitalization and the float-adjusted liquidity ratio is after the closing of the last trading day of the previous month. The reference date for GICS[®] classification is as of the rebalancing effective date. Existing stocks in the Index are removed at the quarterly rebalancing if either their float-adjusted capitalization falls below \$300 million or their float-adjusted liquidity ratio falls below 50%. A company will also be deleted from the Index if the S&P Total Market Index deletes that company. Companies are added between rebalancings only if a company deletion causes the number of companies in the Index to fall below 22. The newly added company will be added to the Index at the weight of the deleted company. If the stock was deleted at \$0.00, the newly added stock will be added at the deleted stock's previous day's closing value (or the most immediate prior business day that the deleted stock was not valued at \$0.00) and an adjustment to the divisor will be made (only in the case of stocks removed at \$0.00). At the next rebalancing, the Index will be rebalanced based on the eligibility requirements and equal-weight methodology discussed above. In the case of GICS[®] changes, where a stock no longer qualifies to belong to the Index after the classification change, it is removed from the Index on the next rebalancing date. In the case of a spin-off, the spin-off company will be added to the Index at a zero price after the close of the trading on the day before the ex-date. In general and subject to certain exceptions, both the parent company and spin-off companies will remain in the Index until the next Index rebalancing.

In the case of mergers involving two Index constituents, the merged entity will remain in the Index provided that it meets all general eligibility requirements. The merged entity will be added to the Index at the weight of the stock deemed to be the surviving stock in the transaction. The surviving stock will not experience a weight change and its subsequent weight will not be equal to that of the pre-merger weight of the merged entities.

Adjustments are made to the Index in the event of certain corporate actions relating to the stocks included in the Index, such as spin off, rights offerings, stock splits and special dividends, as specified below.

The table below summarizes the types of Index maintenance adjustments:

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Type of Corporate Action	Adjustment Factor	Divisor Adjustment Required
Spin-Offs	In general and subject to certain exceptions, both the parent stock and spin-off stocks will remain in the Index until the next Index rebalancing, regardless of whether they conform to the theme of the Index.	No
Rights Offering	Price is adjusted to equal (i) price of parent company minus (ii) price of rights subscription divided by the rights ratio.	No
Stock split (e.g., 2-for-1), stock dividend or reverse stock split	Index shares multiplied by split factor (i.e., 2); stock price divided by split factor (i.e., 2)	No
Share issuance or share repurchase	None	No

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Special dividends	Price of the stock making the special dividend payment is reduced by the per share special dividend amount after the close of trading on the day before the dividend ex-date.	Yes
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Index Committee

The Americas Thematic and Strategy Index Committee (the “Index committee”) maintains the Index and consists of full-time professional members of S&P staff. At monthly meetings, the Index committee reviews pending corporate actions that may affect Index constituents, statistics comparing the composition of the indices to the market, companies that are being considered as candidates for additions to the Index and any significant market events. The Index committee may also revise Index policy, such as the rules for selecting constituents, the treatment of dividends, share counts or other matters.

Unscheduled Market Closures

In situations where an exchange is forced to close early due to unforeseen events, such as computer or electric power failures, weather conditions or other events, S&P will calculate the closing price of the stocks in the Index based on (1) the closing prices published by the exchange, or (2) if no closing price is available, the last regular trade reported before the exchange closed. In all cases, the prices will be from the primary exchange for each stock in the Index. If an exchange for a stock fails to open due to unforeseen circumstances, S&P will use the prior day’s closing prices for such stock. If all exchanges fail to open, S&P may determine not to publish the Index for that day.

The following graph shows the daily historical performance of the Index in the period from September 9, 2011 through August 30, 2018. We obtained this historical data from Bloomberg L.P. We have not independently verified the accuracy or completeness of the information obtained from Bloomberg L.P. On the pricing date, the closing level of the Index was 1,963.67.

