RBC EUROPE LIMITED

PILLAR 3 DISCLOSURE

FOR THE YEAR ENDED 31 OCTOBER 2014

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1.0 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 20 largest banks globally based on market capitalisation. RBC has amongst the highest credit ratings for financial institutions (Moody's Aa3 and Standard & Poor's AA-) and continues to be well capitalised with a Tier 1 Capital Ratio of 11.4% as at 31 October 2014.

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 around the world. The Company works with its clients to help raise capital, access markets, mitigate risk and acquire or divest assets. The vast majority of business is focused on Fixed Income and other securities-related businesses.

The Company obtained the Standard & Poor's rating first time in October 2014. The Company's long- and short-term counterparty credit rating assigned by Standard and Poor are AA-/A-1+ as at 31 October 2014.

As at 31 October 2014, the Company does not have any subsidiaries or any investment in associates.

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 the financial and economic stress, thus reducing the risk of spillover from the financial sector to the real economy.

The EU implemented the Basel III framework through the new Capital Requirements Directive and Regulation (CRD IV package). Further UK implementation is by way of the PRA's Policy Statement PS7/13, effective from 1 January 2014.

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 pillar requires the PRA to undertake a supervisory review to assess the robustness of the regulated entity's internal assessment (risk management and supervision).
- Pillar 3 complements the other pillars and affects market discipline through public disclosure. Expanded disclosure about capital and risk enables interested parties to better understand the risk profile of individual banks and companies 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 are 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 2014, 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 annually 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 relevant market and business conditions.

1.3 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/rbcel-index.html.

1.4 Risk Governance

The Company has a clear 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 fundamental relationships between the Company's Board of Directors (the Board), Management, RBC Group and other stakeholders. It defines the framework in which ethical 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 2014, all measures were within the Company's Board limits and tolerances.

1.5 Regulatory Capital Management

As at 31 October 2014, the Company continued to be well capitalised with a Common Equity Tier 1 and Tier 1 capital ratio of 17.2%. The total capital surplus was £714 million over the minimum capital requirement[1]. This is in line with the risk tolerance set by the Company's Board. The table below illustrates the distribution of the Company's risk profile.

Table 1: Distribution of Risk-weighted amount

As at 31 October 2014	**Risk-weighted Exposure**
£'000	
Risk-weighted exposure amounts for credit and counterparty credit	
Banking book credit risk	1,527,678
Counterparty credit risk	796,309
Risk exposure amount for contributions to the default fund of a CCP	5,211
	2,329,198
Risk-weighted exposure amount settlement/delivery risk in the Trading book	**7,054**
Risk-weighted exposure amount for position, foreign exchange and commodities risks	
Interest rate	1,747,202
Equity	713
Foreign exchange risk	25,376
Commodities	515,784
	2,289,075
Risk-weighted exposure amount for operational risk	**416,829**
Risk-weighted exposure amount for credit valuation adjustment	**62,763**
Total	**5,104,918**

[1] CET 1 ratio and total capital surplus are calculated in accordance with the transitional provisions.

2.0 Risk Governance

2.1 Accountability Structure

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

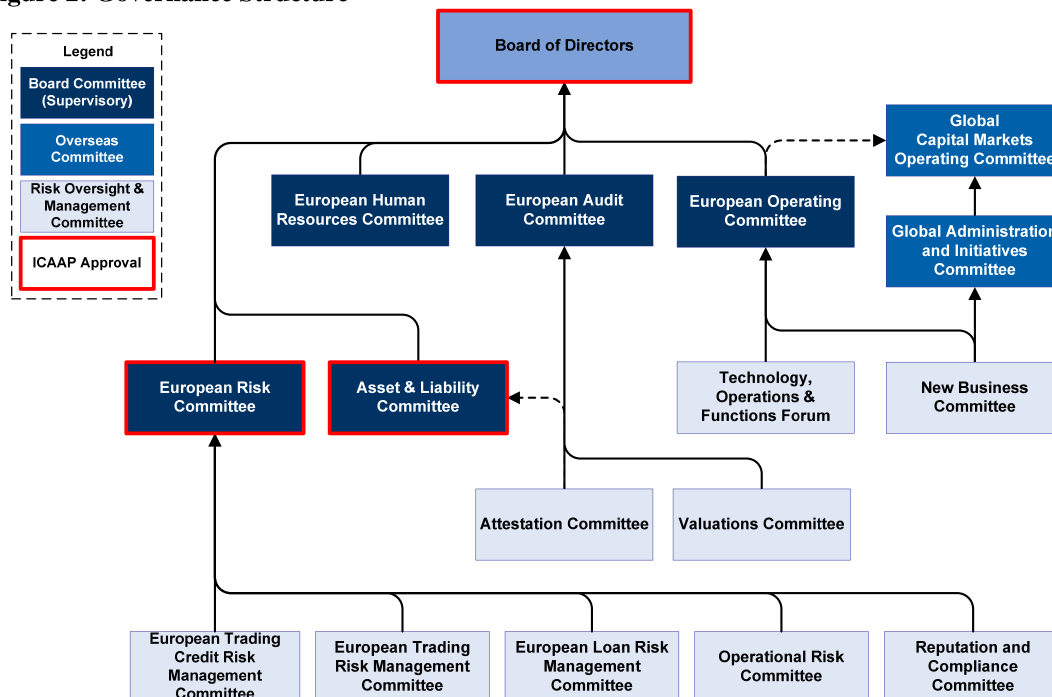
The strength of the Company's governance starts at the top with an independent Chairman and experienced Executive and Non-Executive Directors, who give priority to strategic planning and risk oversight, ensure that standards exist to promote appropriate behaviour throughout the organisation and drive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

The Board is ultimately responsible for the supervision 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, responsibilities, as well as how each committee sits within the Company's 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 Company.

Figure 2 below depicts the current the Company's management committee structure:

Figure 2: Governance Structure



2.1.1 Board of Directors

Under the Board Mandate (which sets out the role, duties, collective responsibilities and operation of the Board), the Directors are responsible for the overall stewardship of the Company. The Directors are fundamentally responsible for decision making and the oversight of the Company's management and are required to act in the way they consider, in good faith, would be most likely to promote the success

of the Company for the benefit of its members as a whole, by applying skill, judgement and expertise to issues while complying with legal processes of corporate governance.

The Board and Board Committees monitor and assess effectiveness of controls against changing regulatory expectations. Through its governance structures and controls, the Board has a line-of-sight on key risks and operational controls across the firm.

The Board is responsible for setting the strategic risk direction and risk appetite for the Company. 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;
- Ensuring that an effective systems and controls framework is in place for business, risk and capital management;
- Reviewing and approving the recovery strategies outlined in the RBC UK Recovery Plan applicable to the Company;
- Ensuring that the financial objectives are aligned with risk appetite and objectives; and
- Monitoring and assessing the effectiveness of controls against changing regulatory expectations.

As at 31 October 2014, the Board consists of two Independent Non-Executive Directors (INEDs), including the Chairman, two Non-Executive Director (NEDs) representing the shareholder (RBC), and four Executive Directors.

Recruitment Policy for Board Members

Appointments to the Board of the Company follow a formal procedure. As the Company is a wholly owned subsidiary within the RBC Group and not a listed public company, proposals for appointments to the Board, following consultation with the Chairman, are made to the RBC Subsidiary Governance Office, in accordance with the relevant procedures set out in the RBC Group policy pertaining to the governance of subsidiary companies (SGO Policy). As part of the selection process prior to proposals being considered by the Board, individuals are interviewed by Directors of the Company and representatives of the RBC Group. In accordance with the SGO Policy, all proposals submitted to the Board consider the collective competence of the Board to ensure that there is sufficient experience and technical expertise and a balance of executives and non-executives to ensure that the Board and its Committees are, at all times, adequately staffed and compliant with applicable legal and/or regulatory requirements and will take account of the Company's diversity policy.

Proposals to the Board also reflect if the individual:

- Is competent to fill and is fit and proper to carry out that role;
- Possesses sufficient knowledge, skills and experience to perform the duties of a Director;
- Is willing and able to commit sufficient time to discharge his or her responsibilities to the Company.

As part of the formal Director appointment process, the Company undertakes a number of additional checks, which include, but are not necessarily limited to: criminal records searches; FCA/PRA Register searches; an electoral register check; a financial probity check; a UK directorship check; and a sanction list check. The overall competence of the individual is also validated by educational qualification checks, verification of professional body memberships and relevant employment references.

Aligned with RBC's core values, including "Diversity for growth and innovation", the Board recognizes the benefits of promoting diversity, both within the Company and at Board level. Diverse perspectives linked in common purpose contribute to innovation and growth for RBC. In assessing candidates and selecting nominees for the Board, diversity is an important factor and external search firms working on the Company's behalf are mandated to put forward a diverse range of candidates.

The relevant background and professional experience of the Directors of the Board are provided in Appendix 1.

2.1.2 European Chief Risk Officer

Decision-making relating to management of risk is delegated by the Board to the European Chief Risk Officer (CRO). The CRO then delegates risk decision-making to specific individuals, such as the Heads of Risk Management functions in consultation with supporting committees as appropriate.

The CRO, supported by the Heads of Risk, is responsible for:

- Developing and embedding a company-wide Risk Framework for approval by the European Risk Committee (ERC);
- Recommending the Company's Risk Appetite Framework to the ERC for subsequent approval by the Board;
- Ensuring that risks falling outside of the approved Risk Appetite are identified and escalated to Business Heads, Senior Management, ERC, and the Board; and
- Ensuring that the risks generated by the businesses are measured, monitored, controlled and reported on an on-going basis.

2.1.3 European Risk Committee

The European Risk Committee (ERC) reviews risk issues, gives advice and makes recommendations to the Board or other parties as appropriate as well as making decisions on risk issues within its sphere of responsibility.

ERC holds the primary responsibilities for:

- Developing a risk appetite for the Company and recommend it to the Board;
- Implementing an effective risk management framework including directing and approving risk policies;
- Monitoring all material risk exposures, review and approve any risk exceptions and ensure that any breaches of risk appetite are remediated and/or escalated;
- Reviewing and challenging the findings from the annual the Company Internal Capital Adequacy Assessment Process and Internal Liquidity Adequacy Assessment processes and recommend these to the Board for approval;
- Reviewing, challenging and recommending for approval to the Board the recovery strategies outlined in the RBC UK Recovery Plan; and
- Reviewing emerging risks and changes in legal, regulatory and accounting requirements and their implications on risk management within the Company .

The ERC is chaired by an INED to ensure independence and robustness of review and challenge. It met five times during the financial year ending 31 October 2014.

2.1.4 European Asset and Liability Committee

The European Assets and Liabilities Committee (ALCO) is responsible for all matters relating to the Company's financial resources including the management of balance sheet, capital position, funding and liquidity, and structural banking book interest rate risk. Specifically, ALCO's responsibilities in relation to these matters include:

- Approval of limits, controls and policies;
- Review of the current and projected positions relative to agreed limits and any regulatory constraints;
- Oversight of the preparation and production of the annual Internal Capital Adequacy Assessment Process and Internal Liquidity Adequacy Assessment documents for the Company; and
- Ensuring business and operational strategies are consistent with appetite, in the context of balance sheet and funding.

ALCO is comprised of senior management from the business, Risk, Finance, and Corporate Treasury functions.

