

Remuneration

Pillar 3 Disclosures for RBC Investor Services Bank S.A.

YEAR ENDED OCTOBER 31, 2017

Strictly Private and Confidential



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Treasury Services**

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Remuneration

Remuneration disclosures are made in line with the Company's application of the requirements of the qualitative and quantitative remuneration disclosures under the Pillar 3 framework and Article 450 of the Capital Requirements Regulation (EU) No 575/2013. For enhanced disclosure on RBC's enterprise-wide compensation practices, please refer to RBC's proxy circular (last published on March 8, 2017¹).

Constitution and Activities of the Remuneration Committee

RBC Investor Services Bank S.A. ("IS Bank") has a Remuneration Committee which is responsible for the oversight, design and the application of the compensation principles, practices and processes within IS Bank to ensure that they support the business objectives determined by the Board of Directors and/or senior management, take into account sound risk management practices, including long-term and short-term risk and do not encourage risk-taking in excess of the risk appetite of RBC and RBC IS Bank – subject to the approval of the Board of Directors of RBC IS Bank. The Committee is responsible for preparing compensation policy and in doing so takes into account the pay and benefits across our Company. This includes the terms of bonus plans and other incentive plans. The Committee is responsible for the preparation of recommendations to the Board regarding the remuneration of senior executives, material risk takers, and other employees and directors identified as Regulated Employees across IS Bank. On an annual basis, the Remuneration Committee reviews the remuneration policy and recommends it for approval to the Board of Directors.

Members (fiscal year-end)	Meeting Attendance (5 meetings in total)
<ul style="list-style-type: none">▪ Kim Stevens (Chair) – resigned on 30th March, 2017▪ Stephen Walker▪ Gennaro Casale▪ Francis Jackson (Chair) replacing Ms. Stevens after her resignation	<ul style="list-style-type: none">▪ 3 meetings▪ 5 meetings▪ 4 meetings▪ 2 meetings

All of the members of the Committee are independent of day to day management under the standards set out by the Board. Kim Stevens is based in Canada and is not an employee of IS Bank. Ms. Stevens resigned from her responsibilities as Chair of the Remuneration Committee as per recommendations from the Joint Supervisory Team. Stephen Walker is an independent Non-Executive Director. Gennaro Casale is the Employee Representative on the Committee. Francis Jackson is based in London, is a Non-Executive Director and is not an employee of IS Bank. No individual is involved in decisions relating to his or her own compensation.

During the year, the Committee received advice from RBC Compensation Centre of Expertise (COE) and IS Bank Chief Risk Officer, who provided advice to the Committee on the implications of the compensation policy on risk and risk management, and on the adjustments that should be made to levels of variable compensation payable to staff, taking into account all relevant current and future risks.

The Remuneration Committee reviewed the remuneration policies in October and November 2017. Changes to these policies were made in order to ensure compliance with the MIFID II guidelines, the European Banking Authority (EBA) Regulations on Remuneration, the Joint Supervisory Team (JST) recommendations and the Shareholder Ownership Requirements (based on RBC's enterprise-wide policy). The changes also addressed weaknesses as identified by Internal Audit on remuneration in 2017. Each policy contains an introductory chapter that summarises and tracks the most recent changes.

¹<http://www.rbc.com/investorrelations/pdf/2017englishproxy.pdf>

External Consultants

The HR management team of IS Bank received independent advice from Linklaters on changes to the IS Remuneration Policy, prior to presentation to the Remuneration Committee.

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.

Criteria for the Identification of Regulated Employees

The following groups of employees have been identified as meeting the criteria for Regulated Employees:

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

- Board of Directors
- Senior management including individuals heading a material business unit such as the Director, Treasury Market Services or Head, Client Operations Europe
- Senior control function management including risk, compliance and internal audit and heads of finance, human resources, information technology and legal
- Those who have authority either individually or as members of a Committee to recommend, approve or veto new products or decisions that result in market or credit risk exposures that exceed specific thresholds.

Employees captured by quantitative criteria

- 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
- 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.

Design and Structure of Compensation for Regulated Employees

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

1. Compensation aligns with shareholder interests
 - Awards vary based on absolute and relative performance of RBC.
 - Mid and long-term incentives vest and pay out over time, encouraging a longer-term view of increasing shareholder value.
2. Compensation aligns with sound risk management principles
 - Our risk management culture is reflected in our approach to compensation. Our compensation practices appropriately balance risk and reward, and align with shareholder interests.
 - Performance of individuals, lines of business and RBC overall is assessed on a number of measures, including adherence to risk management policies and guidelines.
3. Compensation rewards performance
 - Our pay-for-performance approach rewards contributions of employees to individual, business segment and enterprise results relative to objectives that support our business strategies for sustainable growth over short, medium and long-term horizons, which are aligned with the risk appetite of RBC.

