

Pillar 3 remuneration disclosures for RBC Finance BV for the performance year ended October 31, 2010

1. Decision-making process for remuneration policy

RBC Europe has a Remuneration Committee ('the Committee') which is responsible for the application of the remuneration principles, practices and processes within all the operations of Royal Bank of Canada ('the Bank') on the UK mainland, except BlueBay Asset Management Ltd., to ensure that they support the business objectives determined by the RBC Europe Ltd Board of Directors ('the Board') and/or senior management and take into appropriate account sound risk management practices, including long-term and short-term risk. Within the authority delegated by the Board, the Committee is responsible for approving remuneration policy and in doing so takes into account the pay and benefits across RBC Europe. This includes the terms of bonus plans, other incentive plans and the individual remuneration packages of Executive Directors and other senior Group employees, including all in positions of significant influence and those having an impact on our risk profile (Code Staff).

The members of the Committee throughout 2010 were:

Dr John Roberts (Chair)

Sir Andrew Foster

Jim Pettigrew (appointed 1 June 2010)

Janice Fukakusa

Art Siksna

All of the members of the Committee are independent of day to day management under the standards set out by the Board. Dr Roberts, Sir Andrew Foster and Jim Pettigrew are all Independent Non-Executive Directors. No individual is involved in decisions relating to his or her own remuneration

There were 4 meetings in fiscal year 2010. Each of the members attended all Committee meetings, with the exception of Ms Fukakusa who attended 3 of the meetings and Mr Pettigrew who was eligible to attend and attended 2 meetings.

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

External consultants

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

a. Role of the Relevant Stakeholders

The Committee takes full account of the Bank's strategic objectives in setting remuneration 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.

Our approach to compensation overall and executive compensation in particular, is based on four key guiding principles:

1. Compensation aligns with shareholder interests

Performance-based incentive programs align the interests of executives with shareholders as payouts from these programs vary based on the Bank's absolute and relative performance. Executives receive a significant portion of compensation as equity incentive awards, motivating them to focus on the Bank's long-term success.

2. Compensation aligns with sound risk management principles

The Bank's risk management culture is reflected in our approach to compensation. Compensation principles and practices align with the enterprise-wide risk management framework to ensure there is an appropriate balance between risk and reward. Performance is assessed on a number of measures, including adherence to risk management policies and guidelines. Our compensation risk management policy is guided by the Financial Stability Board's Principles for Sound Compensation Practices and Implementation Standards, which have been adopted by our major regulators.

3. RBC pays for performance

Executive performance is assessed against key financial, risk, strategic and operational measures that are aligned with the Bank's strategic goals and objectives. A significant portion of pay at-risk is deferred in the form of equity incentive awards in order to align compensation with the risk time horizon and motivate executives to generate longer-term value for shareholders. To create a clear relationship between pay and performance, executives have an opportunity to earn higher compensation for outstanding performance, and conversely, less compensation when RBC, a business segment and/or individual results fall short of objectives.

4. Compensation enables RBC to attract and retain talent

Talented and motivated executives are key to building a sustainable future for the Bank. As such, the Bank offers compensation that is competitive within the markets where we operate and compete for talent. Compensation programmes reward executives for their consistent and sustainable performance and their potential for future contribution. The equity incentive programs, including the Bank's forfeiture provisions, encourage executives to build long-term careers at RBC.

b. Code Staff criteria

The following groups of employees have been identified as meeting the FSA's criteria for Code Staff:

- Significant Influence Functions – individuals registered with the FSA as holding a significant influence function (a SIF).
- Senior Managers – unless already registered as a SIF, an individual who is head of, or has responsibility for the management and supervision of a significant business line or business unit/team.
- Control Functions – unless already registered as a SIF, individuals who are heads of functions which have a material impact on the Bank's risk profile
- Risk Takers – all staff whose professional activities could have a material impact on the Bank's risk profile.

The categories above include all senior level management across the RBC BV Group as well as those responsible for the management of the Capital Markets and Wealth Management businesses. The heads of all significant businesses are included.

