

ROYAL BANK OF CANADA
Form FWP
July 16, 2018

Subject to Completion
Preliminary Term Sheet dated July 16, 2018

Filed Pursuant to Rule 433
Registration Statement No. 333-208507
(To Prospectus dated January 8, 2016,
Prospectus Supplement dated January 8, 2016 and
Product Supplement STEPS-1 dated May 26, 2016)

Units
Pricing Date* July , 2018
Settlement Date* August , 2018
Maturity Date* August , 2019
*Subject to change based on the
per actual date the notes are priced
unit for initial sale to the public (the
CUSIP pricing date”)
No.

STEP Income Securities® Linked
to the Common Stock of
Facebook, Inc.

- Maturity of approximately one year and one week
- Interest payable quarterly at the rate of 8% per year
- A payment of [\$0.10 to \$0.50] per unit if the Underlying Stock increases to or above 108% of the Starting Value
- 1-to-1 downside exposure to decreases in the Underlying Stock, with up to 100% of your principal at risk
- All payments on the notes are subject to the credit risk of Royal Bank of Canada
- 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” on page TS-6 of this term sheet and beginning on page PS-6 of product supplement STEPS-1.

The initial estimated value of the notes as of the pricing date is expected to be between \$9.3756 and \$9.6756 per unit, which is less than the public offering price listed below. See “Summary” on the following page, “Risk Factors” on page TS-6 of this term sheet and “Structuring the Notes” on page TS-10 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 ⁽¹⁾⁽²⁾	\$10.000 \$
Underwriting discount ⁽²⁾	\$0.175 \$
Proceeds, before expenses, to RBC	\$9.825 \$

(1) Plus accrued interest from the scheduled settlement date, if settlement occurs after that date.

For any purchase of 500,000 units or more in a single transaction by an individual investor or in combined (2) transactions with the investor's household in this offering, the public offering price and the underwriting discount will be \$9.950 per unit and \$0.125 per unit, respectively. See “Supplement to the Plan of Distribution” below.

The notes:

Are Not FDIC Insured Are Not Bank Guaranteed May Lose Value

Merrill Lynch & Co.
July , 2018

STEP Income Securities®

Linked to the Common Stock of Facebook, Inc., due August , 2019

Summary

The STEP Income Securities® Linked to the Common Stock of Facebook, Inc., due August , 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 quarterly interest payments. Additionally, if the Ending Value of the Market Measure, which is the common stock of Facebook, Inc. (the “Underlying Stock”), is at or above the Step Level, the notes will also provide a payment of [\$0.10 to \$0.50] per unit at maturity. If the Ending Value is less than the Step Level, the Redemption Amount will not be greater than your principal amount. If the Ending Value is less than the Starting Value, the Redemption Amount will be less than the principal amount of your notes, and may be as low as zero. Any payments on the notes will be calculated based on the \$10 principal amount per unit and will depend on the performance of the Underlying Stock, subject to our credit risk. See “Terms of the Notes” below.

The economic terms of the notes (including the Step Payment) 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, will reduce 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 will be greater than the initial estimated value of the notes.

On the cover page of this term sheet, we have provided the initial estimated value range for the notes. This initial estimated value range 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. The initial estimated value of the notes calculated on the pricing date will be set forth in the final term sheet made available to investors in the notes. For more information about the initial estimated value and the structuring of the notes, see “Structuring the Notes” on page TS-10.

Terms of the Notes

Issuer:	Royal Bank of Canada (“RBC”)
Principal Amount:	\$10.00 per unit
Term:	Approximately one year and one week
Market Measure:	Common stock of Facebook, Inc. (the “Underlying Company”) (NASDAQ symbol: FB)
Starting Value:	The Volume Weighted Average Price on the pricing date.
Volume Weighted Average Price:	The volume weighted average price (rounded to two decimal places) shown on page “AQR” on Bloomberg L.P. for trading in shares of the Underlying Stock taking place from approximately 9:30 a.m. to 4:05 p.m. on all U.S. exchanges.
Ending Value:	The Closing Market Price of the Underlying Stock on the valuation date, multiplied by the Price Multiplier. The valuation date is subject to postponement in the event of Market Disruption Events, as described beginning on page PS-18 of product supplement STEPS-1.
Valuation Date:	Approximately the fifth scheduled trading day immediately prior to the maturity date.
Interest Rate:	8% per year
Interest	On or about November , 2018, February , 2019, May , 2019 and August , 2019

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Payment

Dates:

Step Payment: \$0.10 to \$0.50 per unit, which represents a return of [1.00% to 5.00%] of the principal amount. The actual Step Payment will be determined on the pricing date.