4. Compensation enables the Company to attract, engage and retain talent
 - Talented and motivated employees are essential to building a sustainable future for RBC. We offer compensation that is competitive within the markets where we operate and compete for talent.
 - Compensation programs reward employees for high performance and their potential for future contribution.
5. Compensation rewards behaviours that are consistent with our values and drive exceptional client experiences
 - RBC values, embedded in our Code of Conduct, form the foundation of our culture and underpin our ongoing commitment to put the needs of our clients first and deliver value to all of our stakeholders.
 - Risk conduct and compliance with policies and procedures are considered in determining performance-based compensation.

RBC IS Bank's Remuneration Policy aligns with global enterprise-wide policies and procedures and applies to RBC IS Bank entities (subsidiaries and branches) under the scope of the Commission de Surveillance du Secteur Financier, the European Central Bank and other local regulators of the subsidiaries and branches. Subsidiaries and branches of RBC IS Bank will implement these policies as a minimum. Any local requirements which go beyond this policy will be implemented in addition to this policy. All the Company's compensation policies and plans align with the five guiding principles described above and the Compensation Policy is approved by the Remuneration Committee and the Board of Directors.

Elements of Compensation

Remuneration includes base salary, performance-based incentive awards, pension and benefits. For 2017, there were no non-cash benefits (such as role-based pay or discretionary fringe benefits) offered. All benefits are non-discretionary and are considered to be part of fixed remuneration.

a. Fixed Remuneration

All Regulated Employees receive fixed remuneration that reflects their market value, responsibility and contribution to the Company. Base salary is considered fixed remuneration as it provides a predictable base level of income reflecting each employee's level of responsibility, capabilities, skills and experience. All kind of fringe benefits offered by IS Bank are also considered components of fixed remuneration for employees.

b. Variable Remuneration

All Regulated Employees, other than the Independent Non-Executive Directors and overseas Board Directors are eligible to participate in discretionary performance based incentive schemes. The purpose of incentive awards is to retain and motivate employees, rewarding individual performance and their contribution to longer-term growth at RBC. Variable remuneration may be offered in the form of cash and/or equity-linked instruments depending on the amount of incentive and employee level.

RBC IS Bank business unit employees participate in the RBC Investor & Treasury Services (I&TS) Incentive Programme, which consists of an annual cash-based programme and, depending on the amount of incentive, a medium-term equity-based programme. Employees in Functions and Technology & Operations participate in variable compensation incentive programmes which consist of a short-term cash-based programme, as well as a medium-term equity-based programme that applies to senior employees. Variable remuneration represents a higher proportion of total remuneration for senior employees to ensure alignment with longer-term shareholder value creation.

The fraction of variable remuneration mix for Regulated Employees is based on the minimum compensation deferral requirements in line with Regulatory requirements.

Compensation risk and performance adjustment

Performance based annual discretionary incentives may be awarded based on the performance of the Company, the business, and the individual as detailed further below. Annual incentives for Regulated Employees are subject to review by the IS Bank Chief Risk Officer (CRO) to ensure they adequately reflect risk and performance, and are subject to review and recommendation to the Board by the Remuneration Committee.

The amount of variable compensation awarded to employees is appropriately adjusted for risk in accordance with the Compensation Risk and Performance Adjustment Process. It is recognized that at various times, the baseline variable compensation program pool calculations may not adequately reflect all significant risks that RBC is exposed to. That is, there may be significant potential risks to RBC that have been identified, but have not yet impacted its current financial performance. The CRO of RBC IS Bank will review risks not captured in current financial performance to determine which risks should impact compensation. This includes an assessment of whether adjustments should apply to an entire variable compensation program, only to certain business units within a variable compensation program, or to specific employees. As applicable, business unit heads are included in the process of determining recommended adjustments for risk.

The key risks considered when determining impact on variable compensation pools are risks to capital and liquidity. They are measured through risk appetite indicators and recovery plan trigger indicators and are monitored periodically. Furthermore, total variable compensation shall generally be considerably reduced where a downturn in or negative financial performance of RBC IS Bank occurs, taking into account both current remuneration and reductions in payouts of amounts previously earned, including through forfeiture and clawback arrangements.

Ratio between fixed and variable compensation

IS Bank has obtained the necessary approvals to operate a maximum level of the ratio between the fixed and variable components of remuneration that does not exceed 200% of the fixed component of the total remuneration for each individual as required under Article 91(1)(g) of CRD IV. 100% shareholder approval was obtained on February 15, 2017 for IS Bank and IS Bank subsidiaries for the 2017 fiscal year.