2. The link between pay and performance for Code Staff

Performance is assessed against key financial, risk, strategic and operational measures that are aligned with the Bank's strategic goals and objectives. A significant portion of pay at-risk 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, less compensation when RBC, a business segment and/or individual results fall short of objectives.

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. To the extent possible, selected financial metrics are applied at the individual level that demonstrates a contribution to business and overall results based on the financial goals and objectives. Assessment against non-financial metrics is based on:

- Reporting from control functions and can include reports of: audit - unsatisfactory audits; compliance - regulatory gaps, trades beyond excess limits; and risk management scorecards - operational, market, credit, etc) and used as part of an employee's Performance Management Process.
- All employees have access to and are expected to comply with a full range of risk management policies that are specific to their job requirements as outlined in their Performance Management Document.
- Accountabilities and detailed action plans are developed to implement and monitor changes required to close the gaps identified during risk management or internal audit assessments.

- We seek to avoid inappropriate and excessive risk-taking by regularly reviewing and updating trading and position limits where required to reflect appropriate standards.
- 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 2 years thereafter.
- Employees that are not meeting the performance standards for their role are subject to our corrective action process, which can include dismissal.
- Key behaviours (non-financial metrics) are part of the Global Performance Management process. We have strengthened the current performance management process to ensure compliance, risk and other control breaches are considered in bonus decisions, with the appropriate oversight and documentation. Where appropriate, poor performance in these areas will result in a significant reduction in bonus amounts. .
- Key behaviours 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 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.

3. Design and structure of remuneration for Code Staff

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 two of the Independent Non-Executive Directors, participate in one of our discretionary incentive programmes, as described below.

RBC Capital Markets Compensation Plan

An employee's bonus is allocated partially in an annual cash bonus and partially in deferred equity. The deferred awards are granted as notional share units that earn dividend equivalents.

The bonus pool is primarily earnings-based. It includes the following risk related adjustments:

- Charges for the cost of funds associated with the use of RBC's balance sheet.
 - Provision for credit losses.
 - Liquidity charges.
 - Mark to market and independent price verification adjustments to ensure revenues associated with trading books are not under/over valued.
 - The Human Resources Committee of the Bank ('the HRC') recommends the bonus pool payout to the Board for approval. The board uses its discretion to adjust bonus pool payouts upwards or downwards. Should a downward adjustment be warranted, the Board can, in its discretion, adjust bonus pool and individual payouts to as low as zero.
- The Capital Markets vesting schedule is 25% at the end of year one, 25% at the end of year two and 50% at the end of year three.
 - Capital Markets deferrals are adjusted at payout based on RBC share price performance, which directly aligns with overall business performance. They are also impacted by reinvested dividends.
 - RBC Capital Markets Code Staff are subject to the RBC Forfeiture and Clawback Policy. In the event of misconduct, including failure to follow internal policies and procedures, RBC Capital Markets can recoup incentive awards that have already been paid or vested, as well as cancel unvested deferred awards.

General Discretionary Incentive Programmes

Code staff who do not participate in the Capital Markets Compensation Programme described above, including those in International Wealth Management (IWM) and Global Functions are compensated through an annual (short-term) and mid-term incentive programme. These programmes are based on individual, business segment (except in the case of control function staff) and overall RBC performance. The mid-term incentive programmes is equity-based. The annual incentive programme is cash-based. The bonus pool is earnings-based. It includes the following risk related adjustments:

- Absolute and relative financial performance (including return on equity, earnings per share, total shareholder return) as well as operating leverage and achievement of identified cost management initiatives.
- Risk-adjusted performance (economic profit).
- Extraordinary, unusual or non-recurring items.
- The HRC recommends the short-term incentive payout to the Board for approval. Should a downward adjustment be warranted, the board can, in its discretion, adjust bonus pool and individual payouts to as low as zero.

