T. Rowe Price International Ltd

Pillar 3 & Remuneration Code Disclosure

31 December 2015

Background:

The Capital Requirements Directive ("CRD") sets out the regulatory capital framework for Europe based on the provisions of the Basel II Capital Accord. CRD has been implemented in the UK through the Financial Conduct Authority's ("FCA") Handbook, and specifically through the General Prudential Sourcebook and the Prudential Sourcebook for Banks, Building Societies and Investment Firms Sourcebook ("BIPRU").

The CRD framework consists of three "Pillars":

- **Pillar 1** sets out the minimum capital requirements and variable capital requirements that a firm is required to meet for credit, market and operational risk;
- **Pillar 2** requires that a firm take a view on whether additional capital should be held against capital risks not covered by Pillar 1; and
- **Pillar 3** requires that a firm publish certain details of its capital resources, FCA capital requirement, key risks and risk management process.

FCA rule BIPRU 11 requires that a firm subject to the provisions of the CRD must disclose the relevant information required under this rule, in a document referred to as its Pillar 3 Disclosure document. The disclosures in this Pillar 3 Disclosure document are made in respect of T. Rowe Price International Ltd ("TRPIL" or "the firm")). The disclosures have been prepared on a consolidated basis including TRPIL's subsidiaries - T. Rowe Price Hong Kong Limited, T. Rowe Price Singapore Private Ltd, T. Rowe Price (Switzerland) Gmbh, and T. Rowe Price (Luxembourg) Management Sarl - and set out the key risks facing the firm, how it manages these risks, and how it has satisfied itself that it has sufficient regulatory capital in place in respect of these risks. TRPIL is a wholly owned subsidiary of T. Rowe Price Group, Inc. ("TRPG").

FCA Capital requirement:

As a BIPRU Limited Licence 50k firm, TRPIL's Pillar 1 Minimum Capital Requirement is €50,000 and its Pillar 1 Variable Capital Requirement is the higher of the Fixed Overhead Requirement; and the sum of the Credit and Market Risk Requirements. As a Limited Licence firm, the Pillar 1 Variable Capital Requirement for TRPIL does not include an operational risk capital component. For 2015, the Fixed Overhead Requirement is TRPIL's Pillar 1 Variable Capital Requirement as it is higher than the sum of the Credit and Market Risk Requirements.

TRPIL undertakes an Internal Capital Adequacy Assessment Process (ICAAP), which assesses and quantifies under Pillar 2 the key risks affecting TRPIL. This assessment is performed at least annually. TRPIL is required to hold additional capital if the results of the Pillar 2 capital calculation are greater than Individual Capital Guidance (ICG).

As at 31st December 2015, TRPIL's tier one capital consists of (in millions):

Permanent share capital	$174.1
Profit and loss and other reserves	$357.8
Total tier one capital	$531.9

TRPIL does not have tier two or tier three capital. As at 31st December 2015 our total capital after deductions is $280.8 million, based on the audited financial statements.

TRPIL's FCA Pillar 1 and Pillar 2 Capital Requirement calculations for the firm as at 31st December 2015 are summarized in the table below.

TRPIL as at 31st December 2015		
	Pillar 1	**Pillar 2**
	Minimum Capital	**Minimum Capital**
	Millions	**Millions**
Credit Risk	$8.7	
Market Risk	$5.3	
Operational Risk		
Fixed Overhead Requirement	$47.8	
Pillar 1 Variable Capital Requirement	**$47.8**	
Pillar 2 - Operational & Business Risk		$52.4
Pillar 2 - Credit Risk		$8.7
Pillar 2 - Market Risk		$5.3
Pillar 2 Variable Capital Requirement		**$66.4**
Current Total Capital after deductions	$280.8	$280.8
Surplus Capital	**$178.5**	**$214.4**

Assessment of Pillar 2 Capital Requirement:

In order to determine the level of capital that TRPIL needs in respect of its current risks and those expected over the four year planning cycle, TRPIL's management has worked through the Internal Capital Adequacy Assessment Process ("ICAAP") and prepared a summary document which involved:

- Identifying and quantifying the key risks;
- Considering the risk mitigation in place;
- Stress testing the relevant key variables of the business, such as the impact market downturn has on its assets under management;
- Determining what action would be taken in the event that a key risk crystallised; and
- Determining what level of capital is appropriate having considered the above.

