

RBC EUROPE LIMITED

PILLAR 3 DISCLOSURE

As at 31st October 2020

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1 OVERVIEW

1.1 BUSINESS PROFILE

RBC Europe Limited (the Company) is a wholly owned subsidiary of Royal Bank of Canada (RBC), a leading provider of financial services globally. Operating since 1869, RBC is Canada's largest bank and is amongst the top 15 largest banks globally based on market capitalisation. RBC has amongst the highest credit ratings for financial institutions (Moody's A1 and Standard & Poor's AA-) and continues to be well capitalised with Common Equity Tier 1 Capital Ratio 16.2% as at 31 October 2020 (2019: 14.4%).

The Company is a UK authorised bank and provides investment banking, capital markets and wealth management services to a wide range of clients including financial institutions, corporations, governments and High-Net-Worth clients. The Company works with its clients to help raise capital, access markets, mitigate risk and acquire or divest assets.

The Company obtained a Standard & Poor's rating since October 2014. As of 31 October 2020 the Company's long- and short-term counterparty credit rating assigned by Standard & Poor's are unchanged at AA-/A-1+.

As at 31 October 2020, the Company does not have any subsidiaries or any investment in associates (2019: nil).

1.2 BASIS AND FREQUENCY OF DISCLOSURES

Basel III is a global regulatory standard on bank capital adequacy, stress testing and market liquidity risk. It intended to strengthen global capital and liquidity rules with the goal of improving the banking sector's ability to absorb shocks arising from financial and economic stress, thus reducing the risk of spillover from the financial sector to the real economy.

The EU implemented the Basel framework through the new Capital Requirements Directive and Regulation (CRD IV package). Additional provisions are applied in the UK through the PRA Rulebook. The Basel III capital adequacy framework comprises three complementary pillars:

- Pillar 1 establishes rules for the calculation of minimum capital for Credit, Market, Operational Risk and Leverage (capital adequacy requirements).
- Pillar 2 is an internal discipline to evaluate the adequacy of the regulatory capital requirement under Pillar 1 and other non-Pillar 1 risks. This part of the regulatory framework requires banks to conduct an internal assessment of their capital requirements (risk management and supervision) and consider whether additional capital should be held against particular risks. Banks' supervisors then undertake a supervisory review to assess the robustness of the bank's internal assessment.
- Pillar 3 complements the other pillars and effects market discipline through public disclosure. Expanded disclosure about capital and risk enables interested parties to better understand the risk profile of individual banks and to make comparisons (market discipline).

The aim of Pillar 3 is to publish a set of disclosures which allow market participants to assess key information on the capital condition, risk exposures and risk assessment process. The information disclosed is prepared in accordance with the disclosure requirements set out in Part Eight of the Capital Requirement Regulation (CRR). The disclosures may differ from similar information in the Company's financial statements for the year ended 31 October 2020, which are prepared in accordance with International Financial Reporting Standards (IFRS). Therefore, the information in these disclosures may not be directly comparable with that information.

The Company updates these disclosures on an annual basis as at its financial year end of 31 October. The Company will assess the need to publish some or all disclosures more frequently than annually in the light of the criteria specified in Article 433 of the CRR and in accordance with European Banking Authority's Guidelines on materiality, proprietary information and confidentiality, and on disclosure frequency.

In preparing these disclosures, management has adjusted certain prior year amounts to conform to current year presentation. These adjustments do not have any impact on the Company's capital condition and risk exposures, unless stated otherwise.

Location and Verification

These disclosures have been reviewed and approved by the Company's Audit Committee and Board. A copy of these disclosures is also available on RBC Group's corporate website at <http://www.rbc.com/aboutus/rbc-el-index.html>.

1.3 RISK GOVERNANCE

The Company has a clear and robust corporate and risk governance framework in order to manage, control and provide assurance on risk on behalf of both internal and external stakeholders. The governance structure determines the relationships between the Company's Board of Directors (the Board), Management, RBC Group and other stakeholders. It also defines the framework in which values are established and the context in which corporate strategies and objectives are set.

The Company considers its risk and control framework to be appropriate for the effective management of its risks and is committed to ensuring that these remain relevant and effective in a changing business environment. The Company has a well-embedded Risk Appetite Framework articulating its appetite for the type and quantum of risk through clearly defined metrics. As at 31 October 2020, all measures were within the Company's Board limits and tolerances.

1.4 REGULATORY DEVELOPMENTS

RBC EL monitors regulatory and legislative developments on an on-going basis to ensure it is prepared for forthcoming regulatory change. RBC EL has a robust operating model in place to monitor the regulatory developments.

BREXIT

UK membership of the European Union (EU) ended on 31 January 2020 and the Withdrawal Agreement governing the transition period expires on 31 December 2020. The Company currently relies on passporting provisions to service clients in the European Economic Area ("EEA") and passporting provisions to operate branches in Madrid, Paris, Amsterdam and Frankfurt. The outcome of any future agreement between the UK and EU remains uncertain and so the Company has prepared for the potential loss of access to the EEA under current passporting rules.

The Group will utilise entities it has established within the EEA for which regulatory approval has been obtained. RBC Capital Markets (Europe) GmbH ('RBC EG') based in Frankfurt will be focused on investment banking and securities trading to EEA clients. RBC Paris Branch ('RBC PB'), a branch of RBC, the Canadian parent entity, is established to provide lending and derivatives trading activities to French clients. The Company will continue to monitor political negotiations and the development of future trading arrangements and may adjust its plans accordingly.

CRD5 / CRR2 / CRR3 / BRRD2

The Company is closely monitoring the implementation of new European legislation that will amend the existing Capital Requirements Directive (CRD) and Regulation (CRR), commonly referred to as CRD 5, CRR 2 and CRR 3.

Below are the key regulatory developments on which RBC EL has provided a special focus on and performed subsequent qualitative and quantitative impact assessments:

Counterparty Credit Risk

These amendments will introduce a new methodology for measuring and reporting counterparty credit risk of derivative positions: the Standardised Approach for Counterparty Credit Risk (SA-CCR). SA-CCR is a more complex capital calculation than the current Standardised Method for Counterparty Credit Risk and, in particular, more accurately reflects the effects of margining derivative trades. SA-CCR will also change the inputs into the Company's large exposure calculations.

Leverage Ratio

CRR2 will also introduce a binding minimum leverage ratio requirement of 3%, to apply from January 2022. The Company already monitors itself against this requirement.

Large Exposures

CRR2 will also amend the large exposure requirements that will apply to the Company from January 2022 – namely by eliminating the eligibility of Tier 2 capital from the large exposure capital base (LECB) and requiring aggregation of exposure to collateral issuers.

Total Loss Absorbing Capacity (TLAC) and Internal MREL

The provisions in CRR2 relating to minimum requirements for Total Loss Absorbing Capacity (TLAC) and internal-TLAC are not applicable to the RBC EL as RBC EL is not systemic in its own right and it is not a material subsidiary of RBC. RBC EL is subject to a Minimum Requirement for Own Funds and Eligible Liabilities (iMREL). RBC EL's iMREL is equal to its total capital requirements and meets this at all times.

Fundamental Review of the Trading Book (FRTB)

The Company closely monitors the development of the Fundamental Review of the Trading Book (FRTB) rules. The new FRTB capital requirements are not expected to become a binding capital requirement in Europe and the UK until 2023 at the earliest. The FRTB rules will represent a substantial change in market risk capital calculations. Under FRTB, standardised calculations using risk sensitivities as inputs will replace the current general risk and specific risk calculations.

Finalisation of Basel III

Looking further ahead the Company notes the intention of EU regulators to implement the 'Finalisation of Basel III' package of new regulations. This includes new methodologies for measuring and reporting:

- Counterparty credit risk of Securities Financing Transactions (SFTs),
- Credit risk, and
- Operational Risk

The Company notes the expected implementation date of the above changes in the EU and UK of 2023.

Minimum Net Stable Funding Ratio (NSFR)

CRR2 requires banks to maintain minimum available stable funding of at least 100% of their required stable funding to ensure that asset exposures are broadly matched with stable funding sources. It is proposed to be applied from January 2022 in the UK.

COVID-19 PANDEMIC

On 11 March 2020, the World Health Organisation characterised COVID-19 as a pandemic due to the level of spread and severity of the disease. As noted in the business review, the impact of COVID-19 has presented challenging trading conditions. Increased market volatility has contributed to an increase in revenues which is offset by increased expected credit losses on the Company's loan book.

As governments around the world introduced emergency measures in response to the pandemic, the Company's own response has been closely coordinated with RBC group guidelines and regional public health guidance. RBC's focus throughout the pandemic has been the health, safety and wellbeing of our employees, clients and local communities. The Company continues to follow the health advice and safety guidelines of the Group's Chief Medical Director, the UK Government and public health authorities. To date the Company has not experienced any significant adverse financial impact from COVID-19, however management are continuing to monitor developments through its Risk Management Framework. Where required, employees have successfully transitioned to working from home with minimal disruption throughout the pandemic.

Whilst the Company has seen an increase to some of its Key Principal Risks; Credit Risk, Market Risk and Liquidity Risk due to COVID-19, the Company maintains a strong risk appetite which is being closely monitored by management with more frequent reporting to senior stakeholders. Credit Risk has seen a downwards migration in ratings and in particular amongst COVID-19 hit vulnerable sectors but this is to be expected given the current environment and is being continuously monitored. Due to the extreme market volatility Market Risk has experienced some increased volatility in its credit spread shocks used in the VaR calculation window and the Company has recalibrated accordingly. The Company has a defined process for identifying and monitoring early indicators as potential warning signs and has strengthened the process around these during the COVID-19 Pandemic. There has been no material impact on the Company from a liquidity and funding perspective as a result of the COVID-19 driven market stress. There were no material drawdown of loans, secured funding liabilities continues to be rolled and there were no material relationship deposit outflows. Throughout the crisis the capital and liquidity position of the Company remained strong.

In light of the COVID-19 Pandemic, a number of inherent Operational Risks have increased, most notably Processing & Execution, IT & Cyber, Fraud and Conduct as a result of working from home arrangements and reduced line of sight supervision. Even though we have seen limited events across the principal risks, for some categories like, fraud, privacy and conduct, the events may be lagging in nature and may become apparent as we return to pre-pandemic norms.

1.5 SUSTAINABLE FINANCE

Commitment to sustainable finance is going to be a necessary public disclosure in the future. RBC is committed to sustainable finance and started disclosing its activities, commitment and Governance as below:

Environmental Matters

The Company is part of the RBC Group which has a long history of environmental leadership commencing with the launch of the first corporate environmental policy in 1991. RBC is committed to transparent disclosure and this is shown through the reporting of key environmental performance metrics and targets in the 2019 Environmental, Social, and Governance (ESG) Performance Report (https://www.rbc.com/community-social-impact/_assets-custom/pdf/2019-ESG-Report.PDF) and the 2019 TCFD Report (https://www.rbc.com/community-social-impact/_assets-custom/pdf/RBC-TCFD-Report-2019.PDF).

Climate change

Climate change has featured regularly on the UK Risk Committee's agenda and the directors have received external guidance to gain a greater understanding of the long-term climate related financial risks. The Board has taken appropriate steps to address the risks posed by climate change through updating the risk appetite statement of the Company in addition to appointing the Chief Risk Officer ("CRO") Europe as the Senior Management Function responsible for identifying and managing financial risk due to climate change.

The Company has also launched a UK Climate Risk Working Group comprising of members from risk management and related departments. The mandate of this working group is to collaboratively deliver the work required to meet the PRA's expectations to embed climate risk management in the Company by 31st December 2021.

In November 2019, the RBC Climate Blueprint was published, an enterprise climate change strategy to accelerate clean economic growth and support our clients in the transition to a low-carbon economy. The Blueprint outlines five priorities that are anchored by our strengths in finance: investment, risk management, innovation, economic and policy research, and community investments. RBC is committed to publishing annual climate-related disclosures that consider the recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures, and has provided these since 2017. 2019 was the first year that RBC published a standalone TCFD Report (https://www.rbc.com/community-social-impact/_assets-custom/pdf/RBC-TCFD-Report-2019.PDF).

Environmental risk management

The Environmental and Social Risk Management (ESRM) process of RBC is designed to ensure we apply a suitable level of due diligence when dealing with clients and transactions. As part of the RBC Group, the Company is subject to a suite of ESRM policies designed to identify, assess and mitigate the environmental and social risks associated with providing banking services to our clients. When appropriate, these issues are escalated to our dedicated ESRM team for additional risk review and assessment. The ESRM policies and procedures are proactively reviewed and updated to address regulatory changes, emerging and evolving issues, and industry best practices. Please see our Responsible Financing website (<https://www.rbc.com/community-social-impact/environment/environmental-social-risk-management.html>) for more information on:

- Enterprise-wide ESRM policy
- Financing projects: The Equator Principles
- ESRM approach for Capital Markets

1.6 REGULATORY CAPITAL MANAGEMENT

As at 31 October 2020, the Company continued to be well capitalised with a Common Equity Tier 1 capital ratio of 16.2% (2019: 14.4%), Tier 1 capital ratio of 20.0% (2019: 18.0%) and Total Capital Ratio of 21.0% (including Pillar 2A add-on) (2019: 18.9%).

Table 1: Distribution of Risk-weighted amount

£'000	2020	2019
Risk-weighted exposure amounts for credit and counterparty credit		
Banking book credit risk	2,822,108	2,859,626
Counterparty credit risk	1,368,362	2,141,585
Risk exposure amount for contributions to the default fund of a CCP	24,394	10,932
	<u>4,214,864</u>	<u>5,012,144</u>
Risk-weighted exposure amount settlement/delivery risk in the Trading book	602	2,618
Risk-weighted exposure amount for position, foreign exchange and commodities risks		
Interest rate	2,576,651	2,208,253
Equity	42,660	73,974
Foreign exchange risk	85,831	75,844
Commodities	2,480	10,573
	<u>2,707,622</u>	<u>2,368,644</u>
Risk-weighted exposure amount for operational risk	879,781	817,019
Risk-weighted exposure amount for credit valuation adjustment	6,734	8,495
Total	<u>7,809,603</u>	<u>8,208,920</u>

2 RISK GOVERNANCE

2.1 ACCOUNTABILITY STRUCTURE

The Company has a clear and robust corporate and risk governance framework in order to manage, control and provide assurance on risk on behalf of both internal and external stakeholders. The governance structure determines the relationships between the Board of Directors, Management, RBC and other stakeholders. It also defines the framework in which values are established and the context in which corporate strategies and objectives are set.

The strength of the company's governance starts at the top with an independent Chairman and experienced Executive and Non-Executive Directors, who give priority to strategic planning and risk oversight, ensuring that standards exist to promote appropriate behaviour throughout the organisation and driving continuous improvement in governance practices.

The RBCEL Board ("Board") is ultimately responsible for the running of the firm but has delegated day-to-day decision-making to the Chief Executive Officer. A number of Board and management committees have been established to ensure that appropriate controls and procedures are embedded to support the company's operations. Each has formal Terms of Reference (ToR) establishing the membership and responsibilities, as well as how each committee sits within the governance structure.

The mandate and membership of all committees are reviewed on a regular basis to ensure that these committees are effective and continue to be relevant to meet business and risk management needs. This allows the Board to be confident that the governance structure remains appropriate and fit for purpose. Cross-membership of various management committees also ensures that senior management have a clear picture of issues impacting the whole of the company.

2.1.1 Board of Directors

Ultimate responsibility for managing risk within the business resides with the Board of Directors (the "Board") of RBCEL. It is tasked with ensuring that an effective systems and controls framework is in place for business, risk and capital management. Through its governance structures and controls, the Board has a line-of-sight on key risks and operational controls across the firm. The Board also monitors and assesses effectiveness of controls against changing regulatory expectations.

The Board is responsible for setting the strategic risk direction and risk appetite for RBCEL. This includes:

- Clearly articulating the risk appetite for the firm and establishing mechanisms to ensure that the level of risk within the firm remains within the specified risk appetite.
- Maintaining a direct line-of-sight over key current and emerging risks across the firm.
- Overseeing the implementation of an effective systems and controls framework in place for business, risk and capital management.
- Reviewing and approving the recovery strategies outlined in the RBCEL Recovery Plan.
- Oversight for the financial objectives which to be aligned with risk appetite and objectives.
- Monitoring and assessing the effectiveness of controls against changing regulatory expectations.

The Board consists of four Independent Non-Executive Directors (INEDs), including the Chairman, three Non-Executive Directors (NEDs) representing the shareholder (RBC), and two Executive Directors.

Recruitment Policy for Board Members

Appointments to the Board follow a formal procedure. As the Company is a wholly owned subsidiary within RBC Group, the nomination and selection of board members is undertaken in accordance with internal corporate governance practices, stated within RBC's Policy on the Legal Governance of Subsidiaries (SGO Policy). The Board has two types of directors, (i) Executive Directors (ED), and (ii) Non-Executive Directors (NED), with three directors meeting the UK Corporate Governance Code's definition of 'independent' (INED).

In 2015, the Company established a Nomination Committee as part of its enhanced Corporate Governance Framework. The Nomination Committee is responsible for:

- The identification, nomination and recommendation of INED candidates to the Board, for its consideration and approval. The nomination process follows a formal and rigorous approach, with candidates selected and assessed against established selection criteria. The Nomination Committee is governed by its Terms of Reference, under the umbrella of the SGO Policy, subject to local rules and regulations.

Recruitment Criteria/Process

Director selection is based on local applicable laws, regulations and rules, taking into consideration the skills, diversity, geographies and areas of expertise already represented on the Board. In addition to this, successful candidates undergo a robust background check, including inter alia, criminal, financial, regulatory checks and competency validation.