2.1.5 European Audit Committee

The European Audit Committee (EAC) is responsible for providing independent assurance to management and the Board of Directors on the effectiveness of risk management practices. EAC is responsible for:

- Monitoring the integrity of the Company's financial statements and reviewing and, where appropriate, making recommendations to the Board on business risks, internal controls and compliance; and
- The performance of the internal audit function and making recommendations to the Board on the appointment and performance of external auditors.

EAC is chaired by an INED and includes four additional NEDs and INEDs.

2.1.6 European Operating Committee

The European Operating Committee (EOC) is a Board committee established to provide oversight of business strategies and performance as well as the determination of new business initiatives and local human resourcing policies. It also facilitates cross-business and cross-functional discussion around key decisions and material developments in the Company.

The EOC is chaired by the CEO.

2.1.7 European Human Resources Committee

The European Human Resources Committee (EHRC) is responsible for ensuring that the Company's compensation programs align with prudent risk management principles, regulatory guidance and sound compensation practices. The Company has an established process in place to assist the EHRC in the determination of whether any performance adjustments to compensation are required.

The EHRC is chaired by an INED.

2.1.8 European Trading Credit Risk Management Committee

The European Trading Credit Risk Management Committee (ETCRMC) is a management committee responsible for actively managing the Trading Credit Risk of RBC Capital Markets UK. Responsibilities include:

- Review the status of the trading credit risk portfolio, which comprises trading inventory, debt- and equity underwritings, counterparty credit risk, mainly arising from securities financing and OTC derivatives, and exposure to clearing houses;
- Consider credit risk exposures booked in the Company and RBC London Branch;
- Review the limit policy and the relevant limit exceptions;
- Consider all trading credit risk situations with significant risk impact;
- Serve as a forum for communication of compliance issues and initiatives related to trading credit risk activities;
- Maintain and review a Watch List of trading credit risk exposures it deems to represent high risk; and
- Review the relevant credit risk policies (with positive advice and counsel from RBC Group as appropriate).

2.1.9 European Trading Risk Management Committee

The European Trading Risk Management Committee (ETRMC) is a management committee established to review market risk and trading credit risks. Responsibilities include:

- Review all trading business situations with significant risk impact as well as the impact of the evolving risk environment on trading strategies and exposures;

- Review business performance, Value-at-Risk, Stress Risk and other key risk metrics; and
- Review all operational limits and excesses to operational, tactical and trading credit limits.

2.1.10 European Loan Risk Management Committee

The European Loan Risk Management Committee (ELRMC) is a management committee established to review all new and increased loan transactions, taking into account the advice and counsel of Group Risk Management. Main responsibilities include:

- Reviewing all lending situations with a significant risk impact as well as the impact of the evolving risk environment on lending strategies and exposures;
- Review emerging credit risk issues and activities, assess operational risk events arising from financing activities and make recommendations to avoid future similar operational risk events.
- Review the Watch list of loan facilities, consider the recoverability of exposure and review and recommend the level of general and specific provisions.
- Act as a forum for compliance issues related to lending activities and ensure that all outstanding or pending legal, regulatory and audit issues are addressed properly and in a timely fashion; and
- Annual review of all credits over £25m.

2.1.11 Operational Risk Committee

The Operational Risk Committee (ORC) is responsible for actively managing the operational risk of the Company and RBC London Branch (together "RBC UK"), in the Capital Markets and Investor & Treasury Services and Wealth Management International businesses undertaken in the UK. ORC is also responsible for regulatory operational risk requirements from both the FCA and PRA. The ORC holds meetings with all key desks and relevant functions to capture and review detailed operational issues and risks, business line operational risk appetite and associated actions. Its key responsibilities include:

- Ensure that operational risks arising from RBC UK business activities are effectively identified and managed consistent with the Operational Risk Framework;
- Review and challenge business led presentations on their perceived operational risk profile based on appropriate data and key risk indicators;
- Review and challenge business and function led presentations on future initiatives impacting their perceived operational risk profile versus the operational risk appetite;
- Review adequacy of supervisory arrangements and demonstration thereof;
- Review operational risk relevant compliance data;
- Consider relevant operational risk regulations and changes thereto;
- Approve and recommend operational Risk policies and procedures;
- Consider impact of PRA expectations and operational risk developments on RBC UK; and
- Review future risks and issues that require managing now and escalate where appropriate.

2.1.12 Reputation and Compliance Committee

The Reputation and Compliance Committee (RACC) is responsible for managing conflicts of interest and key compliance and reputational issues across RBC Capital Markets Europe (RBCCM) and Wealth Management UK (RBCWM) activities in the European region, to the extent that RBCWM activities are conducted through the Company. Main responsibilities of the Committee include:

- Provide strategic advice on the management information it will require to evaluate the level of reputational conflict of interest risk;
- Review the matters addressed by the RBCCM and RBCWM RACC sub-Committees;
- Receive information and consider matters raised in relation to the key compliance matters including those referred to above;
- Consider specific alerts/themes arising from the trade surveillance and desk monitoring performed by Compliance;

- Review reports on the adherence to the local gifts and entertainment policies, outside business interests and personal account dealing policy;
- Provide guidelines to the business, through formally adopting policies in relation to conflicts of interest and other key compliance matters;
- Evaluate and manage issues in current and future business initiatives and arrangements to minimise the risks presented by conflicts of interest, and other key compliance issues;
- Seek advice/counsel from RROC in relation to issues that potentially expose the firm to significant reputational, legal and regulatory risk;
- Instigate reviews where required, either by internal or external personnel, to monitor that the systems and controls in place to identify and manage conflicts of interest and other key compliance issues remain appropriate, continue to be adhered to and are working effectively; and
- Take measures to ensure that the culture of the firm, in itself, acts as a key mitigating tool for the proper management of conflicts of interest and other compliance issues, including, where relevant, the provision of appropriate training to all levels of staff.

2.1.13 Attestation Committee

The Attestation Committee (AC) is a management committee established to review the monthly general ledger attestation process. Key responsibilities include:

- Review the results of the monthly attestation process and issues arising;
- Review the results of the monthly standards of documentation process;
- Approve local policies and procedures in relation to the general ledger attestation process;
- Present monthly reports and escalate unresolved issues to the EAC for review and direction; and
- Review all Operational Risk Events and assess potential impacts to the Global Attestation process.

2.1.14 Valuations Committee

The Valuation Committee (VC) is responsible for review and approval of all valuation methodologies, valuation adjustments, independent price verification methodologies and valuation controls applicable to RBC Europe. Responsibilities include:

- Acting in conjunction with internal and external auditors as well as regulators to ensure consistency of application, comprehensiveness of cover and adherence to market best practice; and
- Regularly review material movements in all valuation adjustments and report highlights and other valuation risks and issues to ETRMC and the Company's Risk Committees.

2.1.15 New Business Committee

The New Business Committee (NBC) is responsible for reviewing and evaluating and making recommendations on all new business. Main responsibilities include:

- Assessing the level of materiality for new business initiatives;
- Ensuring that risk issues are identified prior to business commencing;
- Ensuring that all requisite approvals are obtained prior to the commencement of a new initiative; and
- Ensuring timely documentation of policy, including Standing Orders, in accordance with bank standards; reviewing specific transactions that are outside of bank policy and ensuring that risks are identified and requisite approvals obtained.

Decision making authority within the NBC rests solely with the Committee Chairman (the Company's CFO). The remainder of the Committee serves in an advisory capacity.

2.1.16 Technology, Operations Functions Forum

The Technology, Operations Functions Forum (TOFF) is a management committee established to manage and oversee functional, operating and technology activities across the business. Responsibilities include:

- Facilitating cross-functional discussion and consultation at Head of function level;
- Proactively assessing early stage proposals for new initiatives or projects in order to optimize the allocation of scarce resources such as budget, capital and full-time equivalent employees;
- Focusing management attention on emerging opportunities and risks to achieving objectives; and
- Instigate reviews where required to monitor that systems and controls in place to monitor conflicts of interest and treating customers fairly remain appropriate, continue to be adhered to and are working effectively.

Information on frequency of committee meetings is included in Appendix 2.

2.2 Risk Management and Control Framework

The Company defines risk as the potential for loss or an undesirable outcome or reduction in value of the Company'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 reputation risks due to failure to comply with regulatory guidelines or the failure to live up to clients' expectations).

The risk of financial loss through business activities is inherent in all of the businesses conducted by the Company. For this reason, risk management is considered to be an intrinsic part of the strategy and capital planning processes. The level of risk corresponding to each risk type continues to remain within pre-approved risk specific limits and tolerances which are reviewed at least quarterly by ERC in light of changes to market conditions and business strategies.

The Enterprise Risk Management Framework (ERMF) sets out the overarching arrangements for risk management, control and assurance within the Company. The ERMF is designed to provide a consistent and structured approach to identify, assess, measure, control, monitor and report on significant risks. Risk identification and assessment processes are established and maintained by Group Risk Management (GRM).

The Framework 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 the Company's business activities will not be excessively impacted by risks that could have been reasonably foreseen. This, in turn, reduces the uncertainty of achieving its strategic objectives.

The Company's definition of its key material risks is consistent with its peers' and general market classifications. The material risks that the Company is exposed to include market risk, credit risk, operational risk, liquidity risk, regulatory compliance risk, and reputation risk.

The Company has robust governance arrangements in place which include a clear organisational structure, lines of responsibility, and effective processes to identify, manage, monitor and report on material risks. Within the Company, the Compliance department manages regulatory compliance risk whilst other risks and components of Regulatory risk are managed by the Finance, Market risk, Credit risk, Operational risk, Human Resources, Legal and Tax departments.

Legal and Regulatory Environment Risk is an overarching risk that exists in all aspects of the businesses and, therefore, its management is undertaken as part of risk management and business practices across the Company. It is defined as the risk that unexpected or frequent changes to laws or regulations could negatively impact the Company's business model, activities, earnings capacity, liquidity or capital adequacy.

The Company operates in multiple jurisdictions and, in certain cases, a change in the law or regulatory requirements could have a detrimental impact on the operations and/or profitability within certain businesses. Therefore, the management of legal and regulatory environment risk is managed by:

- The Compliance department which identifies emerging regulatory changes and updates key Senior Management committees on the practical impact of such changes;
- The Company's Law Group which monitors the legal landscape for changes and provides advice and guidance; and
- Regulatory Policy team in Financial Control and Liquidity Reporting team in GRM which review and monitor regulatory changes pertaining to prudential capital and liquidity regulations and provides advice and guidance, as appropriate.