Step Level: 108% of the Starting Value, rounded to two decimal places

Threshold Value: 100% of the Starting Value

Price Multiplier: 1, subject to adjustment for certain corporate events relating to the Underlying Stock described beginning on page PS-20 of product supplement STEPS-1.

Fees and Charges: The underwriting discount of \$0.175 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-10.

Calculation Agent: Merrill Lynch, Pierce, Fenner & Smith Incorporated ("MLPF&S").

Redemption Amount

Determination

In addition to interest payable, 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 STEPS-1 dated May 26,
2016:

<https://www.sec.gov/Archives/edgar/data/1000275/000114036116067247/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 STEPS-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 Ending Value will be greater than or equal to the Starting Value.

§ You seek interest payments on your investment.

§ You accept that the maximum return on the notes is limited to the sum of the quarterly interest payments and the Step Payment, if any.

§ You accept that your investment may result in a loss, which could be significant, if the Ending Value is below the Starting Value.

§ You are willing to forgo dividends or other benefits of owning shares of the Underlying Stock.

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 anticipate that the Ending Value will be less than the Starting Value.

§ You anticipate that the price of the Underlying Stock will increase substantially and do not want a payment at maturity that is limited to the Step Payment.

§ You seek principal repayment or preservation of capital.

§ In addition to interest payments, you seek an additional guaranteed return above the principal amount.

§ You want to receive dividends or other distributions paid on the Underlying Stock.

§ 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 Payments at Maturity

The following examples are for purposes of illustration only. They are based on hypothetical values and show hypothetical payments on the notes. The actual amount you receive and the resulting return will depend on the actual Starting Value, Threshold Value, Ending Value, Step Level, Step Payment, and the term of your investment. The following examples do not take into account any tax consequences from investing in the notes. These examples are based on:

- 1) a Starting Value of 100;
- 2) a Threshold Value of 100;
- 3) a Step Level of 108;
- 4) a Step Payment of \$0.30 per unit (the midpoint of the Step Payment range of [\$0.10 to \$0.50] per unit);
- 5) an expected term of the notes of approximately one year and one week; and
- 6) the interest rate of 8% per year.

The hypothetical Starting Value of 100.00 used in these examples has been chosen for illustrative purposes only, and does not represent a likely actual Starting Value of the Underlying Stock. For recent actual prices of the Underlying Stock, see “The Underlying Stock” section below. In addition, all payments on the notes are subject to issuer credit risk.

Example 1

The Ending Value is 115 (115 % of the Starting Value)

The Ending Value is greater than the Step Level. Consequently, in addition to the quarterly interest payments, you will receive on the maturity date the principal amount of your notes plus the Step Payment of \$0.30 per unit. The Redemption Amount per unit on the maturity date will therefore be equal to \$10.30 per unit (\$10.00 plus the Step Payment of \$0.30 per unit).

Example 2

The Ending Value is 105 (105 % of the Starting Value)

The Ending Value is greater than the Starting Value and the Threshold Value but below the Step Level. Consequently, you will receive the quarterly interest payments, but you will not receive the Step Payment on the maturity date. The Redemption Amount per unit on the maturity date will therefore be equal to \$10.00.

Example 3

The Ending Value is 70 (70 % of the Starting Value)

The Ending Value is less than the Starting Value and the Threshold Value. Consequently, you will receive the quarterly interest payments, but you will not receive the Step Payment on the maturity date, and you will participate on a 1-for-1 basis in the decrease in the price of the Underlying Stock. The Redemption Amount per unit will equal: On the maturity date, you will receive the Redemption Amount per unit of \$7.00.

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Summary of the Hypothetical Examples

	Example 1	Example 2	Example 3
	The Ending Value is greater than or equal to the Step Level	The Ending Value is less than the Step Level but greater than or equal to the Starting Value	The Ending Value is less than the Starting Value and the Threshold Value
Starting Value	100.00	100.00	100.00
Ending Value	115.00	105.00	70.00
Step Level	108.00	108.00	108.00
Threshold Value	100.00	100.00	100.00
Interest Rate (per year)	8.00%	8.00%	8.00%
Step Payment	\$0.30	\$0.00	\$0.00
Redemption Amount per Unit	\$10.30	\$10.00	\$7.00
Total Return of the Underlying Stock ⁽¹⁾	15.00%	5.00%	-30.00%
Total Return on the Notes ⁽²⁾	11.07%	8.07%	-21.93%

(1) The total return of the Underlying Stock assumes:

- (a) the percentage change in the price of the Underlying Stock from the Starting Value to the Ending Value;
- (b) a constant dividend yield of 0.00% per year; and
- (c) no transaction fees or expenses.