Historical Performance of the Index

This historical data on the Index is not necessarily indicative of the future performance of the Index or what the value of the notes may be. Any historical upward or downward trend in the level of the Index during any period set forth above is not an indication that the level of the Index is more or less likely to increase or decrease at any time over the term of the notes.

Before investing in the notes, you should consult publicly available sources for the levels of the Index.

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the ability of the Index to track general market performance. S&P Dow Jones Indices' only relationship to us with respect to the Index is the licensing of the Index and certain trademarks, service marks and/or trade names of S&P Dow Jones Indices and/or its third party licensors. The Index is determined, composed and calculated by S&P Dow Jones Indices without regard to us or the notes. S&P Dow Jones Indices have no obligation to take our needs or the needs of the holders of the notes into consideration in determining, composing or calculating the Index. S&P Dow Jones Indices are not responsible for and have not participated in the determination of the prices, and amount of the notes or the timing of the issuance or sale of the notes or in the determination or calculation of the equation by which the notes are to be converted into cash. S&P Dow Jones Indices have no obligation or liability in connection with the administration, marketing or trading of the notes. There is no assurance that investment products based on the Index will accurately track index performance or provide positive investment returns. S&P Dow Jones Indices LLC is not an investment advisor. Inclusion of a security within the Index is not a recommendation by S&P Dow Jones Indices to buy, sell, or hold such security, nor is it considered to be investment advice. Notwithstanding the foregoing, CME Group Inc. and its affiliates may independently issue and/or sponsor financial products unrelated to the notes currently being issued by us, but which may be similar to and competitive with the notes. In addition, CME Group Inc. and its affiliates may trade financial products which are linked to the performance of the Index. It is possible that this trading activity will affect the value of the Index and the notes.

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Supplement to the Plan of Distribution

Under our distribution agreement with MLPF&S, MLPF&S will purchase the notes from us as principal at the public offering price indicated on the cover of this term sheet, less the indicated underwriting discount.

We will deliver the notes against payment therefor in New York, New York on a date that is greater than two business days following the pricing date. Under Rule 15c6-1 of the Securities Exchange Act of 1934, trades in the secondary market generally are required to settle in two business days, unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade the notes more than two business days prior to the original issue date will be required to specify alternative settlement arrangements to prevent a failed settlement.

The notes will not be listed on any securities exchange. In the original offering of the notes, the notes will be sold in minimum investment amounts of 100 units. If you place an order to purchase the notes, you are consenting to MLPF&S acting as a principal in effecting the transaction for your account.

MLPF&S may repurchase and resell the notes, with repurchases and resales being made at prices related to then-prevailing market prices or at negotiated prices, and these will include MLPF&S's trading commissions and mark-ups. MLPF&S may act as principal or agent in these market-making transactions; however, it is not obligated to engage in any such transactions. At MLPF&S's discretion, for a short, undetermined initial period after the issuance of the notes, MLPF&S may offer to buy the notes in the secondary market at a price that may exceed the initial estimated value of the notes. Any price offered by MLPF&S for the notes will be based on then-prevailing market conditions

and other considerations, including the performance of the Index and the remaining term of the notes. However, neither we nor any of our affiliates is obligated to purchase your notes at any price or at any time, and we cannot assure you that we, MLPF&S or any of our respective affiliates will purchase your notes at a price that equals or exceeds the initial estimated value of the notes.

The value of the notes shown on your account statement will be based on MLPF&S's estimate of the value of the notes if MLPF&S or another of its affiliates were to make a market in the notes, which it is not obligated to do. That estimate will be based upon the price that MLPF&S may pay for the notes in light of then-prevailing market conditions and other considerations, as mentioned above, and will include transaction costs. At certain times, this price may be higher than or lower than the initial estimated value of the notes.

The distribution of the Note Prospectus in connection with these offers or sales will be solely for the purpose of providing investors with the description of the terms of the notes that was made available to investors in connection with their initial offering. Secondary market investors should not, and will not be authorized to, rely on the Note Prospectus for information regarding RBC or for any purpose other than that described in the immediately preceding sentence.