2.2.1 Risk Principles

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

Table 3: Risk Management Principles

Principle	Description
Effectively balancing risk and reward is essential for success	The Company is in the business of managing risk. Avoiding it entirely is neither possible nor profitable. Instead of avoiding risk, the Company finds ways to balance it with potential rewards through: ▪ Aligning business strategy with risk appetite; ▪ Diversifying the risks in relationships and portfolio management; ▪ Pricing appropriately for the risk; ▪ Mitigating the risk through preventive and detective controls; and ▪ Transferring risk to third parties through insurance, hedging, etc.
Responsibility for risk management is shared	Employees at all levels are responsible for managing the day-to-day risks that arise in the context of their roles. The Company follows the "Three Lines of Defence" risk governance model, which is detailed in the following section.
Business decisions must be based on an understanding of risk	Employees are expected to: ▪ Be rigorous in assessing the risks of relationships, products, transactions and other business activities; ▪ Be transparent when discussing the risk dimensions with GRM and senior management decision-makers; ▪ Continuously seek to improve the Company's risk management processes and tools in response to best risk management practices in order to enable effective decision-making; and ▪ Generate ideas that will reduce process without increasing risk.
Avoid activities that are not consistent with the Company's Values, Code of Conduct or policies	Employees are expected to: ▪ Follow the Code of Conduct at all times; ▪ Never compromise quality for growth; ▪ Avoid unethical clients; ▪ Comply with all regulatory requirements; and ▪ Support transactions and relationships with proper and complete documentation to avoid litigation.
Proper focus on the client reduces the Company's risks	'Knowing Your Client' at the start of, and throughout, the relationship is a key risk management principle in the financial industry. Employees are expected to: ▪ Make sure all products and transactions are suitable for, and

Principle	Description
	understood by, the client; ▪ Keep focus on the client even in difficult situations; quick and appropriate problem resolution also helps minimize risk; ▪ Use “Know Your Client” assessments to determine the client's financial situation, capacity for loss, risk tolerance, and financial objectives; ▪ Develop and maintain a sound understanding of the Company’s product offerings to ensure that employees propose plans and strategies and select or design products that meet the clients’ needs; and ▪ Build relationship with its clients on a clear understanding of the terms of the working relationship, with mutual commitments for full and accurate disclosure of relevant financial information.
Use judgment and common sense	Since policy and procedure cannot cover all circumstances, the Company’s employees are expected to: ▪ Apply judgement and common sense and, when in doubt, escalate; and ▪ Hire the right people for the right jobs and provide proper training and support.

2.2.2 Three Lines of Defence Model

The Company 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, control and reporting in accordance with established the Company’s risk policies; and
- Alignment of business and operational strategies with corporate risk culture and risk appetite.

Second Line of Defence - This comprises the areas to which the Board has delegated day-to-day oversight functions, in particular the CEO and CRO. The latter is supported by ERC and Heads of Risk. The Second Line of Defence is accountable for:

- Establishing the Company-level risk management frameworks, and provides 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.

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

2.2.3 Risk Appetite

Risk Appetite is defined as the amount and type of risk that the Company is willing to accept in the pursuit of its business objectives.

The overall objective of the Company's Risk Appetite Framework is to protect the Company 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 for local requirements. It provides details on the Company's risk appetite principles, constraints and metrics and is approved annually by the Board.

2.2.4 Risk Policy Management

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

Where necessary, the Company adapts the RBC Enterprise wide policies to ensure compliance with local legal and regulatory requirements and expectations. The European CRO 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 Company's Risk Policy Management Requirements document adopts the following three-tier hierarchy for approving frameworks, policies, standing orders, standards and procedures (collectively referred to as policy documents):

- Level 1 policy documents include overarching frameworks and policies that outline the Company's regulatory requirements and risk governance. These are approved by ERC or ALCO, both Board Committees.
- Level 2 policy documents include 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 policy documents include those that are put in place to support Level 2 policy documents. These are approved by either Management Committees or Heads of Risk.

The Board delegates responsibility to ERC to ensure that all the Company's risk and capital policies meet the minimum governance standards defined within the Risk Policy Management Requirements.

Capital adequacy and capital ratios measures are monitored daily against internal thresholds by the Regulatory Reporting team in the Finance department. Any breaches are escalated immediately. ALCO also receives monthly reports detailing current capital adequacy position, while the Board and the ERC 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 ERC at least quarterly, with management committees updated on a more regular basis.

Stress testing and reverse stress testing are conducted on at least an annual basis. The analysis is undertaken more frequently if deemed necessary as a result of changing business strategy, results or market conditions.

2.2.5 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, which allows the Company to derive a Capital Planning Buffer (CPB). Stressing the capital plans, through use of a range of severe but plausible down-turn scenarios, 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. Additionally, the Finance function evaluates the capital impact of new (large) transactions and products and advises senior management accordingly.

The ICAAP is an annual process managed by the Enterprise Risk Management (ERM), Europe function reporting into the European Chief Risk Officer.

The ICAAP Steering Committee, which consists of senior management representatives from ERM, Finance, GRM and Corporate Treasury, oversees all aspects involved in the development of the ICAAP, including accurate documentation of key findings from the assessment. Following the ICAAP Steering Committee review, the ICAAP report is submitted to ALCO and ERC for review, challenge and approval. The ICAAP is approved by the ALCO and ERC under delegated authority from the Board.

3.0 Own Funds

3.1 Overview of Own Funds

As at 31 October 2014, the Company had total own funds of £1,140 million, which comprises of Tier 1 Capital of £897 million and Tier 2 Capital of £243 million under the transitional provisions. A full reconciliation of own funds items to audited financial statements are shown in the table below.

Table 4: Full reconciliation of own funds items to audited financial statements

Per Audited Statement of changes in equity		
£'000		**31 October 2014**
Common shares		497,996
Other components of equity:		
Capital reserves	*36,619*	
Share premium	*803*	
Remeasurement of pension assets and liabilities	*3,227*	
Available-for-sale reserve	*18,326*	
Total other components of equity		58,975
Retained earnings		
Opening	*361,224*	
Net losses	*(7,149)*	
Audited retained earnings at 31 October		354,075
Total equity		**911,046**
Adjustments to CET1 due to prudential filters		
Value adjustments due to the requirements for prudent valuation		(2,351)
Deductions of CET1 Capital		
Other intangible assets	*(572)*	
Deferred tax liabilities associated to other intangible assets	*114*	
Deferred tax assets that rely on future profitability and do not arise from temporary differences net of associated tax liabilities	*(4,478)*	
Defined benefit pension assets	*(8,200)*	
Deferred tax liabilities associated to defined benefit pension assets	*1,640*	
Total CET1 deductions		(11,496)
Total Fully Loaded Tier 1 Capital		**897,199**
Transitional adjustments to CET1 Capital		
Available-for-sale reserve		(18,326)
Total Tier 1 Capital with transitional adjustments		**878,873**
Tier 2 Capital		
Subordinated loans		**243,398**
Own Funds with transitional adjustments		**1,122,271**
Fully Loaded Own Funds		**1,140,597**

Table 5: Transitional own funds disclosure

Common Equity Tier 1 capital: instruments and reserves	31 October 2014 £'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	354,075	-	354,075
Accumulated other comprehensive income (and any other reserves)	58,172	-	58,172
Common Equity Tier 1 (CET1) capital before regulatory adjustments	**911,046**	**-**	**911,046**
Common Equity Tier 1 (CET1) capital: regulatory adjustments			
Additional value adjustments	(2,351)	-	(2,351)
Goodwill and Other intangible assets (net of related tax liability)	(458)	-	(458)
Deferred tax assets that rely on future profitability excluding those arising from temporary difference	(4,478)	-	(4,478)
Defined-benefit pension fund assets (net of related tax liability)	(6,560)	-	(6,560)
Regulatory adjustments applied to Common Equity Tier 1 in respect of amounts subject to pre-CRR treatment	*(18,326)*	*18,326*	-
Regulatory adjustments relating to unrealised gains and losses			
Of which: Filter for unrealised gains on available-for-sale equities	(18,326)	18,326	-
Total regulatory adjustments to Common Equity Tier 1 (CET1)	**(32,173)**	**18,326**	**(13,847)**
Common Equity Tier 1 (CET1) capital	**878,873**	**18,326**	**897,199**
Additional Tier 1 (AT1) capital	-	-	-
Tier 1 capital (T1 = CET1 + AT1)	**878,873**	**18,326**	**897,199**
Tier 2 (T2) capital: instruments and provisions			
Subordinated loans	243,398	-	243,398
Tier 2 (T2) capital	**243,398**	**-**	**243,398**
Total capital (TC = T1 + T2)	**1,122,271**	**18,326**	**1,140,597**
Total risk-weighted exposures	**5,104,918**		
Capital ratios and buffers			
Common Equity Tier 1 ratio	17.2%		
Tier 1 ratio	17.2%		
Total capital ratio	22.0%		
Institution specific buffer requirement	-		
of which: capital conservation buffer requirement	-		
of which: countercyclical buffer requirement	-		
of which: systemic risk buffer requirement	-		
of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	-		
Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	13.2%		
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	16,585		
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)	-		

Table 6: Capital instruments main features table

Capital instruments' main features template ([1])	Common shares	Common shares	Subordinated loan due 2019	Subordinated loan due 2024	Subordinated loan due 2026
Issuer	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
Governing law(s) of the instrument	English	English	English	English	English
Regulatory treatment					
Transitional CRR rules	Common Equity Tier 1	Common Equity Tier 1	Tier 2	Tier 2	Tier 2
Post-transitional CRR rules	Common Equity Tier 1	Common Equity Tier 1	Tier 2	Tier 2	Tier 2
Eligible at solo/(sub-)consolidated/solo & (sub-)consolidated	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	Tier 2 as published in Regulation (EU) No 575/2013 Article 63	Tier 2 as published in Regulation (EU) No 575/2013 Article 63
Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	GBP 21m	GBP 477m	GBP 56m	GBP 125m	GBP 62m
Nominal amount of instrument	GBP 25m	GBP 477m	USD 100m	USD 200m	USD 100m
Issue price	84 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
Accounting classification	Equity	Equity	Liability - amortised cost	Liability - amortised cost	Liability - amortised cost
Original date of issuance	20 December 1970	20 December 1970	18 April 2012	28 May 2014	28 May 2014
Perpetual or dated	Perpetual	Perpetual	Dated	Dated	Dated
Original maturity date	No maturity	No maturity	18 April 2019	28 May 2024	28 May 2026
Issuer call subject to prior supervisory approval	No	No	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: 18/Apr/2017 In addition Tax/Regulatory call	Redemption at the Option of the Issuer 100 per cent of Nominal amount First call date: 28/May/2019 In addition Tax/Regulatory call	Redemption at the Option of the Issuer 100 per cent of Nominal amount First call date: 28/May/2021 In addition Tax/Regulatory call
Subsequent call dates, if applicable	N/A	N/A	N/A	N/A	N/A
Coupons / dividends					
Fixed or floating dividend/coupon	N/A	N/A	Floating	Floating	Floating
Coupon rate and any related index	N/A	N/A	Reuters page LIBOR01 +2.40 per cent per annum	Reuters page LIBOR01 +1.82 per cent per annum	Reuters page LIBOR01 +1.92 per cent per annum
Existence of a dividend stopper	N/A	N/A	No	No	No
Fully discretionary, partially discretionary or mandatory (in terms of timing	Fully discretionary	Fully discretionary	Mandatory	Mandatory	Mandatory
Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary	Fully discretionary	Mandatory	Mandatory	Mandatory
Existence of step up or other incentive to redeem	No	No	No	No	No
Noncumulative or cumulative	Non cumulative	Non cumulative	Non cumulative	Non cumulative	Non cumulative
Convertible or non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible
If convertible, conversion trigger (s)	N/A	N/A	N/A	N/A	N/A
If convertible, fully or partially	N/A	N/A	N/A	N/A	N/A
If convertible, conversion rate	N/A	N/A	N/A	N/A	N/A
If convertible, mandatory or optional conversion	N/A	N/A	N/A	N/A	N/A
If convertible, specify instrument type convertible into	N/A	N/A	N/A	N/A	N/A
If convertible, specify issuer of instrument it converts into	N/A	N/A	N/A	N/A	N/A
Write-down features	No	No	Yes	Yes	Yes
If write-down, write-down trigger (s)	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
If write-down, permanent or temporary	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
Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	N/A	N/A	N/A	N/A	N/A
Non-compliant transitioned features	No	No	No	No	No
If yes, specify non-compliant features	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 CRR 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 2014, the Company's specific countercyclical capital buffer rate is nil and the capital requirement is nil.