(2) The total return on the notes includes interest paid on the notes and assumes an expected term of the notes of approximately one year and one week.

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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 STEPS-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 Underlying Stock 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.

§ You will not receive a Step Payment at maturity unless the Ending Value is greater than or equal to the Step Level.

§ Your investment return is limited to the return represented by the periodic interest payments over the term of the notes and the Step Payment, if any, and may be less than a comparable investment directly in the Underlying Stock.

§ 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 will exceed 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 price of the Underlying Stock, 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-10. 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 Underlying Stock, 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 the Underlying Stock), 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 Underlying Company will have no obligations relating to the notes, and neither we nor MLPF&S will perform any due diligence procedures with respect to the Underlying Company in connection with this offering.

§ You will have no rights of a holder of the Underlying Stock, and you will not be entitled to receive shares of the Underlying Stock or dividends or other distributions by the Underlying Company.

§ While we, MLPF&S or our respective affiliates may from time to time own securities of the Underlying Company, we, MLPF&S and our respective affiliates do not control the Underlying Company, and have not verified any disclosure made by the Underlying Company.

§ The Redemption Amount will not be adjusted for all corporate events that could affect the Underlying Stock. See

“Description of the Notes—Anti-Dilution Adjustments” beginning on page PS-20 of product supplement STEPS-1.

§ 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-34 of product supplement STEPS-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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The Underlying Stock

We have derived the following information from publicly available documents. We have not independently verified the accuracy or completeness of the following information. Facebook Inc. operates a social networking website. The company's website allows people to communicate with their family, friends, and co-workers.

Because the Underlying Stock is registered under the Securities Exchange Act of 1934, the Underlying Company is required to file periodically certain financial and other information specified by the SEC. Information provided to or filed with the SEC by the Underlying Company can be located at the Public Reference Section of the SEC, 100 F Street, N.E., Room 1580, Washington, D.C. 20549 or through the SEC's website at <http://www.sec.gov> by reference to SEC CIK number 1326801.

This term sheet relates only to the notes and does not relate to the Underlying Stock or to any other securities of the Underlying Company. None of us, MLPF&S, or any of our respective affiliates has participated or will participate in the preparation of the Underlying Company's publicly available documents. None of us, MLPF&S, or any of our respective affiliates has made any due diligence inquiry with respect to the Underlying Company in connection with the offering of the notes. None of us, MLPF&S, or any of our respective affiliates make any representation that the publicly available documents or any other publicly available information regarding the Underlying Company are accurate or complete. Furthermore, there can be no assurance that all events occurring prior to the date of this term sheet, including events that would affect the accuracy or completeness of these publicly available documents that would affect the trading price of the Underlying Stock, have been or will be publicly disclosed. Subsequent disclosure of any events or the disclosure of or failure to disclose material future events concerning the Underlying Company could affect the value of the Underlying Stock and therefore could affect your return on the notes. The selection of the Underlying Stock is not a recommendation to buy or sell the Underlying Stock.

The Underlying Stock trades on the Nasdaq Global Select Market under the symbol "FB."

Historical Data

The following table shows the quarterly high and low Closing Market Prices of the shares of the Underlying Stock on its primary exchange from the second quarter of 2008 through July 11, 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. These historical trading prices may have been adjusted to reflect certain corporate actions such as stock splits and reverse stock splits.

	<u>High (\$)</u>	<u>Low (\$)</u>
2012		
Second Quarter	38.37	25.87
Third Quarter	32.17	17.73
Fourth Quarter	28.24	18.99
2013		
First Quarter	32.46	25.14
Second Quarter	28.97	22.90
Third Quarter	51.24	24.37
Fourth Quarter	57.96	44.82
2014		
First Quarter	72.03	53.53
Second Quarter	67.60	56.14
Third Quarter	79.04	62.76
Fourth Quarter	81.45	72.63
2015		
First Quarter	85.31	74.05
Second Quarter	88.86	77.46
Third Quarter	98.39	82.09
Fourth Quarter	109.01	90.95

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2016

First Quarter	116.14	94.16
Second Quarter	120.50	108.76
Third Quarter	131.05	114.00
Fourth Quarter	133.28	115.05

2017

First Quarter	142.65	116.86
Second Quarter	155.07	139.39
Third Quarter	173.51	148.43
Fourth Quarter	183.03	168.42

2018

First Quarter	193.09	152.22
Second Quarter		