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Structuring the Notes

The notes are our debt securities, the return on which is linked to the performance of the Index. As is the case for all of our debt securities, including our market-linked notes, the economic terms of the notes reflect our actual or perceived creditworthiness at the time of pricing. In addition, because market-linked notes result in increased operational, funding and liability management costs to us, we typically borrow the funds under these notes at a rate that is more favorable to us than the rate which we refer to as our internal funding rate, which is the rate that we might pay for a conventional fixed or floating rate debt security. This generally relatively lower internal funding rate, which is reflected in the economic terms of the notes, along with the fees and charges associated with market-linked notes, resulted in the initial estimated value of the notes on the pricing date being less than their public offering price.

At maturity, we are required to pay the Redemption Amount to holders of the notes, which will be calculated based on the \$10 per unit principal amount and will depend on the performance of the Index. In order to meet these payment obligations, at the time we issue the notes, we may choose to enter into certain hedging arrangements (which may include call options, put options or other derivatives) with MLPF&S or one of its affiliates. The terms of these hedging arrangements are determined by seeking bids from market participants, including MLPF&S and its affiliates, and take into account a number of factors, including our creditworthiness, interest rate movements, the volatility of the Index, the tenor of the notes and the tenor of the hedging arrangements. The economic terms of the notes and their initial estimated value depend in part on the terms of these hedging arrangements.

MLPF&S has advised us that the hedging arrangements will include a hedging related charge of approximately \$0.075 per unit, reflecting an estimated profit to be credited to MLPF&S from these transactions. Since hedging entails risk and may be influenced by unpredictable market forces, additional profits and losses from these hedging arrangements may be realized by MLPF&S or any third party hedge providers.

For further information, see “Risk Factors—General Risks Relating to ARNs” beginning on page PS-6 and “Use of Proceeds and Hedging” on page PS-15 of product supplement EQUITY INDICES ARN-1.

Summary of Canadian Federal Income Tax Consequences

For a discussion of the material Canadian federal income tax consequences relating to an investment in the notes, please see the section entitled “Tax Consequences—Canadian Taxation” in the prospectus dated January 8, 2016.

Summary of U.S. Federal Income Tax Consequences

You should consider the U.S. federal income tax consequences of an investment in the notes, including the following:

There is no statutory, judicial, or administrative authority directly addressing the characterization of the notes.

You agree with us (in the absence of a statutory, regulatory, administrative, or judicial ruling to the contrary) to characterize and treat the notes for all tax purposes as pre-paid derivative contracts in respect of the Index.

Under this characterization and tax treatment of the notes, a U.S. holder (as defined on page 27 of the prospectus) generally will recognize capital gain or loss upon the sale or maturity of the notes. This capital gain or loss generally will be long-term capital gain or loss if you held the notes for more than one year.

No assurance can be given that the Internal Revenue Service or any court will agree with this characterization and tax treatment.

The discussions above and in the accompanying prospectus, prospectus supplement, and product supplement do not address the tax consequences applicable to holders subject to Section 451(b) of the Code. You should consult your own tax advisor concerning the U.S. federal income tax consequences to you of acquiring, owning, and disposing of the notes, as well as any tax consequences arising under the laws of any state, local, foreign, or other tax jurisdiction and the possible effects of changes in U.S. federal or other tax laws. You should review carefully the discussion under the section entitled “U.S. Federal Income Tax Summary” beginning on page PS-29 of product supplement EQUITY INDICES ARN-1.