3.3 Unencumbered Assets

The Company defines following assets as encumbered assets:

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

The unencumbered assets are the remaining assets that the Company owns. These comprise assets that are readily available in the normal course of business to secure funding or meet collateral needs.

The Company monitors the total unencumbered assets on a daily basis. European Banking Authority (EBA) and PRA have finalised the disclosure guidelines for unencumbered assets. The Company is required to disclose the information on assets encumbrance from 2015 onwards.

3.4 Leverage Ratio

The leverage ratio was introduced into the Basel III framework as a simple, transparent, non-risk based supplementary measure to the risk-based capital requirements. The primary objectives are to restrict the build-up of excessive leverage in the banking sector and to reinforce the risk-based requirements with a simple, non-risk "backstop" measure.

Basel III provides for a transitional period for the introduction of the leverage ratio, comprising a supervisory monitoring period that started in 2011 and a parallel run period from 1 January 2013 to 1 January 2017. The Basel Committee will continue to test a minimum requirement of 3 % for the leverage during the parallel run period. The final calibration, and any further adjustments to the definition will be completed by 2017, with a view to migrating to a Pillar 1 (minimum capital requirement) treatment on 1 January 2018. In January 2014, the Basel Committee published its finalised leverage ratio framework, along with the disclosure requirements, effective from 1 January 2015.

The EU implementation of the Basel III leverage ratio calculation is provided in Article 429 of the CRR, which mirrors the Basel III framework from December 2010. In October 2014, the European Commission issued a Delegated Act to align the definition of the CRR leverage exposure with the final Basel III leverage ratio framework published in January 2014. Under the Delegated Act the Company will need to publish its Leverage Ratio for the financial year ending 31 October 2015.

4.0 Capital Requirements

Capital adequacy and capital ratios measured are monitored daily against internal thresholds by the Regulatory Reporting team in the Finance department. Any breaches would be escalated immediately. In addition ALCO receives monthly reports detailing capital requirements, while the Board and the ERC 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 ERC at least quarterly, with management committees updated on a more regular basis.

As at 31 October 2014, 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 7: Risk exposure amount by risk type and calculation approach adopted (without transitional provisions)

As at 31 October 2014 (without transitional provisions)	Risk-weighted Exposure	CET1 Capital requirement @ 4.5%	Tier 1 Capital Requirement @ 6%	Total Capital requirement @8%
£'000				
Risk-weighted exposure amounts for credit and counterparty credit				
Calculated under the Standardised Approach				
Central governments or central banks	30,800	1,386	1,848	2,464
Public sector entities	52	2	3	4
Institutions	439,888	19,795	26,393	35,191
Corporates	1,417,293	63,778	85,038	113,383
Secured by mortgages on immovable property	402,702	18,122	24,162	32,216
Equity	23,829	1,072	1,430	1,906
Other items	9,423	424	565	754
	2,323,987	*104,579*	*139,439*	*185,919*
Risk exposure amount for contributions to the default fund of a CCP	5,211	234	313	417
	2,329,198	***104,814***	***139,752***	***186,336***
Risk-weighted exposure amount settlement/delivery risk in the Trading book	**7,054**	**317**	**423**	**564**
Risk-weighted exposure amount for position, foreign exchange and commodities risks				
Calculated under the Standardised Approach				
Interest Rate	1,747,202	78,624	104,832	139,776
Equity	713	32	43	57
Foreign Exchange	25,376	1,142	1,523	2,030
Commodities	515,784	23,210	30,947	41,263
	2,289,075	**103,008**	**137,345**	**183,126**
Risk-weighted exposure amount for operational risk				
Calculated under the Basic Indicator Approach	**416,829**	18,757	25,010	**33,346**
Risk-weighted exposure amount for credit valuation adjustment				
Calculated under the Standardised Method	**62,763**	2,824	127	**5,021**
Total	**5,104,918**	**229,721**	**302,656**	**408,393**
Surplus CET1 Capital Surplus over the minimum requirement		**667,478**		
Surplus Tier1 Capital over the minimum requirement			**594,543**	
Surplus Total Capital over the minimum requirement				**732,204**

Table 8: Risk exposure amount by risk type and calculation approach adopted (with transitional provisions)

As at 31 October 2014 (with transitional provisions)	Risk-weighted Exposure	CET1 Capital requirement @ 4%	Tier 1 Capital Requirement @ 5.5%	Total Capital requirement @8%
£'000				
Risk-weighted exposure amounts for credit and counterparty credit				
Calculated under the Standardised Approach				
Central governments or central banks	30,800	1,232	1,694	2,464
Public sector entities	52	2	3	4
Institutions	439,888	17,596	24,194	35,191
Corporates	1,417,293	56,692	77,951	113,383
Secured by mortgages on immovable property	402,702	16,108	22,149	32,216
Equity	23,829	953	1,311	1,906
Other items	9,423	377	518	754
	2,323,987	*92,959*	*127,819*	*185,919*
Risk exposure amount for contributions to the default fund of a CCP	5,211	208	287	417
	2,329,198	***93,168***	***128,106***	***186,336***
Risk-weighted exposure amount settlement/delivery risk in the Trading book	**7,054**	**282**	**388**	**564**
Risk-weighted exposure amount for position, foreign exchange and commodities risks				
Calculated under the Standardised Approach				
Interest Rate	1,747,202	69,888	96,096	139,776
Equity	713	29	39	57
Foreign Exchange	25,376	1,015	1,396	2,030
Commodities	515,784	20,631	28,368	41,263
	2,289,075	**91,563**	**125,899**	**183,126**
Risk-weighted exposure amount for operational risk				
Calculated under the Basic Indicator Approach	**416,829**	16,673	22,926	**33,346**
Risk-weighted exposure amount for credit valuation adjustment				
Calculated under the Standardised Method	**62,763**	2,511	138	**5,021**
Total	**5,104,918**	**204,197**	**277,457**	**408,393**
Surplus CET1 Capital Surplus over the minimum requirement		**674,676**		
Surplus Tier1 Capital over the minimum requirement			**601,416**	
Surplus Total Capital over the minimum requirement				**713,878**

Calculation methods for the capital requirements above are listed in Appendix 3.

5.0 Credit Risk

5.1 Definition of Credit Risk

The Company defines credit risk as the risk of loss associated with 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 ERC 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 ERC and more specifically the ELRMC. 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 covenant are added to a watch list which is monitored by the ELRMC 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 2014, 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.

Risk appetite is managed and controlled through exposure limits across single names, country, industry sector and ratings. Loan transactions are signed off by the Regulatory Reporting team for compliance with Regulatory Large Exposure Limits.

Trading 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 Trading 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 ETRMC. Monthly exposure data is also reviewed by the ETCRMC, ETRMC, and ERC.

The Regulatory Reporting team also reports the overall capital requirement, including capital requirement on the 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 3-year horizon (or full credit cycle as appropriate) starting from the time of risk assessment or revision or confirmation. The 3-year time horizon is consistent with the term of the majority of the credit risk exposures. The Company extends the term of the rating horizon in the case of specific portfolios where the nature of the business predominantly exposes the bank to longer term exposures. On the other hand, the ratings of very weak borrowers are assigned to primarily reflect their riskiness based on current conditions and short-term expectations.

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 of the rating. The currency of the rating is maintained through a process of continuous monitoring and periodic review. This internal rating will be used to determine 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 9: Risk exposure amounts by banking and trading activities

As at 31 October 2014

£'000	**Banking**	**Trading**	**Total**
Risk-weighted exposure amounts for credit and counterparty credit			
Calculated under the Standardised Approach			
Central governments or central banks	30,158	642	30,800
Public sector entities	-	52	52
Institutions	17,820	422,068	439,888
Corporates	1,043,746	373,547	1,417,293
Secured by mortgages on immovable property	402,702	-	402,702
Equity	23,829	-	23,829
Other items	9,423	-	9,423
	1,527,678	796,309	2,323,987
Risk exposure amount for contributions to the default fund of a CCP	-	5,211	5,211
	1,527,678	**801,520**	**2,329,198**
Risk-weighted exposure amount settlement/delivery risk in the Trading book	**-**	**7,054**	**7,054**
Total	**1,527,678**	**808,574**	**2,336,252**

5.3.1 Banking Book Credit Risk

The Capital Markets Banking Book credit profile is managed through monthly review of the ELRMC, with the Wealth Management lending portfolio monitored at the quarterly British Isles and Caribbean Risk and Compliance Committee (BIC-RCC). The combined banking book credit risk profile for the Company is reported to the ERC 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 covenant 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. Furthermore, certain lending facilities are sub-participated to RBC London Branch.

As at 31 October 2014, the Company had total gross credit exposures[2] of £6.9 billion, and the average gross credit exposure is £7.1 billion over the ten months period since the implementation of the CRR. Detailed exposures by exposure class, residual maturity and geographic distribution are shown in the tables below.

Table 10: Gross credit exposures within the banking book

As at 31 October 2014

£'000

Exposure amounts for credit risk in the banking book	Gross Exposure	Final Exposure	Risk-weighted Exposure
On balance sheet exposures			
Central governments or central banks	2,580,013	2,580,013	30,158
Institutions	302,716	87,271	17,466
Corporates	667,989	503,353	501,463
Secured by mortgages on immovable property	1,023,257	1,004,037	396,749
Equity	23,829	23,829	23,829
Other items	9,423	9,423	9,423
	4,607,227	4,207,926	979,088
Off balance sheet exposures			
Central governments or central banks	64,628	32,314	-
Institutions	1,770	1,770	354
Corporates	2,220,872	655,078	542,282
Secured by mortgages on immovable property	33,805	16,487	5,954
	2,321,075	705,649	548,590
Total	**6,928,302**	**4,913,575**	**1,527,678**
Small and medium enterprises, included in Corporates	***156,267***	***137,184***	***137,184***

Table 11: Average gross credit exposures within the banking book

For the year ended 31 October 2014*

£'000

	Gross Exposure	Final Exposure	Risk-weighted Exposure
On balance sheet exposures			
Central governments or central banks	3,150,963	3,150,963	35,248
Institutions	76,620	22,931	4,601
Corporates	621,802	458,577	456,651
Secured by mortgages on immovable property	995,630	977,302	389,345
Equity	25,706	25,706	25,706
Other items	6,311	6,311	6,311
	4,877,032	4,641,790	917,862
Off balance sheet exposures			
Central governments or central banks	219,920	109,960	-
Institutions	207,559	1,578	316
Corporates	1,772,374	558,566	448,144
Secured by mortgages on immovable property	37,454	18,028	6,499
	2,237,307	688,132	454,959
Total	**7,114,339**	**5,329,922**	**1,372,821**
Small and medium enterprises, included in Corporates	***189,611***	***134,963***	***134,966***

**Average exposure is over the ten months period since the implementation of the CRR from 1 January 2014.*

[2] 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 12: Gross credit exposure by residual maturity

As at 31 October 2014

£'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**
On balance sheet exposures						
Central governments or central banks	2,580,013	-	-	-	-	2,580,013
Institutions	87,271	-	-	215,445	-	302,716
Corporates	2,360	14,853	150,055	396,778	103,943	667,989
Secured by mortgages on immovable property	25,590	14,142	79,689	903,836	-	1,023,257
Equity	-	-	-	-	23,829	23,829
Other items	9,423	-	-	-	-	9,423
	2,704,657	28,995	229,744	1,516,059	127,772	4,607,227
Off balance sheet exposures						
Central governments or central banks	-	-	-	64,628	-	64,628
Institutions	1,770	-	-	-	-	1,770
Corporates	23,457	17,441	399,787	1,715,449	64,738	2,220,872
Secured by mortgages on immovable property	-	-	-	33,805	-	33,805
	25,227	17,441	399,787	1,813,882	64,738	2,321,075
Total	**2,729,884**	**46,436**	**629,531**	**3,329,941**	**192,510**	**6,928,302**