In relation to EDs, candidates are identified in accordance with the SGO Policy. Following consultation with the Board Chair by the Company Secretary, and positive advice and counsel from the RBC Subsidiary Governance Office, the ED candidate is proposed to the Board for its consideration, and if deemed appropriate, approval.

All Board appointments reflect RBC's core values, in particular, "Diversity & Inclusion", which is an important factor in the assessment and nomination of all proposed director appointments. In addition, in December 2016 the Board approved a Board Diversity Policy. The relevant background and professional experience of the Directors of the Board are provided in Appendix 1.

2.1.2 RBCEL Committees

RBCEL has a robust Corporate Governance and Committee Framework. The key committees are set out below:

UK Risk Committee

The UK Risk Committee (RC) is a Board committee chaired by an Independent Non-Executive Director (INED) to ensure independence and robustness of review and challenge. The RC reviews risk issues, gives advice and makes recommendations to the RBCEL Board, or other parties as appropriate, as well as making decisions on risk issues within its sphere of responsibility. The RC holds the following primary responsibilities:

- Develop a risk appetite for RBCEL and recommend it to the Board.
- Implement an effective risk management framework including directing and approving risk policies.
- Monitor all material risk exposures, review and approve any risk exceptions to the Board risk appetite, and ensure that any breaches of risk appetite are remediated and/or escalated.
- Review and challenge the findings from the annual RBCEL Internal Capital Adequacy Assessment Process and Internal Liquidity Adequacy Assessment Process and recommend these to the Board for approval.
- Review, challenge and recommend for approval to the Board the recovery strategies outlined in the RBC UK Recovery Plan.
- Review emerging risks and changes in legal, regulatory and accounting requirements and their implications on risk management at RBCEL.

UK Audit Committee

The UK Audit Committee (AC) is responsible for providing independent assurance to the senior management and the Board of Directors on the effectiveness of risk management practices. The AC is chaired by an INED and includes three additional INEDs. Main responsibilities include:

- Monitoring the integrity of RBCEL's financial statements and reviewing and, where appropriate, making recommendations to the Board on business risks, internal controls and compliance.
- Overseeing the governance of independent valuation controls pertaining to RBCEL's financial statements.
- Reviewing quarterly reports from external and internal auditors.
- Monitoring performance of the internal audit function.

UK Human Resources Committee

The UK Human Resources Committee (HRC) is responsible for ensuring that RBC's compensation programme aligns with prudent risk management principles, regulatory guidance and sound compensation practices. RBCEL has an established process in place to assist the HRC in the determination of whether any performance adjustment to compensation are required. The HRC is chaired by an INED. Main responsibilities include:

- Review and approve the remuneration of Senior Managers (under the Senior Managers Regime) and Executive Directors ('Designated Employees').
- Review the remuneration of Material Risk Takers.
- Review incentive remuneration plans and equity-based remuneration plans.
- Review RBC Group Remuneration and Compensation policies.
- Review performance measures to be used to determine the remuneration of Designated Employees.
- Review management succession plans for the Executive Directors and senior officers of RBCEL.
- Review the output from the annual talent management process for the key staff in RBCEL.

Nomination Committee

The RBCEL Nominations Committee (Nomco) is chaired by an INED. It is a sub-committee of the Board established to lead the process for Independent Non-Executive Director succession planning and appointments to the RBCEL Board and its sub-Committees. The Committee is responsible for amongst other things, the identification, nomination and recommendation of INED candidates for appointment to the Board and its Committees. Main responsibilities include:

- Review the structure, size, and composition (including the skills, knowledge, experience, diversity and independence) of the Board and its Committees, and make recommendations to the Board with regard to any changes taking into account any legislative and/or regulatory requirements.
- Give full consideration to succession planning for INEDs, taking into account local regulatory requirements and corporate governance best practice, and the skills and expertise needed on the Board in the future.
- Be responsible for identifying and nominating, for the approval of the Board, suitable INED candidates to fill vacancies as and when they arise.

Assets & Liability Committee (ALCO)

The ALCO is a key management committee of RBC Europe Limited (RBCEL), RBC London Branch (RBCLB), RBC Paris Branch (RBCPB), RBC Investor Services Trust London Branch (RBCISTLB), and RBC Capital Markets (Europe) GmbH (RBCEG) responsible for the oversight and monitoring of the financial resources including the management of balance sheet, capital position, funding & liquidity and structural interest rate risk in the banking book. ALCO is comprised of senior management from the Business, Risk, Finance, and Corporate Treasury functions, and meet on a monthly basis. Main responsibilities include:

- Review and monitor of current and projected positions relative to regulatory, Board, and management limits.
- Ensuring business and operational strategies are consistent with appetite, in the context of capital, balance sheet, liquidity and funding.
- Oversee and monitor major projects relevant to ALCO.
- Review regulatory developments and assess their relevance and impact on the business profile and strategy.

2.2 RISK MANAGEMENT

RBCEL defines risk as the potential for loss or an undesirable outcome affecting the value of RBCEL's business with respect to volatility of actual earnings in relation to expected earnings, capital adequacy, and liquidity. This definition includes both risks that have a direct and immediate impact (e.g. Credit risk due to a loan default), and risks that have an indirect or longer term impact (e.g. regulatory and reputational risks due to the possible failure to comply with regulatory guidelines or the failure to live up to clients' expectations).

The risk of financial and non-financial loss through business activities is inherent in all of the businesses conducted by RBCEL. For this reason, risk management is considered to be an intrinsic part of the strategy and capital planning processes.

2.2.1 Risk Management Framework

The RBCEL Enterprise Risk Management Framework (ERMF) sets out the overarching arrangements for risk management, control and assurance within RBCEL. The ERMF is designed to provide a consistent and structured approach to identify, assess, measure, control, monitor and report on significant risks.

The ERMF helps to ensure that risk is managed and controlled on behalf of internal and external stakeholders, including shareholders, customers, employees and regulators. Effective and efficient risk governance and oversight provide Management with assurance that RBCEL's business activities will not be excessively impacted by risks that could have been reasonably foreseen. This, in turn, reduces the uncertainty of achieving RBCEL's strategic objectives.

RBCEL respects and complies with laws and regulations that govern its businesses in the jurisdictions in which it operates. The ERMF recognises that RBCEL is required to comply with a range of external risk governance requirements, including but not limited to:

- Prudential Regulatory Authority (PRA) rules;
- Financial Conduct Authority (FCA) rules; and
- Office of the Superintendent of Financial Institutions (OSFI) requirements as a subsidiary of a Canadian banking group.

2.2.2 Risk Principles

The Company applies the following general principles for its management of risk:

Table 2: Risk Management Principles

Principle	Description
Effectively balance risk and reward to enable sustainable growth.	RBCEL balances risk and reward to capitalize on opportunities within our business strategy and risk appetite, avoid excessive concentrations of risk through diversification and risk transfer, manage earning volatility, and ensure the long-term viability and profitability of the organization.
Collectively share the responsibility for risk management	Following the Three Lines of Defence risk governance model, employees at all levels of the organization, as one RBC, are responsible for managing the day-to-day risks that arise in the context of their roles.
Undertake only risks we understand. Make thoughtful and future-focused risk decisions	To create long term value for our shareholders, clients, employees and communities, we exercise rigour in our risk assessments, analyze emerging risk factors and trends, ensure transparency in risk discussions, and improve processes and tools for simpler, better, faster decision-making without exposing us to undue risks.
Always uphold our Purpose and Vision, and consistently abide by our Values and Code of Conduct to maintain our reputation and the trust of our clients, colleagues and communities	Guided by our Collective Ambition, we exhibit good conduct and do business openly and fairly. We never compromise quality or integrity for growth. We adhere to the “Know Your Client” standards, and ensure transparency and suitability of the products and services offered. We comply with all laws and regulatory requirements, and support transactions and relationships with proper and complete documentation.
Maintain a healthy and robust control environment to protect our stakeholders	To achieve our operational and financial performance goals while maintaining our reputation and integrity, and operating within the parameters of applicable laws and established risk appetite, we employ effective processes and controls and resiliency practices to minimize harm from internal and external threats, avoid business interruptions, and ensure timely resolution of control issues.
Use judgment and common sense	Policies and procedures cannot cover all circumstances. Employees should apply judgment and common sense, and when in doubt, escalate. Management should hire the right people for the right jobs and provide proper training and support.
Always be operationally prepared and financially resilient for a potential crisis	RBC strives to maintain effective protocols and escalation strategies to respond to all risks that we face, including regulatory, macroeconomic, market and other stakeholder developments. This includes maintaining operational readiness and financial resilience to effectively operate during and following a financial crisis. It is also critical to maintain agility and readiness to respond to potential disruptors to the financial industry.

2.2.3 Three Lines of Defence Model

RBCEL has implemented a robust system of monitoring, reporting and control based on the Three Lines of Defence model. This details responsibility for risk management, control and assurance, and clarifies the segregation of duties between those who take on risk, those who control risk and those who provide assurance.

First Line of Defence - This is provided by the business and support functions embedded in the business. The First Line of Defence has the ownership and accountability for:

- Risk identification, assessment, mitigation, monitoring and reporting in accordance with RBCEL's approved Risk Appetite and Risk Policies;
- Ensuring appropriate and adequate capabilities to manage risks relevant to the business;
- Alignment of business and operational strategies with risk conduct and culture and risk appetite; and
- Execution of Business and Corporate Segments' Risk Governance practices.

Second Line of Defence - This is provided by areas with independent oversight accountabilities residing in functions such as GRM, Group Compliance, and other areas within Control and Group Functions. The Second Line of Defence is accountable for:

- Establishing RBCEL's risk management frameworks and providing risk guidance;
- Providing oversight for the effectiveness of First Line risk management practices; and
- Monitoring and independently reporting on the level of risk against the established appetite measures and associated constraints.

Third Line of Defence - This is provided through Internal Audit Services and the Audit Committee. The Third Line provides independent objective assurance on the effectiveness of risk management policies, processes and practices in all areas of RBCEL to senior management and the Board of Directors. Further assurance is provided by the firm's external auditor, PricewaterhouseCoopers LLP, in the form of a quarterly report to the Audit Committee.

2.2.4 Risk Identification

The process of Risk Identification and assessment is intrinsic within RBCEL's pursuit of approved business strategies, and as part of the risk oversight responsibilities undertaken by the support functions outlined in this document. Risk Identification is embedded within a wide range of activities, including but not limited to:

- The approval of new products, transactions, client relationships, projects or initiatives;
- Business strategy development;
- ICAAP, Stress Testing and Recovery Planning;
- Monitoring and Reporting
- Ongoing assessment of Industry and Regulatory Developments

RBCEL's assessment, identification, monitoring and escalation processes are continuously advancing in response to the environment in which it operates and the consequent risks to which it is exposed.

2.2.5 Risk Policy Management

RBCEL has implemented RBC policies and processes in the context of the RBCEL Risk Policy Management Requirements to support the assessment and management of risks. RBCEL regularly reviews policies and controls to ensure continued effectiveness and alignment with relevant laws and regulations. To ensure operation with integrity, RBCEL adheres to a number of other principles, codes and policies, including the RBC Code of Conduct which governs the behaviour of RBCEL employees and informs how RBCEL conducts its business operations.

Where necessary, RBCEL adopts the Enterprise policies to ensure compliance with local legal and regulatory requirements and expectations. The CRO Europe has the responsibility of ensuring these policies are consistent with:

- Regulatory requirements;
- Relevant RBC policies; and
- Higher and lower level policy documents within the risk policy architecture.

The RBCEL Risk Policy Management Requirements document adopts the following three-tier hierarchy for approving risk frameworks, policies, standing orders, standards and procedures (collectively referred to as policy documents):

- **Level 1:** overarching Risk Frameworks and policies that outline regulatory requirements and risk governance for RBCEL. These are approved by the RC (Board Committee) or ALCO (Management Committee);
- **Level 2:** includes risk-specific frameworks and policies that lay the foundations for how each risk (and any sub-risk) is managed. These are approved by Management Committees;
- **Level 3:** includes those policy documents that are put in place to support Level 2 policy documents. These are approved by either Management Committees or Heads of Risk.

The Board of Directors delegates responsibility to the RC to ensure that all Level 1 RBCEL risk and capital policies meet the minimum governance standards defined within the RBCEL Risk Policy Management Requirements. RBCEL's Frameworks and policies (including the Risk Management Framework) are reviewed and refreshed regularly, and approved by the Risk Committee. RBCEL's Risk Frameworks were last approved by the Risk Committee on 10th June 2020.

2.2.6 Risk Appetite

RBCEL's Risk Appetite is defined as the amount and type of risk that the Firm is able and willing to accept in the pursuit of its business objectives.

The overall objective of the RBCEL Risk Appetite Framework is to protect RBCEL from unacceptable levels of risk while supporting and enabling the firm's overall business strategy and goals. The Framework is defined in the context of the RBC Enterprise Risk Appetite Framework and has been customised to cater to local requirements. It provides details on RBCEL risk appetite principles and is reviewed and approved at least annually by the Board.

A comprehensive monthly risk appetite scorecard is disseminated to the Senior Risk Management leadership team which shows the monthly trend against the Board Approved Risk Appetite.

2.2.7 Capital Planning

The Company undertakes an annual Internal Capital Adequacy Assessment Process (ICAAP) to ensure that the business strategy and planning translate into adequate capital levels over internal and external capital minima, and identifies period where capital buffers become tight so corrective action can be undertaken in advance. This also includes reviewing the capital levels against risk appetite to ensure that the business strategy and planned capital levels remain in line with the Company's risk appetite.

The capital plan is derived from the Company's base case business plan and takes into account changes to business forecasts, market conditions and other developments, such as accounting or regulatory changes that may impact capital requirements.

The base case capital plan also forms the basis for stress testing analysis. Stressing the capital plans, enables the Company to test the strength of its capital base and also to consider mitigating actions in advance in order to maintain overall financial adequacy in periods of stress.

The capital plan is updated on a periodic basis to reflect actual operating results, updated Profit and Loss forecasts and any changes in business strategies.

The ICAAP is an annual process managed by the Enterprise Risk Management (ERM), UK function within Group Risk Management (GRM).

The ERM UK Steering Committee, which consists of the CRO Europe, CFO Europe, senior management representatives from the GRM, Finance, and Corporate Treasury, oversee all aspects involved in the development of the ICAAP, including accurate documentation of key findings from the assessment. Following the ERM Steering Committee's review and challenge, the ICAAP report is submitted to the Risk Committee (RC) for review, challenge and recommendation for approval to the Board.

3 OWN FUNDS

3.1 OVERVIEW OF OWN FUNDS

As at 31 October 2020, the Company had total own funds of £1,643 million (2019: £1,555 million), which comprises of Tier 1 Capital of £1566 million (2019: £1,478 million) and Tier 2 Capital of £77 million (2019: £77 million) under the transitional provisions. A full reconciliation of own funds items to audited financial statements are shown in the table below.

Table 3: Full reconciliation of own funds items to audited financial statements

Per Audited Statement of changes in equity £'000	31 October 2020
Common shares	497,996
Other components of equity:	
<i>Capital reserves</i>	36,619
<i>Share premium</i>	803
<i>Remeasurement of pension assets and liabilities</i>	7,703
<i>Fair Value through Other Comprehensive Income reserve</i>	48,561
<i>AT1 equity issuance</i>	299,694
Total other components of equity	393,380
Retained earnings	
<i>Opening</i>	627,278
<i>Net profit</i>	66,741
Audited retained earnings at 31 October 2020	<u>694,019</u>
Total equity	<u>1,585,395</u>
Adjustments to CET1 due to prudential filters	
<i>Value adjustments due to the requirements for prudent valuation</i>	(13,677)
Transitional adjustments due to IFRS9	9,791
Deductions of CET1 Capital	
<i>Other intangible assets</i>	0
<i>Deferred tax liabilities associated to other intangible assets</i>	0
<i>Deferred tax assets that rely on future profitability and do not arise from temporary differences net of associated tax liabilities</i>	0
<i>Defined benefit pension assets</i>	(19,932)
<i>Deferred tax liabilities associated to defined benefit pension assets</i>	4,126
<i>Deduction of holdings Common Equity Tier 1 instruments where an institution does not have a significant investment in a financial sector entity</i>	0
Total CET1 deductions	<u>(15,806)</u>
Total Fully Loaded Tier 1 Capital	<u>1,565,703</u>
Tier 2 Capital	
Subordinated loans	77,268
<i>Deduction of holdings Tier 2 instruments where an institution does not have a significant investment in a financial sector entity</i>	0
Total Tier 2 deductions	<u>0</u>
Total Fully Loaded Tier 2 Capital	<u>77,268</u>
Fully Loaded Own Funds	<u>1,642,971</u>