All mid-term programme deferrals are adjusted at payout based on RBC share price performance. Mid-term incentive programme deferrals cliff vest after three years and the payouts are subject to a performance modifier based on relative total shareholder return (TSR) performance, with the possibility for senior executives of a zero payout if predetermined performance thresholds are not met. TSR is directly impacted by overall Bank performance and aligns compensation with the interests of shareholders.

c. Long Term Incentives

Senior Executives are eligible to be considered for the long-term incentive programme. In 2010, 1 Code staff participated in this programme. The long-term incentive programmes is equity-based, with a ten year term using stock options which vest 50% after year three and 50% after year four.

d. Risk adjustment

To further ensure appropriate risk adjustments are reflected in incentive compensation amounts for 2010, a Compensation Risk Adjustment Process has been applied to all major compensation programmes and to Code Staff. As part of this process:

- Group Risk Management prepares an inventory of potential risk factors. This inventory is maintained and updated throughout the year and includes, for example, market risk, risk concentration, unsold underwriting commitments, tail risks and exposure to stress events.
- The inventory is compiled through a detailed review of key control functions management reports, input received from Compensation Risk Management Oversight Committee (CRMOC) members, input received from the Risk Management Operating Committee, and input received from Group Executive and other Senior Executives in RBC including the Chief Compliance Officer, Chief Internal Auditor, General Counsel and Ombudsman.
- The completed inventory of potential risk factors is submitted to the Chief Risk Officer (CRO) for review.
- Subsequently the inventory is reviewed by the CRMOC and a determination is made as to which risk factors will be quantified and recommended as an adjustment for risk. Each risk factor is evaluated based on a number of criteria (for example, whether the risk has a material financial impact and whether it is reflected in the baseline bonus pool calculation).
- Upon approval by the CRMOC, adjustments for risk will be recommended to Group Executive for approval, and subsequently, to the Remuneration Committee and the HRC for consideration in the approval of final incentive amounts.
- In addition to risk adjustments of bonus pools, compensation payout schedules are sensitive to the time horizon of risks. In businesses, an appropriate portion of compensation is deferred in the form of deferred equity-based awards to reflect the risk time horizon.

Table 1: Aggregate remuneration expenditure

Aggregate remuneration expenditure (Code Staff) ^{1,2}

¹ Code Staff is defined in the Glossary

² Includes fixed and variable remuneration awarded in respect of performance year 2010 (including deferred component)

2010			
Capital Markets GBPm	Wealth Management GBPm	Other GBPm	Total GBPm
29.0	2.6	3.8	35.4

Table 2: Analysis of remuneration between fixed and variable amounts

Number of Code Staff

Total Fixed

Variable ¹

Cash

Deferred notional shares

Total Variable Pay

¹ Variable pay in respect of performance year 2010

2010		
Code Staff		
Senior Management	Non Senior Management	Total
18	21	39
GBPm	GBPm	GBPm
2.8	2.2	5.0
8.3	4.4	12.7
12.0	5.7	17.7
20.3	10.1	30.4

Table 3: Analysis of deferred remuneration

Deferred remuneration at 31 October 2010 ¹

Outstanding, vested

Outstanding, unvested ²

Awarded during financial year ³

Paid out ⁴

Reduced through performance adjustments

¹ Where deferred remuneration is held in Canadian Dollars, the rate of £1 = C\$1.631 has been used.

² Value of cash and notional shares unvested at 31 October 2010.

³ Value of deferred cash and notional shares awarded during 1 November 2009 to 31 October 2010.

⁴ Value of notional shares vested on 31 October 2010. Share price as at 29 October 2010 (last trading day in fiscal year).

2010		
Code Staff		
Senior Management	Non Senior Management	Total
GBPm	GBPm	GBPm
4.5	1.7	6.2
10.8	5.1	15.9
11.1	4.7	15.8
3.4	1.2	4.6
-	-	-

Table 4: Details of sign-on and severance payments

Sign-on payments

Made during year (GBPm)

Number of beneficiaries

Severance payments

Made during year (GBPm)

Number of beneficiaries

2010		
Code Staff		
Senior Management	Non Senior Management	Total
0.6	0.1	0.7
2	1	3
0	0	0
0	0	0