Table 13: Final credit exposure by residual maturity

As at 31 October 2014

£'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**
On balance sheet exposures						
Central governments or central banks	2,580,013	-	-	-	-	2,580,013
Institutions	87,271	-	-	-	-	87,271
Corporates	2,052	14,274	120,001	263,432	103,594	503,353
Secured by mortgages on immovable property	25,542	14,142	77,800	886,553	-	1,004,037
Equity	-	-	-	-	23,829	23,829
Other items	9,423	-	-	-	-	9,423
	2,704,301	28,416	197,801	1,149,985	127,423	4,207,926
Off balance sheet exposures						
Central governments or central banks	-	-	-	32,314	-	32,314
Institutions	1,770	-	-	-	-	1,770
Corporates	20,261	8,721	60,616	526,233	39,247	655,078
Secured by mortgages on immovable property	-	-	-	16,487	-	16,487
	22,031	8,721	60,616	575,034	39,247	705,649
Total	**2,726,332**	**37,137**	**258,417**	**1,725,019**	**166,670**	**4,913,575**

Table 14: Credit conversion factor for off balance sheet credit exposures

As at 31 October 2014

£'000

Exposure amounts for credit risk in the banking book	Conversion Factors	Gross Exposure	Final Exposure	Risk-weighted Exposure
Off balance sheet exposures				
Central governments or central banks	50%	64,628	32,314	-
Institutions	100%	1,770	1,770	354
Corporates	0%	235	-	-
	50%	2,181,068	620,586	507,789
	100%	39,569	34,492	34,492
Secured by mortgages on immovable property	50%	33,805	16,487	5,954
Total		**2,321,075**	**705,649**	**548,589**

Table 15: Gross credit exposure by geographic distribution

As at 31 October 2014

£'000

Gross exposure amounts for credit risk in the banking book	Asia-Pacific	Caribbean	EEA	Europe Other	Middle East	North America	Others	**Total**
On balance sheet exposures								
Central governments or central banks	-	-	2,579,948	65	-	-	-	2,580,013
Institutions	40	-	295,848	11	1	6,792	24	302,716
Corporates	22,424	235	502,568	34,787	6,625	100,348	1,002	667,989
Secured by mortgages on immovable property	-	-	1,023,257	-	-	-	-	1,023,257
Equity	-	-	23,829	-	-	-	-	23,829
Other items	-	-	9,423	-	-	-	-	9,423
	22,464	235	4,434,873	34,863	6,626	107,140	1,026	4,607,227
Off balance sheet exposures								
Central governments or central banks	-	-	64,628	-	-	-	-	64,628
Institutions	-	-	1,770	-	-	-	-	1,770
Corporates	17,706	16,743	2,061,050	5,209	-	120,164	-	2,220,872
Secured by mortgages on immovable property	-	-	33,805	-	-	-	-	33,805
Equity	-	-	-	-	-	-	-	-
Other items	-	-	-	-	-	-	-	-
	17,706	16,743	2,161,253	5,209	-	120,164	-	2,321,075
Total	**40,170**	**16,978**	**6,596,126**	**40,072**	**6,626**	**227,304**	**1,026**	**6,928,302**

Table 16: Final credit exposure by geographic distribution

As at 31 October 2014

£'000

Final exposure amounts for credit risk in the banking book	Asia-Pacific	Caribbean	EEA	Europe Other	Middle East	North America	Others	**Total**
On balance sheet exposures								
Central governments or central banks	-	-	2,579,948	65	-	-	-	2,580,013
Institutions	40	-	80,404	10	1	6,792	24	87,271
Corporates	20,746	227	364,774	32,786	1,971	81,847	1,002	503,353
Secured by mortgages on immovable property	-	-	1,004,037	-	-	-	-	1,004,037
Equity	-	-	23,829	-	-	-	-	23,829
Other items	-	-	9,423	-	-	-	-	9,423
	20,786	227	4,062,415	32,861	1,972	88,639	1,026	4,207,926
Off balance sheet exposures								
Central governments or central banks	-	-	32,314	-	-	-	-	32,314
Institutions	-	-	1,770	-	-	-	-	1,770
Corporates	8,850	16,650	568,493	1,965	-	59,120	-	655,078
Secured by mortgages on immovable property	-	-	16,487	-	-	-	-	16,487
Equity	-	-	-	-	-	-	-	-
Other items	-	-	-	-	-	-	-	-
	8,850	16,650	619,064	1,965	-	59,120	-	705,649
Total	**29,636**	**16,877**	**4,681,479**	**34,826**	**1,972**	**147,759**	**1,026**	**4,913,575**

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

Table 17: Gross credit exposure by geographic distribution within the EEA

As at 31 October 2014

£'000

Gross exposure in relation to the EEA member states	UK	France	Spain	Germany	Netherland	Others	**Total**
On balance sheet exposures							
Central governments or central banks	2,579,177	771	-	-	-	-	2,579,948
Institutions	294,713	125	-	1,006	-	4	295,848
Corporates	341,202	18,462	64,661	19,586	30,505	28,152	502,568
Secured by mortgages on immovable property	1,023,257	-	-	-	-	-	1,023,257
Equity	23,829	-	-	-	-	-	23,829
Other items	9,423	-	-	-	-	-	9,423
	4,271,601	19,358	64,661	20,592	30,505	28,156	4,434,873
Off balance sheet exposures							
Central governments or central banks	-	64,628	-	-	-	-	64,628
Institutions	-	-	-	1,770	-	-	1,770
Corporates	51,845	1,789,022	135,934	58,237	10,253	15,759	2,061,050
Secured by mortgages on immovable property	33,805	-	-	-	-	-	33,805
	85,650	1,853,650	135,934	60,007	10,253	15,759	2,161,253
Total	**4,357,251**	**1,873,008**	**200,595**	**80,599**	**40,758**	**43,915**	**6,596,126**

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

As at 31 October 2014

£'000

Final exposure in relation to the EEA member states	UK	France	Spain	Germany	Netherland	Others	**Total**
On balance sheet exposures							
Central governments or central banks	2,579,177	771	-	-	-	-	2,579,948
Institutions	79,267	125	-	1,006	-	6	80,404
Corporates	203,458	18,462	64,661	19,586	30,505	28,102	364,774
Secured by mortgages on immovable property	1,004,037	-	-	-	-	-	1,004,037
Equity	23,829	-	-	-	-	-	23,829
Other items	9,423	-	-	-	-	-	9,423
	3,899,191	19,358	64,661	20,592	30,505	28,108	4,062,415
Off balance sheet exposures							
Central governments or central banks	-	32,314	-	-	-	-	32,314
Institutions	-	-	-	1,770	-	-	1,770
Corporates	19,552	438,939	67,996	21,285	4,962	15,759	568,493
Secured by mortgages on immovable property	16,487	-	-	-	-	-	16,487
	36,039	471,253	67,996	23,055	4,962	15,759	619,064
Total	**3,935,230**	**490,611**	**132,657**	**43,647**	**35,467**	**43,867**	**4,681,479**

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).

Under IFRS a provision for credit losses is established if there is objective evidence that the Company will not be able to collect all amounts due on its loans portfolio according to the original contractual terms or the equivalent value. This portfolio includes on-balance sheet exposures, such as loans and acceptances, and off-balance sheet items such as letters of credit, guarantees and unfunded commitments.

The provision is increased by the impairment losses recognised and decreased by the amount of write-offs, net of recoveries. The provision for credit losses for on-balance sheet items is included as a reduction to assets, and the provision relating to off-balance sheet items is included in Other liabilities, disclosed in the Company’s financial statements.

The Company assesses whether objective evidence of impairment exists individually for loans that are individually significant and collectively for loans that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed loan, whether significant or not, the loan is included in a group of loans with similar credit risk characteristics and collectively assessed for impairment. Loans that are individually assessed for impairment and for which an impairment loss is recognised are not included in a collective assessment of impairment.

Provision for credit losses represent management's best estimates of losses incurred in the Company's loan portfolio at the balance sheet date. Management's judgement is required in making assumptions and estimations when calculating loan impairment provisions on both individually and collectively assessed loans. Any changes in the underlying assumptions and estimates used for both individually and collectively assessed loans can change from period to period and can significantly affect the results of operations.

Individually assessed loans

Loans which are individually significant are assessed individually for objective indicators of impairment. A loan is considered impaired when management determines that it will not be able to collect all amounts due according to the original contractual terms or the equivalent value.

Credit exposures of individually significant loans are evaluated based on factors including the borrower's overall financial condition, resources and payment record, and where applicable, the realisable value of any collateral. If there is evidence of impairment leading to an impairment loss, then the amount of the loss is recognised in income and is determined as the difference between the carrying amount of the loan, including accrued interest, and the estimated recoverable amount. The estimated recoverable amount is measured as the present value of expected future cash flows discounted at the loan's original effective interest rate, including cash flows that may result from the realisation of collateral less costs to sell. Individually-assessed impairment losses reduce the carrying amount of the loan through the use of a provision account and the amount of the loss is recognised in Provision for credit losses in the Statement of Income. Following impairment, interest income is recognised on the unwinding of the discount from the initial recognition of impairment.

Significant judgement is required in assessing evidence of impairment and estimation of the amount and timing of future cash flows when determining the impairment loss. When assessing objective evidence of impairment, the Company primarily considers specific factors such as the financial condition of the borrower, borrower's default or delinquency in interest or principal payments, local economic conditions and other observable data. In determining the estimated recoverable amount the Company considers discounted expected future cash flows at the effective interest rate inherent in the loan using a number of assumptions and inputs. Management judgement is involved when choosing these inputs and assumptions used such as the expected amount of the loan that will not be recovered and the cost of time delays in collecting principal and/or interest, and when estimating the value of any collateral held for which there may not be a readily accessible market. Changes in the amount expected to be recovered would have a direct impact on the Provision for credit losses.

Past due

The Company consider a loan being past due when the contractual payment of either principal of interest is not received by the Company in according with the payment schedule agreed. The past due loan is assessed for impairment purposes.

As at 31 October 2014, the Company does not have any general credit risk adjustments. Detailed analysis on specific provisions is included in the relevant disclosure above.

Table 19: Reconciliation of provision for credit losses

	2014
	£'000
Provisions brought forward	**129**
Provisions made in the year	**-**
Provisions released during the year	**(129)**
Written off during the year	**-**
Foreign exchange movement	**-**
Provisions as at year end	**-**

No specific adjustments were proposed as at 31 October 2014.

5.3.3 Counterparty Credit Risk

Trading book counterparty risk arises from exposure to the following:

- Securities finance transactions (SFT), as part of Capital Market's fixed income, repo and equity finance businesses.
- Issuer risk, predominantly arising from the Capital Markets and Investor & Treasury Services businesses through the trading of debt and equity instruments.
- Derivatives, primarily through Capital Market's Exchange traded derivatives (ETD), over-the-counter (OTC) derivatives, and inter-group derivative transactions.