Table 4: Own funds disclosure

Common Equity Tier 1 capital: instruments and reserves	31 October 2020 £'000	Prescribed residual amount	Final CRD IV
Capital instruments and the related share premium accounts	498,799	-	498,799
of which: Common shares	497,996	-	497,996
Retained earnings	694,019	-	694,019
Accumulated other comprehensive income (and any other reserves)	92,883	-	92,883
Common Equity Tier 1 (CET1) capital before regulatory adjustments	1,285,701	-	1,285,701
Common Equity Tier 1 (CET1) capital: regulatory adjustments			
Additional value adjustments	(13,677)	-	(13,677)
Goodwill and Other intangible assets (net of related tax liability)	-	-	-
Defined-benefit pension fund assets (net of related tax liability)	(15,806)	-	(15,806)
Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-	-	-
Transitional adjustments due to IFRS9	9,791	(9,791)	-
Total regulatory adjustments to Common Equity Tier 1 (CET1)	(19,692)	(9,791)	(29,483)
Common Equity Tier 1 (CET1) capital	1,266,009	(9,791)	1,256,218
Additional Tier 1 (AT1) capital	299,694	-	299,694
Tier 1 capital (T1 = CET1 + AT1)	1,565,703	(9,791)	1,555,912
Tier 2 (T2) capital: instruments and provisions			
Subordinated loans	77,268	-	77,268
Credit risk adjustments	-	-	-
Tier 2 (T2) capital before regulatory adjustment	77,268	-	77,268
Tier 2 (T2) capital	77,268	-	77,268
Total capital (TC = T1 + T2)	1,642,971	(9,791)	1,633,180
Total risk-weighted exposures	7,809,603		
Capital ratios and buffers			
Common Equity Tier 1 ratio	16.2%		
Tier 1 ratio	20.0%		
Total capital ratio	21.0%		
Institution specific buffer requirement	197,041		
of which: capital conservation buffer requirement	195,240		
of which: countercyclical buffer requirement	1,801		
Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	11.7%		
Amounts below the thresholds for deduction (before risk-weighting)			
Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	-		
Direct and indirect holdings of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	-		
Deferred tax assets arising from temporary difference	-		
Applicable caps on the inclusion of provisions in Tier 2			
Credit risk adjustments included in T2 in respect of exposures subject to standardised approach (prior to the application of the cap)	-		
Cap on inclusion of credit risk adjustments in T2 under standardised approach	-		
Credit risk adjustments included in T2 in respect of exposures subject to internal rating-based approach (prior to the application of the cap)	-		
Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	-		
Capital instruments subject to phase-out arrangements (applicable between 1 Jan 2014 and 1 Jan 2022)			
- Current cap on CET1 instruments subject to phase-out arrangements	-		
- Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	-		
- Current cap on AT1 instruments subject to phase-out arrangements	-		
- Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	-		
- Current cap on T2 instruments subject to phase-out arrangements	-		
- Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	-		

Table 5: Transitional arrangements for IFRS9

	31 October 2020
	£'000
Available capital (amounts)	
Common Equity Tier 1 (CET1) capital	1,266,009
Common Equity Tier 1 (CET1) capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	1,256,218
Tier 1 capital	1,565,704
Tier 1 capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	1,555,913
Total capital	1,642,972
Total capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	1,633,180
Risk-weighted assets (amounts)	
Total risk-weighted assets	7,809,603
Total risk-weighted assets as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	7,824,967
Capital ratios	
Common Equity Tier 1 (as a percentage of risk exposure amount)	16.2%
Common Equity Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	16.1%
Tier 1 (as a percentage of risk exposure amount)	20.0%
Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	19.9%
Total capital (as a percentage of risk exposure amount)	21.0%
Total capital (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	20.9%
Leverage ratio	
Leverage ratio total exposure measure	44,648,596
Leverage ratio	3.51%
Leverage ratio as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	3.48%

Table 6: Capital instruments main features table

As at 31 October 2020

Capital instruments' main features template ⁽¹⁾	Common shares	Common shares	Subordinated loan due 2026	Subordinated Perpetual Contingent Conversion Securities	Subordinated Perpetual Contingent Conversion Securities	Subordinated Perpetual Contingent Conversion Securities
Issuer	RBC Europe Limited	RBC Europe Limited	RBC Europe Limited	RBC Europe Limited	RBC Europe Limited	RBC Europe Limited
Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	N/A	N/A	N/A	N/A	N/A	N/A
Governing law(s) of the instrument	English	English	English	English	English	English
Regulatory treatment						
Transitional CRR rules	Common Equity Tier 1	Common Equity Tier 1	Tier 2	Additional Tier 1 Capital	Additional Tier 1 Capital	Additional Tier 1 Capital
Post-transitional CRR rules	Common Equity Tier 1	Common Equity Tier 1	Tier 2	Additional Tier 1 Capital	Additional Tier 1 Capital	Additional Tier 1 Capital
Eligible at solo/(sub-)consolidated/solo & (sub-)consolidated	Solo	Solo	Solo	Solo	Solo	Solo
Instrument type (types to be specified by each jurisdiction)	Common Equity Tier 1 as published in Regulation (EU) No 575/2013 Article 28	Common Equity Tier 1 as published in Regulation (EU) No 575/2013 Article 28	Tier 2 as published in Regulation (EU) No 575/2013 Article 63	Additional Tier 1 Equity as published in Regulation (EU) No 575/2013 Article 52	Additional Tier 1 Equity as published in Regulation (EU) No 575/2013 Article 52	Additional Tier 1 Equity as published in Regulation (EU) No 575/2013 Article 52
Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	GBP 21m	GBP 477m	GBP 77m	GBP 71.7m	GBP 70.3m	GBP 157.7m
Nominal amount of instrument	GBP 25m	GBP 477m	USD 100m	USD 100m	USD 100m	USD 200m
Issue price	84 per cent	100 per cent	100 per cent	100 per cent	100 per cent	100 per cent
Redemption price	100 per cent of Nominal amount	100 per cent of Nominal amount	100 per cent of Nominal amount	100 per cent of Nominal amount	100 per cent of Nominal amount	100 per cent of Nominal amount
Accounting classification	Equity	Equity	Liability - amortised cost	Equity	Equity	Equity
Original date of issuance	20 December 1970	20 December 1970	28 May 2014	26 February 2018	18 April 2018	28 May 2019
Perpetual or dated	Perpetual	Perpetual	Dated	Perpetual	Perpetual	Perpetual
Original maturity date	No maturity	No maturity	28 May 2026	No maturity	No maturity	No maturity
Issuer call subject to prior supervisory approval	No	No	Yes	Yes	Yes	Yes
Optional call date, contingent call dates, and redemption amount	N/A	N/A	Redemption at the Option of the Issuer 100 per cent of Nominal amount First call date: 28/May/2021 In addition Tax/Regulatory call	Redemption at the Option of the Issuer 100 per cent of Nominal amount First call date: 26/Feb/2023 In addition Tax/Regulatory call	Redemption at the Option of the Issuer 100 per cent of Nominal amount First call date: 18/Apr/2023 In addition Tax/Regulatory call	Redemption at the Option of the Issuer 100 per cent of Nominal amount First call date: 28/May/2024 In addition Tax/Regulatory call
Subsequent call dates, if applicable	N/A	N/A	N/A	Subsequent Interest Payment Dates	Subsequent Interest Payment Dates	Subsequent Interest Payment Dates
Coupons / dividends						
Fixed or floating dividend/coupon	N/A	N/A	Floating	Floating	Floating	Floating
Coupon rate and any related index	N/A	N/A	Reuters page LIBOR01 +1.92 per cent per annum	Reuters page LIBOR01 +3.4 per cent per annum	Reuters page LIBOR01 +4.0 per cent per annum	Reuters page LIBOR01 +4.75 per cent per annum
Existence of a dividend stopper	N/A	N/A	No	No	No	No
Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary	Fully discretionary	Mandatory	Fully discretionary	Fully discretionary	Fully discretionary
Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary	Fully discretionary	Mandatory	Fully discretionary	Fully discretionary	Fully discretionary
Existence of step up or other incentive to redeem	No	No	No	No	No	No
Noncumulative or cumulative	Non cumulative	Non cumulative	Non cumulative	Non cumulative	Non cumulative	Non cumulative
Convertible or non-convertible	Non-convertible	Non-convertible	Non-convertible	Convertible	Convertible	Convertible
If convertible, conversion trigger (s)	N/A	N/A	N/A	Common Equity Tier 1 Capital Ratio falls below 7.00 per cent	Common Equity Tier 1 Capital Ratio falls below 7.00 per cent	Common Equity Tier 1 Capital Ratio falls below 7.00 per cent
If convertible, fully or partially	N/A	N/A	N/A	Fully convertible	Fully convertible	Fully convertible
If convertible, conversion rate	N/A	N/A	N/A	GBP equivalent of Security Principal multiplied by 2.12, in Ordinary Shares	GBP equivalent of Security Principal multiplied by 2.12, in Ordinary Shares	GBP equivalent of Security Principal multiplied by 2.62, in Ordinary Shares
If convertible, mandatory or optional conversion	N/A	N/A	N/A	Mandatory Conversion	Mandatory Conversion	Mandatory Conversion
If convertible, specify instrument type convertible into	N/A	N/A	N/A	Ordinary Share	Ordinary Share	Ordinary Share
If convertible, specify issuer of instrument it converts into	N/A	N/A	N/A	RBC Europe Limited	RBC Europe Limited	RBC Europe Limited
Write-down features	No	No	Yes	No	No	No
If write-down, write-down trigger (s)	N/A	N/A	N/A	N/A	N/A	N/A
If write-down, full or partial	N/A	N/A	N/A	N/A	N/A	N/A
If write-down, permanent or temporary	N/A	N/A	N/A	N/A	N/A	N/A
If temporary write-down, description of write-up mechanism	N/A	N/A	N/A	N/A	N/A	N/A
Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	N/A	N/A	N/A	N/A	N/A	N/A
Non-compliant transitioned features	No	No	No	No	No	No
If yes, specify non-compliant features	N/A	N/A	N/A	N/A	N/A	N/A

(1) 'N/A' inserted if the question is not applicable

3.2 COUNTERCYCLICAL CAPITAL BUFFER

The UK implementation of CRD IV requires institutions to maintain an institution-specific countercyclical capital buffer based on regulatory determined buffer rates. This requirement follows closely the international approach of Basel III which introduced the countercyclical capital buffer to be implemented by national jurisdictions when excess aggregate credit growth is judged to be associated with a build-up of system-wide risk in each country the Company is exposed to.

As at 31 October 2020, the Company's specific countercyclical capital buffer rate is 0.0230 % (2019: 0.3693%) and the capital requirement is £1.8 million (2019: £30.3 million). The reduction in the requirement is largely due to decreased United Kingdom countercyclical buffer rate to 0% (2019: 1%), where 26.8% of relevant credit exposures are assigned (2019: 32.6%).

Detailed disclosure on the geographical distribution of credit exposure and the Company's specific countercyclical buffer requirements is included in Appendix 2.

3.3 UNENCUMBERED ASSETS

The connected templates have been prepared on a rolling quarterly median basis over the previous 12 months in accordance with the European Commission Delegated Regulation (EU) 2017/2295. Each quarter is calculated as a median of the previous 12 months' four quarterly returns to the European Banking Authority and then a median of all 4 quarters is taken for disclosure. Each value and total on the disclosure has been derived in the same manner; totals are not a total of the rolling median values.

The Company defines the following assets as encumbered:

- Assets which have been pledged as collateral; or
- Assets which the Company believes it was restricted from using to secure funding, for legal or other reasons.

Asset encumbrance is an integral part of RBC Europe Limited's liquidity, funding and collateral management processes. The majority of the Company's encumbrance is driven by secured financing activities, predominantly transactions in collateral swaps and repo. This also includes shorts facilitation as part of its trading activities. These activities are carried out under industry standard contractual agreements (mostly Global Master Repurchase Agreements (GMRA's)). Where securities are borrowed or lent between the Company and RBC Group companies, this is done with arm's length terms.

The level of over-collateralisation is dependent on specific trade details. The Company's ratio of encumbered assets is relatively stable with a high turnover of assets available for encumbrance. Encumbrance will vary depending on the composition of the balance sheet, and there are no notable trends during the disclosure period

A significant proportion of the assets included in other unencumbered assets of £42.0bn (2019: £45.8bn) relates to reverse repurchase transactions and the Company has rehypothecation rights over the underlying security collateral. The remainder comprises of derivative related assets and receivables that are not deemed to be available for encumbrance in the normal course of RBC Europe Limited's business.

Table 7: Encumbered and unencumbered assets

As at 31 October 2020

Template A - Encumbered and unencumbered assets

	Carrying amount of encumbered assets		Fair value of encumbered assets		Carrying amount of unencumbered assets		Fair value of unencumbered assets	
		of which notationally eligible EHQLA and HQLA		of which notationally eligible EHQLA and HQLA		of which EHQLA and HQLA		of which EHQLA and HQLA
010 Assets of the reporting institution	3,404,570,512	1,851,426,503			46,658,484,749	3,113,993,719		
030 Equity Instruments	29,819,904	8,229,127			70,384,134	0		
040 Debt securities	2,579,670,319	1,720,140,199	2,579,670,319	1,720,140,199	3,616,891,996	0	3,616,891,996	0
050 of which: covered bonds	81,635,649	81,635,649	81,635,649	81,635,649	6,796,342	0	6,796,342	0
060 of which: asset-backed securities	17,016,632	6,434,798	17,016,632	6,434,798	49,948,445	0	49,948,445	0
070 of which: issued by general governments	882,257,684	882,257,684	882,257,684	882,257,684	497,666,519	0	497,666,519	0
080 of which: issued by financial corporations	685,029,985	195,290,319	685,029,985	195,290,319	0	0	0	0
090 of which: issued by non-financial corporations	748,783,730	396,850,581	748,783,730	396,850,581	3,080,480,595	0	3,080,480,595	0
120 Other assets	1,820,023,759	0			42,027,022,134	0		
121 of which: Loans on demand	41,890,978	0			3,059,721,696	3,059,721,696		
122 of which: Loans and advances other than loans on demand	0	0			6,346,408,216	129,895,400		

Template B- Collateral received

		Fair value of encumbered collateral received or own debt securities issued		Unencumbered	
			of which notionally eligible EHQLA and HQLA	Fair value of collateral received or own debt securities issued available for encumbrance	of which EHQLA and HQLA
130	Collateral received by the reporting institution	48,154,771,329	40,025,372,218	3,708,834,110	2,781,546,205
150	Equity instruments	5,477,030,828	2,026,681,041	29,819,904	10,300,622
160	Debt securities	42,561,309,314	37,998,691,177	3,472,746,952	2,546,513,267
170	of which: covered bonds	25,910,559	25,910,559	81,635,649	81,635,649
180	of which: asset-backed securities	283,247,749	0	37,166,128	0
190	of which: issued by general governments	37,325,121,308	37,228,974,495	1,847,466,488	1,847,263,868
200	of which: issued by financial corporations	1,705,375,541	690,055,202	685,029,985	195,290,319
210	of which: issued by non-financial corporations	3,561,682,106	330,941,776	748,783,730	396,850,581
250	Total assets, collateral received and own debt securities issued	51,588,149,302	42,131,292,476		

Template C- Sources of encumbrance

		Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
010	Carrying amount of selected financial liabilities	25,442,117,102	25,484,112,408
011	of which: Derivatives	626,809,928	626,809,928
012	of which: Repurchase agreements	24,671,041,026	24,713,036,332
	Other sources of encumbrance	24,699,459,186	24,699,459,186

The above information is prepared using median values of monthly data on a rolling basis over the previous twelve months as expected by PRA.

3.4 LEVERAGE RATIO

Leverage ratio is monitored daily and is reported to the ALCO on a monthly basis as one of its risk appetite metrics. Internal threshold for each business line is established in accordance with the Company's risk appetite as approved by the Company's Board. UK Regulatory Reporting team (UKRRT) monitors the leverage usage against the internal threshold on a daily basis. As at 31 October 2020, the Company's leverage ratio is 3.51% (2019: 3.15%).

Table 8: Leverage ratio disclosure

As at 31 October 2020		£'000
Summary reconciliation of accounting assets and leverage ratio exposures		
	Applicable Amounts	
Total assets as per published financial statements	47,763,332	
Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	-	
(Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio exposure measure in accordance with Article 429(13) of Regulation (EU) No 575/2013 "CRR")	-	
Adjustments for derivative financial instruments	624,047	
Adjustments for securities financing transactions "SFTs"	525,776	
Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	1,477,224	
(Adjustment for intragroup exposures excluded from the leverage ratio exposure measure in accordance with Article 429 (7) of Regulation (EU) No 575/2013)	-	
(Adjustment for exposures excluded from the leverage ratio exposure measure in accordance with Article 429 (14) of Regulation (EU) No 575/2013)	-	
Other adjustments	(5,741,783)	
Total leverage ratio exposure	44,648,596	
Leverage ratio common disclosure		
	CRR leverage ratio exposures	
On-balance sheet exposures (excluding derivatives and SFTs)		
On-balance sheet items (excluding derivatives, SFTs and fiduciary assets, but including collateral)	16,353,664	
(Asset amounts deducted in determining Tier 1 capital)	(19,692)	
Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets)	16,333,972	
Derivative exposures		
Replacement cost associated with <i>all</i> derivatives transactions (ie net of eligible cash variation margin)	659,969	
Add-on amounts for PFE associated with <i>all</i> derivatives transactions (mark-to-market method)	606,047	
Exposure determined under Original Exposure Method	-	
Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	-	
(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	-	
(Exempted CCP leg of client-cleared trade exposures)	-	
Adjusted effective notional amount of written credit derivatives	292,480	
(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	(274,481)	
Total derivative exposures	1,284,015	
Securities financing transaction exposures		
Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	32,335,835	
(Netted amounts of cash payables and cash receivables of gross SFT assets)	(7,308,226)	
Counterparty credit risk exposure for SFT assets	525,776	
Derogation for SFTs: Counterparty credit risk exposure in accordance with Article 429b (4) and 222 of Regulation (EU) No 575/2013	-	
Agent transaction exposures	-	
(Exempted CCP leg of client-cleared SFT exposure)	-	
Total securities financing transaction exposures	25,553,385	
Other off-balance sheet exposures		
Off-balance sheet exposures at gross notional amount	2,878,587	
(Adjustments for conversion to credit equivalent amounts)	(1,401,363)	
Total other off-balance sheet exposures	1,477,224	
Exempted exposures in accordance with CRR Article 429 (7) and (14) (on and off balance sheet)		
(Exemption of intragroup exposures (solo basis) in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on and off balance sheet))	-	
(Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No 575/2013 (on and off balance sheet))	-	
Capital and total exposures		
Tier 1 capital	1,565,704	
Total leverage ratio exposures	44,648,596	
Leverage ratio	3.51%	
Choice on transitional arrangements and amount of derecognised fiduciary items		
Choice on transitional arrangements for the definition of the capital measure	-	
Amount of derecognised fiduciary items in accordance with Article 429(11) of Regulation (EU) NO 575/2013	-	

4 CAPITAL REQUIREMENTS

Capital adequacy and capital ratios measured are monitored daily against internal thresholds by the UK Regulatory Reporting team (UKRRT) in the Finance department. Any breaches would be escalated immediately. In addition ALCO receives monthly reports detailing capital requirements, while the Board and the RC are updated on a quarterly basis.