The Pillar 2 Capital Requirement has been determined by assessing TRPIL's exposure to the following key risks.

Key Risks Assessed in the ICAAP:

Credit Risk:

Credit Risk is the risk of financial loss if a customer or counterparty to a financial instrument fails to meet is contractual obligations. As TRPIL does not conduct lending activity, the risk associated with this category is narrowed to counterparty risk in relation to trade debtors, cash at bank and cash investments. Concentration of credit risk in trade debtors is believed to be minimal in that our clients have substantial assets, including those in the investment portfolios that we manage for them. TRPIL's Pillar 1 Credit Risk requirement is calculated as 8% of the risk weighted exposures after taking any available deductions. Pillar 2 is calculated on a similar basis but takes into account additional risk weighted deductions where appropriate for the balances held.

Market Risk:

Market risk is defined as the risks that arise from fluctuations in values of, or income from, assets or in interest or exchange rates.

TRPIL does not conduct principal trading.

TRPIL's turnover and retained profit are based on the value and composition of assets under management. Accordingly, fluctuations in financial markets and the composition of assets under our management directly affect turnover and operating results. The company's exposure to market risk in relation to the balance sheet is related to cash and trade debtor balances denominated in currencies other than TRPIL's functional currency, whereby changes in foreign exchange results can impact the financial results. In accordance with BIPRU 7.5 and the Foreign Currency PRR TRPIL has calculated the Pillar 1 capital charge for market risk as 8% of the firm's total foreign currency exposure, including cash balances and trade receivables as at 31 December 2015. Management have also concluded that adopting the Pillar 1 approach to calculating the Foreign Currency PRR as the basis for establishing the Market Risk Pillar 2 capital is reasonable and reflective of TRPIL's foreign currency exposure risk.

Liquidity Risk:

Liquidity risk is the risk that the company will not be able to meet its financial obligations as they fall due. The company always ensures it has sufficient liquid capital on demand to meet the liquidity requirements of the FCA. TRPIL maintains cash and cash investments in excess of its Pillar 1 and ICG capital requirements. Due to the excess liquidity TRPIL holds and its low risk appetite towards liquidity risk, management have not established a Pillar 2 capital reserve for liquidity risk. As required by the FCA under PS09 "Strengthening Liquidity Management Standards, TRPIL has documented its Liquidity Risk Management Framework.

Operational Risk:

Operational Risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. As a limited licence firm, TRPIL is not required to hold capital at Pillar 1 under the FCA's standardised approach.

In assessing Operational Risk under Pillar 2, TRPIL underwent an operational risk assessment process, which consisted of interviews and workshops with business unit staff and leadership in order to identify and quantify operational risk. This process resulted in nine key risks, for which key risk scenarios were developed and historical data captured. The historical data and the key risk scenario data were then input into a loss frequency model and Monte Carlo simulation to calculate the Operational Risk Pillar 2 capital.

Other Risks:

TRPIL also takes into account via the stress tests in the ICAAP other revenue or expense risks for which Pillar 2 capital may need to be calculated.

Risk Management Objectives and Process:

The TRPIL Board places a high priority on a strong risk management culture within the firm. The board recognises that risk is inherent in TRPIL's business and the markets in which it operates. Effective risk management and strong internal controls are therefore central to the firm's business model. The risk profile and internal control environment are characterised by:

- A comprehensive Code of Ethics and Conduct;
- A clear definition of management and staff responsibilities, with reporting lines incorporating segregation of duties
- Recruitment procedures to ensure that TRPIL recruits only staff of appropriate calibre and background;
- Professionally staffed controlled functions;
- The encouragement of a culture of openness and mutual trust between colleagues;
- Comprehensive professional indemnity insurance arrangements; and
- Ensuring that the firm has sufficient available capital resources to meet and exceed its operational and regulatory capital needs.