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Validity of the Notes

In the opinion of Norton Rose Fulbright Canada LLP, the issue and sale of the notes has been duly authorized by all necessary corporate action of the Bank in conformity with the Indenture, and when the notes have been duly executed, authenticated and issued in accordance with the Indenture and delivered against payment therefor, the notes will be validly issued and, to the extent validity of the notes is a matter governed by the laws of the Province of Ontario or Québec, or the laws of Canada applicable therein, and will be valid obligations of the Bank, subject to equitable remedies which may only be granted at the discretion of a court of competent authority, subject to applicable bankruptcy, to rights to indemnity and contribution under the notes or the Indenture which may be limited by applicable law, to insolvency and other laws of general application affecting creditors' rights, to limitations under applicable limitations statutes and subject to limitations as to the currency in which judgments in Canada may be rendered, as prescribed by the Currency Act (Canada). This opinion is given as of the date hereof and is limited to the laws of the Provinces of Ontario and Québec and the federal laws of Canada applicable thereto. In addition, this opinion is subject to customary assumptions about the Trustee's authorization, execution and delivery of the Indenture and the genuineness of signatures and certain factual matters, all as stated in the letter of such counsel dated January 8, 2016, which has been filed as Exhibit 5.1 to Royal Bank's Form 6-K filed with the SEC dated January 8, 2016.

In the opinion of Morrison & Foerster LLP, when the notes have been duly completed in accordance with the Indenture and issued and sold as contemplated by the prospectus supplement and the prospectus, the notes will be valid, binding and enforceable obligations of Royal Bank, entitled to the benefits of the Indenture, subject to applicable bankruptcy, insolvency and similar laws affecting creditors' rights generally, concepts of reasonableness and equitable principles of general applicability (including, without limitation, concepts of good faith, fair dealing and the lack of bad faith). This opinion is given as of the date hereof and is limited to the laws of the State of New York. This opinion is subject to customary assumptions about the Trustee's authorization, execution and delivery of the Indenture and the genuineness of signatures and to such counsel's reliance on the Bank and other sources as to certain factual matters, all as stated in the legal opinion dated January 8, 2016, which has been filed as Exhibit 5.2 to the Bank's Form 6-K dated January 8, 2016.

Terms Incorporated in Master Global Security

The terms appearing under the captions "Summary—Terms of the Notes" and "Summary—Redemption Amount Determination" on page TS-2 above, the pricing date, settlement date and maturity date appearing on the cover page, and the applicable terms included in the documents listed under "Summary" on page TS-2 are incorporated into the master global security that represents the notes and is held by The Depository Trust Company. In addition to those terms, the following two sentences are also so incorporated into the master note: RBC confirms that it fully understands and is able to calculate the effective annual rate of interest applicable to the notes based on the methodology for calculating per annum rates provided for in the notes. The RBC irrevocably agrees not to plead or assert Section 4 of the Interest Act (Canada), whether by way of defense or otherwise, in any proceeding relating to the notes.

Where You Can Find More Information

We have filed a registration statement (including a product supplement, a prospectus supplement, and a prospectus) with the SEC for the offering to which this term sheet relates. Before you invest, you should read the Note Prospectus, including this term sheet, and the other documents that we have filed with the SEC, for more complete information about us and this offering. You may get these documents without cost by visiting EDGAR on the SEC website at www.sec.gov. Alternatively, we, any agent, or any dealer participating in this offering will arrange to send you these documents if you so request by calling MLPF&S toll-free at 1-800-294-1322.

Market-Linked Investments Classification

MLPF&S classifies certain market-linked investments (the "Market-Linked Investments") into categories, each with different investment characteristics. The following description is meant solely for informational purposes and is not intended to represent any particular Enhanced Return Market-Linked Investment or guarantee any performance. Enhanced Return Market-Linked Investments are short- to medium-term investments that offer you a way to enhance exposure to a particular market view without taking on a similarly enhanced level of market downside risk. They can be especially effective in a flat to moderately positive market (or, in the case of bearish investments, a flat to

moderately negative market). In exchange for the potential to receive better-than market returns on the linked asset, you must generally accept market downside risk and capped upside potential. As these investments are not market downside protected, and do not assure full repayment of principal at maturity, you need to be prepared for the possibility that you may lose all or part of your investment.

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