Analysis, monitoring and reporting of risk profiles and performance against risk appetite limits and tolerances are conducted by the relevant risk functions. Results are reported to the RC at least quarterly, with management committees updated on a more regular basis.

As at 31st October 2020 the Company's minimum capital requirements are illustrated below, expressed in terms of risk-weighted exposure, as calculated by the approaches adopted by the Company to calculate the minimum capital resources requirements. Exposure classes not mentioned below were immaterial and are not shown separately.

Table 9: Risk exposure amount by risk type and calculation approach adopted

As at 31 October 2020	Risk-weighted Exposure	CET1 Capital requirement @ 4.5%	Tier 1 Capital requirement @ 6%	Total Capital requirement @ 8%
<i>£'000</i>				
Risk-weighted exposure amounts for credit and counterparty credit risks				
<i>Calculated under the Standardised Approach</i>				
Central governments or central banks	10,807	486	648	865
Regional governments or local authorities	-	-	-	-
Public sector entities	7,967	359	478	637
Multilateral Development Banks	-	-	-	-
Institutions	598,681	26,941	35,921	47,894
Corporates	3,313,278	149,098	198,797	265,062
Secured by mortgages on immovable property	187,374	8,432	11,242	14,990
Equity	60,407	2,718	3,624	4,833
Other items	11,957	538	717	957
	<u>4,190,471</u>	<u>188,571</u>	<u>251,428</u>	<u>335,238</u>
Risk exposure amount for contributions to the default fund of a CCP	24,394	1,098	1,464	1,951
	<u>4,214,864</u>	<u>189,669</u>	<u>252,892</u>	<u>337,189</u>
Risk-weighted exposure amount settlement/delivery risk in the Trading book	602	27	36	48
Risk-weighted exposure amount for position, foreign exchange and commodities risks				
<i>Calculated under the Standardised Approach</i>				
Interest Rate	2,576,651	115,949	154,599	206,132
Equity	42,660	1,920	2,560	3,413
Foreign Exchange	85,831	3,862	5,150	6,866
Commodities	2,480	112	149	198
	<u>2,707,622</u>	<u>121,843</u>	<u>162,457</u>	<u>216,610</u>
Risk-weighted exposure amount for operational risk				
<i>Calculated under the Basic Indicator Approach</i>	879,781	39,590	52,787	70,382
Risk-weighted exposure amount for credit valuation adjustment				
<i>Calculated under the Standardised Method</i>	6,734	303	404	539
Total	7,809,603	351,432	468,576	624,768
Surplus CET1 Capital over the minimum requirement		826,802		
Surplus Tier1 Capital over the minimum requirement			1,009,352	
Surplus Total Capital over the minimum requirement				930,482

5 CREDIT RISK

5.1 DEFINITION OF CREDIT RISK

The Company defines credit risk as the risk of loss associated with a counterparty's potential inability or unwillingness to fulfil its on- and off-balance sheet payment obligations. Credit risk may arise directly from the risk of default of a primary obligor (e.g., issuer, debtor, borrower or policyholder), or indirectly from a secondary obligor (e.g., guarantor, reinsurance) and/or through off-balance sheet exposures, contingent credit risk and/or transactional risk. Credit risk includes counterparty credit risk from both trading and non-trading activities. Exposure to credit risk occurs any time funds are extended, committed or invested through actual or implied contractual agreement.

5.2 GOVERNANCE AND FRAMEWORK

Credit risk exposures across all lending and trading activities are aggregated and reported to the RC on a quarterly basis.

Individually, credit risk is controlled and reported as follows:

Banking Book Credit Risk

The loan credit risk profile is managed through the RC and more specifically the UKLMC and Wealth Management International Risk and Compliance Committee (WMI-RACC). The monitoring of Credit risk is a continual process. All borrowers are subject to a risk assessment and an exposure/limit review at least annually, with risk managed proactively on an ongoing basis. Borrowers that experience a material deterioration in credit quality and/or that may breach their covenants are added to a watch list which is monitored by the UKLMC, the WMI-RACC and senior management.

Risk appetite is managed and controlled through exposure limits defined across single names, country, industry sector and ratings. Single Name exposures across the Banking Book are limited to the lower of any RBC group limits and the Company's Single Name Framework.

Ongoing monitoring and review processes undertaken by Group Risk Management Credit include:

- **Borrower Risk Rating (BRR) Regular Reviews** – BRRs (measures probability of borrower default) are reviewed quarterly;
- **Continuous Risk Assessment** – The impact of new information on borrowers is assessed on an ongoing basis to adjust BRR if appropriate;
- **Borrower Classification Code (BCC)** – Considers the probability of recovery of all monies due to the Company, and is based on an assessment of the borrower's current repayment capacity, including structure and collateral; and
- **Limit monitoring** – Exposures are monitored against single name limits.

Lending credit risk is mitigated through guarantees, collateral and/or the use of credit default swaps (CDS) where commercially feasible. As at 31 October 2020, none of the loans within the Company's loan portfolio carried any CDS as the credit worthiness of the borrowers remains within the Company's risk appetite (2019: nil).

Loan transactions are signed off by the UK Regulatory Reporting team for compliance with Regulatory Large Exposure Limits.

Counterparty Credit Risk

Each trading credit risk type is managed both separately as part of the RBC Group framework, and as part of a combined exposure metric specific to the Company, with exposure and limit usage reported daily to front office and senior management by GRM-Counterparty Credit Risk.

The Company's Single Name Limit Framework is the primary constraint on the Trading Credit Exposure. The limits defined as part of this framework are directly related to the Company's Risk Appetite Framework (RAF). This Framework is approved by the Board annually. The Managing Director of Credit Risk has the authority to approve temporary excesses. All operational limit excesses are reported to the UK Counterparty Credit Risk Management Committee (UKCCRMC). Monthly exposure data is also reviewed by the UKCCRMC, UK Market Risk Committee (UKMRC), and Risk Committee.

The UK Regulatory Reporting team also reports the overall capital requirement, including the capital requirement on credit risk, to the Company's senior management on a daily basis.

Assigning Internal Capital and Credit Limits

The Company assigns credit risk ratings to its borrowers to reflect its assessment of the specific credit risk of each borrower over a medium term time horizon starting from the time of risk assessment or revision or confirmation.

The rating is determined through an assessment of factors, specific to the industry and/or product, that differentiate the riskiness of the borrowers and reflects the probability of default of the borrower over the time horizon. The rating is maintained through a process of continuous monitoring and periodic review. This internal rating will be used to determine internal economic capital allocation.

5.3 CREDIT RISK PROFILE

The Company's credit risk is derived from its banking and trading activities. The table below indicates the risk-weighted exposure amounts of credit and counterparty credit risk from these two activities.

Table 10: Risk exposure amounts by banking and trading activities

As at 31 October 2020 £'000	Banking	Trading	Total
Risk-weighted exposure amounts for credit and counterparty credit risks			
<i>Calculated under the Standardised Approach</i>			
Central governments or central banks	-	10,807	10,807
Regional governments or local authorities	-	-	-
Public sector entities	7,967	-	7,967
Institutions	62,811	535,870	598,681
Corporates	2,491,593	821,685	3,313,278
Secured by mortgages on immovable property	187,374	-	187,374
Equity	60,407	-	60,407
Other items	11,957	-	11,957
	<u>2,822,108</u>	<u>1,368,362</u>	<u>4,190,471</u>
Risk exposure amount for contributions to the default fund of a CCP	-	24,394	24,394
	<u>2,822,108</u>	<u>1,392,756</u>	<u>4,214,864</u>
Risk-weighted exposure amount settlement/delivery risk in the Trading book	<u>-</u>	<u>602</u>	<u>602</u>
Total	<u>2,822,108</u>	<u>1,393,358</u>	<u>4,215,466</u>

5.3.1 Banking Book Credit Risk

The Capital Markets Banking Book credit profile is managed through monthly review by the UKLRMC, with the Wealth Management lending portfolio monitored at the quarterly WMI-RACC. The combined banking book credit risk profile for the Company is reported to the RC on a quarterly basis. All borrowers are subject to a risk assessment at least annually, with risk managed proactively on an ongoing basis. Borrowers with material deterioration in credit quality which may breach their covenants are added to a watch list for monitoring, and action is taken as appropriate.

Credit risk is mitigated through guarantees and collateral where considered appropriate and commercially feasible.

As at 31 October 2020, the Company had total gross credit exposures¹ of £13.3 billion (2019: £13.2 billion), and the average gross credit exposure is £14.8 billion over the year (2019: £13.4 billion). Detailed exposures by exposure class, residual maturity and geographic distribution are shown in the following tables.

¹ Gross credit risk exposure is after accounting offsets, but without taking into account the effects of the credit risk mitigation. Final exposure is after the accounting offsets and the credit risk mitigation.

Table 11: Gross credit exposures within the banking book

As at 31 October 2020

£'000

Exposure amounts for credit risk in the banking book

	Gross Exposure	Credit Risk Provisions	Final Exposure	Risk-weighted Exposure
<u>On balance sheet exposures</u>				
Central governments or central banks	2,374,535	-	2,374,535	-
Regional governments or local authorities	-	-	-	-
Public sector entities	39,834	-	39,834	7,967
Multilateral Development Banks	48	-	48	-
Institutions	590,610	(62)	590,610	59,520
Corporates	5,412,665	(14,321)	2,174,626	1,757,925
Secured by mortgages on immovable property	475,808	-	465,171	179,879
Equity	60,407	-	60,407	60,407
Other items	1,151,587	-	1,151,587	11,957
	10,105,494	(14,383)	6,856,818	2,077,655
<u>Off balance sheet exposures</u>				
Central governments or central banks	89,978	(16)	44,989	-
Regional governments or local authorities	-	-	-	-
Public sector entities	-	-	-	-
Multilateral Development Banks	-	-	-	-
Institutions	15,749	(3)	10,525	3,291
Corporates	2,977,664	(1,505)	804,499	733,668
Secured by mortgages on immovable property	65,079	-	19,637	7,495
Equity	-	-	-	-
Other items	-	-	-	-
	3,148,470	(1,524)	879,651	744,454
Total	13,253,964	(15,907)	7,736,468	2,822,109
Small and medium enterprises included in Corporates	-	-	-	-

Table 12: Average gross credit exposures within the banking book

As at 31 October 2020

£'000

	Gross Exposure	Final Exposure	Risk-weighted Exposure
<u>On balance sheet exposures</u>			
Central governments or central banks	3,776,769	3,776,769	-
Regional governments or local authorities	-	-	-
Public sector entities	35,209	35,209	12,036
Multilateral development banks	1,043,429	1,043,429	-
Institutions	669,612	669,612	49,510
Corporates	5,466,178	2,270,269	1,873,557
Secured by mortgages on immovable property	501,449	490,136	186,659
Equity	54,900	54,900	54,900
Other items	17,067	17,067	15,440
	11,564,613	8,357,391	2,192,102
<u>Off balance sheet exposures</u>			
Central governments or central banks	88,033	44,025	-
Regional governments or local authorities	-	-	-
Public sector entities	-	-	-
Multilateral development banks	-	-	-
Institutions	28,957	138,730	28,239
Corporates	3,057,298	771,095	711,389
Secured by mortgages on immovable property	64,017	19,567	7,714
Equity	-	-	-
Other items	610	305	-
	3,238,915	973,722	747,342
Total	14,803,528	9,331,113	2,939,443
Small and medium enterprises, included in Corporates	-	-	-

Table 13: Gross credit exposure by residual maturity

As at 31 October 2020

£'000

Gross exposure amounts for credit risk in the banking book	Less than 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Greater than 5 years	Total
<u>On balance sheet exposures</u>						
Central governments or central banks	2,374,535	-	-	-	-	2,374,535
Regional governments or local authorities	-	-	-	-	-	-
Multilateral Development Banks	48	-	-	-	-	48
Public sector entities	-	-	34,880	4,953	-	39,834
Institutions	186,482	15,586	207,459	181,082	-	590,610
Corporates	41,574	163,782	1,258,627	3,191,143	757,539	5,412,665
Secured by mortgages on immovable property	51,923	69,597	98,497	253,938	1,852	475,808
Equity	-	-	-	-	60,407	60,407
Other items	1,151,587	-	-	-	-	1,151,587
	3,806,149	248,965	1,599,464	3,631,116	819,798	10,105,492
<u>Off balance sheet exposures</u>						
Central governments or central banks	-	-	-	89,978	-	89,978
Institutions	-	-	5,301	10,448	-	15,749
Corporates	200	14,170	233,986	2,590,062	139,246	2,977,664
Secured by mortgages on immovable property	3,059	24,860	2,197	33,813	1,150	65,079
Equity	-	-	-	-	-	-
Other items	-	-	-	-	-	-
	3,259	39,030	241,484	2,724,301	140,396	3,148,470
Total	3,809,408	287,995	1,840,949	6,355,417	960,194	13,253,963

Table 14: Final credit exposure by residual maturity

As at 31 October 2020

£'000

Final exposure amounts for credit risk in the banking book	Less than 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Greater than 5 years	Total
<u>On balance sheet exposures</u>						
Central governments or central banks	2,374,535	-	-	-	-	2,374,535
Regional governments or local authorities	-	-	-	-	-	-
Multilateral Development Banks	48	-	-	-	-	48
Public sector entities	-	-	34,880	4,953	-	39,834
Institutions	186,482	15,586	207,459	181,082	-	590,610
Corporates	37,285	53,151	175,588	1,186,371	722,230	2,174,626
Secured by mortgages on immovable property	50,627	67,296	98,041	247,431	1,777	465,171
Equity	-	-	-	-	60,407	60,407
Other items	1,151,587	-	-	-	-	1,151,587
	3,800,563	136,033	515,969	1,619,837	784,414	6,856,817
<u>Off balance sheet exposures</u>						
Central governments or central banks	-	-	-	44,989	-	44,989
Institutions	-	-	5,301	5,224	-	10,525
Corporates	100	6,878	108,524	646,386	42,612	804,499
Secured by mortgages on immovable property	1,496	567	110	16,890	575	19,637
Equity	-	-	-	-	-	-
Other items	-	-	-	-	-	-
	1,596	7,444	113,935	713,489	43,187	879,651
Total	3,802,159	143,477	629,904	2,333,326	827,601	7,736,468

Table 15: Credit conversion factor for off balance sheet credit exposures

As at 31 October 2020

£'000

Exposure amounts for credit risk in the banking book	Conversion Factors	Gross Exposure	Final Exposure	Risk-weighted Exposure
<u>Off balance sheet exposures</u>				
Central governments or central banks	50%	89,978	44,989	-
Institutions	0%	-	-	-
	20%	-	-	-
	50%	10,448	5,224	2,231
	100%	5,301	5,301	1,060
Corporates	0%	-	-	-
	20%	-	-	-
	50%	2,907,103	751,094	680,262
Secured by mortgages on immovable property	100%	70,561	53,406	53,406
	50%	65,079	19,637	7,495
Total		3,148,470	879,651	744,454

Table 16: Gross credit exposure by geographic distribution

As at 31 October 2020

£'000

Gross exposure amounts for credit risk in the banking book

	Asia-Pacific	Caribbean	EEA	Europe Other	Middle East	North America	Others	Total
<u>On balance sheet exposures</u>								
Central governments or central banks	-	-	2,078,059	169	-	296,307	-	2,374,535
Regional government or local authorities	-	-	-	-	-	-	-	-
Multilateral Development Banks	-	-	48	-	-	-	-	48
Public sector entities	-	-	39,834	-	-	-	-	39,834
Institutions	77	-	506,963	76,259	2	7,290	19	590,610
Corporates	60,283	93,950	4,509,759	709,683	-	38,990	-	5,412,665
Secured by mortgages on immovable property	5,006	-	320,218	14,017	34,274	101,292	1,000	475,807
Equity	-	-	60,407	-	-	-	-	60,407
Other items	-	-	1,151,587	-	-	-	-	1,151,587
	65,366	93,950	8,666,875	800,128	34,276	443,879	1,019	10,105,493
<u>Off balance sheet exposures</u>								
Central governments or central banks	-	-	89,978	-	-	-	-	89,978
Institutions	-	-	15,749	-	-	-	-	15,749
Corporates	42,448	46,025	2,318,336	133,316	309,068	100,007	28,466	2,977,666
Secured by mortgages on immovable property	-	-	29,785	27,057	8,236	-	-	65,078
Equity	-	-	-	-	-	-	-	-
Other items	-	-	-	-	-	-	-	-
	42,448	46,025	2,453,848	160,373	317,304	100,007	28,466	3,148,470
Total	107,814	139,975	11,120,723	960,501	351,580	543,886	29,485	13,253,964

Table 17: Final credit exposure by geographic distribution

As at 31 October 2020

£'000

Final exposure amounts for credit risk in the banking book

	Asia-Pacific	Caribbean	EEA	Europe Other	Middle East	North America	Others	Total
<u>On balance sheet exposures</u>								
Central governments or central banks	-	-	2,078,059	169	-	296,307	-	2,374,535
Regional government or local authorities	-	-	-	-	-	-	-	-
Multilateral Development Banks	-	-	48	-	-	-	-	48
Public sector entities	-	-	39,834	-	-	-	-	39,834
Institutions	77	-	506,963	76,259	2	7,290	19	590,610
Corporates	60,157	44,071	1,658,455	388,058	-	23,885	-	2,174,626
Secured by mortgages on immovable property	4,951	-	311,046	13,554	34,144	100,490	984	465,170
Equity	-	-	60,407	-	-	-	-	60,407
Other items	-	-	1,151,587	-	-	-	-	1,151,587
	65,185	44,071	5,806,399	478,040	34,146	427,972	1,003	6,856,816
<u>Off balance sheet exposures</u>								
Central governments or central banks	-	-	44,989	-	-	-	-	44,989
Institutions	-	-	10,525	-	-	-	-	10,525
Corporates	14,067	6,555	641,859	45,005	50,224	43,944	2,846	804,499
Secured by mortgages on immovable property	-	-	14,843	676	4,118	-	-	19,637
Equity	-	-	-	-	-	-	-	-
Other items	-	-	-	-	-	-	-	-
	14,067	6,555	712,216	45,681	54,342	43,944	2,846	879,650
Total	79,252	50,626	6,518,615	523,721	88,488	471,916	3,849	7,736,466

Further details on geographic distribution in relation to the EEA member states are shown below.