The TRPIL Board consider that TRPIL has a low risk profile focused on putting clients first and on providing long-only active products. TRPIL holds no client monies, cannot take proprietary trading positions and has a very clear segregation of duties between portfolio management, trading, settlement and fund administration. TRPIL also has a low operational error experience.

Enterprise Risk Management (ERM) is responsible for promoting risk management at all levels of the TRPIL organisation, providing a framework to assist management to identify, assess and control risks. The ERM team report to the TRPIL board and International Risk Committee on a regular basis. All business areas are subject to a risk profiling exercise conducted by the ERM team at least annually. During these exercises key residual enterprise risks are identified and discussed with management, with action plans developed for key risks beyond management's risk appetite.

TRPIL articulates its risk appetite through a risk appetite framework, and has risk metrics in place for each key risk type. The risk metrics are regularly reported to the International Risk Committee.

TRPIL has a formal and documented process for the investigation and mitigation of errors, which ensures that where appropriate management action is taken to improve the control environment. All errors are recorded in a central database.

TRPIL operates a robust disaster recovery platform that is regularly tested on an annual basis. In the event of a local disaster, or failure to gain access to any of our worldwide offices, a disaster recovery site is available to provide a dedicated workspace for TRPIL's use. Disaster recovery procedures for TRPIL's overseas branch locations are also in place.

Risk Governance:

Governance plays a key role within TRPIL's risk management structure. The TRPIL Board employs a number of oversight committees to ensure that business risks are appropriately monitored, controlled and are in accordance with the firm's stated risk appetites. These committees also ensure that the frameworks for managing these risks are effective. The key oversight committees include:

- **International Equity and Fixed Income Steering Committees** – Business unit committees which oversee the investment process, monitor risk and ensure that portfolio managers understand and comply with our investment philosophy.

- **GIS Global Executive Committee** – Business unit committee, which oversees international institutional sales, marketing and client service activities.

- **International Risk Committee** – TRPIL committee, which oversees identification and management of risks, and the establishment and assessment of the risk management framework.

- **Market Oversight Committee** – TRPG-wide committee, which oversees and provides guidance on all new and existing emerging markets for investment purposes.

- **Counterparty Risk Committee** – TRPG-wide committee, which oversees counterparty risk.

- **Valuation Committee -** TRPG-wide committee, which oversees the policies, processes and practices governing security valuation.

- **Risk Management Oversight Committee** ("RMOC") – TRPG-wide committee, which provides oversight, monitoring, and communication of the firm's risk management structure, processes, and business unit risk management efforts.

- **Ethics Committee** – TRPG-wide committee, which sets policy on appropriate conduct and provides guidance on the application of the Code of Ethics and Conduct.

Remuneration Code Disclosure:

TRPIL is subject to the FCA's Remuneration Code ("the Code"). TRPIL is categorised as a BIPRU 50K Limited Licence firm and therefore falls within proportionality Level 3 of the Code. This disclosure has been prepared in accordance with FCA's guidance for proportionality Level 3 firms.

TRPIL is a wholly owned subsidiary of TRPG. The firm's remuneration policies, practices and procedures are predominately driven by those of TRPG, but are developed in conjunction with and are approved by the TRPIL Board of Directors.

TRPIL's remuneration policy aims to reflect the firm's objectives of sound corporate governance and the production of sustainable and long-term value creation for shareholders, through an underlying philosophy of "pay for performance".

An individual's performance is evaluated through a range of financial and non-financial factors; including risk reduction/mitigation, customer satisfaction, operational effectiveness, process enhancements; levels of cooperation; developments to the firm's reputation; and the individual's compliance with business policies and procedures.

The policy aims to ensure that:

- the firm can attract and retain top quality, highly motivated associates;
- compensation practices provide incentives to associates that are consistent with good risk management and the appropriate management of potential conflicts of interest;
- associates know in advance what sort of behaviours and actions will be positively rewarded in the remuneration review process;
- the total amount of remuneration distributed by the Group/firm is sustainable and is consistent with sound financial management.

