ROYAL BANK OF CANADA (CHANNEL ISLANDS) LIMITED

ANNUAL REPORT AND CONSOLIDATED FINANCIAL STATEMENTS

31 OCTOBER 2024

ANNUAL REPORT AND CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 OCTOBER 2024

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OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

D Bailey
J Dentskevich
M Fromage
J Pearce
M Semianchova
N Wilson
C Matthews

SECRETARY

RBC Corporate Services (Jersey) Limited

REGISTERED OFFICE

Gaspé House
66-72 Esplanade
St Helier
Jersey
JE2 3QT
Channel Islands

ADVOCATE

Mourant
22 Grenville Street
St Helier
Jersey
JE4 8PX
Channel Islands

INDEPENDENT AUDITOR

PricewaterhouseCoopers CI LLP
37 Esplanade
St Helier
Jersey
JE1 4XA
Channel Islands

DIRECTORS' REPORT

The directors present their annual report and the audited consolidated financial statements of Royal Bank of Canada (Channel Islands) Limited ("the Company") and its subsidiaries (together "the Group") for the year ended 31 October 2024.

INCORPORATION
The Company was incorporated in Jersey, Channel Islands on 1 November 2021.

PRINCIPAL ACTIVITIES
The principal activity of the Company and its subsidiaries is that of a banking, investment management and financial services business.

REGULATION
The Company is licensed to carry out deposit-taking business under the Banking Business (Jersey) Law 1991, and to carry on investment business and fund services business under the Financial Services (Jersey) Law 1998, and is registered for money service business.

The Company through its branch is also licensed to carry out deposit taking under the Banking Supervision (Bailiwick of Guernsey) Law, 2020, Controlled Investment Business under the Protection of Investors (Bailiwick of Guernsey) Law, 2020, to act as an Fiduciary Primary Licensee, carry out pension scheme and gratuity scheme business under the Regulation of Fiduciaries, Administration Businesses and Company Directors, etc. (Bailiwick of Guernsey) Law, 2020 and is registered as money service business provider.

The activities of the Group are expected to continue in a similar manner for the foreseeable future.

RESULTS
The consolidated results of the Group are shown in the Consolidated Statement of Comprehensive Income on page 10.

ACCOUNTING STANDARDS
The consolidated financial statements are prepared in accordance with all IFRS Accounting Standards as issued by the International Accounting Standards Board (IASB) ("IFRS") and in effect as at 31 October 2024.

SIGNIFICANT EVENTS
On 10 January 2023, Royal Bank of Canada ("RBC") announced the proposed closure of its Guernsey offices, following a review of its business in the Channel Islands; with a view to centralize all relevant activities in Jersey and other centres. Except for a small number of client relationships, all of the Guernsey Branch's clients were moved to Jersey as at 31 October 2024. Work continues on the remaining client file in order to be able to eventually close or exit these clients. In addition, on 18 March 2024, a subsidiary of the Company, Guernroy Limited's country of incorporation was redomiciled from Guernsey to Jersey.

On 29 October 2024, the Company entered into a Share Purchase Agreement ("SPA") with Brewin Dolphin (Channel Islands) Limited ("BDCIL") to purchase the entire issued share capital of Brewin Nominees (Channel Islands) Limited ("BNCIL"), a wholly owned subsidiary of BDCIL, for a consideration of £25,000.

On 4 November 2024, the Company entered into a Business Transfer Agreement ("BTA") with Brewin Dolphin Limited ("BDL") to purchase the transferring business as a going concern and the Business assets, as defined in the BTA for a cash consideration of £12 million. The transferring business is defined as the part of the business that was conducted through BDL's Jersey branch. The business assets comprise amongst other things: goodwill, the rights and benefit of the client contract (the "Client list"), client records and business receivables.

GOING CONCERN
The Group has reported an operating profit for the year. The directors have a reasonable expectation, based on a review of budgets and the expected liquidity position, that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and consolidated financial statements.

DIRECTORS' REPORT - CONTINUED

DIVIDEND
A dividend of £Nil was paid during the year ended 31 October 2024 (2023: £Nil). The dividend per ordinary share amounted to £Nil (2023: £Nil).

NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS
The Group makes use of financial instruments in the conduct of its business. The Group's principal risks and uncertainties and financial risk management objectives and policies are discussed in Note 3 of the audited financial statements.

DIRECTORS
The present directors are shown on page 2, and have all served throughout the year and subsequently, except as noted below;

A M Vibert	(resigned 26 June 2024)
C Matthews	(appointed 26 June 2024)

SECRETARY
The present secretary is shown on page 2, and has served throughout the year and subsequently.

REGISTERED OFFICE
The registered office of the Company is Gaspé House, 66-72 Esplanade, St Helier, Jersey, JE2 3QT as shown on page 2.

INDEPENDENT AUDITOR
PricewaterhouseCoopers CI LLP have expressed their willingness to continue in office.

In accordance with Article 87 (4) of the Companies (Jersey) Law 1991 and the Articles of Association of the Company, the Company is not required to hold an annual general meeting. In accordance with Article 113(5) of the Companies (Jersey) Law 1991, the auditor in office shall continue to act and be deemed to be reappointed for each succeeding financial period until the conclusion of the next general meeting or until the company in general meeting resolve that the appointment of that auditor be brought to an end.

Approved by the Board of Directors and signed on behalf of the Board

Director　　　　　　　　　　Director

18 December 2024

DIRECTORS' RESPONSIBILITIES STATEMENT

The directors are responsible for preparing the consolidated financial statements in accordance with applicable law and regulations.

Companies (Jersey) Law 1991 requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the consolidated financial statements in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board (IASB) ("IFRS"). The financial statements are required by law to give a true and fair view of the state of affairs of the Group and of the profit or loss of the Group for that period.

IAS 1 (Presentation of financial statements) requires that financial statements present fairly for each financial year the Group's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of financial statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRS. However, the directors are also required to:

- properly select and apply suitable accounting policies consistently;
- make judgements and estimates that are reasonable and prudent;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- state whether applicable accounting standards have been followed and provide additional disclosures when compliance with the specific requirements in IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Group's ability to continue as a going concern unless it is inappropriate to presume that the Group will continue the business.

The directors confirm that they have complied with the above requirements in preparing the financial statements.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the financial statements comply with the Companies (Jersey) Law 1991, the Banking Business (Jersey) Law 1991, the Financial Services (Jersey) Law, 1998, the Financial Services (Trust Company and Investment Business (Accounts, Audits and Reports)) (Jersey) Order 2007, the Financial Services (Fund Services Business (Accounts, Audits and Reports)) (Jersey) Order 2007 and the Banking Business (Accounts, Auditors and Reports) (Jersey) Order 2023. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities and for compliance with the Financial Services (Jersey) Law 1998, Banking Business (Jersey) Law 1991 and applicable Codes of Practice.

The directors are also responsible for compliance with the Banking Supervision (Bailiwick of Guernsey) Law, 2020, the Protection of Investors (Bailiwick of Guernsey) Law, 2020, the Fiduciaries Rules and Guidance, 2021, and the Administration Businesses and Company Directors, etc. (Bailiwick of Guernsey) Law, 2020. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

So far as the directors are aware, there is no relevant audit information of which the Group's auditor is unaware, and each director has taken all the steps that he or she ought to have taken as a director in order to make himself or herself aware of any relevant audit information and to establish that the Group's auditor is aware of that information.

Independent auditor's report to the members of Royal Bank of Canada (Channel Islands) Limited

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of Royal Bank of Canada (Channel Islands) Limited (the "company") and its subsidiaries (together the "group") as at 31 October 2024, and of their consolidated financial performance and their consolidated cash flows for the year then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board (IASB) and have been properly prepared in accordance with the requirements of the Companies (Jersey) Law 1991, the Financial Services (Trust Company and Investment Business (Accounts, Audits and Reports)) (Jersey) Order 2007, the Financial Services (Fund Services Business (Accounts, Audits and Reports)) (Jersey) Order 2007 and the Banking Business (Accounts, Auditors and Reports) (Jersey) Order 2023.

What we have audited

The group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 October 2024;
- the consolidated statement of income for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, comprising material accounting policy information and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants ("IESBA Code"). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Other information

The directors are responsible for the other information. The other information comprises all the information included in the Annual Report and Consolidated Financial Statements but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the consolidated financial statements

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board (IASB), the requirements of Jersey and Guernsey law and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Use of this report

This independent auditor's report, including the opinions, has been prepared for and only for the members as a body in accordance with Article 113A of the Companies (Jersey) Law 1991 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Report on other legal and regulatory requirements

Under the Companies (Jersey) Law 1991 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit;
- proper accounting records have not been kept; or
- the consolidated financial statements are not in agreement with the accounting records.

We have no exceptions to report arising from this responsibility.

Ian Ross

Ian Ross
For and on behalf of PricewaterhouseCoopers CI LLP
Chartered Accountants
Jersey, Channel Islands
19 December 2024

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 OCTOBER

(Thousands of British Pounds)	Notes	2024	2023
Assets			
Cash and cash equivalents	7	24,038	22,171
Trade and other receivables	13	34,613	50,104
Investment securities, net of applicable allowances	8	2,398,643	2,689,901
Assets purchased under reverse repurchase agreements	9	840,115	1,045,787
Loans and advances to banks	10	1,134,210	1,197,227
Loans and advances to customers	11	517,344	666,759
Allowance for loan losses	11	(233)	(1,870)
Derivatives	12	53,578	115,678
Goodwill	14	5,057	5,057
Intangible assets	15	8,146	6,850
Premises and equipment	16	323	489
Pension scheme assets	21	21,140	17,451
Tax receivable	6	-	1,734
Total assets		5,036,974	5,817,338
Liabilities			
Deposits due to banks	17	20,284	30,846
Deposits due to customers	18	4,236,020	5,098,985
Derivatives	12	8,215	6,694
Trade and other payables	19	45,140	38,456
Deferred tax liability	6	2,096	1,513
Taxes payable		5,912	3,987
Loans due to related parties	20	155,376	164,935
Total liabilities		4,473,043	5,345,416
Equity			
Share capital	22	10,700	10,700
Share premium	22	2,500	2,500
Reserves		13,732	11,637
Retained earnings		536,999	447,085
Total equity attributable to shareholders		563,931	471,922
Total liabilities and equity		5,036,974	5,817,338

The accompanying notes on pages 13 to 75 form an integral part of these consolidated financial statements.

Approved by the Board of Directors on 17th December 2024.

Signed on behalf of the Board

Director

Director

Signed: 18 December 2024

CONSOLIDATED STATEMENT OF INCOME

FOR THE YEAR ENDED 31 OCTOBER

(Thousands of British Pounds)	Notes	2024	2023
Income:			
Interest income	26	256,910	242,393
Interest expense	27	(132,536)	(110,867)
Net interest income		124,374	131,526
Non-interest income:			
Fees and commission income	28	26,306	26,817
Foreign exchange revenue	29	(1,907)	(5,119)
Fair value movement in interest rate swaps		45,603	50,227
Fair value movement on foreign exchange forward contracts		(758)	1,722
Net gain on sale of amortised costs securities		63	-
Other income		791	588
Total revenue		194,472	205,761
Provision for credit losses		(1,348)	381
Non interest expenses:			
Human resources	30	29,387	29,593
Equipment		3,258	3,407
Occupancy		4,116	4,532
Communications		1,029	976
Professional fees		5,395	5,048
Amortisation of intangibles	15	1,217	324
Other expenses	31	3,897	3,434
Investment management fees		710	642
Net internal charge outs and recoveries		21,487	21,345
Total expenses		70,496	69,301
Operating profit		125,324	136,079
Finance costs	20	12,445	11,832
Income before taxes		112,879	124,247
Income taxes	6	22,965	21,098
Net income for the year, attributable to shareholders		89,914	103,149

The above results are derived from continuing activities in the current and preceding year.