Variable remuneration represents a higher proportion of total remuneration for senior employees to ensure alignment with longer-term shareholder value creation. When determining the pay mix between fixed and variable compensation, consideration is given to evolving market practice, balance between compensation elements and maintaining flexibility through volatile markets, recognizing the possibility of paying a zero bonus.

Deferral, vesting requirements and proportionality

All compensation plans contain minimum compensation deferral requirements for Regulated Employees in line with Regulatory requirements. Regulated Employees (regardless of bonus plan) whose variable compensation is above 100,000 EUR must defer a minimum of 40% of their total variable remuneration over three years. In certain cases, where variable remuneration exceeds 1,000,000 EUR, 60% of the award will be deferred over three years.

Regulated Employees who may be awarded above EUR 100,000 in variable compensation are subject to 50% of non-deferred variable compensation being paid in the form of equity-linked instruments, a portion of their bonus being deferred and the application of a retention period and ex-post risk adjustments to variable remuneration as detailed further below.

50% of variable compensation for Regulated Employees is delivered in equity-linked awards which are subject to retention periods of 6 months post vesting. Regulated employees awarded total annual variable remuneration of 100,000 EUR or more are not eligible for reinvested dividends. Effective 2018, deferral periods for certain categories of Regulated Employees (Authorised Management) who are awarded total annual variable remuneration above 100,000 EUR will increase to 5 years at 20% per annum. Furthermore, all equity deferrals will be subject to an increased retention period of 12 months for members of Authorised Management who are awarded above EUR 100,000 in variable compensation. The Company confirmed with the CSSF that it would apply the 12 month retention period and the increased deferral periods in line with the EBA's Guidelines on sound remuneration policies from the performance year 2018 onwards.

Deferred remuneration awards granted to Regulated Employees can be adjusted downward at vesting and payout if there has been a material downturn in financial performance or a material failure of managing risk, and actual risk and performance outcomes are materially different from the assessments made at the time of grant.

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 for the I&TS Share Unit Award Programme (for RBC IS Bank business unit employees); or
- 100% at the end of year three for the RBC Performance Deferred Share Unit (PDSU) Programme (for employees in Functions or Technology & Operations who support RBC IS Bank).

RBC IS Bank business unit employees (that are not within the scope of the deferral requirements outlined above) are subject to certain deferral arrangements (between 25% and 55%) based on if their total bonus allocation meets certain thresholds.

These practices align with our compensation principles, whereby ensuring an appropriate balance between risk and reward.

Variable compensation for Control Functions

Performance measures for employees responsible for financial and risk control activities will be based on the achievements and objectives of the functions, and their remuneration will be determined independently from the performance of the specific business areas they support, therefore helping to prevent any potential conflicts of interest. Variable remuneration for employees who support RBC IS Bank in Functions, including all Regulated Employees in control functions, will be based only on individual and overall RBC performance and not the performance directly linked to the business they support.

Share Ownership requirements

To reinforce the focus on generating long-term value for shareholders, RBC I&TS senior leaders (inclusive of IS Bank) have minimum share ownership requirements. Based on the level of responsibility and role, the share ownership requirements may vary from 1x (for Control Function Vice Presidents and I&TS Managing Directors (inclusive of IS Bank) to 2x (I&TS Operating Committee members) of the average base salary of the most recent three years.

Guaranteed variable remuneration and severance payments

RBC IS Bank will only in exceptional circumstances make a cash payment commitment to an employee for a specific payment amount, to be paid at a future date not exceeding 12 months following hire, where such future payment amount is guaranteed. Any payment commitment will be consistent with delegated approval authorities. All severance payments must align with regulatory requirements, local market practices and shareholder interests. Payments related to the termination of employment will reflect performance achieved over time and do not reward failure or misconduct. Managers are required to undertake an assessment of the employee's performance on a multi-year basis and confirm that the proposed severance payment reflects performance achieved over the assessment period and that there has been no failure or misconduct on the part of the employee.

The Link between Pay and Performance for Regulated Employees

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 (linked to RBC's share price performance) in order to align compensation with the risk time horizon, motivate employees to generate longer-term value for shareholders and remain accountable for decisions with longer risk-tails.

To create a clear relationship between pay and performance, incentive awards are directly linked to performance and 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.

Incentive awards take into account firm-wide, business unit level and individual performance metrics. Firm-wide metrics include the financial performance of RBC; business unit level metrics include the financial performance of individual business units (with the exception of Control Functions); individual performance metrics include the employee's contribution to overall performance, achievement of individual performance objectives, etc. In order to protect the sound capital base of the bank, in cases where firm-wide performance is weak, or in a net-loss position, then the incentive programme formula would be impacted and this could result in a zero payout.