Table 20: Trading credit risk

As at 31 October 2014

£'000

Counterparty credit risk exposure by products	Gross Exposure	Final Exposure	Risk-weighted Exposure
Calculated under the Standardised Approach			
Exchange traded derivatives	805,043	741,333	97,292
OTC derivatives	690,772	322,929	123,212
SFTs	2,311,492	2,311,492	575,805
Total	**3,807,307**	**3,375,754**	**796,309**

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 Trading 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 mitigant of credit risk. The Company holds collateral mainly in the form of debt securities and equities 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 mitigant 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 2014, the Company had total gross credit exposures of £3.8 billion, and the average gross credit exposure is £4.1 billion over the ten months period since the implementation of the CRR. Detailed exposures by products, exposure class, residual maturity and geographic distribution are shown in the tables below.

Table 21: Counterparty credit risk by exposure class

As at 31 October 2014

£'000

Exposure amounts for counterparty credit risk in trading book	Gross Exposure	Final Exposure	Risk-weighted Exposure
Calculated under the Standardised Approach			
Central governments or central banks	137,826	137,826	642
Public sector entities	259	259	52
Institutions	2,116,477	1,721,432	422,068
Corporates	1,552,745	1,516,237	373,547
Total	**3,807,307**	**3,375,754**	**796,309**
Small and medium enterprises, included in Corporates	-	-	-

Table 22: Average counterparty credit risk exposure

For the year ended 31 October 2014 *

£'000

Exposure amounts for counterparty credit risk in trading book	Gross Exposure	Final Exposure	Risk-weighted Exposure
Calculated under the Standardised Approach			
Central governments or central banks	297,396	297,396	1,674
Public sector entities	438	225,335	60,820
Institutions	2,500,293	1,928,117	474,194
Corporates	1,316,715	1,123,349	371,353
Total	**4,114,842**	**3,574,197**	**908,041**
Small and medium enterprises, included in Corporates	-	-	-

**Average exposure is over the ten months period since the implementation of the CRR from 1 January 2014.*

Table 23: Gross counterparty credit exposure by residual maturity

As at 31 October 2014

£'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	109	85,534	52,183	-	-	137,826
Public sector entities	55	204	-	-	-	259
Institutions	790,138	999,017	91,915	175,967	59,440	2,116,477
Corporates	775,983	630,679	100,233	35,335	10,515	1,552,745
Total	**1,566,285**	**1,715,434**	**244,331**	**211,302**	**69,955**	**3,807,307**

Table 24: Final counterparty credit exposure by residual maturity

As at 31 October 2014

£'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	109	85,534	52,183	-	-	137,826
Public sector entities	55	204	-	-	-	259
Institutions	733,561	854,628	84,689	48,554	-	1,721,432
Corporates	770,813	605,794	95,052	34,063	10,515	1,516,237
Total	**1,504,538**	**1,546,160**	**231,924**	**82,617**	**10,515**	**3,375,754**

Table 25: Gross counterparty credit exposure by geographic distribution

As at 31 October 2014

£'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	3,897	-	89,869	-	41,094	-	2,966	137,826
Public sector entities	55	-	-	-	-	204	-	259
Institutions	69,964	-	1,561,281	107,720	-	377,512	-	2,116,477
Corporates	163,260	7,105	1,271,008	20,515	-	87,187	3,670	1,552,745
Total	**237,176**	**7,105**	**2,922,158**	**128,235**	**41,094**	**464,903**	**6,636**	**3,807,307**

Table 26: Final counterparty credit exposure by geographic distribution

As at 31 October 2014

£'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	3,897	-	89,869	-	41,094	-	2,966	137,826
Public sector entities	55	-	-	-	-	204	-	259
Institutions	66,865	-	1,199,519	107,720	-	347,328	-	1,721,432
Corporates	163,260	7,105	1,246,497	20,515	-	75,190	3,670	1,516,237
Total	**234,077**	**7,105**	**2,535,885**	**128,235**	**41,094**	**422,722**	**6,636**	**3,375,754**

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

Table 27: Gross credit exposure by geographic distribution within the EEA

As at 31 October 2014

£'000

Gross exposure in relation to the EEA member states	UK	France	Netherlands	Germany	Belgium	Sweden	Finland	Spain	Others	**Total**
Central governments or central banks	38,910	-	22,653	-	-	28,306	-	-	-	89,869
Institutions	1,028,381	189,648	56,069	213,553	43,594	-	-	29,753	283	1,561,281
Corporates	1,185,964	55,423	-	3,123	-	196	13,376	-	12,926	1,271,008
Total	**2,253,255**	**245,071**	**78,722**	**216,676**	**43,594**	**28,502**	**13,376**	**29,753**	**13,209**	**2,922,158**

Table 28: Final credit exposure by geographic distribution within the EEA

As at 31 October 2014

£'000

Final exposure in relation to the EEA member states	UK	France	Netherlands	Germany	Belgium	Sweden	Finland	Spain	Others	**Total**
Central governments or central banks	38,910	-	-	22,653	-	28,306	-	-	-	89,869
Institutions	724,980	189,648	155,192	56,069	43,594	-	-	29,753	283	1,199,519
Corporates	1,161,453	55,423	3,123	-	-	196	13,376	-	12,926	1,246,497
Total	**1,925,343**	**245,071**	**158,315**	**78,722**	**43,594**	**28,502**	**13,376**	**29,753**	**13,209**	**2,535,885**

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. GRM-Enterprise Market Risk monitors general wrong-way risk using a variety of counterparty risk metrics including geographically centered hypothetical and historical stress events and single risk factor stresses and sensitivities.

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. Collateral value will deemed to be zero for any such security included in a counterparty collateral pool. Where the risk to the collateral and the risk of default by the counterparty are potentially correlated, GRM 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-Market Risk and GRM-Trading 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 2014, the final exposure arising from derivative transactions amounted to £835.8 million, excluding £228.4 million relating to the margin receivables. Refer to the previous section for detailed disclosure on exposures by product type.

Table 29: Counterparty credit risk for derivative transactions

As at 31 October 2014	Gross Positive Fair Value	Gross PFCE*	Netting Benefits	Initial Exposure	Collateral Allocated**	Final Exposure***	Gross Notional
£'000							
Calculated under the Mark to Market Method							
Exchanged Traded Derivatives							
Commodities	134,255	438,109	(214,591)	357,773	(24,327)	333,446	4,371,382
Equities	50,164	186,701	(90,081)	146,784	(38,374)	108,410	3,032,628
Interest Rate	27,607	109,221	(61,935)	74,893	(898)	73,995	159,516,123
	212,026	734,031	(366,607)	579,450	(63,599)	515,851	166,920,133
Over-The-Counter Derivatives							
Commodities	19,349	2,998	-	22,347	(10,930)	11,417	29,980
Credit Default Swaps	2,714	37,596	(22,503)	17,807	(17,807)	-	514,957
Equities	316,815	521,921	(431,090)	407,646	(111,864)	295,782	8,038,900
Foreign Exchange and Gold	280,445	291,136	(405,272)	166,309	(166,309)	-	21,705,153
Interest Rate	207,196	85,518	(218,988)	73,726	(60,933)	12,793	11,342,477
	687,835	939,169	(1,077,853)	687,835	(367,843)	319,992	41,631,467
Total	**899,861**	**1,673,200**	**(1,444,460)**	**1,267,285**	**(431,442)**	**835,843**	**208,551,600**

**PFCE stands for potential future credit exposure.*
***Collateral allocated amount is the collateral mark to market value after appropriate volatility adjustments.*
****The final exposure does not include margin receivable of £228.4 million.*

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 30: Notional of CDS

As at 31 October 2014	Notional
£'000	
Own credit portfolio	
Buy	370,076
Sell	144,881
Total	**514,957**

As at 31 October 2014, the Company received total collateral of £522.1 million for derivative transactions. 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 £34.6 million to its OTC derivative counterparties. 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, and
- Risk transfers.

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 principles for collateral management:

- Collateral must be liquid i.e. actively traded in secondary markets.
- Collateral must be of high credit quality.
- Collateral must be readily settled at an authorized 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 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 2014, the gross exposure amount subject to the use of the ECAIs was about £19.6 billion, which accounts for 37.6% of the total gross exposure[3] at year end.

Table 31: Exposures amounts subjected to the use of the ECAIs

As at 31 October 2014

£'000	Gross Exposure	Final Exposure	Risk-weighted Exposures
Exposure amounts subject to the use of the ECAIs			
Central governments or central banks	163,536	131,222	541
Public sector entities	259	259	52
Institutions	1,666,464	1,132,139	304,209
Corporates	2,204,955	959,918	397,052
Total	**4,035,214**	**2,223,538**	**701,854**

Majority of the Company's credit exposures subject to the use of ECAIs (84.6%) are to those counterparties with Credit Quality Step (CQS) 1 and 2[4]. Exposures amounts by CQS are shown below.

Table 32: Exposures amounts by CQS

As at 31 October 2014

£'000	Gross Exposure	Final Exposure
CQS		
1	2,017,679	1,443,255
2	1,394,652	488,533
3	610,690	285,653
4	-	-
5	12,193	6,097
6	-	-
Total	**4,035,214**	**2,223,538**

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

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

6.0 Market Risk

6.1 Definition of Market Risk

The Company defines the market risk as the risk of loss resulting from changes in market factors and the volatility of these factors. Mark risk can be exacerbated by thinly-traded or illiquid markets.

The Company considered market risk to fall into the following categories:

- *Credit Spread Risk[5]:* 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 and/or the volatility of interest rates.
- *Foreign Exchange Risk:* The risk of loss resulting from changes in exchange rates and/or the volatility of exchange rates.
- *Equity Risk:* The risk of loss resulting from changes in equity prices, indices and/or equity implied volatility.
- *Commodity Risk:* The risk of loss resulting from changes in commodity prices and/or the volatility of 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 in London. The Company is also subject to the RBC Group policies laid out in the RBC Group Market Risk Framework and standing orders.

The market risk management function produces daily reports for the business and senior management detailing the Company's exposure against limits, as well as monthly summary reports for the ETRMC and quarterly for the ERC.

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 ETRMC and the European Risk Committee; and

- *Operational limits* are approved by the Managing Director of GRM-Market Risk and reviewed as required by the ETRMC. Operational limits must always remain lower than tactical limits. All operational limit excesses and limit changes are reported to the ETRMC.

The 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.

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[5] CRR considers the credit spread risk in the trading book is part of specific interest rate risk.

6.3 Risk Profile

As at 31 October 2014, the Company's capital requirement in relation to the market risk is £183 million.

Table 33: Market risk by risk type

As at 31 October 2014	Risk-weighted Exposure	Capital Requirement
£'000		
Interest rate risk	1,747,202	139,776
Equity risk	713	57
Large exposure excess	-	-
Foreign-exchange risk	25,376	2,030
Commodities risk	515,784	41,263
	2,289,075	**183,126**

**Capital requirement on the position risk includes the capital requirement of £8.3 million in relation to the securitisation positions held in the Company's trading book.*

The Company had no Underwriting or CIU trading book risk as at the financial year-end.

6.4 Securitisations

6.4.1 Definitions

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

a) payments in the transaction or scheme are dependent upon the performance of the exposure or pool of exposures; and

b) 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 tranched 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.

6.4.2 Objectives of Securitisation Activities

The Company trades a range of European securitised products in the secondary market. These transactions are included the Company's trading book. The Company 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.

6.4.3 Summary of Relevant Accounting Policies

Recognition and measurement of financial instruments

Financial instruments, including securitisation positions, are classified at inception, based on management's intention, as at fair value through profit or loss (FVTPL) or available-for-sale (AFS). Certain debt securities with fixed or determinable payments and which are not quoted in an active market may be classified as loans and advances.