The accompanying notes on pages 13 to 75 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 OCTOBER (Thousands of British Pounds)	Notes	2024	2023
Net income for the year		89,914	103,149
Other comprehensive income, net of tax			
Items that may not be reclassified subsequently to profit or loss			
Remeasurement of net defined benefit plan	21	2,095	1,620
Total comprehensive income for the year		92,009	104,769
Total comprehensive income attributable to:			
Shareholders		92,009	104,769

The accompanying notes on pages 13 to 75 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 OCTOBER

(Thousands of British Pounds)	Share Capital	Share Premium	Capital Reserve	Defined Benefit Plan	Retained Earnings	Total Equity
Balances at 1 November 2022	10,700	2,500	3,550	6,467	343,936	367,153
Total comprehensive income for the year						
Net income for the year	-	-	-	-	103,149	103,149
Other comprehensive income, net of tax	-	-	-	1,620	-	1,620
Total comprehensive income for the year	-	-	-	1,620	103,149	104,769
Balances at 31 October 2023	10,700	2,500	3,550	8,087	447,085	471,922
Balances at 1 November 2023	10,700	2,500	3,550	8,087	447,085	471,922
Total comprehensive income for the year						
Net income for the year	-	-	-	-	89,914	89,914
Other comprehensive income, net of tax	-	-	-	2,095	-	2,095
Total comprehensive income for the year	-	-	-	2,095	89,914	92,009
Balances at 31 October 2024	10,700	2,500	3,550	10,182	536,999	563,931

The accompanying notes on pages 13 to 75 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 OCTOBER

(Thousands of British Pounds)	Notes	2024	2023
Cash flows from operating activities			
Income before income taxes		112,879	124,247
Adjustments for non-cash items and others:			
Amortisation of intangible assets	15	1,217	324
Depreciation	16	176	209
Provision for credit losses	11	(1,348)	381
Finance cost	20	12,445	11,832
Adjustment for pension funding	21	(302)	139
Amortisation of investment securities		(22,478)	(6,012)
Unrealised foreign exchange (gains) / losses		119,166	70,541
Fair value adjustments		(58,626)	(14,148)
		163,129	187,513
Changes in operating assets and liabilities:			
Decreases in loans and advances to banks		63,017	669,945
Decreases loans and advances to customers		149,415	112,538
Decreases in assets purchased under reverse repurchase agreements		205,672	119,130
Decreases / (increases) in Trade and other receivables		15,491	(6,321)
Decreases in deposits due to banks		(10,562)	(229,347)
Decreases in deposits due to customers		(862,965)	(525,169)
Increases / (decreases) in trade and other payables	19	6,684	(634)
Fair value of derivatives		63,621	(12,356)
Contributions to pension scheme		(1,058)	(1,147)
		(207,556)	314,152
Withholding tax paid at source	6	(16,028)	(19,730)
Income taxes paid	6	(2,929)	(692)
Net cash from operating activities		(226,513)	293,730
Cash flows from investing activities			
Proceeds from maturity and sale of investment securities		242,047	340,539
Acquisition of investment securities		-	(615,934)
Acquisition of premises and equipment	16	(10)	(108)
Acquisition of intangible assets	15	(2,563)	(3,126)
Disposal of intangible assets		50	-
Net cash (used in) investing activities		239,524	(278,629)
Cash flows from financing activities			
Finance cost		(12,445)	(11,832)
Net cash (used in) financing activities		(12,445)	(11,832)
Net change in cash and cash equivalents		566	3,269
Cash and cash equivalents at the beginning of the year		22,171	18,033
Effect of changes in foreign exchange rates on cash and cash equivalents		1,301	869
Cash and cash equivalents at end of year		24,038	22,171

The accompanying notes on pages 13 to 75 form an integral part of these consolidated financial statements.

1. GENERAL INFORMATION

Royal Bank of Canada (Channel Islands) Limited is a limited liability Company incorporated and domiciled in Jersey, Channel Islands on 1 November 2021. The address of the registered office is Gaspé House, 66-72 Esplanade, St Helier, Jersey, JE2 3QT, Channel Islands. The principal activity of the Group is that of a banking, investment management and financial services business.

The consolidated financial statements are prepared in accordance with all IFRS Accounting Standards as issued by the International Accounting Standards Board (IASB) ("IFRS") and in effect as at 31 October 2024.

These consolidated financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the Group operates, with the exception of Note 21 and Note 25 where disclosure relating to the Canadian defined benefit scheme deficit and key management personnel and directors are in Canadian dollars, as indicated, this being the functional currency of the parent company, Royal Bank of Canada.

2. MATERIAL ACCOUNTING POLICY INFORMATION

(a) Basis of preparation

i) Statement of compliance

The consolidated financial statements have been prepared in accordance with IFRS as issued by the IASB. Except where otherwise noted, the same accounting policies have been applied to all periods presented.

ii) Historical cost convention

The financial statements have been prepared on a historical cost basis except for the following:

- Certain financial assets and liabilities (including derivative instruments) – measured at fair value
- Defined benefit pension plans – assets measured at fair value

The particular accounting policies adopted by the directors are described below.

(b) Going concern

The directors have made an assessment of the Company and its subsidiaries' (together the "Group") ability to continue as a going concern and are satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, the directors are not aware of any material uncertainties that may cast significant doubt on the Group's ability to continue as a going concern. Therefore, the consolidated financial statements continue to be prepared on the going concern basis.

(c) Basis of consolidation

The consolidated financial statements include the assets and liabilities and results of operations of the Group after elimination of intercompany transactions, balances, revenues and expenses.

A subsidiary is the entity over which the Company has control. Control is achieved when the Company has the power over the investee, is exposed, or has rights to variable returns from its involvement with the investee and has the ability to use its power to affect its return. A subsidiary is consolidated from the date control is transferred to the Company, and cease consolidation when it is no longer controlled by the Company.

The acquisition method of accounting is used to account for business combinations by the Group, unless otherwise stated.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of income from the effective date of acquisition or disposal, as appropriate. Where necessary, adjustments are made to the consolidated financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

(d) Use of estimates and assumptions

In preparing the consolidated financial statements, management is required to make subjective estimates and assumptions that affect the reported amount of assets, liabilities, net income and related disclosures. Estimates made by management are based on historical experience and other assumptions that are believed to be reasonable. Accordingly, actual results may differ from these and other estimates thereby impacting the Group's future consolidated financial statements. Key sources of estimation uncertainty include: the allowance for credit losses, determination of fair value of financial instruments, valuation of pension obligations and other post-employment benefits, carrying value of goodwill and finite-life intangible, the useful lives of tangible assets and income taxes.

2. MATERIAL ACCOUNTING POLICY INFORMATION – CONTINUED

(e) Significant accounting judgements and estimates
In the preparation of these consolidated financial statements, management is required to make significant judgements and estimates that affect the carrying amounts of certain assets and liabilities, and the reported amounts of revenues and expenses recorded during the year. Significant judgements and estimates have been made in the following areas:

i) Pension obligations (Note 21)
The calculation of defined benefit expenses and obligations depends on various assumptions such as discount rates, expected rates of return on assets, healthcare cost trend rates, projected salary increases, retirement age, and mortality and termination rates. The discount rate assumption is determined using a yield curve of corporate debt securities rated at a level of AA or equivalent status. All other assumptions are determined by management, applying significant judgement, and are reviewed by actuaries. Due to the long-term nature of these plans, such estimates and assumptions are subject to significant uncertainty. Actual experience that differs from the actuarial assumptions will affect the amounts of benefits obligations and expenses that are recognised, as disclosed in Note 21.

(f) Financial instruments – recognition and measurement
i) Classification of financial assets
Financial assets are measured at initial recognition at fair value, and are classified and subsequently measured at fair value through profit or loss ("FVTPL") or amortised cost based on the Group's business model for managing the financial instruments and the contractual cash flow characteristics of the instrument.

Debt instruments are measured at amortised cost if both of the following conditions are met and the asset is not designated as FVTPL:

(a) the asset is held within a business model that is Held-to-Collect ("HTC") as described below, and
(b) the contractual terms of the instrument give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding ("SPPI").

All debt instruments are measured at FVTPL.

Equity instruments are measured at FVTPL, unless the asset is not held for trading purposes and an irrevocable election is made to designate the asset as Fair value through other comprehensive income ("FVOCI"). This election is made on an instrument-by-instrument basis.

Business model assessment
The Group's business models are determined at the level that best reflects how it manages its portfolios of financial assets to achieve its business objectives. Judgment is used in determining the Group's business models, which is supported by relevant, objective evidence including:

(i) How the economic activities of the Group's businesses generate benefits, for example through trading revenue, enhancing yields or hedging funding or other costs and how such economic activities are evaluated and reported to key management personnel;
(ii) The significant risks affecting the performance of the Group's businesses, for example, market risk, credit risk, or other risks as described in the Group's Risk Profile section of the consolidated financial statements in Note 3, and the activities undertaken to manage those risks;
(iii) Historical and future expectations of sales of the loans or securities portfolios managed as part of the Group's business model; and
(iv) The compensation structures for the managers of the Group's businesses, to the extent that these are directly linked to the economic performance of the business model.
The Group's business model falls into three categories, which are indicative of the key strategies used to generate returns:
- HTC: The objective of this business model is to hold loans and securities to collect contractual principal and interest cash flows. Sales are incidental to this objective and are expected to be insignificant or infrequent.
- Hold to Collect & Sell ("HTC&S"): For debt instruments measured at FVOCI both collecting contractual cash flows and sales are integral to achieving the objective of the business model.
- Other fair value business models: These business models are neither HTC nor HTC&S, and primarily represent business models where assets are held-for-trading or managed on a fair value basis.

2. MATERIAL ACCOUNTING POLICY INFORMATION – CONTINUED

(f) Financial instruments – recognition and measurement – continued

i) Classification of financial assets- continued

SPPI assessment

Instruments held within a HTC or HTC&S business model are assessed to evaluate if their contractual cash flows are comprised of solely payments of principal and interest. SPPI payments are those which would typically be expected from basic lending arrangements. Principal amounts include par repayments from lending and financing arrangements, and interest primarily relates to basic lending returns, including compensation for credit risk and the time value of money associated with the principal amount outstanding over a period of time. Interest can also include other basic lending risks and costs (for example, liquidity risk, servicing or administrative costs) associated with holding the financial asset for a period of time, and a profit margin.

Where the contractual terms introduce exposure to risk or variability of cash flows that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at FVTPL.

ii) Investment Securities

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

Investment securities carried at amortised cost are measured using the effective interest method, and are presented net of any allowance for credit losses, calculated in accordance with the Group's policy for allowance for credit losses, as described below. Interest income, including the amortisation of premiums and discounts on securities measured at amortised cost are recorded in Interest income in the Consolidated Statement of Income. Impairment gains or losses recognised on amortised cost securities are recorded in the Provision for credit losses in the Consolidated Statement of Income. When a debt instrument measured at amortised cost is sold, the difference between the sale proceeds and the amortised cost of the security at the time of the sale is recorded as Net gain or loss on sale of amortised costs securities in Non-Interest income in the Consolidated Statement of Income.

The Group accounts for all of its securities using settlement date accounting and changes in fair value between the trade date and settlement date are reflected in Other Income in the Consolidated Statement of Income.

iii) Fair value option

A financial instrument with a reliably measurable fair value can be designated as FVTPL (the fair value option) on its initial recognition even if the financial instrument was not acquired or incurred principally for the purpose of selling or repurchasing. The fair value option can be used for financial assets if it eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities, or recognising related gains and losses on a different basis (an accounting mismatch). The fair value option can be elected for financial liabilities if: (i) the election eliminates an accounting mismatch; (ii) the financial liability is part of a portfolio that is managed on a fair value basis, in accordance with a documented risk management or investment strategy; or (iii) there is an embedded derivative in the financial or non-financial host contract and the derivative is not closely related to the host contract. These instruments cannot be reclassified out of the FVTPL category while they are held or issued.