Table 18: Gross credit exposure by geographic distribution within the EEA

As at 31 October 2020

£'000

Gross exposure in relation to the EEA member states

	United Kingdom	France	Spain	Germany	Luxembourg	Ireland	Netherlands	Others	Total
<u>On balance sheet exposures</u>									
Central governments or central banks	647,152	559,515	-	848,028	-	-	13,138	10,226	2,078,059
Multilateral Development Banks	48	-	-	-	-	-	-	-	48
Public sector entities	-	-	-	-	-	-	-	39,834	39,834
Institutions	34,312	2,746	37	196,962	-	7,077	-	265,830	506,964
Corporates	1,429,099	93,385	31,027	490,460	1,416,391	142,386	341,136	565,875	4,509,759
Secured by mortgages on immovable property	312,430	994	-	1,556	-	-	4,420	817	320,217
Equity	60,407	-	-	-	-	-	-	-	60,407
Other items	1,151,587	-	-	-	-	-	-	-	1,151,587
	3,635,035	656,640	31,064	1,537,006	1,416,391	149,463	358,694	882,582	8,666,875
<u>Off balance sheet exposures</u>									
Central governments or central banks	-	-	-	89,978	-	-	-	-	89,978
Institutions	-	-	-	-	-	7,908	7,841	-	15,749
Corporates	555,573	74,779	391,313	780,795	156,054	75,215	237,190	47,418	2,318,337
Secured by mortgages on immovable property	29,785	-	-	-	-	-	-	-	29,785
Equity	-	-	-	-	-	-	-	-	-
Other items	-	-	-	-	-	-	-	-	-
	585,358	74,779	391,313	870,773	156,054	83,123	245,031	47,418	2,453,849
Total	4,220,393	731,419	422,377	2,407,779	1,572,445	232,586	603,725	930,000	11,120,724

Table 19: Final credit exposure by geographic distribution within the EEA

As at 31 October 2020

£'000

Final exposure in relation to the EEA member states	United Kingdom	France	Spain	Germany	Luxembourg	Ireland	Netherlands	Others	Total
On balance sheet exposures									
Central governments or central banks	647,152	559,515	-	848,028	-	-	13,138	10,226	2,078,059
Multilateral Development Banks	48	-	-	-	-	-	-	-	48
Public sector entities	-	-	-	-	-	-	-	39,834	39,834
Institutions	34,312	2,746	37	196,962	-	7,077	-	265,830	506,964
Corporates	688,402	12,464	31,027	408,758	247,911	80,678	60,100	129,116	1,658,456
Secured by mortgages on immovable property	303,401	982	-	1,556	-	-	4,319	789	311,047
Equity	60,407	-	-	-	-	-	-	-	60,407
Other items	1,151,587	-	-	-	-	-	-	-	1,151,587
	2,885,309	575,707	31,064	1,455,304	247,911	87,755	77,557	445,795	5,806,402
Off balance sheet exposures									
Central governments or central banks	-	-	-	44,989	-	-	-	-	44,989
Institutions	-	-	-	-	-	3,954	6,571	-	10,525
Corporates	214,836	3,394	61,964	143,515	41,553	14,807	128,771	33,021	641,861
Secured by mortgages on immovable property	14,843	-	-	-	-	-	-	-	14,843
Equity	-	-	-	-	-	-	-	-	-
Other items	-	-	-	-	-	-	-	-	-
	229,679	3,394	61,964	188,504	41,553	18,761	135,342	33,021	712,218
Total	3,114,988	579,101	93,028	1,643,808	289,464	106,516	212,899	478,816	6,518,620

5.3.2 Credit Risk Adjustments

The Company defines a credit risk adjustment as the amount of specific loan provision for credit losses that has been recognised in its financial statements in accordance with the International Financial Reporting Standards (IFRS).

An allowance for credit losses (ACL) is established for all financial instruments, except for financial assets classified or designated as fair value through P&L (FVTPL) and equity securities designated as fair value through other comprehensive income (FVOCI), which are not subject to impairment assessment. Assets subject to impairment assessment include certain loans, debt securities, accounts and accrued interest receivable.

Off-balance sheet items subject to impairment assessment include financial guarantees and undrawn loan commitments. For certain retail products, expected credit losses are measured based on the total exposure and are not attributable to the on- and off-balance sheet components. For these products, ACL is presented in Allowance for loan losses to the extent that ACL does not exceed the related loan balance. For all other off-balance sheet products subject to impairment assessment, ACL is separately calculated.

The Company interacts with the Group when calculating expected credit losses utilising its scale and sophistication of modelling processes as well as governance structure in order to measure the ACL on each balance sheet date according to a three-stage expected credit loss impairment model:

Performing financial assets

- Stage 1 – From initial recognition of a financial asset to the date on which the asset has experienced a significant increase in credit risk relative to its initial recognition, a loss allowance is recognised equal to the credit losses expected to result from defaults occurring over the 12 months following the reporting date.
- Stage 2 – Following a significant increase in credit risk relative to the initial recognition of the financial asset, a loss allowance is recognised equal to the credit losses expected over the remaining lifetime of the asset.

Impaired financial assets

- Stage 3 – When a financial asset is considered to be credit-impaired, a loss allowance is recognised equal to credit losses expected over the remaining lifetime of the asset. Interest revenue is calculated based on the carrying amount of the asset, net of the loss allowance, rather than on its gross carrying amount.

The ACL is a discounted probability-weighted estimate of the cash shortfalls expected to result from defaults over the relevant time horizon. For loan commitments, credit loss estimates consider the portion of the commitment that is expected to be drawn over the relevant time period. For financial guarantees, credit loss estimates are based on the expected payments required under the guarantee contract.

Increases or decreases in the required ACL attributable to purchases and new originations, de-recognitions or maturities, and re-measurements due to changes in loss expectations or stage transfers are reported in the profit and loss account as Provision for credit losses. Write-offs and recoveries of amounts previously written off are recorded against ACL.

The ACL represents an unbiased estimate of expected credit losses on the financial assets as at the balance sheet date. Judgement is required in making assumptions and estimations when calculating the ACL, including movements between the three stages and the application of forward looking information. The underlying assumptions and estimates may result in changes to the provisions from period to period that significantly affect the Company's results of operations.

Individually assessed loans (Stage 3)

When individually significant loans are identified as impaired, the Company reduces the carrying value of the loans to their estimated realizable value by recording an individually assessed ACL to cover identified credit losses. The individually assessed ACL reflects the expected amount of principal and interest calculated under the terms of the original loan agreement that will not be recovered, and the impact of time delays in collecting principal and/or interest (time value of money). The estimated realizable value for each individually significant loan is the present value of expected future cash flows discounted using the original effective interest rate for each loan. When the amounts and timing of future cash flows cannot be estimated with reasonable reliability, the estimated realizable amount may be determined using observable market prices for comparable loans, the fair value of collateral underlying the loans, and other reasonable and supported methods based on management judgement.

Individually-assessed allowances are established in consideration of a range of possible outcomes, which may include macroeconomic or non-macroeconomic scenarios, to the extent relevant to the circumstances of the specific borrower being assessed. Assumptions used in estimating expected future cash flows reflect current and expected future economic conditions and are generally consistent with those used in Stage 1 and Stage 2 measurement.

Significant judgement is required in assessing evidence of credit-impairment and estimation of the amount and timing of future cash flows when determining expected credit losses. Changes in the amount expected to be recovered would have a direct impact on the Provision for credit losses and may result in a change in the ACL.

Write-off of loans

Loans and the related ACL are written-off, either partially or in full, when there is no realistic prospect of recovery. Where loans are secured, they are generally written off after receipt of any proceeds from the realization of collateral. In circumstances where the net realizable value of any collateral has been determined and there is no reasonable expectation of further recovery, write off may be earlier.

Table 20: Reconciliation of provision for credit losses for all financial instruments

	31 October 2020	31 October 2019
	£'000	£'000
Provisions brought forward	11,204	4,543
Provisions raised during the year	14,457	6,678
Net write-offs	(8,994)	-
Exchange rate and other	1,051	(17)
Provisions as at year end	17,718	11,204

As at 31 October 2020, RBCEL had stage 3 impairments of £0.3 million (2019: 5.9 million).

5.3.3 Counterparty Credit Risk

Trading book counterparty risk arises from exposure to the following:

- Securities finance transactions (SFT), as part of Fixed Income, Central Funding Group and Equity Finance businesses.
- Derivatives, primarily through Exchange traded derivatives (ETD) and over-the-counter (OTC) derivatives.

Table 21: Trading credit risk

As at 31 October 2020

£'000

Counterparty credit risk exposure by products

	Gross Exposure	Final Exposure	Risk-weighted Exposure
<u>Calculated under the Standardised Approach</u>			
Exchange traded derivatives	954,108	727,004	53,697
OTC derivatives	401,435	38,760	6,914
SFTs	2,438,309	2,438,309	1,307,752
Total	3,793,852	3,204,073	1,368,363

Each trading credit risk type is managed both separately as part of the RBC Group framework, and as part of a combined exposure metric specific to the Company, with exposure and limit usage reported daily to senior management by GRM Counterparty Credit Risk.

The Company's Single Name Limit Framework is the primary constraint of the Company's trading credit exposure. The limits defined as part of this framework are directly related to the Company's risk appetite.

The Company's counterparty credit risk profile is largely made up of equity securities finance / stock lending and fixed income repurchase transactions (repo). Counterparty credit risk is managed through increasing over-collateralisation margins on riskier counterparties with margins being actively managed and exchanged daily.

Cash margins are introduced once the market value of collateral is insufficient to cover the underlying amount of the repurchase agreement or securities borrowed or loaned. Collateral is an important mitigation of credit risk. The Company holds collateral mainly in the form of securities and has the ability to use CDSs in order to enhance credit protection.

Credit counterparty risk from derivatives is mitigated where possible through netting agreements whereby derivative assets and liabilities with the same counterparty can be offset. The Company requires all netting arrangement to be legally enforceable. Collateral and cash margins are also obtained as an important mitigation of credit risk.

The Company ensures that any collateral held is sufficiently liquid, legally effective, enforceable and regularly reassessed. Any collateral taken is generally subject to a valuation adjustment with a percentage applicable to each type of collateral, which will be largely based on liquidity and price volatility of the underlying security.

As at 31 October 2020, the Company had total gross credit exposures of £3.8 billion (2019: £5.5 billion), and the average gross credit exposure is £4.9 billion over the year (2019: £5.5 billion). Detailed exposures by products, exposure class, residual maturity and geographic distribution are shown in the tables below.

Table 22: Counterparty credit risk by exposure class

As at 31 October 2020

£'000

Exposure amounts for counterparty credit risk in trading book	Gross Exposure	Final Exposure	Risk-weighted Exposure
<i>Calculated under the Standardised Approach</i>			
Central governments or central banks	95,517	95,517	10,807
International organisations	-	-	-
Public sector entities	137	2	-
Institutions	2,772,220	2,193,270	535,870
Corporates	925,976	915,284	821,685
Total	3,793,850	3,204,073	1,368,362
Small and medium enterprises, included in Corporates	-	-	-

Table 23: Average counterparty credit risk exposure

For the year ended 31 October 2020

£'000

Exposure amounts for counterparty credit risk in trading book	Gross Exposure	Final Exposure	Risk-weighted Exposure
<i>Calculated under the Standardised Approach</i>			
Central governments or central banks	500,762	500,762	10,055
International organisations	-	-	-
Public sector entities	5,469	5,292	1,059
Institutions	3,131,032	2,540,381	634,038
Corporates	1,229,496	1,209,830	1,078,012
Total	4,866,759	4,256,264	1,723,163
Small and medium enterprises, included in Corporates	-	-	-

Table 24: Gross counterparty credit exposure by residual maturity

As at 31 October 2020

£'000

Gross exposure amounts for counterparty credit risk	Less than 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Greater than 5 years	Total
Central governments or central banks	95,517	-	-	-	-	95,517
Public sector entities	2	135	-	-	-	137
Institutions	1,261,242	615,021	605,563	223,162	67,233	2,772,220
Corporates	732,616	103,337	87,265	2,758	-	925,976
Total	2,089,376	718,494	692,828	225,920	67,233	3,793,851

Table 25: Final counterparty credit exposure by residual maturity

As at 31 October 2020

£'000

Final exposure amounts for counterparty credit risk	Less than 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Greater than 5 years	Total
Central governments or central banks	95,517	-	-	-	-	95,517
Public sector entities	2	-	-	-	-	2
Institutions	1,126,540	511,057	526,532	29,140	-	2,193,270
Corporates	731,051	98,946	83,780	1,507	-	915,284
Total	1,953,109	610,003	610,313	30,647	-	3,204,072

Table 26: Gross counterparty credit exposure by geographic distribution

As at 31 October 2020								
£'000								
Gross exposure amounts for counterparty credit risk	Asia-Pacific	Caribbean	EEA	Europe Other	Middle East	North America	Others	Total
Central governments or central banks	13,239	-	26,737	-	55,541	-	-	95,517
Public sector entities	-	-	135	-	-	2	-	137
Institutions	155,958	5,772	1,624,782	203,601	-	781,864	244	2,772,220
Corporates	132,540	134,850	496,117	59,271	-	103,199	(0)	925,976
Total	301,737	140,621	2,147,772	262,871	55,541	885,065	244	3,793,851

Table 27: Final counterparty credit exposure by geographic distribution

As at 31 October 2020								
£'000								
Final exposure amounts for counterparty credit risk	Asia-Pacific	Caribbean	EEA	Europe Other	Middle East	North America	Others	Total
Central governments or central banks	13,239	-	26,737	-	55,541	-	-	95,517
Public sector entities	-	-	-	-	-	2	-	2
Institutions	155,958	5,772	1,583,199	203,601	-	244,496	239	2,193,270
Corporates	132,540	134,850	495,546	50,859	-	101,490	-	915,284
Total	301,737	140,621	2,105,483	254,460	55,541	345,987	239	3,204,072

Further details on geographic distribution in relation to the EEA member states and North America are shown below.

Table 28: Gross credit exposure by geographic distribution within the EEA and NA

As at 31 October 2020										
£'000										
Gross exposure in relation to the EEA member states	United Kingdom	France	Netherlands	Germany	Belgium	Sweden	Finland	Spain	Others	Total
Central governments or central banks	-	8,469	-	-	-	-	-	-	-	18,268
Public sector entities	-	-	-	-	-	-	-	-	-	135
Institutions	1,377,614	32,812	89,139	15,261	90,594	1	-	4,859	14,502	1,624,782
Corporates	245,353	1,060	27,303	20,417	5,074	706	-	-	196,203	496,117
Total	1,622,967	42,342	116,442	35,678	95,669	707	-	4,859	229,108	2,147,772

As at 31 October 2020
£'000
Gross exposure in relation to North America

	Canada	United States	Bermuda	Total
Central governments or central banks	-	-	-	-
Public sector entities	-	2	-	2
Institutions	455,258	326,606	-	781,864
Corporates	595	102,605	-	103,199
Total	455,853	429,212	-	885,065

Table 29: Final credit exposure by geographic distribution within the EEA and NA

As at 31 October 2020										
£'000										
Final exposure in relation to the EEA member states	United Kingdom	France	Netherlands	Germany	Belgium	Sweden	Finland	Spain	Others	Total
Central governments or central banks	-	8,469	-	-	-	-	-	-	-	18,268
Public sector entities	-	-	-	-	-	-	-	-	-	135
Institutions	1,337,280	32,301	89,139	15,261	90,594	1	-	4,859	13,764	1,583,199
Corporates	245,353	799	27,303	20,417	5,074	706	-	-	195,893	495,546
Total	1,582,633	41,569	116,442	35,678	95,669	707	-	4,859	227,925	2,105,483

As at 31 October 2020
£'000
Final exposure in relation to North America

	Canada	United States	Bermuda	Total
Central governments or central banks	-	-	-	-
Public sector entities	-	2	-	2
Institutions	19,146	225,350	-	244,496
Corporates	595	100,895	-	101,490
Total	19,740	326,247	-	345,987

5.3.4 Wrong-Way Risk Exposures

The Company has detailed policies and procedures in place to ensure that the wrong-way risk is closely monitored. General wrong-way risk exists when there is a positive correlation between the probability of default of counterparties to general market risk factors.

For securities financing transactions, specific wrong-way risk counterparty exposure is incurred when the Company enters into a securities financing transaction with a counterparty where the underlying collateral held by the Company includes securities issued by the counterparty or any affiliate of that counterparty. Where the risk to the collateral and the risk of default by the counterparty are potentially correlated, GRM, along with the relevant business, will evaluate and perform ad hoc wrong-way risk analyses against potential scenarios, as appropriate.