Trading securities include securities purchased for sale in the near term which are classified as FVTPL by nature and securities which are designated as FVTPL under the fair value option and are reported at fair value. Obligations to deliver trading securities sold short are recorded as liabilities and carried at fair value. Realised and unrealised gains and losses on these securities are recorded as Net trading income. Dividend and interest income accruing on trading securities are recorded in Interest income. Interest and dividends accrued on interest-bearing and equity securities sold short are recorded in Interest expense.

AFS securities include: (i) securities which may be sold to meet liquidity needs, in response to or in anticipation of changes in interest rates and resulting prepayment risk, changes in foreign currency risk, changes in funding sources or terms; and (ii) loan substitute securities which are client financings that have been structured as after-tax investments rather than conventional loans in order to provide the clients with a borrowing rate advantage. AFS securities are measured at fair value. Unrealised gains and losses arising from changes in fair value are included in Other components of equity. Changes in foreign exchange rates for AFS equity securities are recognised in Other components of equity, while changes in foreign exchange rates for AFS debt securities are recognised in Net trading income. When the security is sold, the cumulative gain or loss recorded in Other components of equity is included as net gain (loss) on AFS securities in Net trading income. Purchase premiums or discounts on AFS debt securities are amortised over the life of the security using the effective interest method and are recognised in Net interest income. Dividend and interest income accruing on AFS securities are recorded in Net interest income.

At each reporting date, and more frequently when conditions warrant, the Company evaluates AFS securities to determine whether there is any objective evidence of impairment. Such evidence includes: for debt instruments, when an adverse effect on future cash flows from the asset or group of assets can be reliably estimated; for equity securities, when there is a significant or prolonged decline in the fair value of the investment below its cost.

When assessing impairment for debt instruments the Company primarily considers counterparty ratings and security-specific factors, including subordination, external ratings, and the value of any collateral held, for which there may not be a readily accessible market. Significant judgement is required in assessing impairment as management is required to consider all available evidence in determining whether objective evidence of impairment exists and whether the principal and interest on the AFS debt security can be fully recovered.

In assessing whether there is any objective evidence that suggests that equity securities are impaired, the Company considers factors which include the length of time and extent the fair value has been below cost, along with management's assessment of the financial condition, business and other risks of the issuer. Management weighs all these factors to determine the impairment but to the extent that management judgement may differ from the actual experience of the timing and amount of the recovery of the fair value, the estimate for impairment could change from period to period based upon future events that may or may not occur, the conclusion for the impairment of the equity securities may differ.

If an AFS security is impaired, the cumulative unrealised loss previously recognised in Other components of equity is removed from equity and recognised under Net trading income. This amount is determined as the difference between the cost/amortised cost and current fair value of the security less any impairment loss previously recognised. Subsequent to impairment, further declines in fair value are recorded in Net trading income, while increases in fair value are recognised in Other components of equity until sold. For AFS debt securities, reversal of previously recognised impairment losses is recognised in Statement of Income if the recovery is objectively related to a specific event occurring after recognition of the impairment loss.

Derecognition 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.

6.4.4 Risk Profile

As at 31 October 2014, the Company had a total exposure of £57.9 million in relation to the securitisation positions, resulting in own funds requirement of £8.3 million using the Standardised calculation. Detailed analysis on the securitisation positions is included in the tables below.

Table 34: Exposures by underlying exposure type

As at 31 October 2014

£'000

Exposure Type	Exposure	Risk-weighted Exposure	Capital Requirement
Traditional securitisation			
Loans to corporates	27,174	93,958	7,518
Consumer loans	30,768	9,952	796
	57,942	**103,910**	**8,314**

Table 35: Securitisation exposures by seniority

As at 31 October 2014

£'000

Tranche	Exposure	Risk-weighted Exposure	Capital Requirement
Senior	6,349	1,270	102
Mezzanine	49,525	76,789	6,144
First loss	2,068	25,851	2,068
	57,942	**103,910**	**8,314**

Table 36: Securitisation exposures by risk weighting

As at 31 October 2014

£'000

Risk Weighting		Exposure	Risk-weighted Exposure	Capital Requirement
Exposures rated by ECAIs				
	20%	23,819	4,764	381
	50%	7,725	3,863	309
	100%	13,716	13,716	1,097
	350%	8,551	29,927	2,396
	1250%	2,063	25,789	2,063
		55,874	*78,059*	*6,246*
Exposures not rated by ECAIs				
	1250%	2,068	25,851	2,068
Total		**57,942**	**103,910**	**8,314**

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 Ratings.

7.0 Operational Risk

The Company defines operational risk as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, and includes legal risk. The Company assesses its operational risk profile through a combination of qualitative and quantitative methods.

A variety of risk and control criteria are used to assess different business lines within the Company. The information is used to generate the risk profiles for each business area. These quantitative profiles are analysed at an aggregate level to provide a view of the risk profile of the business and the local platform as a whole. These profiles are reported to various committees for discussion and action. Specific risks and issues as well as overall themes are discussed.

The Operational Risk Appetite Framework is a formally articulated structure comprised of an operational risk appetite, operational risk tolerance and operational risk profile. The Company’s Operational Risk Appetite definition is: ‘The level of operational risk the Company is willing to accept on a risk-reward basis. The operational risk tolerance is defined as the operational risk level beyond which the entity/ platform/ business line should not go, regardless of what the entity/ platform/ business is comfortable with.’

An operational risk report is presented to each of the committees and captures both Capital Markets and Wealth Management activities within the Company.

The Company has adopted the Basic Indicator Approach to calculate the own funds requirement for operational risk. As at 31 October 2014, the own funds requirement for operational risk is £33.3 million.

8.0 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 AFS securities in the Company’s audited financial statements in according to IFRS. The Company measures its AFS securities at fair value. Unrealised gains and losses arising from changes in fair value are included in Other components of equity. Changes in foreign exchange rates for AFS equity securities are recognised in Other components of equity, while changes in foreign exchange rates for AFS debt securities are recognised in Net trading income. When the security is sold, the cumulative gain or loss recorded in Other components of equity

is included as net gain (loss) on AFS securities in Net trading income. Dividend and interest income accruing on AFS securities are recorded in Net interest income.

At each reporting date, and more frequently when conditions warrant, the Company evaluates AFS securities to determine whether there is any objective evidence of impairment (e.g. a significant or prolonged decline in the fair value of the investment below its cost). If an AFS security is impaired, the cumulative unrealised loss previously recognised in Other components of equity is removed from equity and recognised under Net trading income. This amount is determined as the difference between the cost and current fair value of the security less any impairment loss previously recognised. Subsequent to impairment, further declines in fair value are recorded in Net trading income, while increases in fair value are recognised in Other components of equity until sold.

As at 31 October 2014, the Company had a total AFS reserve of £18.3 million arising from the non-trading book equity exposures. Currently, this AFS reserve has been excluded from the Company's CET1 Capital, and it is expected to be fully included in the CET1 Capital from 1 January 2015.

Table 37: Non-trading book equity exposures

As at 31 October 2014	
£'000	**Unlisted**
As at 1 November	
Cost	925
Accumulated unrealised gains	24,637
	25,562
Realised gains/(losses)	-
Unrealised gains/(losses)	(1,733)
As at 31 October	**23,829**
Accumulated unrealised gains	22,904
Less: Deferred tax @ 20%	(4,578)
AFS reserve	**18,326**

9.0 Interest Rate Risk in the Banking Book

Interest Rate Risk in the Banking Book (IRRBB) is the current or prospective risk to earnings or balance sheet value for the banking book arising from adverse movements in interest rates. The Company's banking book activities include Wealth Management and Corporate Banking lending and accepting retail deposits from Wealth Management clients. The majority of the loan book is fully matched from an interest rate risk perspective. A small proportion (less than 15%) of loans has been issued on a fixed rate basis. These loans are converted to floating rate through use of interest rate swaps, therefore mitigating any interest rate risk posed by these loans.

RBC Corporate Treasury sets and monitors an IRRBB limit for Wealth Management within the Company. The IRRBB limit is based on the expected loss in Economic Value of Equity (EVE) and the expected adverse impact on 12-month net interest income (NII) due to a 100bp change in Interest rate.

10.0 Remuneration

Remuneration disclosures are made in line with the Company's application of the requirements of Article 450 of the CRR.

10.1 Constitution and Activities of the EHRC

RBC Europe Limited has a Human Resources Committee which is responsible for the application of the compensation principles, practices and processes within all of RBC's operations on the UK mainland, except BlueBay Asset Management Ltd., to ensure that they support the business objectives determined by the Board of Directors 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 Committee 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 other senior Company employees, including all material risk takers (Code Staff).

The members of the Committee during 2014 were:

- Clare Spottiswoode (Chair) (until 21 October 2014)
- Dr John Roberts
- Janice Fukakusa
- Art Siksna
- Jim Pettigrew.

All of the members of the Committee are independent of day to day management under the standards set out by the Board. Ms Spottiswoode, Dr Roberts and Mr Pettigrew are all independent Non-Executive Directors. No individual is involved in decisions relating to his or her own compensation.

There were four meetings in fiscal year 2014. All the members of the Committee attended all Committee meetings.

During the year, the Committee received advice from RBC Europe Limited's Head of Human Resources, Head of Compliance and Chief Risk Officer, who provided advice to the Committee on the implications of the compensation policy on risk and risk management.

External Consultants

The Committee received independent advice on executive compensation issues from PricewaterhouseCoopers LLP.

Role of the Relevant Stakeholders

The Committee takes full account of the Company's strategic goals in setting compensation policy and is mindful of its duties to shareholders and other stakeholders. The Committee seeks to preserve shareholder value by ensuring the successful retention, recruitment and motivation of employees.

10.2 Criteria for the Identification of Code Staff

In 2014, the Company adopted new requirements for identifying Code Staff as required under the PRA's Remuneration Code. The new criteria were applied with effect from 26th June 2014. The following groups of employees have been identified as meeting the criteria for Code Staff:

Qualitative Criteria

Those captured by the qualitative criteria include:

- Board Directors;
- senior management including individuals registered with the UK regulators as holding a significant influence function (a SIF);

- senior control function management including risk, compliance and internal audit and heads of human resources, information technology, legal and tax;
- those 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 (the lower of €5m and 0.5% of the Company's Common Equity Tier One Capital).

Quantitative Criteria
Those captured by the qualitative criteria include:

- employees awarded total compensation of €500,000 or more in the preceding financial year;
- employees within the 0.3% of the number of staff who have been awarded the highest total compensation in the preceding year; and
- 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.

However, in accordance with the Remuneration Code, employees identified under the quantitative criteria were then assessed to determine if the professional activities of the employee or category of employees gave them the ability to make decisions that could have a material impact on the risk profile of the Company. All the regulatory reporting and approval requirements on the outcomes of this assessment were completed in respect of 2014 in accordance with the Remuneration Code.

10.3 Design and Structure of Compensation for Code Staff

The Company's approach to compensation is based on five guiding principles:

- compensation aligns with shareholder interests;
- compensation aligns with sound risk management principles;
- compensation rewards performance;
- compensation enables the Company to attract, engage and retain talent; and
- compensation rewards behaviours that are consistent with the core values of the Company.

All the Company's compensation policies and plans align with these principles and are approved by the European Human Resources Committee. Compensation comprises:

a) Salary
All Code Staff receive a salary that reflects their market value, responsibility and contribution to the Company.

b) Annual Incentives
All Code Staff, other than the Independent Non-Executive Directors and overseas Board Directors, are eligible to participate in discretionary performance based incentive schemes.