Financial assets designated as FVTPL are recorded at fair value and any unrealised gain or loss arising due to changes in fair value is included in Non-Interest income – Foreign exchange revenue, depending on the Group's business purpose for holding the financial asset.

Financial liabilities designated as FVTPL are recorded at fair value and fair value changes attributable to changes in the Group's own credit risk are recorded in the Consolidated Statement of Income. The remaining fair value changes not attributable to changes in the Group's own credit risk are recorded in Non-Interest income. To make that determination, management assesses whether the Group expects the effects of changes in the liability's credit risk to be offset in profit or loss by a change in the fair value of another financial instrument measured at FVTPL. Such an expectation is based on an economic relationship between the characteristics of the liability and the characteristics of the other financial instrument. The determination is made at initial recognition and is not reassessed. To determine the fair value adjustments on debt designated as FVTPL, the present value of the instruments is calculated based on the contractual cash flows over the term of the arrangement by using the effective funding rate at the beginning and end of the period.

2. MATERIAL ACCOUNTING POLICY INFORMATION – CONTINUED

(f) Financial instruments – recognition and measurement – continued

iv) Determination of fair value

The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is determined by incorporating all factors that market participants would consider in setting a price, including commonly accepted valuation approaches. In determining fair value, a hierarchy is used which prioritises the inputs to valuations techniques. The fair value hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Determination of fair value basis on this hierarchy requires the use of observable market data whenever available. Level 1 inputs are unadjusted quoted prices in active markets for identical assets or liabilities that the group has the ability to access at the measurement date. Level 2 inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, and model inputs that are either observable, or can be corroborated by observable market data for substantially the full terms of the assets or liabilities. Level 3 inputs include one or more inputs that are unobservable and significant to the fair value of the asset or liability. Unobservable inputs are used to measure fair value to the extent that observable inputs are not available at the measurement date. The availability of inputs for valuation may affect the selection of valuation techniques. The classification of a financial instrument in the hierarchy for disclosure purposes is based upon the lowest level of input that is significant to the measurement of fair value.

The Group records valuation adjustments to appropriately reflect counterparty credit quality of its derivative portfolio, differences between the actual counterparty collateral discount curve and standard overnight index swap discounting for collateralized derivatives, funding valuation adjustments (FVA) for uncollateralized and under-collateralized over-the-counter (OTC) derivatives, unrealised gains or losses at inception of the transaction, bid-offer spreads, unobservable parameters and model limitations. These adjustments may be subjective as they require significant judgement in the input selection, such as implied probability of default (PD) and recovery rate, and are intended to arrive at a fair value that is determined based on assumptions that market participants would use in pricing the financial instrument. The realised price for a transaction may be different from its recorded value, previously estimated using management judgement. Valuation adjustments may therefore impact unrealised gains and losses recognised in Non-Interest income.

Where required, a valuation adjustment is made to reflect the unrealised gain or loss at inception of a financial instrument contract where the fair value of that financial instrument is not obtained from a quoted market price or cannot be evidenced by other observable market transactions based on a valuation technique incorporating observable market data.

A bid-offer valuation adjustment is required when a financial instrument is valued at the mid-market price, instead of the bid or offer price for asset or liability positions, respectively. The valuation adjustment takes into account the spread from the mid to either the bid or offer price.

Some valuation models require parameter calibration from such factors as market observable option prices. The calibration of parameters may be sensitive to factors such as the choice of instruments or optimization methodology. A valuation adjustment is also estimated to mitigate the uncertainties of parameter calibration and model limitations

v) Loans

Loans are debt instruments recognised initially at fair value and subsequently measured at either amortised cost or FVTPL. The majority of the Group's loans are carried at amortised cost using the effective interest method, which represents the gross carrying amount less allowance for credit losses. FVTPL loans are measured in accordance with policy provided in *Determination of fair value (2f(iv))*.

Interest on loans is recognised in Interest Income – Loans using the effective interest method. The estimated future cash flows used in this calculation include those determined by the contractual term of the asset and all fees that are considered to be integral to the effective interest rate. Also included in this amount are transaction costs and all other premiums or discounts. Fees that relate to activities such as originating, restructuring or renegotiating loans are deferred and recognised as interest income over the expected term of such loans using the effective interest method. Where there is a reasonable expectation that a loan will be originated, commitment and standby fees are also recognised as interest income over the expected term of the resulting loans using the effective interest method. Impairment losses are recognised at each Balance Sheet date in accordance with the three-stage impairment model outlined below.

2. MATERIAL ACCOUNTING POLICY INFORMATION – CONTINUED

(f) Financial instruments – recognition and measurement – continued

vi) Allowance for credit losses

An allowance for credit losses ("ACL") is established for all financial instruments, except for financial assets classified or designated as FVTPL which are not subject to impairment assessment. Assets subject to impairment assessment include certain loans, debt securities, interest-bearing deposits with banks, accounts and accrued interest receivable. ACL on loans is presented in the Allowance for loan losses in the Consolidated Statement of Financial Position. Other financial assets carried at amortised cost are presented net of ACL on the Consolidated Statement of Financial Position.

Off-balance sheet items subject to impairment assessment include financial guarantees and undrawn loan commitments. For off-balance sheet products subject to impairment assessment, ACL is separately calculated and included in Other Liabilities – Provisions.

The Group measures the ACL on each balance sheet date according to a three-stage expected credit loss impairment model:

(i) Performing financial assets

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

- Stage 2 – Following a significant increase in credit risk relative to the initial recognition of the financial asset, a loss allowance is recognised equal to the credit losses expected over the remaining lifetime of the asset.

(ii) Impaired financial assets

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

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

Increases or decreases in the required ACL attributable to model changes, purchases and new originations, derecognitions or maturities, and remeasurements due to changes in loss expectations or stage transfers are recorded in Provision for credit losses. Write-offs and recoveries of amounts previously written off are recorded against ACL.

The ACL represents an unbiased estimate of expected credit losses on the financial assets as at the Statement of Financial Position date. Judgment is required in making assumptions and estimations when calculating the ACL, including movements between the three stages and the inclusion of forward-looking information. The underlying assumptions and estimates may result in changes to the provisions from period to period that significantly affect the results of operations.

Measurement of expected credit losses

Expected credit losses are based on a range of possible outcomes and consider all available reasonable and supportable information including internal and external ratings, historical credit loss experience, and expectations about future cash flows. The measurement of expected credit losses is based primarily on the product of the instrument's probability of default ("PD"), loss given default ("LGD"), and exposure at default ("EAD") discounted to the reporting date. The main difference between Stage 1 and Stage 2 expected credit losses for performing financial assets is the respective calculation horizon. Stage 1 estimates project PD, LGD and EAD over a maximum period of 12 months while Stage 2 estimates project PD, LGD and EAD over the remaining lifetime of the instrument.

An expected credit loss estimate is produced for each individual exposure. Relevant parameters are modelled on a collective basis using portfolio segmentation that allows for appropriate incorporation of forward-looking information. To reflect other characteristics that are not already considered through modelling, expert credit judgement is exercised in determining the final expected credit losses.

Expected credit losses are discounted to the reporting period date using the effective interest rate.

2. MATERIAL ACCOUNTING POLICY INFORMATION – CONTINUED

(f) Financial instruments – recognition and measurement – continued

vi) Allowance for credit losses– continued

Expected life

For instruments in Stage 2 or Stage 3, loss allowances reflect expected credit losses over the expected remaining lifetime of the instrument. For most instruments, the expected life is limited to the remaining contractual life.

An exemption is provided for certain instruments with the following characteristics: (a) the instrument includes both a loan and undrawn commitment component; (b) the Group has the contractual ability to demand repayment and cancel the undrawn commitment; and (c) the Group's exposure to credit losses is not limited to the contractual notice period. For products in scope of this exemption, the expected life may exceed the remaining contractual life and is the period over which the exposure to credit losses is not mitigated by the normal credit risk management actions. This period varies by product and risk category and is estimated based on the historical experience with similar exposures and consideration of credit risk management actions taken as part of the regular credit review cycle. Products in scope of this exemption include credit cards, overdraft balances and certain revolving lines of credit. Judgement is required in determining the instruments in scope for this exemption and estimating the appropriate remaining life based on the historical experience and credit risk mitigation practices.

Assessment of significant increase in credit risk

The assessment of significant increase in credit risk requires significant judgement. Movements between Stage 1 and Stage 2 are based on whether an instrument's credit risk as at the reporting date has increased significantly relative to the date it was initially recognised. For the purposes of this assessment, credit risk is based on an instrument's lifetime PD, not the losses expected to be incurred. The assessment is generally performed at the instrument level.

The Group's assessment of significant increases in credit risk is performed at least quarterly based on three factors. If any of the following factors indicates that a significant increase in credit risk has occurred, the instrument is moved from Stage 1 to Stage 2:

(i) The Group has established thresholds for significant increases in credit risk based on both a percentage and absolute change in lifetime PD relative to initial recognition.
(ii) Additional qualitative reviews are performed to assess the staging results and make adjustments, as necessary, to better reflect the positions whose credit risk has increased significantly.
(iii) Instruments which are 30 days past due are generally considered to have experienced a significant increase in credit risk, even if the Group's other metrics do not indicate that a significant increase in credit risk has occurred.

The thresholds for movement between Stage 1 and Stage 2 are symmetrical. After a financial asset has migrated to Stage 2, if its credit risk is no longer considered to have significantly increased relative to its initial recognition, the financial asset will move back to Stage 1.

For certain instruments with low credit risk as at the reporting date, it is presumed that credit risk has not increased significantly relative to initial recognition. Credit risk is considered to be low if the instrument has a low risk of default, and the borrower has the ability to fulfil their contractual obligations both in the near term and in the longer term, including periods of adverse changes in the economic or business environment.

Use of forward-looking information

The measurement of expected credit losses for each stage and the assessment of significant increase in credit risk considers information about past events and current conditions as well as reasonable and supportable projections of future events and economic conditions. The estimation and application of forward-looking information requires significant judgment.

The PD, LGD and EAD inputs used to estimate Stage 1 and Stage 2 credit loss allowances are modelled based on the macroeconomic variables (or changes in macroeconomic variables) that are most closely correlated with credit losses in the relevant portfolio. Each macroeconomic scenario used in the Group's expected credit loss calculation includes a projection of all relevant macroeconomic variables used in the Group's models for a five year period, subsequently reverting to long-run averages. Macroeconomic variables used in the Group's expected credit loss models include, but are not limited to, gross domestic product, unemployment rates, bond yields, equity return indices, commercial real estate indices, and commodity prices. Depending on their usage in the models, macroeconomic variables may be projected at a country, province/state or more granular level.

2. MATERIAL ACCOUNTING POLICY INFORMATION – CONTINUED

(f) Financial instruments – recognition and measurement – continued

vi) Allowance for credit losses - continued

Use of forward-looking information - continued

The estimation of the Group's expected credit losses in Stage 1 and Stage 2 is a discounted probability-weighted estimate that considers a minimum of three future macroeconomic scenarios. The Group's base case scenario is based on macroeconomic forecasts published by the Royal Bank of Canada's internal economics group. Upside and downside scenarios vary relative to the Group's base case scenario based on reasonably possible alternative macroeconomic conditions. Additional and more severe downside scenarios are designed to capture material non-linearity of potential credit losses in portfolios. Scenario design, including the identification of additional downside scenarios, occurs at least on an annual basis and more frequently if conditions warrant.

Scenarios are designed to capture a wide range of possible outcomes and weighted according to the Group's best estimate of the relative likelihood of the range of outcomes that each scenario represents. Scenario weights take into account historical frequency, current trends, and forward-looking conditions and are updated on a quarterly basis. All scenarios considered are applied to all portfolios subject to expected credit losses with the same probabilities.

The Group's assessment of significant increases in credit risk is based on changes in probability-weighted forward-looking lifetime PD as at the reporting date, using the same macroeconomic scenarios as the calculation of expected credit losses.