Components of Remuneration:

Fixed basic salary – Based on role of each individual associate, including the extent of the responsibility, job complexity and local market conditions.
Variable Cash bonus – Varies according to the type of role undertaken and is based upon the performance of the individual associate in respect of a number of factors.
Long Term Incentive Program – Provided through a mix of restricted stock and options to certain senior associates as a retention tool, and in order to further align their long term interests with those of the shareholders. Restricted stock and options both vest to associates over a multiple year period.
Pension contributions – Varies to some extent according to local market practice but aims to provide associates with an appropriate pension provision through a defined contribution plan.
Other benefits – Varies to some extent according to local market practice but would typically include medical, sickness and life cover.

Governance:

In determining the structure of the firm's compensation program and the appropriate levels of incentive opportunities, TRPIL management and the Executive Compensation Committee ("ECC") of the TRPG Board consider whether the program rewards reasonable risk-taking and whether the incentive opportunities achieve the proper balance between the need to reward employees and the need to protect stockholder returns. While the design of our compensation program is primarily performance-based, we do not believe that it encourages excessive risk-taking. Indeed, the ECC believes an approach of on-going and active discussion with TRPIL management regarding progress on short and long-term goals enables informed decisions while avoiding the risks sometimes associated with managing short-term results to achieve pre-determined formulaic outcomes. The TRPIL board considers that the firm's compensation program provides our employees with appropriate incentives to create long-term value for TRPG while taking prudent risks to grow the value of the company.

TRPG's annual variable cash bonus pool is administered by its' Management Compensation Committee and is used to provide cash incentive compensation to all TRPG employees generally. The key aspects of the annual bonus pool are:

- All employees are eligible to participate in this bonus pool, which provides cash incentive payments to individuals, with no deferral requirements.

- The ECC is involved in determining the total amount allocated to the bonus pool, which typically is considered in multiple conversations throughout the year between the ECC and members of the Management Compensation Committee. The size of the overall pool is determined based on the success over time of financial, reputational and operational measures, with a focus on valuing performance that serves the needs of our clients and the best interests of our stockholders. Multiple years typically are considered to determine relevant performance and the size of the bonus pool, which helps keep our employees focused on long-term performance and reduces year-to-year volatility of the aggregate pool.

- The size of the bonus pool will vary, however, based upon financial results of a particular year and other factors, including the competitive environment for staff. In addition, the ECC considers the firm's investment performance, as well as progress toward achieving the firm's overarching long-term strategies.

TRPG has a separate long-term equity-based incentive program that provides the deferred compensation element of individual remuneration to which employees of TRPIL participate. Long-term equity-based incentives are considered to be crucial in order to maintain a strong association between the compensation of our top managers and key professionals and our stockholders' long-term interests.

Code Staff:

Under the Code, employees who have a material impact on the firm's risk profile should be classified as Code Staff. The roles and responsibilities of each of the individuals who are FCA Approved Persons for a Significant Influence Function for TRPIL were analyzed to identify whether their activities have a material impact on the firm's risk profile. The conclusion of the analysis was that the individuals within TRPIL who can have a material impact on the firm's risk profile are the members of the firm's governing body, the heads of each business line and the heads of Control functions. In total eleven employees were identified as being Code Staff.

Aggregate Quantitative Information on Remuneration:

TRPIL is purely an institutional investment manager and as such, for the purposes of the Code, the firm has only one “business area”. Also, when categorizing Code Staff for the purposes of the Code, all of the firm’s Code Staff are regarded as “senior management” rather than “risk takers”.

TRPIL Aggregate Quantitative Information on Remuneration	
Number of Code Staff	11
Total Remuneration for year ended 31/12/15	£11.8 million

On-going Review:

The Pillar 3 Disclosure document will be reviewed and approved by the TRPIL Board in conjunction with the ICAAP document. The ICAAP and Pillar 3 Disclosure document will be formally reviewed as part of the business planning cycle on an annual basis, unless the TRPIL Board is made aware of major event before then requiring a review of TRPIL’s key risks and capital position.