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 for Code Staff are subject to review by the Chief Risk Officer Europe to ensure they adequately reflect risk and performance, and are subject to review and approval by the European Human Resources Committee.

All compensation plans contain minimum compensation deferral requirements for Code Staff in line with the Remuneration Code. At least 50% of variable compensation is delivered in equity-linked awards which are subject to retention periods of 6 months post vesting, in line with the Remuneration Code. Depending on the compensation plan, the vesting of deferred compensation is either:

- 25% at the end of year one, 25% at the end of year two, and 50% at the end of year three, or
- 100% at the end of year three.

10.4 The Link between Pay and Performance for Code Staff

Variable compensation plans reward employees on the basis of several factors, including individual, business segment 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 in order to align compensation with the risk time horizon and motivate employees to generate longer-term value for shareholders. 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 results fall below expectations.

At the individual level, there are a number of factors that are considered in determining the extent to which an employee participates in a discretionary bonus distribution. Individual performance is evaluated using both financial and non-financial measures. Non-financial measures considered in the discretionary bonus evaluation process include the following:

- Adherence to our Code of Conduct. All employees are expected to adhere to our Code of Conduct, and failure to adhere through unethical or non-compliant behaviours results in disciplinary or corrective action, which may include immediate or eventual dismissal. 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 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 those employees who report to you 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; and
- 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 that are not meeting the above mentioned non-financial performance standards for their role are subject to our corrective action process, which can include either a significant reduction in bonus amounts or dismissal.

Furthermore, prior to vesting, Code Staff deferred compensation is subject to review under the firm’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.

10.5 Disclosures on Remuneration

During year ended 31 October 2014, remuneration for staff whose professional activities have a material impact on the risk profile of the business was as follows:

Table 38: Aggregate remuneration expenditure

	2014
	RBC Europe Limited
	GBPm
Aggregate remuneration expenditure (Code Staff)	43.7

Includes fixed and variable remuneration awarded in respect of performance year 2014 (including deferred components)

Table 39: Analysis of remuneration between fixed and variable amounts

	2014		
	Code Staff		
	Senior Management	Other	Total
Number of Code Staff	22	76	98
	GBPm	GBPm	GBPm
Total Fixed Remuneration	4.5	7.0	11.5
Total Variable Remuneration	17.2	15.0	32.2

Table 40: Analysis by remuneration bands

	2014	
	RBC Europe Limited	
Number of Code Staff paid €1m plus by remuneration band	Remuneration band	Number of Code Staff
	€1m - €1.5m	5
	€1.5m - €2m	4
	€2m - €2.5m	2
	€2.5m - €3m	1
	€3m - €3.5m	-
	€3.5m - €4m	-
	€4m - €4.5m	-
	€4.5m - €5m	-
	€5m - €6m	-
	€6m - €7m	1

Table prepared in Euros in accordance with Article 450 of CRR (exchange rate of €1 : £0.8138)

11.0 Appendices

11.1 Appendix 1: Board Membership

Current Independent Non-Executive Directors

Director	Role	Biography
John Roberts (Residency: UK)	Chairman Member of European Risk Committee European Audit Committee and interim chair of European Human Resources Committee	John Roberts is the former CEO of United Utilities plc, Manweb and Hyder Utilities. His current roles include Chairman of the Halite Energy Group Limited, Electricity North West, Impello plc and BlueBay Asset Management. He is an adviser to Glennmont Partners and Senn Delaney LLP. He is a Fellow of the Royal Academy of Engineering, the Institution of Engineering and Technology and the Association of Chartered Certified Accountants. He is a Companion of the Chartered Management Institute. He was awarded the CBE in 2005.
Jim Pettigrew (Residency: UK)	Chair of European Audit Committee and European Risk Committee Member of European Human Resources Committee	Jim Pettigrew was born and educated in Dundee. He graduated in Law at Aberdeen University and obtained a post-graduate diploma in accountancy studies from Glasgow University before embarking on Chartered Accountant (CA) training with Arthur Young McClelland Moores & Co (now Ernst and Young). After qualifying as CA in 1984, Jim undertook a number of commercial finance roles in Scotland prior to joining the London-based FTSE 100/250 international insurance broker Sedgwick Group plc. During an 11-year period at Sedgwick, he held several senior financial positions including Group Treasurer and Deputy CFO. He was then CFO at the money and derivatives broker ICAP for 8 years before joining Ashmore, the FTSE 250 emerging asset manager, as COO and as part of the small management team that successfully floated the business on the LSE in October 2006. Most recently, Jim has been CEO of CMC Markets. He currently holds a number of non-executive directorships including Aberdeen Asset Management plc. He is Chairman of Edinburgh Investment Trust plc and Clydesdale Bank plc, in addition to Senior Independent Director at Crest Nicholson plc. He is Vice President of the Institute of Chartered Accountants of Scotland.

Current Shareholder Representative Non-Executive Directors

Director	Role	Biography
Janice Fukakusa (Residency: Canada)	Chief Administrative Officer and Chief Financial Officer, RBC Member of European Audit Committee and European Human Resources Committee.	Started career with PricewaterhouseCoopers LLP where she obtained the professional designations of Chartered Accountant and Chartered Business Valuator. Holds a BA from University of Toronto and holds a MBA from Schulich School.
Doug McGregor (Residency: Canada)	Chairman and CEO of RBC Capital Markets Group Head, RBC Capital Markets and RBC Investor & Treasury Services	Joined Pitfield MacKay Ross Limited in 1979 before moving to Marcil Trust in 1982. Marcil Trust was acquired by RBC in 1990. Holds a BA (Hons) and an MBA from the University of Western Ontario. Currently Chairman of the Board of Directors of Investment Industry Regulatory Organization of Canada (IIROC).

Executive Directors

Director	Role	Biography
Graeme Hepworth (Residency: UK)	Chief Risk Officer - Europe	Started with RBC in 1997 in Group Risk focusing on Foreign Exchange products before taking on GRM's Portfolio Management focusing on loan portfolio risk analysis, economic capital and policy. Moved to New York in 2004 to take on the role of Head of Market Risk for the Capital Markets businesses in the USA. Currently focusing on an integrated approach to risk management across the areas of Market, Credit, Liquidity and Operational Risk in our European businesses. Qualified CFA and Masters in Mathematics (University of Waterloo).
Stephen Krag (Residency: UK)	Chief Financial Officer, Europe	Joined RBC Capital Markets in April 2011 from Daiwa Capital Markets Europe where he was Chief Financial Officer. Prior to this, Stephen was Chief Operating Officer for HBOS Treasury Services and held a number of senior finance positions within capital markets, equities and global financial market businesses for NatWest Securities. Graduated from Cambridge University and is a qualified Chartered Accountant.
David Thomas (Residency: UK)	CEO Europe, RBC Capital Markets	Joined RBC Capital Markets in 1992 following periods at National Westminster Bank and Sherwood Systems. He has held positions in IT, Risk Management and Compliance. Holds a BSc (Hons) in Chemistry and Management Studies from Loughborough University.
Harry Samuel (Residency: UK)	CEO, RBC Investor & Treasury Services	Started with RBC in 1989 in FX and Money Markets, working in London, Toronto and Sydney. Holds a BA (Hons) from McGill University and MSc from the London School of Economics.

Number of Directorships as at 31 October 2014

Chief Executive (1)	1
Non-Executive (2)	5
Independent Non-Executive (2)	10
Executive (3)	3

11.2 Appendix 2: Governance Committees

Committee	Frequency
European Risk Committee (ERC)	Quarterly
European Asset and Liability Committee (ALCO)	Monthly
European Audit Committee (EAC)	Quarterly
European Operating Committee (EOC)	Monthly
European Human Resources Committee (EHRC)	Quarterly
European Trading Credit Risk Management Committee (ETCRMC)	Monthly
European Trading Risk Management Committee (ETRMC)	Fortnightly and as required
European Loan Risk Management Committee (ELRMC)	Monthly
Operational Risk Committee (ORC)	Monthly
Reputation and Compliance Committee (RACC)	Monthly
Attestation Committee	Monthly
Valuations Committee (VC)	Monthly
New Business Committee (NBC)	Monthly and as required
Technology, Operations and Functions Forum (TOFF)	Bi-weekly

11.3 Appendix 3: Regulatory Capital Calculation Methods

The table below lists the relevant approaches elected to calculate the capital requirements for each applicable risk:

Risk Type	Approach or Treatment
Market Risk	Market risk pillar 1 calculations are undertaken according to the standardised approach. This provides a method for calculating position risk requirement (PRR) for all categories of market risk in the trading book in accordance with Part Three, Title 4 of the Capital Requirements Regulation (CRR). Market risk categories include interest rate risk, equity position risk, foreign exchange risk, commodities risk, options risk, collective investment undertakings risk and securities underwriting risk.
Specific Interest Rate Market Risk	Specific interest rate risk is calculated based on Articles 334 to 338 of the CRR for products for which there is a risk of loss for reasons other than a general move in market interest rates.
General Interest Rate Market Risk	General interest rate risk calculation is based on the modified duration method described in Article 340 of the CRR, except for the index-linked positions where the maturity method set out in Article 339 of the CRR must be used. If the modified duration method is not available for a position, the regulatory reporting system defaults the position under the maturity method.
Foreign Exchange Position Risk	Net open position risk by currency is calculated in accordance with the provisions set out in Part Three, Title 4, Chapter 4 of the CRR.
Equity Position Risk	Equity risk PRR is calculated in accordance with Part Three, Title 4, Chapter 3, Section 3 of the CRR. Specific risk is calculated in line with Article 342, and general market risk is calculated in line with Article 343 of the CRR.
Option Position Risk	The Company calculates option risk PRR in accordance with Article 329 of the CRR.
Commodity Risk	Commodity risk is calculated in accordance with Part Three, Title 4, Chapter 4 of the CRR. The Company calculates commodity risk PRR using the Maturity ladder approach, as described in Article 359 of the CRR.
Credit Risk Capital Component	The Company has adopted the standardised approach to credit risk in accordance with Part Three, Title 2, Chapter 2 of the CRR.
Intra Group Exposures	In the absence of any intra-group waivers, exposures to RBC group entities are treated in the same manner as exposures to third-parties.
Counterparty Risk Capital Component	For repo-style transactions, OTC derivatives and other products generating counterparty credit risk in the trading books, the exposure amounts are calculated as per Part Three, Title 2, Chapter 6 of the CRR. The credit risk mitigation techniques are applied per Part Three, Title 2, Charpter 4 of the CRR. Calculation of the capital requirements is then derived by applying a risk weight depending on the counterparty and other criteria, as set out in Part Three, Title 2, Charpter 2, Section 2 of the CRR. Settlement Risk capital requirements for unsettled transactions are derived directly based on Part Three, Title 5 of the CRR.
Credit Risk Mitigation	CRM is recognised in line with the requirements of Part Three, Title 2, Chapters 4 and 6 of the CRR for the calculation of the counterparty risk capital component arising from derivatives, repurchased transactions and securities lending and borrowing, and for banking book exposures arising from Wealth Management and Corporate Investment Banking businesses.
Operational Risk	The Company has adopted the Basic Indicator Approach (BIA) to calculate its operational risk capital requirements, per Part Three, Title 3, Chapter 2 of the CRR. Under the BIA, capital for operational risk is determined by multiplying gross average positive operating and interest revenues for the past three years by a fixed percentage (15%).
Concentration Risk Capital Component	The Company monitors and, if applicable, calculates the concentration risk capital component of the credit risk capital requirement in line with Part Four of the CRR.