Definition of default

The definition of default used in the measurement of expected credit losses is consistent with the definition of default used for the Group's internal credit risk management purposes. The Group's definition of default may differ across products and consider both quantitative and qualitative factors, such as the terms of financial covenants and days past due. Default occurs when the Group considers the borrower unlikely to make their payments in full without recourse action on the Group's part, such as taking formal possession of any collateral held. The definition of default used is applied consistently from period to period and to all financial instruments unless it can be demonstrated that circumstances have changed such that another definition of default is more appropriate.

Credit-impaired financial assets (Stage 3)

Financial assets are assessed for credit-impairment at each Consolidated Statement of Financial Position date and more frequently when circumstances warrant further assessment. Evidence of credit-impairment may include indications that the borrower is experiencing significant financial difficulty, probability of bankruptcy or other financial reorganisation, as well as a measurable decrease in the estimated future cash flows evidenced by the adverse changes in the payments status of the borrower or economic conditions that correlate with defaults. An asset that is in Stage 3 will move back to Stage 2 when, as at the reporting date, it is no longer considered to be credit-impaired. The asset will transfer back to Stage 1 when its credit risk at the reporting date is no longer considered to have increased significantly from initial recognition, which could occur during the same reporting period as the transfer from Stage 3 to Stage 2.

When a financial asset has been identified as credit-impaired, expected credit losses are measured as the difference between the asset's gross carrying amount and the present value of estimated future cash flows discounted at the instrument's original effective interest rate. For impaired financial assets with drawn and undrawn components, expected credit losses also reflect any credit losses related to the portion of the loan commitment that is expected to be drawn down over the remaining life of the instrument.

When a financial asset is credit-impaired, interest ceases to be recognised on the regular accrual basis, which accrues income based on the gross carrying amount of the asset. Rather, interest income is calculated by applying the original effective interest rate to the amortised cost of the asset, which is the gross carrying amount less the related ACL. Following impairment, interest income is recognised on the unwinding of the discount from the initial recognition of impairment.

ACL for credit-impaired loans in Stage 3 are established at the borrower level, where losses related to impaired loans are identified on individually significant loans, or collectively assessed and determined through the use of portfolio-based rates, without reference to particular loans.

2. MATERIAL ACCOUNTING POLICY INFORMATION – CONTINUED

(f) Financial instruments – recognition and measurement - continued

vi) Allowance for credit losses – continued

Individually assessed loans (Stage 3)
When individually significant loans are identified as impaired, the Group reduces the carrying value of the loans to their estimated realisable value by recording an individually assessed ACL to cover identified credit losses. The individually assessed ACL reflects the expected amount of principal and interest calculated under the terms of the original loan agreement that will not be recovered, and the impact of time delays in collecting principal and/or interest (time value of money). The estimated realisable value for each individually significant loan is the present value of expected future cash flows discounted using the original effective interest rate for each loan. When the amounts and timing of future cash flows cannot be estimated with reasonable reliability, the estimated realisable amount may be determined using observable market prices for comparable loans, the fair value of collateral underlying the loans, and other reasonable and supported methods based on management judgment.

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

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

Collectively assessed loans (Stage 3)
Loans that are collectively assessed are grouped on the basis of similar risk characteristics, taking into account loan type, industry, geographic location, collateral type, past due status and other relevant factors.

The collectively-assessed ACL reflects: (i) the expected amount of principal and interest calculated under the terms of the original loan agreement that will not be recovered, and (ii) the impact of time delays in collecting principal and/or interest (time value of money).

The expected principal and interest collection is estimated on a portfolio basis and references historical loss experience of comparable portfolios with similar credit risk characteristics, adjusted for the current environment and expected future conditions. A portfolio specific coverage ratio is applied against the impaired loan balance in determining the collectively-assessed ACL. The time value of money component is calculated by using the discount factors applied to groups of loans sharing common characteristics. The discount factors represent the expected recovery pattern of the comparable group of loans, and reflect the historical experience of these groups adjusted for current and expected future economic conditions and/or industry factors.

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

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

2. MATERIAL ACCOUNTING POLICY INFORMATION – CONTINUED

(f) Financial instruments – recognition and measurement - continued

vi) Allowance for credit losses - continued

Modifications

The original terms of a financial asset may be renegotiated or otherwise modified, resulting in changes to the contractual terms of the financial asset that affect the contractual cash flows. The treatment of such modifications is primarily based on the process undertaken to execute the renegotiation and the nature and extent of changes. In the normal course of business, modifications which are performed for credit reasons, primarily related to troubled debt restructurings, are generally treated as modifications of the original financial asset. Modifications which are performed for other than credit reasons are generally considered to be an expiry of the original cash flows; accordingly, such renegotiations are treated as a derecognition of the original financial asset and recognition of a new financial asset.

If a modification of terms does not result in derecognition of the financial asset, the carrying amount of the financial asset is recalculated as the present value of the renegotiated or modified contractual cash flows, discounted at the original effective interest rate and a gain or loss is recognised. The financial asset continues to be subject to the same assessments for significant increase in credit risk relative to initial recognition and credit-impairment, as described above. A modified financial asset will transfer out of Stage 3 if the conditions that led to it being identified as credit-impaired are no longer present and relate objectively to an event occurring after the original credit-impairment was recognised. A modified financial asset will transfer out of Stage 2 when it no longer satisfies the relative thresholds set to identify significant increases in credit risk, which are based on changes in its lifetime PD, days past due and other qualitative considerations. The financial asset continues to be monitored for significant increases in credit risk and credit-impairment.

If a modification of terms results in derecognition of the original financial asset and recognition of the new financial asset, the new financial asset will generally be recorded in Stage 1, unless it is determined to be credit-impaired at the time of the renegotiation. For the purposes of assessing for significant increases in credit risk, the date of initial recognition for the new financial asset is the date of the modification.

vii) Derivatives

Derivatives are used in customer dealing activities to provide clients with the ability to manage their own market risk exposures and by the Group to manage its own exposure to interest, currency and other market risks. The derivatives used by the Group are forward foreign exchange contracts and interest rate swaps. The derivatives are recorded in the Consolidated Statement of Financial Position at fair value.

Interest rate swaps are fair valued to reflect the accounting treatment of the associated assets and liabilities. Forward foreign exchange contracts are revalued at current exchange rates with unrealised gains / (losses) recognised in the Consolidated Statement of Income.

When derivatives are used to manage the Group's own exposures, the Group determines for each derivative whether hedge accounting can be applied, as discussed in the Hedge accounting section below.

viii) Derecognition of financial assets

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

2. MATERIAL ACCOUNTING POLICY INFORMATION – CONTINUED

(f) Financial instruments – recognition and measurement - continued

ix) Derecognition of financial liabilities

Financial liabilities are derecognised from the Consolidated Statement of Financial Position when the Group's obligation specified in the contract expires, or is discharged or cancelled. The difference between the carrying amount of a financial liability transferred and the consideration paid is recognised in the Consolidated Statement of Income.

x) Transaction costs

Transaction costs are expensed as incurred for financial instruments classified or designated as FVTPL. For other financial instruments, transaction costs are capitalised on initial recognition. For financial assets and financial liabilities measured at amortized cost, capitalised transaction costs are amortised through net income over the estimated life of the instrument using the effective interest method.

xi) Assets purchased under reverse repurchase agreements and sold under repurchase agreements

The Group purchases securities under agreements to resell (reverse repurchase agreement) and take possession of these securities. Reverse repurchase agreements are treated as collateralised lending transactions whereby the Group monitors the market value of the securities purchased and additional collateral is obtained when appropriate. The Group has the right to liquidate the collateral held in the event of counterparty default. The Group also sells securities under agreements to repurchase (repurchase agreements), which are treated as collateralised borrowing transactions. The securities received under reverse repurchase agreements and securities delivered under repurchase agreements are not recognised in, or derecognised from, the Consolidated Statement of Financial Position, respectively, unless the risks and rewards of ownership are obtained or relinquished.

Reverse repurchase agreements and repurchase agreements are carried on the Consolidated Statement of Financial Position at the amounts at which the securities were initially acquired or sold, except when they are classified or designated as FVTPL and are recorded at amortised cost. Interest earned on reverse repurchase agreements is included in Interest income, and interest incurred on repurchase agreements is included in Interest expense in the Consolidated Statement of Income.

xii) Hedge accounting

The Group has elected to continue to apply the hedge accounting principles under IAS 39 instead of those under IFRS 9. The Group uses derivatives to manage the Group's exposure to interest rate and currency risks. Our hedging strategies include the use of fair value hedges. Derivatives used in hedging relationships are recorded in Derivatives assets or Derivatives liabilities on the Consolidated Balance Sheets. Where hedge accounting can be applied, a hedge relationship is designated and documented at inception to detail the particular risk management objective and strategy for undertaking the hedge transaction. The documentation identifies the specific asset, liability or anticipated cash flows being hedged, the risk that is being hedged, the type of hedging instrument used and how effectiveness will be assessed. The Group assesses, both at the inception of the hedge and on an ongoing basis, whether the hedging instruments are 'highly effective' in offsetting changes in the fair value or cash flows of the hedged items. A hedge is regarded as highly effective only if the following criteria are met: (i) at inception of the hedge and throughout its life, the hedge is expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk, and (ii) actual results of the hedge are within a pre-determined range. Effectiveness testing is performed to demonstrate that the relationship has been and is expected to be effective over the remaining term of the hedge. In the case of hedging a forecast transaction, the transaction must have a high probability of occurring and must present an exposure to variations in cash flows that could ultimately affect the reported net profit or loss. Hedge accounting is discontinued when it is determined that the hedging instrument is no longer effective as a hedge, the hedging instrument or hedged item is terminated or sold, or the forecast transaction is no longer deemed highly probable. Refer to Note 12 for the fair value of derivatives categorised by their hedging relationships, as well as derivatives that are not designated in hedging relationships.

2. MATERIAL ACCOUNTING POLICY INFORMATION – CONTINUED

(f) Financial instruments – recognition and measurement - continued

xii) Hedge accounting - continued

Until the hedging relationships impacted by the Interest rate benchmark reform (the Reform) are fully transitioned to alternative benchmark rates ("ABRs"), the Group's prospective effectiveness testing were based on existing hedged cash flows or hedged risks and any ineffectiveness arising from retrospective testing did not result in a discontinuation of the hedge. Additionally, effectiveness testing is applied separately to hedged items referencing USD LIBOR and CDOR ("IBORs") and those referencing ABRs, in accordance with the Phase 2 amendments to IFRS 9 Financial Instruments, IAS 39 Financial Instruments; Recognition and Measurements, IFRS 7 Financial Instruments Disclosures, IFRS 4 Insurance Contracts and IFRS 16 Leases (the Amendments). Subsequently, when these relationships fully transitioned to ABRs, and provided qualifying criteria were met, the Group amended the related hedge documentation for the ABRs risk, including consequential changes to the description of the hedging instrument(s), the hedged item(s), and the method for assessing hedge effectiveness, without discontinuing the existing hedging relationships.

Fair value hedges

In a fair value hedging relationship, the carrying value of the hedged item is adjusted for changes in fair value attributable to the hedged risk and recognised in Non-Interest income. Changes in fair value of the hedged item, to the extent that the hedging relationship is effective, are offset by changes in the fair value of the hedging derivative, which are also recognised in Non-Interest income. When hedge accounting is discontinued, the carrying value of the hedged item is no longer adjusted and the cumulative fair value adjustments to the carrying value of the hedged items are amortised to Net income over the expected remaining life of the hedged items.

We predominantly use interest rate swaps to hedge our exposure to fixed interest rate instruments' fair value caused by changes in interest rates. Until the hedging relationships impacted by the Reform fully transition to ABRs, we apply hedge accounting to IBOR rates which may not be contractually specified when that rate is separately identifiable and reliably measurable at inception of the hedge relationship.

xiii) Guarantees

Financial guarantee contracts are contracts that contingently require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. Liabilities are recognised on the Consolidated Statement of Financial Position at the inception of a guarantee for the fair value of the obligation undertaken in issuing the guarantee. Financial guarantees are subsequently re-measured at the higher of (i) the amount of expected credit losses and (ii) the amount initially recognised less, when appropriate, the cumulative amount of income recognised.