For derivative transactions, specific wrong-way risk exists when the exposure to a particular counterparty is positively and highly correlated with the probability of default of the counterparty due to the nature of the transactions with the counterparty. Specific guidelines have been established to calculate the exposure as well as the internal approval process to be used. GRM-Counterparty Credit Risk are responsible for the monitoring of the wrong-way risk in derivative transactions.

5.3.5 Counterparty Credit Risk Arising from Derivative Transactions

As at 31 October 2020, the final exposure arising from derivative transactions amounted to £365.8 million (2019: £416.3 million). Refer to the previous section for detailed disclosure on exposures by product type.

Table 30: Counterparty credit risk for derivative transactions

As at 31 October 2020	Gross Positive Fair Value	Gross PFCE*	Netting Benefits	Initial Exposure	Collateral Allocated**	Final Exposure	Gross Notional
<i>£'000</i>							
<i>Calculated under the Mark to Market Method</i>							
<i>Exchanged Traded Derivatives</i>							
Commodities	139,435	350,103	(202,843)	286,695	(111,714)	174,981	3,472,985
Equities	78,569	141,369	(53,266)	166,672	(31,124)	135,548	2,349,267
Interest Rate	10,219	107,772	(58,897)	59,093	(37,200)	21,893	45,884,806
Foreign Exchange and Gold	-	-	-	-	-	-	-
	<u>228,222</u>	<u>599,244</u>	<u>(315,006)</u>	<u>512,460</u>	<u>(180,038)</u>	<u>332,422</u>	<u>51,707,057</u>
<i>Over-The-Counter Derivatives</i>							
Commodities	41,841	4,196	8,266	54,303	(27,595)	26,707	46,657
Credit Default Swaps	5,841	57,789	(34,918)	28,712	(28,712)	-	579,824
Equities	-	-	-	-	-	-	-
Foreign Exchange and Gold	82,508	301,501	(184,006)	200,003	(200,003)	-	19,190,548
Interest Rate	500,034	142,957	(529,923)	113,068	(106,364)	6,703	25,217,947
	<u>630,224</u>	<u>506,443</u>	<u>(740,581)</u>	<u>396,086</u>	<u>(362,675)</u>	<u>33,411</u>	<u>45,034,976</u>
Total	<u>858,446</u>	<u>1,105,687</u>	<u>(1,055,587)</u>	<u>908,546</u>	<u>(542,713)</u>	<u>365,833</u>	<u>96,742,033</u>

*PFCE stands for potential future credit exposure.

**Collateral allocated amount is the collateral mark to market value after appropriate volatility adjustments.

The Company uses (CDS) to manage the traded credit risk arising from its trading activities. The table below indicates the notional amounts of CDS sold and purchased at year end.

Table 31: Notional of CDS

Notional	2020
£'000	
<i>Own credit portfolio</i>	
Buy	297,481
Sell	<u>282,343</u>
Total	<u>579,824</u>

As at 31 October 2020, the Company received total collateral of £568.4 million for derivative transactions (2019: £426.8 million). The Company also pledges collateral for its OTC derivative transactions. As at the year end, if RBC's credit rating had been downgraded by three notches, it would be required to pledge additional collateral of £7.7 million to its OTC derivative counterparties (2019: £7.7 million). The Company maintains a sufficient level of high quality liquid assets to satisfy any additional collateral requirements triggered by the downgrade of its credit rating.

5.3.6 Use of Credit Risk Mitigation Techniques

The Company uses the following credit risk mitigation techniques to actively manage its credit risks within its banking and trading portfolios:

- Netting and set-off,
- Collateral,
- Risk transfers and
- Non Payment Insurance.

The Company has detailed policies in place to ensure that credit mitigation is appropriately recognised and captured for regulatory capital purposes. In order to recognise the credit risk mitigation, the Company takes into account the following factors:

- Effectiveness and enforceability of the legal arrangements in place;
- Correlation between the value of collateral and the credit quality of the obligor;
- Eligibility and quality of the collateral received.

The Company will often seek to enter into standard master netting agreements with counterparties for derivative and SFT transactions. These master netting agreements enable the Company to apply on/off balance sheet netting to reduce net credit exposure. Collateral received from derivative and SFT transactions are mainly government and other high quality securities. All financial collateral is subject to daily revaluation and the Company also performs a revaluation on all properties held as collateral every three years. The valuation is then reviewed by a Credit Specialist and GRM. Credit Management is responsible for ensuring that the revaluation is executed in a timely manner.

The Company has established the following guiding principles for collateral management:

- Collateral should be liquid i.e. actively traded in secondary markets.
- Collateral should be of high credit quality.
- Collateral should be readily settled at an authorised clearing agency.
- Collateral should be exchanged on a regular basis.
- GRM risk capture and reporting must be in place.
- Collateral must be able to be independently valued.
- Collateral should be held so that it is available and protected in the event of a counterparty's default.
- Securities issued by a counterparty or its related entities are not eligible as collateral (excludes specified equity derivative transactions).
- Collateral should be diversified and not concentrated by issuer type or issue.

Guarantees and funded/unfunded risk participation arrangements have been sought mainly from other financial institutions by the Company to transfer its credit exposure to a counterparty which is more credit worthy than the original counterparty to reduce the overall credit risk.

The market risk and credit concentrations within the credit mitigation taken are monitored by the UK Regulatory Reporting team through its daily capital requirements and large exposure reporting process.

5.3.7 Use of External Credit Assessment Institutions

The Company uses the following external credit assessment institutions (ECAIs) for banking book credit risk and counterparty credit risk calculations purposes throughout the reporting period:

- Standard & Poor's, and
- Moody's.

As at 31 October 2020, the gross exposure amount subject to the use of the ECAIs was £5.9 billion (2018: £5.6 billion), which accounts for 34.6% of the total gross exposure² at year end (2019: 30.0%).

Table 32: Exposures amounts subjected to the use of the ECAIs

As at 31 October 2020

£'000	Gross Exposure	Final Exposure	Risk- weighted Exposures
Exposure amounts subject to the use of the ECAIs			
Central governments or central banks	1,305,529	1,260,540	-
Regional governments or local authorities	-	-	-
Public sector entities	39,834	39,834	7,967
Multilateral Development Banks	-	-	-
Institutions	2,212,521	1,677,352	423,080
Corporates	<u>2,340,962</u>	<u>1,271,943</u>	<u>762,207</u>
Total	<u>5,898,846</u>	<u>4,249,669</u>	<u>1,193,254</u>

As at 31 October 2020, majority of the Company's credit exposures subject to the use of ECAIs are to those counterparties with Credit Quality Step (CQS) 1 and 2³ (2020: 82.04%; 2019: 77.48%). Exposures amounts by CQS are shown below.

Table 33: Exposure amounts by CQS

£'000	2020		
	Gross Exposure	Final Exposure	Risk- weighted Exposures
CQS			
1	4,242,520	3,736,022	92,508
2	1,531,874	1,277,873	719,239
3	1,223,738	357,108	357,108
4	10,661	6,083	6,083
5	26,573	11,506	17,259
6	<u>3,108</u>	<u>704</u>	<u>1,056</u>
Total	<u>7,038,473</u>	<u>5,389,296</u>	<u>1,193,254</u>

² Total gross exposure amounts exclude the exposure amount for contributions to the default fund of a CCP.

³ CQS 1-3 represent investment grades (e.g. S&P: AAA+ to BBB-).

6 MARKET RISK

6.1 DEFINITION OF MARKET RISK

Market risk is defined as the risk of loss resulting from changes in market factors and the volatility of these factors. Market risk can be exacerbated by thinly-traded or illiquid markets. RBCEL considers market risk to fall into the following categories:

- **Credit Spread Risk:** The risk of loss due to the change in credit spreads on all financial instruments whose accounting fair value depends on credit spreads. This includes securities, credit derivatives and fair value liabilities.
- **Interest Rate Risk:** The risk of loss resulting from changes in interest rates.
- **Foreign Exchange Risk:** The risk of loss resulting from changes in exchange rates.
- **Equity Risk:** The risk of loss resulting from changes in equity prices and indices.
- **Commodity Risk:** The risk of loss resulting from changes in commodity prices.
- **Underwriting Risk:** The risk of loss resulting from (i) the failure to place or sell a particular security or bond concurrent with a negative market or credit risk event; and (ii) inadequate due diligence in connection with a securities offering.

6.2 GOVERNANCE AND FRAMEWORK

Market Risk is managed through the Company's Market Risk Framework which is governed and overseen by the Head of Market Risk Europe & APAC in London. The Company is also subject to the RBC Group policies laid out in the RBC Group Market Risk Framework and standing orders.

GRM Market Risk produces daily reports for the business and senior management detailing the Company's exposure against limits, as well as monthly summary reports for the UKMRC and quarterly for the RC.

The Company's market risk appetite is set and reviewed by the Board. The Company has a range of limits in place covering the risk measurement metrics noted above. All limits set by the Company are consistent with the stated risk appetite. In addition to the Board approved limits, exposures are also limited by the RBC Group limit structure.

The Company uses a two tier market risk limit structure:

- *Tactical limits* are set and approved by the Board and are constrained by economic capital limits. Tactical limits are designed so risk taken cannot exceed available financial resources. All tactical limit excesses and limit changes are reported to the UKMRC and the RC; and
- *Operational limits* are approved by the Head of Market Risk Europe & APAC and reviewed as required by the UKMRC. Operational limits must always remain lower than tactical limits. All operational limit excesses and limit changes are reported to the UKMRC and the Conduct Committee.

The UK Regulatory Reporting team also reports the overall capital requirement, including capital requirement on market risk, to the Company's senior management on a daily basis.

Additional information is provided in the Company's Annual Accounts and Financial Statements.

6.3 RISK PROFILE

As at 31 October 2020, the Company's capital requirement in relation to market risk is £217 million (2019: £190 million).

Table 34: Market risk by risk type

As at 31 October 2020	Risk-weighted Exposure	Capital Requirement
£'000		
Interest rate risk	2,576,651	206,132
<i>of which: Securitisation position risk</i>	400	32
Equity risk	42,660	3,413
Foreign-exchange risk	85,831	6,866
Settlement risk	-	-
Commodities risk	2,480	198
	<u>2,707,622</u>	<u>216,609</u>

The Company had £29 million (2019 £74 million) CIU trading book risk weight exposures (included in equity risk) as at the financial year-end.

7 SECURITISATIONS

The Company defines securitisation as a transaction or scheme, whereby the credit risk associated with an exposure or pool of exposures is tranching, having both of the following characteristics:

- payments in the transaction or scheme are dependent upon the performance of the exposure or pool of exposures; and
- the subordination of tranches determines the distribution of losses during the ongoing life of the transaction or scheme.

Re-securitisation means securitisation where the risk associated with an underlying pool of exposures is tranching and at least one of the underlying exposures is a securitisation position.

A securitisation position can be either classified as:

- *Traditional securitisation*: a securitisation involving the economic transfer of the exposures being securitised.
- *Synthetic securitisation*: a securitisation where the transfer of risk is achieved by the use of credit derivatives or guarantees, and the exposures being securitised remain exposures of the originator institution.

7.1.1 Objectives of Securitisation Activities

The Company trades a range of European securitised products in the secondary market and is not engaged in any securitisation of its own originated assets or the securitisation of third party assets via special purpose vehicles.

The Company monitors the market and credit risks arising from its securitisation positions in the similar manner as those of non-securitisation trading positions. Refer to the Company's risk governance and control framework discussion in the previous sections.

In addition, the Company adopts RBC's Trading Book Securitisation Framework, which requires:

- a comprehensive understanding of the risk characteristics of its individual securitisation exposures as well as the risk characteristics of the pools underlying its securitisation exposures;
- access performance information on the underlying pools on an on-going basis in a timely manner, including exposure type, percentage of loans past due, default rate, prepayment rates, loans in foreclosure, property type, occupancy, average credit score or other measures of creditworthiness, average loan-to-value ratio and industry and geographic diversifications;
- a thorough understanding of all structural features of a securitisation transaction that would materially impact the performance of the Company's exposures to the transactions, such as the contractual waterfall and waterfall-related triggers, credit enhancement, liquidity enhancements, market value triggers, and deal-specific definitions of default.

7.1.2 Risk Profile

As at 31 October 2020, the Company had a total exposure of £654 million in relation to the securitisation positions, resulting in own funds requirement of £20 million using the Standardised calculation. Detailed analysis on the securitisation trading and banking book positions are included in the tables below.

Table 35: Exposures by underlying exposure type

As at 31 October 2020			
£'000			
Exposure Type	Exposure	Risk-weighted Exposure	Capital Requirement
<i>Traditional securitisation</i>			
Residential mortgages	3,912	400	32
Credit card receivables	89,994	10,862	869
Consumer loans	200,000	161,510	12,921
Other assets	359,800	71,477	5,718
	653,706	244,249	19,540

Table 36: Securitisation exposures by seniority

As at 31 October 2020			
£'000			
Tranche	Exposure	Risk-weighted Exposure	Capital Requirement
Senior	584,544	155,256	12,420
Mezzanine	69,162	88,994	7,119
First loss	-	-	-
	653,706	244,249	19,540

Table 37: Securitisation exposures by risk weighting

As at 31 October 2020			
£'000			
Risk Weighting	Exposure	Risk-weighted Exposure	Capital Requirement
<i>Exposures rated by ECAIs</i>			
10%	321,950	32,203	2,576
20%	89,994	10,862	869
65%	172,600	112,190	8,975
95%	41,762	39,674	3,174
180%	27,400	49,320	3,946
	653,706	244,249	19,540
<i>Exposures not rated by ECAIs</i>			
1250%	-	-	-
Total	653,706	244,249	19,540

The Company uses the following three ECAIs in assigning the appropriate risk weights for the securitisation positions held:

- Standard & Poor's
- Moody's and
- Fitch

8 SUMMARY OF RELEVANT ACCOUNTING POLICIES

Recognition and measurement of financial instruments

Trading securities include all securities that are classified as FVTPL by nature and securities designated as FVTPL. Obligations to deliver trading securities sold but not yet purchased are recorded as liabilities and carried at fair value. Realised and unrealised gains and losses on these securities are generally recorded as trading revenue in non-interest income. Dividends and interest income accrued on interest bearing and trading securities are recorded in interest income. Interest and dividends accrued on interest-bearing and equity securities sold short are recorded in interest expense.

Investment securities include all securities classified as FVOCI and amortised cost. All investment securities are initially recorded at fair value and subsequently measured according to the respective classification.

Investment securities carried at amortised cost are measured using the effective interest method, and are presented net of any allowance for credit losses, calculated in accordance with the Company's policy for Allowance for credit losses, as described below. Interest income, including the amortisation of premiums and discounts on securities measured at amortised cost are recorded in net interest income. Impairment gains or losses recognised on amortised cost securities are recorded in Provision for credit losses. When a debt instrument measured at amortised cost is sold, the difference between the sale proceeds and the amortised cost of the security at the time of the sale is recorded as a net gains/ (losses) on de-recognition of financial assets measured at amortised cost.

Debt securities carried at FVOCI are measured at fair value with unrealised gains and losses arising from changes in fair value included in Other components of equity. Impairment gains and losses are included in Provision for credit losses and correspondingly reduce the accumulated changes in fair value included in Other components of equity. When a debt instrument measured at FVOCI is sold, the cumulative gain or loss is reclassified from Other components of equity to Income Statement.

Equity securities carried at FVOCI are measured at fair value. Unrealised gains and losses arising from changes in fair value are recorded in Other components of equity and not subsequently reclassified to profit or loss when realised. Dividends from FVOCI equity securities are recognised in Interest income.

Loans are debt instruments recognised initially at fair value and are subsequently measured in accordance with the classification of financial assets policy provided above. The majority of the loans are carried at amortised cost using the effective interest method, which represents the gross carrying amount less allowance for credit losses.

Interest on loans is recognised in interest income using the effective interest method. The estimated future cash flows used in this calculation include those determined by the contractual term of the asset and all fees that are considered to be integral to the effective interest rate. Also included in this amount are transaction costs and all other premiums or discounts. Fees that relate to activities such as originating, restructuring or renegotiating loans are deferred and recognised as Interest income over the expected term of such loans using the effective interest method.

For loans carried at amortised cost or FVOCI, impairment losses are recognised at each balance sheet date in accordance with the three-stage impairment model outlined 5.3.2.

De-recognition of financial assets

Financial assets are derecognised from the Balance Sheet when the contractual rights to the cash flows from the assets have expired, when the Company retains the rights to receive the cash flows of the assets but assume an obligation to pay those cash flows to a third party subject to certain pass-through requirements or when the contractual rights to receive the cash flows and substantially all of the risk and rewards of the assets have been transferred. When the Company retains substantially all of the risks and rewards of the transferred assets, the transferred assets are not derecognised from the Balance Sheet and are accounted for as secured financing transactions. When the Company neither retains nor transfers substantially all risks and rewards of ownership of the assets, the Company derecognises the assets if control over the assets is relinquished. If the Company retains control over the transferred assets, the Company continues to recognise the transferred assets to the extent of its continuing involvement.

Management's judgement is applied in determining whether the contractual rights to the cash flows from the transferred assets have expired or whether the Company retains the rights to receive cash flows on the assets but assumes an obligation to pay those cash flows. The Company derecognises transferred financial assets if it transfers substantially all the risk and rewards of ownerships assets.

When assessing whether it has transferred substantially all of the risk and rewards of the transferred assets, management considers the entity exposure before and after the transfer with the variability in the amount and timing of the net cash flows of the transferred assets. In transfers that the Company retains the servicing rights, management has applied judgement in assessing the benefits of servicing against market expectations. When the benefits of servicing are greater than fair market value, a servicing asset is recognised in Other assets in the Balance Sheet. When the benefits of servicing are less than fair market value, a servicing liability is recognised in Other liabilities in the Balance Sheet.