All employees will be assessed as part of a performance management process. This involves the assessment of performance relative to objectives set. Goals are set and performance is assessed on a multi-year basis. The performance management process is reviewed by the RBC I&TS HR department. 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.

Select financial measures are applied at the individual level that demonstrates a contribution to overall business results based on financial and risk goals and objectives. These metrics include financial targets (related to income, revenue and cost savings), growth metrics, compliance with risk policies and limits and performance relative to risk and capital usage.

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

- Adherence to our Code of Conduct. RBC's Code of Conduct (Code) promotes standards of ethical behaviour that apply to directors, senior management and all employees. Our Code fosters an open environment in which questions and concerns may be brought forward. It creates a frame of reference for dealing with sensitive and complex issues, and provides for accountability if standards of conduct are not upheld. All employees are expected to adhere to our Code 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;
- Reports from control functions, including those from Internal Audit, Compliance, 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.

Ex-ante and ex-post adjustments

Prior to vesting, Regulated Employees 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. Adjustments may be applied to entire compensation programs, only to certain business units within a compensation program, or only to certain employees, depending on the underlying nature of the assessed risks, actual performance and risk outcomes.

Adjustments for risk and performance under this process may be applied to variable compensation at time of award (ex-ante) and/or at or before time of vesting of deferred compensation (ex-post).

Ex-ante adjustments are applied at the time variable compensation is awarded, based on forward looking quantitative and qualitative measures. For Regulated Employees, the CRO of IS Bank conducts a review of their compensation to ensure variable compensation payouts adequately reflect risk and performance. The CRO will review and assess the underlying risks associated with the Regulated Employees' roles and review the recommended variable compensation for the current fiscal year and determine adjustments, if any.

Ex-post adjustments are applied to deferred, unvested variable compensation at or before the time of award maturity and payout. Adjustments may be made if actual performance and risk outcomes are significantly different than assessments made when deferred compensation was initially granted. At the end of each fiscal year, and before the vesting date of deferred compensation, the Remuneration Committee will consider whether there has been a

material downturn in financial performance or a material failure of managing risk. If actual risk and performance outcomes are materially different from assessments made when deferred compensation was granted, and that information would have negatively impacted the amount of deferred compensation awards when initially granted, the Remuneration Committee will determine the following: if downward ex-post adjustments should be applied to unvested deferred compensation, the employees impacted, the portion of unvested deferred compensation to which the adjustment applies; and the value of the adjustment to be applied. The CRO leads the process of determining whether there has been a material downturn in financial performance, or a material failure in managing risk based on certain ex-post adjustment review process triggers; and provides to the Remuneration Committee any risk-related recommendations with respect to deferred compensation awards vesting.

All bonuses made to Regulated Employees under the Company's variable compensation schemes are subject to malus and clawback under the RBC Forfeiture and Clawback Policy for Regulated Employees. This policy enables RBC to recoup incentive awards that have been paid and cancel unvested incentive awards in certain situations including but not limited to misconduct as defined in the policy.

Disclosures on Remuneration

During the year ended October 31, 2017, remuneration for staff whose professional activities have a material impact on the risk profile of the business (Regulated Employees) was as follows:

Table 1: Remuneration by business

	Client Operations	Global Client Coverage	Treasury & Market Services	Control Functions	Other Functions
Total	€3.0	€5.9	€1.2	€2.2	€2.3

Table 2: Remuneration awarded during the year

(EUR millions)	2017	
	Senior Management	Other
Number of Regulated Employees	11	40
Fixed Compensation		
Cash-based	€2.3	€6.2
Variable compensation		
Cash-based (non-deferred)	€0.7	€1.6
Cash-based (deferred)	€0.3	€0.5
Shares and share-linked instruments (non-deferred)	€0.5	€0.7
Shares and share-linked instruments (deferred)	€0.8	€1.0

Table 3: Deferred compensation

(EUR millions)	2017	
	Senior Management	Other
Outstanding		
Cash-based (vested)	€0.0	€0.0
Cash-based (unvested)	€0.4	€0.6
Shares and share-linked instruments (vested)	€0.0	€0.0
Shares and share-linked instruments (non-vested)	€2.3	€2.8
Fiscal year payouts		
Cash-based	€0.1	€0.1
Shares and share-linked instruments	€1.0	€2.2

Table 4: Special payments

(EUR millions)	2017	
	Number of employees	Amount
Sign-on awards	-	-
Severances	4	€0.4
Guaranteed awards	-	-

The highest severance payment for 2017 was €0.3 million. All severance payments for the year were awarded and paid in full during the same fiscal year.

Table 5: Analysis by compensation bands

EUR 1,000,001 to 1,500,000	1
Total	1