If the financial guarantee contract meets the definition of a derivative, it is measured at fair value at each Consolidated Statement of Financial Position date and reported under Derivatives on the Consolidated Statement of Financial Position.

xiv) Interest

Interest is recognised in Interest income and Interest expense in the Consolidated Statement of Income for all interest-bearing financial instruments not carried at FVTPL or FVOCI debt instruments without fixed or determinable payments using the effective interest method. The effective interest rate is the rate that discounts estimated future cash flows over the expected life of the financial asset or liability to the net carrying amount upon initial recognition. Significant judgment is applied in determining the effective interest rate due to uncertainty in the timing and amounts of future cash flows.

xv) Offsetting financial assets and financial liabilities

Financial assets and financial liabilities are offset on the Consolidated Statement of Financial Position when there exists both a legally enforceable right to offset the recognised amounts and an intention to settle on a net basis, or realised the asset and settle the liability simultaneously.

xvi) Margin accounts

In order to conduct trades with an exchange or a third-party bank, the Group is required to maintain a margin. Such credit exposure is sensitive to the credit rating and profile of the counterparty. Margin is usually in the form of cash and deposited in a separate margin account with the exchange or broker. If available information indicates that it is probable that the Margin is impaired, an allowance is established. Write-offs of Margin occur if the outstanding amounts are considered uncollectible.

2. MATERIAL ACCOUNTING POLICY INFORMATION – CONTINUED

(g) Employee benefits – Pensions and other post-employment benefits and share-based payments
The Group operates both defined contribution and defined benefit pension plans.

Defined benefit pension plans:
Defined benefit pension expense, which is included in Human Resources costs in the Consolidated Statement of Income, consists of the cost of employee pension benefits for the current years' service and net interest on the Net defined benefit, past service cost and gains or losses on settlement. Remeasurements of the Net defined benefit liability, which comprise actuarial gains and losses and return on plan assets (excluding amounts included in net interest on the Net defined benefit liability), are recognised immediately in Other Comprehensive Income in the period in which they occur. Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred), as well as the effects of changes in actuarial assumptions. For the defined benefit plan for Jersey employees, the Group recognises the present value of the defined benefit obligations less the fair value of the plan assets, as a defined benefit liability reported in Retirement benefit liabilities on the Consolidated Statement of Financial Position. For the defined benefit plan for Jersey employees where there is a net defined benefit asset, the amount is reported as an asset in Pension scheme assets on the Consolidated Statement of Financial Position.

Defined contribution pension plans:
The Group's contribution to defined contribution plans are expensed when employees have rendered services in exchange for such contributions, generally in the year of contribution. Defined contribution plan expense is included in Human Resources Costs in the Consolidated Statement of Income and disclosed in Note 21.

Share-based payments:
Certain key employees are participants in performance deferred share plans and deferred share unit plans (the Plans). The obligations for the Plans are accrued over their vesting periods and adjusted to their fair value at each balance sheet date and are recognised as Trade and other payables (Payroll and related compensation) in the Consolidated Statement of Financial Position. The subsequent changes of the obligations of the Plans are recognised in the Consolidated Statement of Income as Human Resources costs.

Compensation expense is recognised in the years the awards are earned by plan participants based on the vesting schedule of the relevant plans, net of estimated forfeitures. The compensation cost attributable to awards granted to employees who are eligible to retire during the vesting period is recognised immediately if the employee is eligible to retire on the grant date over the period between the grant date and the date the employee becomes eligible to retire.

(h) Income taxes
The income tax expense or credit for the year is the tax payable on the current year's taxable income based on the applicable income tax rate for each jurisdiction adjusted by change in deferred tax assets and liabilities attributable to temporary differences to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantially enacted on 31 October 2024 in the countries where the Company's subsidiaries operate and generate taxable income, adjusted for withholding tax suffered. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provision where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill in a transaction other than a business combination that at the time of the transaction, affects neither the accounting nor the taxable profit or loss.

Deferred income tax is determined based on tax rates and tax laws that have been enacted or substantively enacted at 31 October 2024 and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

2. MATERIAL ACCOUNTING POLICY INFORMATION – CONTINUED

(h) Income taxes - continued

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investment in foreign operation, where the Company is able to control the timing of the reversal.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority.

Current tax assets and liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Tax and deferred tax expense is recognised in profit or loss, except that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The determination of our deferred tax asset or liability also requires significant management judgment as the recognition is dependent on our projection of future taxable profits and tax rates that are expected to be in effect in the period the asset is realized or the liability is settled. Any changes in our projection will result in changes in deferred tax assets or liabilities on the Company's Consolidated Statement of Financial Position, and also deferred tax expense on the Company's Consolidated Statements of Income.

The IASB issued amendments to IAS 12 Income Taxes (IAS 12) in May 2023 to address the Pillar Two Model Rules for International Tax Reform, including a global 15% minimum tax. The amendments introduce, with immediate effect, a temporary recognition exception in relation to accounting and disclosure for deferred taxes arising from the implementation of the international tax reform.

(i) Business combinations under common control

All business combinations are accounted for using the acquisition method. Non-controlling interests, if any, are recognized at their proportionate share of the fair value of identifiable assets and liabilities, unless otherwise indicated. Identifiable intangible assets are recognized separately from goodwill and included in Other intangibles.

(j) Goodwill and other intangibles

Goodwill represents the excess of the price paid for the business acquired over the fair value of the net identifiable assets acquired on the date of acquisition.

i) Goodwill

Goodwill disclosed in the Consolidated Financial Position arose on the acquisition of subsidiaries as part of the Abacus group acquisition. The recoverable amount of the treasury business (formerly RBC Treasury Services (CI) Limited), and the investments business (formerly RBC Investment Services Limited acquired by RBC Investment Solutions (CI) Limited, now amalgamated with Royal Bank of Canada (Channel Islands) Limited, but still separately identifiable as individual cash generating units ("CGUs")) is the higher of the fair value less cost to sell and value in use. Value in use is the present value of the expected future cash flows from the treasury and investment management businesses.

Any impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the treasury business and then to the other Non-financial assets of the treasury business pro rata based on the carrying amount of each asset.

Goodwill on acquisition of subsidiaries is included in intangible assets. Goodwill is allocated to groups of cash-generating units (CGU). Goodwill is not amortised and is tested for impairment on an annual basis, or more frequently if there are objective indications of impairment.

Testing for impairment is done by comparing the recoverable amount of a CGU with its carrying amount. A CGU's recoverable amount is the higher of its fair value less cost of disposal and its value in use. The carrying amount of a CGU comprises the carrying amount of assets, liabilities, and goodwill allocated to the CGU. When the carrying value of a CGU exceeds its recoverable amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to the other assets of the CGU proportionally based on the carrying amount of each asset. Any impairment charge is recognised in income in the period it is identified. Subsequent reversals of goodwill impairment are prohibited.

2. MATERIAL ACCOUNTING POLICY INFORMATION – CONTINUED

(i) Goodwill and other intangibles - continued

i) Goodwill - continued

The value in use and fair value less costs of disposal of the CGUs is primarily estimated by using a discounted cash flow method which incorporates each CGU's internal forecasts of revenues and expenses. Significant management judgment is applied in the determination of expected future cash flows (uncertainty in timing and amount), discount rates (based on CGU-specific risks) and terminal growth rates. CGU-specific risks include country risk, business/operational risk, geographic risk (including political risk, devaluation risk and government regulation), currency risk and price risk (including product pricing risk and inflation). If the forecast earnings and other assumptions in future periods deviate significantly from the current amounts used in the impairment testing, the value of goodwill could be considered to be impaired.

ii) Other intangibles

Intangible assets represent identifiable non-monetary assets and are acquired either separately or through a business combination, or generated internally. In respect of internally generated intangible assets, cost includes all directly attributable costs necessary to create, produce, and prepare the asset to be capable of operating in the manner intended by management. Research and development costs that are not eligible for capitalisation are expensed.

Internally Developed Software;
Initial system development costs are expensed until it is agreed to commence system development.

Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group are recognised as intangible assets when the following criteria are met:

- It is technically feasible to complete the software so that it will be available for use
- Management intend to complete the software and use or sell it
- There is an ability to use or sell the software
- It can be demonstrated how the software will generate probable future economic benefits
- Adequate technical, financial and other resources to complete the development and to use or sell the software are available, and
- The expenditure attributable to the software during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the software include employee costs and an appropriate portion of relevant overheads, capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready to use. Computer Software is amortised on a straight-line basis at an annual rate of 25%. Capitalised costs are assessed for indicators of impairment at each reporting period. If there is an indication that an intangible asset may be impaired, an impairment test is performed by comparing the carrying amount of the intangible asset to its recoverable amount. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the CGU to which the asset belongs. If the recoverable amount of the asset (or CGU) is less than its carrying amount, the carrying amount of the intangible asset is written down to its recoverable amount as an impairment loss.

iii) Client list

On the acquisition of a customer list, fair values are attributed and amortised on a straight-line basis over their estimated useful lives, which in this case is deemed to be 10-15 years. An impairment review is undertaken on an annual basis.

2. MATERIAL ACCOUNTING POLICY INFORMATION – CONTINUED

(k) Premises and equipment

Premises and equipment includes land, buildings, leasehold improvements, computer equipment, furniture, fixtures and other equipment, and are stated at cost less accumulated depreciation, except for land which is not depreciated, and accumulated impairment losses. Cost comprises the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use, and the initial estimate of any disposal costs and the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

Depreciation

Depreciation is recorded principally on a straight–line basis over the estimated useful lives of the assets, which are 3 to 10 years for computer hardware, and 5 years for furniture and fittings and office equipment. The amortization period for leasehold improvements is the lesser of the useful life of the leasehold improvements or the lease term plus the first renewal period, if reasonably assured of renewal. Depreciation methods, useful lives, and residual values are reassessed at each reporting period and adjusted as appropriate.

Premises and equipment are assessed for indicators of impairment at each reporting period. If there is an indication that an asset may be impaired, an impairment test is performed by comparing the asset's carrying amount to its recoverable amount. Where it is not possible to estimate the recoverable amount of an individual asset, the recoverable amount of the Cash Generating Unit ("CGU") to which the asset belongs is estimated and tested for impairment at the CGU level. An impairment charge is recorded to the extent the recoverable amount of an asset or CGU, which is the higher of value in use and fair value less costs of disposal, is less than its carrying amount. Value in use is the present value of the future cash flows expected to be derived from the asset or CGU. Fair value less costs of disposal is the amount obtainable from the sale of the asset or CGU in an orderly transaction between market participants, less costs of disposal.

After the recognition of impairment, the depreciation charge is adjusted in future periods to reflect the asset's revised carrying amount. If an impairment is later reversed, the carrying amount of the asset is revised to the lower of the assets recoverable amount and the carrying amount that would have been determined (net of depreciation) had there been no prior impairment loss. The depreciation charge in future periods is adjusted to reflect the revised carrying amount.

Premises and equipment are derecognised when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the asset in a transaction in which substantially all the risks and rewards of ownership or control of the financial asset are transferred.

An item of premises and equipment becomes subject to the provisions of IFRS 5 Non-current assets held for sale if it is classified for sale. The item is then presented separately in the Consolidated Statement of Financial Position under non-current assets classified as held for sale. No depreciation or amortization can be recognised while the asset is classified as held for sale.