9 OPERATIONAL RISK

The Company has adopted the Basic Indicator Approach to calculate the own funds requirement for operational risk. As at 31 October 2020, the own funds requirement for operational risk is £70.4 million (2019: £65.4 million).

10 NON-TRADING BOOK EQUITY EXPOSURES

The Company holds a small equity portfolio within its non-trading book in order to maintain its memberships with a number of clearing houses and exchanges in Europe. The Company has no intention of actively trading these equities for short term profit making purposes.

This equity portfolio has been disclosed as Investments - Equity securities in the Company's audited financial statements in according to IFRS. The Company measures this equity portfolio at fair value with unrealised gains and losses arising from changes in fair value are included in Other components of equity. Changes in foreign exchange rates are recognised in Other components of equity. When the security is sold, the cumulative gain or loss recorded in Other components of equity is closed to Retained earnings. Dividend and interest income accruing on Investments – Equity securities are recorded in net interest income.

As at 31 October 2020, the Company had a total OCI reserve of £46.6 million (2019: £36.5 million) arising from the non-trading book equity exposures. This OCI reserve has been fully included in the Company's CET1 Capital since 1 January 2015.

Table 38: Non-trading book equity exposures

	2020	2019
£'000	Unlisted	Unlisted
<u>As at 1 November</u>		
Cost	1,075	1,075*
Accumulated unrealised gains	47,334	45,163*
	<u>48,409</u>	<u>46,238</u>
Realised gains/(losses)	-	-
Unrealised gains/(losses)	11,460	2,171
	<u>59,870</u>	<u>48,409</u>
Accumulated unrealised gains	58,795	47,334*
Less: Deferred tax	(12,171)	(10,840)*
Reserve	<u>46,624</u>	<u>36,495*</u>

*Restated

11 INTEREST RATE RISK IN THE BANKING BOOK

Interest Rate Risk in the Banking Book (IRRBB) arises from interest rate basis and duration mismatches between assets and liabilities.

RBCEL's IRRBB is governed by Royal Bank of Canada's interest rate risk policies which define the acceptable limits within which risks to Economic Value of Equity (EVE) and Net Interest Income (NII) over a 12-month time horizon are to be contained.

RBCEL's limit framework is maintained by Corporate Treasury which sets maximum NII and EVE sensitivity on a business segment level basis. Reporting of IRRBB against this limit framework is owned by Financial Control.

RBCEL's has limited tolerance for risks arising from Interest Rate Risk in the Banking Book (IRRBB). The majority of transactions are priced relative to short term interbank rates (resetting either monthly or quarterly). This can lead to some interest rate gaps in the very short end of the curve (1m v 3m) however RBCEL's IRRBB risk remains negligible.

12 LIQUIDITY RISK

12.1 DEFINITION OF LIQUIDITY RISK

Liquidity risk is the risk that the Company is unable to generate or obtain sufficient liquidity in a cost-effective manner to meet contractual and contingent commitments as they fall due. Liquidity management activities are designed to safeguard RBCEL against stresses, and to ensure the safety and soundness of the organisation.

Liquidity risk arises from mismatches in the timing and/or the value of on-balance sheet and off-balance sheet positions. Timing mismatches between the effective maturity of the Company's assets and liabilities, or unexpected draws from on and off-balance sheet commitments, create liquidity, or cash flow gaps. Differences in values of assets in comparison to repayment obligations can also create cash flow gaps. If the sources of cash (liquid assets / funding) are not available to meet these cash flow requirements, there is potential for a liquidity event to adversely impact the Company.

External or internal stress events have the potential to amplify liquidity mismatches and create adverse liquidity outcomes. For example, losses from credit, market, or operational risk events that negatively impact the Company's capital base can have an impact on the real or perceived credit quality of the Company, which can result in a loss of funding. Thus, liquidity risk is considered a "consequential" risk and must be managed in an integrated manner with credit, market, operational and other relevant risks.

12.2 GOVERNANCE AND FRAMEWORK

Ultimate responsibility for managing liquidity risk resides with the Company's Board. The Board is tasked with ensuring that an effective systems and controls framework is in place for business activity, risk management and capital and liquidity risk management.

The Board ensures that effective governance arrangement and control frameworks are in place for liquidity risk, enabling it to be adequately overseen, assessed and managed. The role of the Board for liquidity risk, alongside monitoring and oversight of the liquidity position of the Company, includes approval of:

- Liquidity Risk Policy and Framework;
- Risk Appetite Statement and Metrics;
- Recovery Plan; and
- The annual Internal Liquidity Adequacy Assessment Process (ILAAP).

Responsibility for the detailed management and oversight of liquidity risk is delegated to the RC and ALCO.

Within the Company, the risk tolerance statement is articulated through a series of limits, covering both internal and regulatory metrics. The Company's risk appetite takes direction from RBC (the parent) and includes additional aspects designed to capture locally specific risks. At the lowest level the Company employs desk limits to govern individual business, markets, products or transactions.

Key risks for the Company include a withdrawal of intragroup funding and an inability to monetise high quality liquid assets in the secured funding markets. These risks are mitigated somewhat by the regular review and extension of term intragroup funding arrangements and maintaining large GBP cash deposits at central bank.

Corporate Treasury is responsible for all liquidity reporting, including ensuring completeness and accuracy of data. The Company primarily uses RBC Group strategic platforms for liquidity risk measurement and monitoring.

Reports produced by the Corporate Treasury-Liquidity Measurement Team include, but are not limited to, LCR, NSFR, Asset Encumbrance, PRA 110, ALMM and several internally defined reports designed to complement the regulatory requirements.

On a monthly basis an overview of management information is presented to the ALCO, this is also presented to the RC on a quarterly basis.

12.3 RISK PROFILE

The Company is comfortable with the level of liquidity risk within the entity and RBC enterprise. Throughout the financial year the Company remained within both internal risk appetite and regulatory limits.

The Company has in place a robust governance model with individuals empowered to make decisions that benefit the organisation without creating unnecessary risk.

At all times The Company maintains sufficient levels of short and long term funding and holds substantial high quality securities that are diverse in nature, prudently valued and regularly turned over as part of its trading activities.

Minimum liquid asset buffer requirements are defined internally through use of the Net Cash Flow Metric, an internally-defined metric that estimates net liquidity surpluses (or gaps) over specific short time horizons (7, 30, 60 days) for on-balance sheet and off-balance sheet transactions.

The metric measures the amount of potential liquidity and funding risk being taken after liquidity sources such as liquid assets have been factored in.

12.4 INDIVIDUAL LIQUIDITY ADEQUACY ASSESSMENT PROCESS

The ILAAP is the Company's internal attestation of the management and measurement of liquidity risk within the organisation, under both stressed and business as usual conditions. The ILAAP is a comprehensive document covering all aspects of liquidity risk. It is prepared annually, and approved by the Board.

Conclusions drawn from the ILAAP contribute to the risk management framework within the organisation.

13 REMUNERATION

Remuneration disclosures are made in line with RBC Europe Limited's (the "Company's") application of the qualitative and quantitative remuneration disclosures requirement under the Pillar 3 framework and the requirements of Article 450 of the Capital Requirements Regulation ("CRR")⁴. For enhanced disclosure on RBC's enterprise-wide compensation practices, please refer to RBC's proxy circular (published on March 5, 2020ⁱ).

13.1 CONSTITUTION AND ACTIVITIES OF THE UK HRC

The Company has a Human Resources Committee (UK HRC) which is responsible for the application of the compensation principles, practices and processes within all of RBC's operations on the UK mainland, except in relation to RBC Global Asset Management Ltd and BlueBay Asset Management Ltd (which are managed separately and publish separate Pillar 3 reports). The UK HRC reviews and approves the compensation policies which support the business objectives determined by the Board of Directors of the Company (the "Board") and/or senior management and take into appropriate account sound risk management practices, including long-term and short-term risk.

Within the authority delegated by the Board, the UK HRC is responsible for approving compensation policy and, in doing so, takes into account the pay and benefits across our Company. This includes the terms of bonus plans, other incentive plans and the individual compensation packages of Executive Directors and Senior Managers, as well as oversight of compensation for other Material Risk Takers.

The UK HRC has a specific responsibility to ensure UK-applicable group-wide policies are compliant with UK Compensation regulations which apply to each respective UK group entity, including the Company.

Each of the members of the UK HRC is a Non-Executive Director, independent of day-to-day management as defined by the standards set out by the Board. No individual is involved in decisions relating to their own compensation.

List of Non-Executive Directors who are members of the UK HRC

Members (fiscal year)	Meeting Attendance
Nicola Mumford (Chair)	5 out of 5 meetings
Tim Wade	5 out of 5 meetings
Polly Williams	5 out of 5 meetings
David Buckley ⁵	3 out of 3 meetings
James Pettigrew ⁶	0 out of 0 meetings

During the year, the UK HRC received advice from the Company's Head of Human Resources, Head of Compliance, Chief Financial Officer and Chief Risk Officer, who provided advice on the implications of the compensation policy on risk and risk management, and on the adjustments that should be made to levels of variable compensation payable to staff, at both a pool and individual level, to take into account all relevant current and future risks.

In June 2020, the UK HRC completed its annual review of the Company's policies, standards and protocols relating to compensation.

⁴ Regulation (EU) No 575/2013

⁵ https://www.rbc.com/investor-relations/_assets-custom/pdf/2020englishproxy.pdf

⁵ David Buckley was appointed to the Board on 11 June 2020

⁶ James Pettigrew resigned as a Non-Executive Director on 31 December 2019 prior to any meetings of the UK HRC taking place

External Consultants

The UK HRC did not engage consultants independent of the Company's external advisers (Linklaters LLP).

Role of the Relevant Stakeholders

The UK HRC takes full account of the Company's strategic goals in applying its compensation policy and is mindful of its duties to shareholders and other stakeholders. The UK HRC seeks to preserve shareholder value by ensuring alignment of variable compensation payouts with risk and economic performance, as well as the successful retention, recruitment and motivation of employees.

13.2 CRITERIA FOR THE IDENTIFICATION OF MATERIAL RISK TAKERS

The following criteria were applied to identify Material Risk Takers for the purposes of CRD IV, in line with the Regulatory Technical Standards set out in Commission Delegated Regulation (EU) No 604/2014 (RTS):

Employees identified by qualitative criteria include but are not limited to:

Senior management including individuals registered with the UK regulators as holding a Senior Manager Function (SMF) such as heads of business areas

Senior control function management including risk, compliance and internal audit and heads of human resources, information technology, legal and tax

Staff who have authority either individually or as members of a Committee to approve or veto new products or decisions that result in market or credit risk exposures that exceed specified thresholds as provided for in the RTS

Employees identified by quantitative criteria:

- Employees awarded total compensation of €500,000 or more in the preceding financial year
- Employees within the top 0.3% of staff who have been awarded the highest total compensation in the preceding year
- Employees awarded compensation in the preceding financial year which was equal to or greater than the lowest total compensation awarded to those meeting specified qualitative criteria
- In accordance with the RTS, employees identified under the quantitative criteria were then assessed to determine if the professional activities of the employee had the potential to have a material impact on the risk profile of the Company. As required under the RTS, all regulatory notification and approval requirements on the outcomes of this assessment were completed in respect of 2020.

Additional RBC Material Risk Taker Identification Criteria:

- In addition to the criteria set out in the RTS, the Company has identified Material Risk Takers on the basis of its own criteria based on its assessment of risks beyond those specifically identified in the RTS, taking into account prudential, operational, market, credit, conduct and reputational risks

13.3 DESIGN AND STRUCTURE OF COMPENSATION FOR MATERIAL RISK TAKERS

Guided by our vision of being among the world's most trusted and successful financial institutions and our purpose of helping clients thrive and communities prosper, our approach to compensation, including executive compensation, is based on the five guiding principles set out below. The UK HRC continually evaluates the policies and procedures applicable to the Company with a view to upholding these principles:

1. Compensation action aligns with shareholder interests

- Awards vary based on absolute performance of RBC
- Mid and long terms incentives vest and pay out over time, encouraging a longer term view of increasing shareholder value

2. Compensation aligns with sound risk management principles

- Our risk management culture is reflected in our approach to compensation. Our compensation practices appropriately balance risk and reward, and align with shareholder interests
- Performance of individuals, lines of business and RBC overall is assessed on a number of measures, including adherence to risk management policies and guidelines.

3. Compensation rewards performance

- Our pay-for-performance approach rewards employees for their contributions to individual, business segment and enterprise results relative to objectives that support our business strategies for sustainable growth over short, medium and long-term horizons, which are aligned with the risk appetite of RBC.

4. Compensation enables the Company to attract, engage and retain talent

- Talented and motivated employees are essential to building a sustainable future for RBC. We offer compensation that is competitive within the markets where we operate and compete for talent.
- Compensation programs reward employees for high performance and their potential for future contribution.

5. Compensation rewards behaviours that align with RBC values and drive exceptional client experiences.

- RBC values, embedded in our Code of Conduct, form the foundation of our culture and underpin our ongoing commitment to put the needs of our clients first and deliver value to all of our stakeholders.
- Risk conduct and compliance with policies and procedures are considered in determining performance-based compensation

The Company's compensation policies and plans align with these principles and are approved by the UK HRC. The Company's remuneration policies apply in the same way to all the branches of RBC Europe Limited.

Elements of Compensation

The employee package is made up of fixed remuneration and benefits (reward for fulfilling the job requirements) and incentive compensation designed to incentivise employees to demonstrate achievement in terms of results and behaviours, to reward them for that achievement, and to encourage them to remain with RBC.

For more highly paid employees, a proportion of an employee's total remuneration is deferred over a minimum of 3 years with at least 50% reflecting the value of RBC shares over that period.

Incentive compensation awards may be adjusted downwards or clawed back in appropriate cases (e.g., in the case of a material failure of risk management).

Fixed Remuneration

All Material Risk Takers receive fixed remuneration, which is most commonly paid in the form of base salary, but which may include Role Based Pay meeting the conditions of the EBA Guidelines on Sound Remuneration Policies (EBA/GL/2015/22) for certain roles and which reflects the individual's market value, skills, qualifications, relevant experience, responsibility and contribution to the Company.

Fixed pay is typically only changed to reflect a change to the role or responsibilities of the recipient or market conditions.

Variable Remuneration

All Material Risk Takers, other than the Independent Non-Executive Directors and overseas Board Directors, are eligible to participate in discretionary performance-based incentive schemes in respect of their role with the Company.

Performance-based annual discretionary incentives may be awarded based on the performance of the Company, the business, and the individual as detailed below. Annual incentives may consist of a mix of cash and share-linked instruments. Annual incentives for Material Risk Takers in a risk taking role are subject to review by the Chief Risk Officer Europe to ensure they adequately reflect risk and performance, and are subject to review by the UK HRC.

As part of the year-end risk adjustment process, the CFO Europe reports to the UK HRC on UK-specific financial performance by reference to metrics including revenues, Net Income After Tax, entity profit, accounting profit, prudential valuation adjustment

and enterprise and business economic profit. If business platform or business unit economic profit is negative or trend year over year is misaligned to the UK bonus pool trend year-over-year, additional strategic, financial and risk related factors are also considered.

The amount of variable compensation to be awarded to employees is appropriately adjusted for risk in accordance with the Company's UK Compensation Risk and Performance Adjustment Process. Key considerations that are taken into account in the risk adjustment process include financial measures such as revenue, Net Income After Tax, Economic Profit and regulatory capital and non-financial risk factors such as conduct and credit, market and operational risk exposure against risk appetite. Upon completion of the review, adjustments for risk may be recommended for consideration in the approval of final variable compensation.

In October 2014 RBC Europe Limited obtained unanimous approval from its sole shareholder to operate a maximum ratio between the fixed and variable components of remuneration of 200% of the fixed component of the total remuneration for each individual as required under the UK remuneration rules and Article 91(1)(g) of CRD IV. At its meeting in June 2020, UK HRC resolved not to recommend a change to that ratio to the shareholder.

All compensation plans contain minimum compensation deferral requirements for Material Risk Takers in line with the UK remuneration rules and applicable European guidelines, as well as compensation risk and performance adjustment processes. Deferral requirements vary by plan and arrangements are typically based on the size of bonus, type of compensation plan and the individual's role. Deferral requirements are summarised in the Table below

MRT deferral requirements

All MRTs regardless of bonus plan	Minimum 40% deferral (60% deferral if total variable compensation is £500,000 or more)
RBC Capital Markets Compensation Plan	The Plan contains a grid of deferral requirements starting at 30% when the bonus exceeds £75,000 and rising to 65% if the bonus is £3mm or more.
RBC Investor and Treasury Services Incentive Programme	The Programme contains a grid of deferral requirements starting at 25% when the bonus is £50,000 and rising to 55% if the bonus is £1.5mm or more.
RBC Discretionary Plans	These Plans award short-term incentives (STI) and mid-term incentives (MTI) which are equity-linked. The ratio of STI and MTI varies from individual to individual and is typically based on position level.
RBC Wealth Management Incentive Compensation Plan (British Isles)	For Executives and Senior Leaders, the Plan contains a grid of deferral requirements starting at 25% (for Position Level 5) to 50% (for the EVP level).

At least 50% of variable compensation is delivered in equity-linked awards which are subject to an appropriate post-vesting retention period of at least 12 months, in line with the EBA Guidelines on Sound Remuneration Policies (save in circumstances where the deferral period exceeds 5 years, where, in accordance with the EBA Guidelines, a retention period of no less than 6 months for the deferred part is permitted for employees who do not form part of the senior management).