(l) Foreign currencies

Transactions denominated in foreign currencies are translated into sterling at the exchange rate ruling at the date of the transaction with the exception of Note 21 and Note 25 where disclosure relating to the Canadian defined benefit scheme deficit and key management personnel and directors are in Canadian dollars, as indicated, this being the functional currency of the parent bank, Royal Bank of Canada. Monetary assets and liabilities denominated in foreign currencies are translated into pounds sterling at the exchange rate ruling at the Consolidated Statement of Financial Position date. Foreign exchange gains and losses resulting from the translation and settlement of these items are recognised in non-interest income in the Consolidated Statement of Income. Non-monetary assets and liabilities that are measured at historical cost are translated into sterling at historical rates. Non-monetary financial assets classified as Securities, such as debt equity instruments, that are measured at fair value are translated into Sterling at rates prevailing at the Consolidated Statement of Financial Position date, and the resulting foreign exchange gains and losses are recorded in other comprehensive income until the asset is sold or becomes impaired.

2. MATERIAL ACCOUNTING POLICY INFORMATION – CONTINUED

(m) Provisions

Provisions are liabilities of uncertain timing or amount and are recognised when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are measured as the best estimate of the consideration required to settle the present obligation at the reporting date. Significant judgment is required in determining whether a present obligation exists and in estimating the probability, timing and amount of any outflows. The Group records provisions related to litigation, asset retirement obligations, and the allowance for off-balance sheet and other items. Provisions are recorded under trade and other payables on the Consolidated Statement of Financial Position.

The Group is required to estimate the results of ongoing legal proceedings, expenses to be incurred to dispose of capital assets, and credit losses on undrawn commitments and guarantees. The forward-looking nature of these estimates requires the use of a significant amount of judgment in projecting the timing and amount of future cash flows. Provisions are recorded on the basis of all available information at the end of the reporting period and adjustments made on a quarterly basis to reflect current expectations. It may not be possible to predict the resolution of these matters or the timing of their ultimate resolution. Should actual results differ from expectations, the Group may incur expenses in excess of the provisions recognised. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, such as an insurer, a separate asset is recognised if it is virtually certain that reimbursement will be received.

(n) Share Capital and Dividend

The Company classifies a financial instrument that it issues as a financial liability or an equity instrument in accordance with the substance of the contractual arrangement. Dividends are recognised and paid following receipt of written consent by the Company's regulators.

Financial instruments issued by the Company are classified as equity instruments when there is no contractual obligation to transfer cash or other financial assets. Incremental costs directly attributable to the issue of equity instruments are included in equity as a deduction from the proceeds, net of tax. Dividends on these instruments are classified as Dividends in the Consolidated Statement of Changes in Equity.

(o) Cash and cash equivalents

Cash and cash equivalents comprise demand deposits and current accounts with banks and which are subject to an insignificant risk of changes in value.

(p) Deposits

Deposits are initially measured at fair value and subsequently measured at amortised cost. Deposit types include;

(i) Deposits payable on demand include all deposits for which the Group does not have the right to notice of withdrawal. These deposits include both savings and chequing accounts.
(ii) Deposits payable after notice include all deposits for which the Group can legally require notice of withdrawal. These deposits are primarily savings accounts.
(iii) Term deposits include deposits payable on a fixed date.

(q) Trade and other receivables

Trade receivables are initially recognised at fair value. Trade receivables are subsequently measured at amortised cost using the effective interest method, less provision for impairment. See note (f(vi)) for a description of the Group's allowance for credit losses policies.

(r) Trade and other payables

Trade and other payables are initially recognised at the invoice amount and subsequently measured at amortised cost.

2. MATERIAL ACCOUNTING POLICY INFORMATION – CONTINUED

(s) Loans due to related parties
Loans due to related parties are initially recognised at fair value, net of transaction costs incurred. Loans due to related parties are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the Consolidated Statement of Income over the period of the loan using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Loans due to related parties are removed from the Consolidated Statement of Financial Position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in the Consolidated Statement of Income as other income or finance costs.

(t) Fees and commissions
Commissions and fees primarily relate to provision of services including investment management, securities brokerage, custodial and trust services.

Investment management fees are calculated as a percentage of daily average net asset values based on the terms of the contract with customers and are recognised as income on an accrual basis and billed on a quarterly basis. Investment management fees are recognised over time when the service is provided to the customer.

Commissions earned on Securities brokerage services that are related to the provision of specific transaction type services are recognised when the service is fulfilled. Where services are provided over time, revenue is recognized as the services are provided.

Custodial and trust services fees are recognized based on the applicable service contracts with customers and are generally calculated as a percentage of daily or period-end net asset values based on the terms of the contract with customers and are received monthly, quarterly, semi-annually or annually, depending on the terms of the contract. Trust fees are derived from assets under administration ("AUA") where the investment strategy is directed by the client or a designated third party manager. Custodial fees are recognized over time when the service is provided to the customer provided that it is highly probable that a significant reversal in the amount of revenue recognized will not occur.
Commissions earned on services and service charges that are related to the provision of specific transaction type services are recognized when the service is fulfilled. Where services are provided over time, revenue is recognized as the services are provided.

Credit fees are primarily earned for making credit available on undrawn facilities. The timing of the recognition of credit fees varies based on the nature of the services provided. Credit fees associated with the initial set-up of a loan facility are taken to the Consolidated Statement of Financial Position, and amortised over the life of the loan or up until the loan repayment date, whichever occurs first.

(u) Fiduciary assets and liabilities
Fiduciary assets and liabilities under administration are accounted for separately from the Group's assets as the Group has no beneficial entitlement thereto and are excluded from these financial statements.

(v) New and amended standards adopted during the year
Amendments to Disclosure of Accounting Policies
The IASB issued Disclosure of Accounting Policies which amended IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 Making Materiality Judgements (the Amendment). The Amendment amended IAS 1 to replace the requirement for entities to disclose their material accounting policy information with the requirement to disclose their material accounting policy information. The Amendment is effective for the Company on November 1, 2023. The adoption of this Amendment did not have a material impact on the Group's Consolidated Financial Statements.

2. MATERIAL ACCOUNTING POLICY INFORMATION – CONTINUED

(w) Standards in issue but not yet effective

Amendments to the Classification and Measurement of Financial Instruments

In May 2024, the IASB issued Amendments to the Classification and Measurement of Financial Instruments which amends IFRS 9 Financial Instruments and IFRS 7 Financial Instruments: Disclosures (the Amendments). The Amendments clarify classification guidance for financial assets with environmental, social and governance-linked features and introduce additional related disclosure requirements. The Amendments will be effective for the Company on November 1, 2026. The Group is currently assessing the impact of adopting the Amendments on its Consolidated Financial Statements.

IFRS 18 Presentation and Disclosure in Financial Statements (IFRS 18)

In April 2024, the IASB issued IFRS 18 which sets out requirements for the presentation and disclosure of information in the financial statements. IFRS 18 will replace IAS 1 Presentation of Financial Statements and accompanies limited amendments to other standards which will be effective upon the adoption of the new standard. The standard introduces new defined subtotals to be presented in the Consolidated Statements of Income, disclosure of management-defined performance measures and requirements for grouping of information. This standard will be effective for the Company on November 1, 2027. The Group is currently assessing the impact of adopting this standard on its Consolidated Financial Statements.

3. REVIEW OF THE GROUP'S RISK PROFILE

Overview

The Group's business activities expose it to a wide variety of risks. The Group's ability to manage these risks is a key competency within Royal Bank of Canada ("RBC") and is supported by a strong risk management culture and an effective risk management approach within RBC.

The Group manages risks by seeking to ensure that business activities and transactions provide an appropriate balance of return for the risks assumed and remain within the Group's Risk Appetite, which is collectively managed throughout RBC, through adherence to RBC's Enterprise Risk Appetite Framework. The risks include credit, market and liquidity risk. Other risks that may impact the Group's business include operational, reputation and climate change risk. For further details, refer to the respective risk sections.

Risk framework

RBC has established an Enterprise Risk Appetite Framework. The Group has documented its own appetite in local terms in a single Risk Appetite Statement that is consistent with the Enterprise framework. The alignment is through the mandatory adherence to policies, standing orders and specific limits, particularly with respect to credit, liquidity and interest rate risks. The appetite for regulatory, legal and certain operational risks is heavily influenced by the regulatory framework, including its principles, standards and policies.

Risk management principles

The following principles guide RBC's enterprise-wide management of risk:

1. Effective balancing of risk and reward by aligning the Group's risk appetite with business strategy, diversifying risk, pricing appropriately for risk, mitigating risk through preventive and detective controls and transferring risk to third parties.
2. Shared responsibility for risk management as the business is responsible for active management of its risks, with direction and oversight provided by RBC Global Risk Management ("GRM").
3. Business decisions are based on an understanding of risk as rigorous assessment of risks in relationships, products, transactions and other business activities are performed.
4. Avoid activities that are not consistent with RBC's Values, Code of Conduct or Policies, which contributes to the protection of RBC's reputation.
5. Proper focus on clients reduces RBC's risks by knowing its clients and ensuring that all products and transactions are suitable for, and understood by RBC's clients.
6. Use of judgement and common sense in order to manage risk throughout the organisation.

3. REVIEW OF THE GROUP'S RISK PROFILE - CONTINUED

Capital management

During the period the Group actively managed its capital to maintain strong capital ratios while providing good returns to the shareholder. The Group considers the regulators' requirements, depositors and the shareholder as well as the Group's business plans, stress tests and the Group's own internal capital ratio targets.

The capital structure of the Group consists of issued share capital, share premium, reserves and retained earnings as disclosed in the Consolidated Statement of Changes in Equity.

Within the Group's capital management framework, is an internal capital adequacy assessment process ("ICAAP") that sets internal capital targets and defines strategies for achieving those targets consistent with the Group's risk appetite. As part of this process, a programme of stress testing was implemented to evaluate the economic and regulatory impacts of several potential stress events. Results are a key input into the Group's capital planning process and are used in setting appropriate internal capital targets.

The Company is regulated by the Jersey Financial Services Commission ("JFSC") and the Guernsey Financial Services Commission ("GFSC"). The JFSC provided as part of its licensing conditions; that the Company maintains its Common Equity Tier 1 ("CET1") ratio at or above 10.5% (2023: 10.5%) at all times; that the registered person maintains its Tier 1 Capital ratio at or above 10.5% (2023: 10.5%) at all times; and that the Company maintains its Total Capital ratio at or above 12.5% (2023: 12.5%) at all times and that the Company complies with paragraphs 16 to 25 of The Office of the Superintendent of Financial Institutions guidance B2-Large exposure limits (D-SIBS). The JFSC has also changed the form of capital guidance from the Individual Capital Guidance approach, to the Risk Asset Ratio ("RAR"). The RAR represents the minimum amount of capital that the JFSC considers appropriate that the Group must hold in order to maintain adequate capital resources.

Throughout the fiscal year the Total capital RAR has been maintained at a percentage between 33.89% and 39.07% (2023: between 33.32% and 38.22%) and the CET1 and Tier 1 Capital RAR has been maintained at a percentage between 23.75% and 29.17% (2023: between 17.26% and 20.12%).

It is the Group's capital management policy to ensure that it remains adequately capitalised in accordance with its risk appetite. The Group is committed to maintaining sufficient capital to underpin all risks as defined and measured by internal and external regulatory capital requirements.

3. REVIEW OF THE GROUP'S RISK PROFILE - CONTINUED

Capital management - continued

The Company assesses capital adequacy by comparing the actual RAR to the internal capital ratio threshold and to the JFSC's prescribed RAR to ensure it is in compliance with the internal and regulatory set limits. The Asset and Liability Committee ("ALCO") has management oversight responsibility for capital management and receives regular reports detailing compliance with established limits and guidelines. The Company has been in compliance with the JFSC requirements in respect of the year ended 31 October 2024 and 2023.

The Company's regulatory capital resources are analysed into two tiers:
- Common Equity Tier I capital includes ordinary share capital, share premium, reserves and retained earnings.
- Tier II capital consists of long term subordinated debt.

Relevant deductions are made to the capital resources where appropriate e.g. goodwill, and other intangibles are deducted from the regulatory capital.

Market risk

Market risk is defined to be the potential loss due to changes in market determined variables among other things, interest rates, foreign exchange rates and credit spreads.

All portfolios and balances comprising primarily of the Group's loan portfolio and deposits are subject to a hierarchy of limits, appropriate to their activities, with additional oversight provided by the ALCO.

The Group measures and controls market risk using value-at-risk ("VaR") metrics, as well as other limits and metrics.

Value-at-Risk (VaR) is a statistical measure of potential loss for a financial portfolio computed at a given level of confidence and over a defined holding period. The Group measures VaR at the 99th percentile confidence level for price movements over a 1 day holding period using historic simulation of the last two years of equally weighted historic market data. These calculations are updated daily with current risk positions.

VaR is a statistical estimate based on historical market data and should be interpreted with knowledge of its limitations – which include the following:
- VaR will not be predictive of future losses if the realised market movements differ significantly from the periods used to compute it.
- VaR projects potential losses over a one day holding period and does not project potential losses for risk positions held over longer time periods.
- VaR is measured using positions at close of business and does not include the impact of trading activity over the course of a day.

Managers use VaR alongside other risk reports to ensure that the VaR measures move as anticipated. VaR information is produced daily and is considered as part of the daily risk review process, along with other limits and forecasts.

A summary of the Group's Value-at-Risk (VaR) and the annualised Average VaR (Av VaR) as at 31 October 2024 and 31 October 2023 is presented below.

(Thousands of British Pounds)	2024				2023			
Business	**VaR**	**Av VaR**	**High**	**Low**	**VaR**	**Av VaR**	**High**	**Low**
Foreign Exchange	65	40	227	6	87	43	275	5

3. REVIEW OF THE GROUP'S RISK PROFILE - CONTINUED

Interest rate risk
Management considers that interest rate risk is the key element of market risk.

Interest rate risk is the current or prospective risk to earnings or Consolidated Statement of Financial Position value arising from adverse movements in interest rates.

Limits are delegated from RBC Corporate Treasury and the Group is responsible for ensuring that:
- Interest rate risk is managed within specified limits;
- Lines of authority and responsibility for managing risk are identified and adhered to;
- Adequate resources are devoted to interest rate risk management; and
- Operating standards are well understood by personnel taking interest rate risk management decisions.

The manager, money markets, is responsible for the management of the banking book within allocated limits. A segregated middle office monitors adherence to the limits and calculates and reports daily positions. There are a number of layers of supervision and oversight from the local Treasury middle office through senior management to ALCO.

RBC uses Value at Risk and Earnings Risk as its two primary measures to manage interest rate risk. Value at Risk is the expected loss in Economic Value of Equity due to interest rate changes. Earnings Risk is the expected negative impact on an institution's 12-month net interest income due to interest rate changes.

The following table provides the potential before-tax impact of an immediate and sustained 100 basis point increase or decrease in interest rates on projected 12-month net interest income, assuming that no further hedging is undertaken. These measures are based upon assumptions made by senior management and validated by empirical research. All interest rate risk measures are based upon interest rate exposures at a specific time and continuously change as a result of business activities and the Group's risk management actions. Over the course of 2024, the Group's interest rate risk exposure was well within its target level.

For the year ended 31 October

(Thousands of British Pounds)	2024	2023
Sensitivity to interest rate risk		
Before tax impact of:		
100 bps increase in rates	1,337	1,111
100 bps decrease in rates	(1,337)	(1,111)

The following table "Earlier of term to maturity or contract interest repricing date" details the Group's exposure to interest rate risk. The carrying amounts of financial assets and financial liabilities are reported based on the earlier of their contractual repricing date or maturity date. The table does not incorporate management's expectation of future events where expected repricing or maturity dates differ significantly from the contractual dates. These are incorporated assumptions in the management of interest rate risk exposure. These assumptions include expected repricing of trading instruments and certain loans and deposits.

3. REVIEW OF THE GROUP'S RISK PROFILE - CONTINUED

Interest rate risk - continued

Earlier of term to maturity or contract interest repricing date

The following table details the Group's exposure to interest rate risk for financial assets and financial liabilities:

As at 31 October 2024

(Thousands of British Pounds)	3 months or less	More than 3 but not more than 6 months	More than 6 but not more than 12	More than 1 but not more than 3 years	More than 3 but not more than 5 years	More than 5 years	Non interest bearing	Total
Financial Assets								
Cash and cash equivalents	24,038	-	-	-	-	-	-	24,038
Trade and other receivables	-	-	-	-	-	-	32,085	32,085
Investment securities, net of allowances	142,114	68,376	224,071	1,843,248	116,904	-	3,930	2,398,643
Assets purchased under reverse repurchase agreements	840,115	-	-	-	-	-	-	840,115
Loans and advances to banks	1,134,210	-	-	-	-	-	-	1,134,210
Net loans and advances to customers	380,631	27,480	8,613	76,562	23,825	-	-	517,111
Derivatives	-	-	-	-	-	-	53,578	53,578
Total financial assets	2,521,108	95,856	232,684	1,919,810	140,729	-	89,593	4,999,780
Financial Liabilities								
Deposits due to banks	20,284	-	-	-	-	-	-	20,284
Deposits due to customers	3,947,824	181,027	100,614	4,722	-	-	1,833	4,236,020
Derivatives	-	-	-	-	-	-	8,215	8,215
Trade and other payables	-	-	-	-	-	-	45,124	45,124
Loans due to related parties	155,376	-	-	-	-	-	-	155,376
Total financial liabilities	4,123,484	181,027	100,614	4,722	-	-	55,172	4,465,019

3. REVIEW OF THE GROUP'S RISK PROFILE - CONTINUED

Interest rate risk – continued

Earlier of term to maturity or contract interest repricing date

The following table details the Group's exposure to interest rate risk for financial assets and financial liabilities:

As at 31 October 2023

(Thousands of British Pounds)	3 months or less	More than 3 but not more than 6 months	More than 6 but not more than 12	More than 1 but not more than 3 years	More than 3 but not more than 5 years	More than 5 years	Non interest bearing	Total
Financial Assets								
Cash and cash equivalents	22,171	-	-	-	-	-	-	22,171
Trade and other receivables	-	-	-	-	-	-	48,662	48,662
Investment securities, net of allowances	57,624	117,147	468,585	1,313,949	729,175	-	3,421	2,689,901
Assets purchased under reverse repurchase agreements	1,045,787	-	-	-	-	-	-	1,045,787
Loans and advances to banks	1,197,227	-	-	-	-	-	-	1,197,227
Net loans and advances to customers	664,889	-	-	-	-	-	-	664,889
Derivatives	-	-	-	-	-	-	115,678	115,678
Total financial assets	2,987,698	117,147	468,585	1,313,949	729,175	-	167,761	5,784,315
Financial Liabilities								
Deposits due to banks	30,846	-	-	-	-	-	-	30,846
Deposits due to customers	4,907,500	84,204	93,569	-	-	-	13,712	5,098,985
Derivatives	-	-	-	-	-	-	6,694	6,694
Trade and other payables	-	-	-	-	-	-	38,398	38,398
Loans due to related parties	164,935	-	-	-	-	-	-	164,935
Total financial liabilities	5,103,281	84,204	93,569	-	-	-	58,804	5,339,858

3. REVIEW OF THE GROUP'S RISK PROFILE - CONTINUED

Foreign exchange risk

Foreign exchange risk is the financial risk associated with undertaking transactions in multiple currencies. The Group undertakes transactions denominated in foreign currencies; consequently exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters and there were no reported breaches in the year.

The currency breakdown of the Consolidated Statement of Financial Position as at 31 October 2024 is stated below in the British Pound equivalent in thousands. Forward foreign exchange contracts are entered into principally as part of internal deposit swap contracts and to hedge the net exposure arising from customer dealings. Net exposure largely represents future interest flows on forward foreign exchange contracts.

As at 31 October 2024

(Thousands of British Pounds)	GBP	%	USD	%	CAD	%	EUR	%	Others	%	Total
Assets	1,858,217	37%	2,910,106	58%	57,690	1%	205,812	4%	5,149	0%	5,036,974
Liabilities including shareholder's funds	(1,858,217)	37%	(2,910,106)	58%	(57,690)	1%	(205,812)	4%	(5,149)	0%	(5,036,974)
Forward Foreign Exchange Contracts – Purchases	417,152	48%	127,252	15%	37,962	4%	164,175	19%	129,020	15%	875,561
Forward Foreign Exchange Contracts - Sales	(70,919)	8%	(725,213)	83%	(2,791)	0%	(11,450)	1%	(67,398)	8%	(877,771)
Net position at 31 October 2024	346,233		(597,961)		35,171		152,725		61,622		(2,210)

As at 31 October 2023

(Thousands of British Pounds)	GBP	%	USD	%	CAD	%	EUR	%	Others	%	Total
Assets	1,981,697	34%	3,557,619	61%	45,828	1%	220,743	4%	9,717	0%	5,815,604
Liabilities including shareholder's funds	(1,981,697)	34%	(3,557,619)	61%	(45,828)	1%	(220,743)	4%	(9,717)	0%	(5,815,604)
Forward Foreign Exchange Contracts – Purchases	59,816	3%	680,536	32%	373,631	18%	783,793	37%	229,839	11%	2,127,614
Forward Foreign Exchange Contracts - Sales	(44,657)	2%	(1,412,891)	66%	(159,911)	8%	(390,577)	18%	(121,097)	6%	(2,129,133)
Net position at 31 October 2023	15,159		(732,356)		213,719		393,216		108,742		(1,520)

3. REVIEW OF THE GROUP'S RISK PROFILE - CONTINUED

Liquidity risk

Liquidity risk is the risk that the Group may be unable to generate or obtain sufficient cash or its equivalent in a timely and cost-effective basis to meet its commitments as they fall due. The nature of banking services inherently exposes the Group to various types of liquidity risk. The most common sources of liquidity arise from mismatches in the timing and value of cash inflows and outflows.

The principal activities employed to monitoring liquidity risk are:

- Implementing RBC's liquidity management framework;
- Developing liquidity strategies and liquidity contingency plans;
- Monitoring adherence to the liquidity management policy framework and the liquidity contingency plans;
- Balancing the cost/benefit around liquidity risk management and mitigation; and
- Monitor liquidity levels and appropriately address exceptions.

The responsibility for liquidity management rests with the Treasury function with ultimate accountability resting with the Board of Directors. The Treasury team measures their exposure principally through comparison with centrally defined limits. However, they are also pro-active in forecasting future cash flows and measuring/assessing their impacts which is regularly discussed and reviewed by the Assets and Liabilities Committee ("ALCO").

The primary mechanism for risk identification and assessment is the continued monitoring by the management team and ALCO of performance against limits and procedures and any trends that may be developing which suggest a change in the Group's liquidity risk profile. As previously mentioned, assessment is forward-looking as well as in respect of pure adherence to limits. The table below presents the undiscounted cash flow payable by the Group by remaining contractual maturities of financial liabilities and guarantees as at the balance sheet date.

As at 31 October 2024

(Thousands of British Pounds)	Less than 1 month	More than 1 but no more than 3 months	More than 3 but no more than 12 months	More than 1 but no more than 3 years	More than 3 but no more than 5 years	More than 5 years	Total
Deposits due to banks	20,284	-	-	-	-	-	20,284
Deposits due to customers	3,587,696	361,961	281,641	4,722	-	-	4,236,020
Derivative liabilities	8,215	-	-	-	-	-	8,215
Trade and other payables	45,123	-	-	-	-	-	45,123
Loans due to related parties	155,376	-	-	-	-	-	155,376
Total financial liabilities	3,816,694	361,961	281,641	4,722	-	-	4,465,018
Guarantees & Commitments	84	77,946	663	-	6,670	-	85,363

As at 31 October 2023

(Thousands of British Pounds)	Less than 1 month	More than 1 but no more than 3 months	More than 3 but no more than 12 months	More than 1 but no more than 3 years	More than 3 but no more than 5 years	More than 5 years	Total
Deposits due to banks	30,846	-	-	-	-	-	30,846
Deposits due to customers	4,556,110	365,102	177,773	-	-	-	5,098,985
Derivative liabilities	6,694	-	-	-	-	-	6,694
Trade and other payables	38,456	-	-	-	-	-	38,456
Loans due to related parties	164,935	-	-	-	-	-	164,935
Total financial liabilities	4,797,041	365,102	177,773	-	-	-	5,339,916
Guarantees & Commitments	228	2,950	28	75,726	8,235	-	87,167

3. REVIEW OF THE GROUP'S RISK PROFILE - CONTINUED

Credit risk
Credit risk is the risk of loss due to adverse changes in a borrower's or counterparty's ability to meet its financial obligations under agreed-upon terms.