Depending on the compensation plan, deferred compensation will vest as follows, in line with UK remuneration rules:

MRT deferred compensation vesting schedule

	<i>Year 3</i>	<i>Year 4</i>	<i>Year 5</i>	<i>Year 6</i>	<i>Year 7</i>
MRTs who perform a PRA Senior Manager Function	20%	20%	20%	20%	20%

	<i>Year 1</i>	<i>Year 2</i>	<i>Year 3</i>	<i>Year 4</i>	<i>Year 5</i>
MRTs who meet the criteria of Risk Managers	20%	20%	20%	20%	20%
Other MRTs – Capital Markets or Investor & Treasury Services	25%	25%	50%	-	-
Other MRTs – other Business Platforms	-	-	100%	-	-

Variable compensation for RBC Europe Limited is awarded through the following plans which each provide an annual cash bonus and a deferred component if the Company's deferral requirements are met or deferral is otherwise required (e.g. for a Material Risk Taker):

- RBC Capital Markets Compensation Plan
- RBC Investor and Treasury Services Incentive Programme
- RBC Discretionary Plans
- RBC Wealth Management Incentive Compensation Plan (British Isles)
- RBC Wealth Management UK Sales & Relationship Management Compensation Plan

Shareholding Requirement

RBC operates a Share Ownership Requirement which requires Managing Directors in Capital Markets to hold at least 1.5 times their 3-year average base salary in Royal Bank Common Shares.

Remuneration of Control Functions

RBC's enterprise Policy on Compensation Risk Management states that performance measures for senior employees responsible for financial and risk control activities will be based on the achievements and objectives of the functions, and their compensation will be determined independently from the performance of the specific business areas they support, therefore avoiding any potential conflicts of interest. Employees who fall under this arrangement include senior employees in Compliance, CFO Group, Group Risk Management, Internal Audit and Human Resources. Global Function Heads and/or the Function Operating Committee Members will continue to review and approve the individual performance of these employees against established objectives, which are independent of the performance of the business areas that they oversee. Remuneration for employees engaged in control functions is reviewed regularly for market alignment to ensure that remuneration levels are competitive.

13.4 DESIGN THE LINK BETWEEN PAY AND PERFORMANCE FOR MATERIAL RISK TAKERS

Variable compensation plans reward employees on the basis of a number of factors, including individual, business and enterprise results relative to established performance objectives that are aligned with the risk appetite of RBC. A significant portion of performance-based pay is deferred in the form of equity incentive awards (linked to RBC's share price) in order to align compensation with the risk time horizon and motivate employees to generate longer-term value for shareholders and remain accountable for decisions with long tail risk. To create a clear relationship between pay and performance, employees have an opportunity to earn higher compensation for outstanding performance, and conversely, earn less compensation when RBC, a business segment and/or individual performance falls below expectations.

Incentive awards take into account firm-wide, business unit and individual financial and non-financial factors. Financial factors include the performance of RBC, its global business segments and regional operating subsidiaries. Individual performance is assessed based on the employee's contribution to the overall performance of their business or function, the achievement of individual performance objectives and performance against the Company's Leadership Model and Code of Conduct. Where appropriate (e.g., where firm-wide or entity performance is weak or in a net loss position or in the case of a significant failure of risk management) bonus pools may be reduced to zero. When determining the size of the bonus pool, financial measures such as revenues, Net Income After Tax, the compensation ratio (total compensation as a percentage of revenues), regulatory and economic capital, and economic profit are considered depending on the plan and business area.

Non-financial measures considered in the discretionary bonus evaluation process include the following:

- Adherence to our Code of Conduct. RBC's Code of Conduct (Code) promotes standards of ethical behaviour that applies to all employees globally. Our Code fosters an open environment in which questions and concerns may be brought forward. It creates a frame of reference for dealing with sensitive and complex issues, and provides for accountability if standards of conduct are not upheld. All employees are expected to adhere to our Code, and failure to do so through unethical or non-compliant behaviours may result in a disciplinary sanction up to and including immediate termination of employment. All employees receive Code of Conduct training and testing on joining RBC and every year thereafter
- Compliance with a full range of risk management policies specific to individual job requirements as outlined in employee Performance Management Documents
- Assessment of key behaviours, which are part of the RBC Global Performance Management process, and typically include the obligation to:
 - Abide by the letter and spirit of rules and procedures established by regulators
 - Follow all relevant internal policies and procedures including, but not limited to, trading and position limits and standing orders
 - At all times, act in the best interests of RBC and its clients
 - Escalate, on a timely basis, any areas of material concern related to any of the above
 - Lead by example so that direct reports adopt similar high standards
- Reports from control functions, including those from Internal Audit, Compliance (regulatory gaps, trades beyond excess limits), and Group Risk Management regarding operational, market and credit risks, among others
- Assessment of accountabilities and detailed action plans to implement and monitor changes required to close the gaps identified during risk management or internal audit reviews

Employees who are not meeting non-financial performance standards for their role are subject to a corrective action process, which can include either a significant reduction in bonus amounts or termination of employment.

Furthermore, prior to vesting, Material Risk Takers' deferred compensation is subject to review under the Company's risk and performance adjustment process whereby actual risk and performance outcomes are reviewed and if materially different from assessments made when deferred compensation was granted, or if misconduct has occurred, then deferred compensation may be reduced or forfeited in full.

All bonus awards made to Material Risk Takers under the Company's variable compensation schemes are subject to forfeiture and clawback under the RBC Forfeiture and Clawback Policy for Code Material Risk Takers. A reduction may be applied, in summary, in cases of misconduct, a material failure of risk management or if there is a material downturn in financial performance. Since January 2015, all variable compensation awards made to Material Risk Takers are subject to clawback for a seven year period from the date of award as required under UK remuneration rules. This can be extended to ten years in relation to

PRA-designated Senior Management Functions where there is an outstanding internal or external investigation at the end of the seven year period which could result in the application of clawback. Clawback can be applied in cases of misconduct or a material failure of risk management.

Guaranteed variable remuneration is only awarded in exceptional circumstances, such as senior control functions roles, business critical roles and strategic hires and then only for the first 12 months of employment.

The Company provides severance payments to fulfil its statutory obligations and to support the transition of employees away from their employment with RBC, in circumstances where there is an early termination of their employment.

13.5 DISCLOSURES ON REMUNERATION

During the year ended 31st October 2020, remuneration for staff employed by or seconded to the Company whose professional activities have a material impact on the risk profile of the business was as follows:

Table 39: Aggregate remuneration awarded during the financial year

£'000,000

Remuneration Amount		Management Body		Senior Management	Investment Banking	Independent Control Functions	Corporate Functions	All Other Business Areas
		Managerial Function	Supervisory Function					
Fixed remuneration	Number of employees	3	8	25	92	13	8	1
	Total fixed remuneration	1.50	0.58	9.32	28.46	1.98	1.57	0.18
	Of which: cash-based	1.50	0.58	9.32	28.46	1.98	1.57	0.18
	Of which: deferred	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	Of which: shares or other share-linked instruments	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	Of which: deferred	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	Of which: other forms	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	Of which: deferred	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Variable remuneration	Number of employees	3	0	23	82	13	7	1
	Total variable remuneration	1.75	0.00	11.64	24.79	1.24	1.09	0.09
	Of which: cash-based	0.44	0.00	2.99	9.75	0.74	0.53	0.07
	Of which: deferred	0.09	0.00	0.55	2.36	0.20	0.20	0.00
	Of which: shares or other share-linked instruments	1.31	0.00	8.65	15.03	0.51	0.56	0.02
	Of which: deferred	0.96	0.00	6.37	8.99	0.20	0.23	0.02
	Of which: other forms	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	Of which: deferred	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total remuneration		3.24	0.58	20.96	53.25	3.22	2.66	0.26

Table 40: Deferred Remuneration

£'000,000

Deferred and retained remuneration	Total amount of outstanding deferred remuneration			Of which: Total amount of outstanding deferred and retained remuneration exposed to ex post explicit and/or implicit adjustment	Total amount of amendment during the year due to ex post explicit adjustments	Total amount of deferred remuneration paid out in the financial year
	vested	unvested	Total			
Management Body	0.66	4.11	4.78	4.78	0.00	0.96
Cash	0.00	0.17	0.17	0.17	0.00	0.05
Shares	0.66	3.95	4.61	4.61	0.00	0.91
Cash-linked instruments	0.00	0.00	0.00	0.00	0.00	0.00
Other	0.00	0.00	0.00	0.00	0.00	0.00
Investment Banking	10.45	51.60	62.05	62.05	0.00	20.92
Cash	0.91	5.14	6.05	6.05	0.00	2.04
Shares	9.54	46.46	56.00	56.00	0.00	18.88
Cash-linked instruments	0.00	0.00	0.00	0.00	0.00	0.00
Other	0.00	0.00	0.00	0.00	0.00	0.00
Independent Control Functions	0.04	2.90	2.94	2.94	0.00	1.45
Cash	0.00	0.77	0.77	0.77	0.00	0.23
Shares	0.04	2.13	2.17	2.17	0.00	1.23
Cash-linked instruments	0.00	0.00	0.00	0.00	0.00	0.00
Other	0.00	0.00	0.00	0.00	0.00	0.00
Corporate Functions	0.03	2.99	3.02	3.02	0.00	1.81
Cash	0.00	0.61	0.61	0.61	0.00	0.23
Shares	0.03	2.39	2.41	2.41	0.00	1.59
Cash-linked instruments	0.00	0.00	0.00	0.00	0.00	0.00
Other	0.00	0.00	0.00	0.00	0.00	0.00
All Other Business Areas	0.04	1.40	1.44	1.44	0.00	0.71
Cash	0.00	0.43	0.43	0.43	0.00	0.17
Shares	0.04	0.97	1.01	1.01	0.00	0.54
Cash-linked instruments	0.00	0.00	0.00	0.00	0.00	0.00
Other	0.00	0.00	0.00	0.00	0.00	0.00
Total	11.22	63.02	74.23	74.23	0.00	25.86

Table 41: Special Payments

£'000,000

Special payments	Guaranteed bonuses		Sign-on awards		Severance payments	
	Number of employees	Total amount	Number of employees	Total amount	Number of employees	Total amount
Management Body	0	0.00	0	0.00	0	0.00
Investment Banking	1	0.21	0	0.03	0	0.00
Independent Control Functions	0	0.00	0	0.00	0	0.00
Corporate Functions	0	0.00	0	0.00	0	0.00
All Other Business Areas	0	0.00	0	0.00	1	0.15

Table 42: MRTs with Total Remuneration above One Million Euros

	Total Compensation Band (EUR)	Number of individuals
EUR 1-1.5M	1,000,000 < 1,500,000	6
EUR 1.5-2M	1,500,000 < 2,000,000	8
EUR 2-2.5M	2,000,000 < 2,500,000	2
EUR 2.5 +	2,500,000 +	4

14 APPENDICES

14.1 APPENDIX 1: BOARD MEMBERSHIP Current Independent Non-Executive Directors

Director	Role	Biography	Number of Directorships (excluding RBCEL)
David Buckley (Residency: UK)	Appointed 11 June 2020 Chair of RBCEL Board Member of Audit, Risk, Human Resources and Nomination Committees	David Buckley is the current RBCEL Board Chair and a member of the Board Committees. He has worked in the financial services sector for 30 years with extensive experience both as a senior executive across a number of financial institutions as well as a range of non-executive director positions. Mr. Buckley's non-executive experience includes roles at CIBC World Markets plc and Redwood Bank (non-executive Chair). Mr Buckley's executive career included senior management roles at Goldman Sachs International where he was the International Head of the Global Banking Group, London and Morgan Stanley International where he was International Treasurer and CEO of Morgan Stanley Bank International.	4
Nicola Mumford (Residency: UK)	Chair of UK Human Resources Committee and Nomination Committee Member of Audit Committee and Risk Committee	Ms Mumford is a qualified solicitor who spent her executive career within private practice where she became the Senior Director and Managing Partner of the London Office of an international law firm. Her role as a Senior Litigation Partner in the Dispute Resolution Group including advising high profile entities including financial services organisations. As a non-executive, Ms Mumford has particular expertise in talent management and remuneration enabling her to assist RBC as Chair of the Human Resources Committee of RBC Europe Limited.	0
Polly Williams (Residency: UK)	Chair of Risk Committee. Member of Audit, UK Human Resources Committee and Nomination Committee	Ms Williams is a chartered accountant and her executive career included becoming a partner of one of the "Big Four" consultancy practices in the financial sector practice. Following her executive career, Ms Williams has held a number of non-executive directorships in and out of the financial service industry including at both publicly listed and private organisations. She has accountancy and industry experience and particular expertise in chairing of Audit and Risk Committees.	5
Tim Wade (Residency: UK)	Chair of Audit Committee Member of Risk, Human Resources and Nomination Committees	Mr Wade is a chartered account. He has had a successful executive career in the financial services industry including as a partner at a large international consultancy practice and CEO and CFO roles in house at financial institutions. As a non-executive director Mr Wade has held a number of directorships at large publicly listed and private organisations within insurance and banking. He has particular expertise in chairing Audit and Risk Committees.	2

Current Shareholder Representative Non-Executive Directors

Director	Role	Biography	Number of Directorships (excluding RBCEL)
Troy Maxwell (Residency: Canada)	Chief Operating Officer of RBC Capital Markets	<p>Troy Maxwell is Chief Operating Officer of RBC Capital Markets with global responsibility for all operational and administrative matters of the firm, including optimising cost base management and financial resources, and leading the response to regulatory change. Previously, he was Executive Vice President of Finance and Chief Financial Officer of RBC Capital Markets and Technology & Operations, where he oversaw all finance services to RBC's wholesale business and technology and operations platform.</p> <p>Prior to joining RBC, Troy was Chief Financial Officer of CIBC World Markets and a partner at PricewaterhouseCoopers LLP, where he led the financial institutions and corporate treasury risk management consulting and advisory business.</p> <p>Troy is a Chartered Professional Accountant, and holds an Honours BA and a Master's Degree in Accounting from the University of Waterloo.</p>	2
Nadine Ahn (Residency: Canada)	Chief Financial Officer, RBC Capital Markets	<p>Nadine Ahn is currently Senior Vice-President, CFO Capital Markets, RBC. She has global accountability for financial governance, control, valuations and performance management for Investor & Treasury Services and Capital Markets, and is a member of Operating Committees for both businesses. She is also a member of the CAO & CFO Operating Committee and is based in Toronto, Canada.</p>	3
Graeme Hepworth (Residency: Canada)	Appointed: 30 July 2020 Chief Risk Officer, RBC	<p>Graeme Hepworth is the Chief Risk Officer for RBC and a member of the Group Executive. In his role he is responsible for setting the strategic direction for risk management, consistent with RBC's strategic vision and risk appetite. Together with the members of RBC Group Executive, he is accountable for overall management of RBC, the promotion of strong risk conduct, prudent enterprise risk management practices, and creating an organization capable of sustainable value creation for its shareholders. Prior to this role, he has held a number of risk management roles within RBC in Canada, the US and UK.</p> <p>Graeme Hepworth earned a Bachelor of Arts in Mathematics and Economics from McGill University in Montreal, Quebec, Canada and subsequently completed his Masters of Mathematics from the University of Waterloo at Waterloo, Ontario, Canada. He is also a CFA charter holder.</p>	1

Executive Directors

Director	Role	Biography	Number of Directorships (excluding RBCEL)
David Thomas (Residency: UK)	CEO, RBC Europe Limited	<p>Mr Thomas is the CEO of RBC Europe Limited, responsible for leading all aspects of the business in the region, including strategy execution and effective governance. He is a member of the RBC Capital Markets Global Operating Committee and chairs the European Operating Committee and European Executive Committee.</p> <p>Since joining RBC, Mr Thomas has held a number of both global and regional mandates in Technology, Operations, Risk Management and Compliance. He is a member of the Corporate Partnerships Board for Great Ormond Street Hospital.</p>	2

Peter Dixon (Residency: UK)	Chief Financial Officer, Europe	Mr Dixon is the CFO, Europe and is based in London. Prior to joining RBC, Mr Dixon held a number of senior finance roles within other international investment banking organisations and has experience of working in other jurisdictions including the US, Canada and Ireland. Mr Dixon is a qualified chartered accountant. Based in London, Mr Dixon is a member of the European Operating Committee. He is also a member of the Board of RBC Europe Limited.	2
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Directors Resigned during 2019/2020 Fiscal Year

Director	Role	Biography	Number of Directorships (excluding RBCEL)
Jim Pettigrew (Residency: UK)	Resigned 31/12/19 Previously Chairman (since 16 March 2017) previously also Chair of Audit Committee and Risk Committee Member of Nomination Committee, Audit Committee, Risk Committee and UK Human Resources Committee	Mr Pettigrew retired as a director of RBC Europe Limited in December 2019. He has over 30 years of experience as a chartered accountant, with extensive experience in a listed environment at Board and Executive management level, including as CEO and Chairman within financial services. Mr Pettigrew's executive career including CFO and CEO roles at UK listed companies. His non-executive career includes Board Chair, Audit, Risk and Remuneration Committee Chair experience at a wide variety of institutions including both private and public financial service organisations. Mr Pettigrew has also served on governmental advisory bodies providing financial services industry expertise.	-
Bruce MacLaren (Residency: UK)	Resigned: 30 June 2020 Chief Risk Officer, Europe & APAC	Mr MacLaren was the Chief Risk Officer UK, Europe & APAC, with responsibility for providing independent oversight of risk for all RBC businesses across the UK, Europe and APAC regions. He set the strategic direction of risk management and provides leadership in the implementation and execution of leading practices in risk oversight and governance for Europe and its key legal and regulatory entities. Mr MacLaren was a member of the European Operating Committee and the Board of RBC Europe Limited.	-