The credit business provides lending and forward Foreign Exchange ("FX") facilities to High Net Worth individuals (including their related trusts) and Corporate & Institutional counterparties who are mainly Fund of Hedge Funds managers. The risk is relatively low due to the prevalence of collateral security and the conservative loan to value factors used wherever collateral is volatile. Real estate is also accepted as collateral for loans to customers at loan-to-value ratios that generally do not exceed 65%; borrowers are assessed for adequate debt service coverage.

With respect to the investment securities and assets purchased under reverse repurchase agreements, the risk profile has traditionally been, and continues to be, low. The Group does not run a trading book and it seeks appropriate advice and counsel from Group Risk Management ("GRM") on both asset types and counterparty names prior to entering into exposures.

The Group's client related accounts receivable contained within Trade and other receivables have exposure to credit risk, which are across a number of clients, thereby reducing any counterparty concentration risk. The client receivables are not interest rate sensitive. The Group seeks to limit its credit risk with regard to customers by actively monitoring outstanding receivables.

Credit risk is overseen by the Credit Committee of the Group and they review and monitor reports detailing the status of the credit book and its risk profile. The Credit Committee reports to the Board of Directors on any material matters relating to the risk control and growth of the credit portfolio. In addition, the Managing Director also signs off the monthly reports produced detailing exposures within the Group's books. The Credit Committee approves all facilities for which positive advice and counsel has been received from GRM. Any excesses above approved limits identified are included in the monthly reports to the Managing Director, which form the basis of the Credit Committee briefs.

There are no material assets which are past due and not impaired, in either the current or prior year.

The nature and performance of funds invested in market instruments is reviewed by ALCO on a monthly basis, who also review changes to counterparty credit limits as determined by RBC Corporate Treasury, based in Toronto.

Loans are considered impaired when it is determined that all amounts due will not be collected in accordance with the original contractual terms or the equivalent value as disclosed in Note 2 (f) (vi).

Amounts due from related parties, contained within Trade and other receivables, and cash and cash equivalents held with related parties are assessed by management to be of low credit risk with sufficient resources available to cover the amounts due when required. The Group's credit risk objectives, policies, and methodologies have not changed materially from last year.

Concentrations of credit risk
Concentrations of credit risk exist if a number of clients are engaged in similar activities, or are located in the same geographic region or have comparable economic characteristics such that their ability to meet contractual obligations would be similarly affected by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographic location. Management does not believe that the concentrations described below are unusual.

The geographical analysis of the Consolidated Statement of Financial Position as at 31 October 2024 and 31 October 2023 is stated below. As the Group carries on the business of banking, investment management and related financial services, no analysis has been made between classes of business. Supranational includes investments in fixed interest bonds.

3. REVIEW OF THE GROUP'S RISK PROFILE - CONTINUED

Concentrations of credit risk – continued

As at 31 October (Thousands of British Pounds)	2024	2023
United Kingdom, Channel Islands and Isle of Man	1,086,884	1,438,712
Europe and Scandinavia	1,108,269	1,293,809
Latin America and the Caribbean	55,467	65,445
United States of America	25,809	21,341
Supranational and other	2,725,879	2,968,184
Total	5,002,308	5,787,491

The Group derives its turnover and operating profit wholly from its principal activity which is conducted from the Channel Islands.

All counterparties must comply with the Company's approved list which has received positive advice and counsel from RBC Group Risk Management and approval from the local ALCO Committee of the Company.

Credit related commitment risks as discussed in Note 23 is where the Group is potentially exposed to loss in an amount equal to the total unused commitments. Commitments to extend credit to non-Group counterparties are generally secured by cash, investments or other assets.

Maximum exposure to credit risk before collateral held or other credit enhancements

The below table presents the maximum exposure to credit risk of financial instruments disclosed in the Consolidated Statement of Financial Position and off the Consolidated Statements of Financial Position at 31 October 2024 and 31 October 2023 before taking into consideration any collateral held or other credit enhancements.

The exposure to credit risk is the carrying value for financial assets recognised on the Consolidated Statement of Financial Position and off the Consolidated Statement of Financial Position.

As at 31 October (Thousands of British Pounds)	2024	2023
Cash and cash equivalents	24,038	22,171
Trade and other receivables	32,085	48,662
Securities	2,398,643	2,689,901
Assets purchased under reverse repurchase agreements	840,115	1,045,787
Loans and advances to banks	1,134,210	1,197,227
Loans and advances to customers	517,344	666,759
Allowance for loan losses	(233)	(1,560)
Derivatives	53,578	115,678
	4,999,780	5,784,315
Undrawn overdraft and loan facilities	2,748	2,727
Guarantees	82,615	84,440
	85,363	87,167
Total maximum exposure to Credit risk before collateral held or other credit enhancements	5,085,143	5,871,482

3. REVIEW OF THE GROUP'S RISK PROFILE - CONTINUED

Collateral held
The minimum value of the collateral held against loans and advances to customers comprises residential property £149 million (2023: £168 million), commercial property £115 million (2023: £182 million), cash and marketable securities £264 million (2023: £309 million) and cash and investment management portfolios of £17 million (2023: £39 million). There were no assets repledged or collateral sold during the year (2023: £Nil).

In the ordinary course of business, the Group pledge assets and enter in collateral agreements with terms and conditions that are usual and customary to the Group's regular lending, borrowing and trading activities recorded on the Consolidated Statement of Financial Position.

The extent of risk mitigation provided by collateral depends on the amount, type and quality of the collateral taken. Specific requirements relating to collateral valuation and management are documented in the Group's credit risk management policies. The types of collateral used to secure credit or trading facilities are varied and when collateral security is taken, it is determined on an account-by-account basis according to the risk of the borrower and the specifics of the transaction. Collateral security may include cash, securities and other assets pledged.

Netting is a technique that can reduce credit exposure from derivatives and is generally facilitated through the use of master netting agreements. A master netting agreement provides for a single net settlement of all financial instruments covered by the agreement in the event of default. However, credit risk is reduced only to the extent that the Group's financial obligations to the same counterparty can be set off against obligations of the counterparty to the Group.

Valuation of collateral
The value of the collateral for residential and commercial property loans is based on the collateral value at origination updated based on changes in market price indices.

The extent of risk mitigation provided by collateral depends on the amount, type and quality of the collateral taken. Specific requirements relating to collateral valuation and management are documented in the Group's credit risk management policies.

3. REVIEW OF THE GROUP'S RISK PROFILE - CONTINUED

Credit risk rating

The Borrower Risk Rating ("BRR") is a measure of how the borrower is risk assessed in terms of risk of default on a loan. Borrowers are assessed using a weighted average assessment which considers investment profile, borrower relationship, transparency and financial performance analysis. Scores for these factors provide a forward-looking perspective of the risk profile over a period of approximately three years.

The rating system is designed to stratify obligors into 22 grades, consistent with the external ratings agencies. The following table aligns the relative rankings of the 22 grade internal risk ratings with the ratings used by S&P and Moody's.

Internal ratings table

	PD Bands						
Ratings	Business and Bank	Sovereign	BRR	S&P	Moody`s	Description	% of exposure
1	0.0000% - 0.0500%	0.0000% - 0.0150%	1+	AAA	Aaa	Investment Grade	0%
2	0.0000% - 0.0500%	0.0151% - 0.0250%	1H	AA+	Aa1		0%
3	0.0000% - 0.0500%	0.0251% - 0.0350%	1M	AA	Aa2		0%
4	0.0000% - 0.0500%	0.0351% - 0.0450%	1L	AA-	Aa3		0%
5	0.0000% - 0.0550%	0.0451% - 0.0550%	2+H	A+	A1		0%
6	0.0551% - 0.0650%		2+M	A	A2		0%
7	0.0651% - 0.0750%		2+L	A-	A3		1%
8	0.0751% - 0.0850%		2H	BBB+	Baa1		11%
9	0.0851% - 0.1030%		2M	BBB	Baa2		11%
10	0.1031% - 0.1775%		2L	BBB-	Baa3		17%
11	0.1776% - 0.3470%		2-H	BB+	Ba1	Non-investment Grade	28%
12	0.3471% - 0.6460%		2-M	BB	Ba2		14%
13	0.6461% - 1.0620%		2-L	BB-	Ba3		5%
14	1.0621% - 1.5520%		3+H	B+	B1		9%
15	1.5221% - 2.2165%		3+M	B	B2		2%
16	2.2166% - 4.5070%		3+L	B-	B3		2%
17	4.5071% - 7.1660%		3H	CCC+	Caa1		0%
18	7.1661% - 13.1760%		3M	CCC	Caa2		0%
19	13.1761% - 24.9670%		3L	CCC-	Caa3		0%
20	24.9671% - 99.9990%		4	CC	Ca		0%
21	100%		5	D	C	Impaired	0%
22	100%		6	D	C		0%

3. REVIEW OF THE GROUP'S RISK PROFILE - CONTINUED

Financial assets subject to credit risk
To disclose the credit quality of the assets of the Group the financial assets have been analysed as below:

As at 31 October 2024

(Thousands of British Pounds)	Neither past due nor impaired	Past due but not impaired	Impaired	Total
Cash and cash equivalents	24,038	-	-	24,038
Trade and other receivables	32,067	-	-	32,067
Securities	2,398,643	-	-	2,398,643
Assets purchased under reverse repurchase agreements	840,115	-	-	840,115
Loans and advances to banks	1,134,210	-	-	1,134,210
Loans and advances to customers	511,131	5,980	-	517,111
Derivatives	53,578	-	-	53,578
	4,993,782	5,980	-	4,999,762

As at 31 October 2023

(Thousands of British Pounds)	Neither past due nor impaired	Past due but not impaired	Impaired	Total
Cash and cash equivalents	22,171	-	-	22,171
Trade and other receivables	48,662	-	-	48,662
Securities	2,689,901	-	-	2,689,901
Assets purchased under reverse repurchase agreements	1,045,787	-	-	1,045,787
Loans and advances to banks	1,197,227	-	-	1,197,227
Loans and advances to customers	654,887	10,002	-	664,889
Derivatives	115,678	-	-	115,678
	5,774,313	10,002	-	5,784,315

Climate change and environmental matters
The Group is part of RBC which has since 2017, issued stand-alone climate disclosures annually to provide transparency and to report on how RBC is managing climate-related risks and opportunities. RBC is committed to providing annual disclosure updates on its progress toward understanding and assessing the financial impacts of climate change on its business activities.

For detailed disclosures on RBC's enterprise-wide Environmental, Social and Governance (ESG) policies, programs and annual ESG performance, including climate risk, refer to the Royal Bank of Canada Annual Report 2024 and ESG Reports.

The Board continues to review the Company's integration of climate risk into its risk management framework in accordance with evolving regulatory requirements.

4. FAIR VALUE OF FINANCIAL INSTRUMENTS

Carrying value and fair value of selected financial instruments
The following provides a comparison of the carrying and fair value for each classification of financial instruments.

As at 31 October 2024

(Thousands of British Pounds)	Financial instruments at FVTPL	Financial Instruments measured at amortised cost	Total carrying amount	Total fair value
Financial Assets				
Securities				
OECD government debt	-	1,198,711	1,179,293	1,179,293
Corporate debt and other debt	-	1,222,266	1,215,420	1,215,420
Equities	3,930	-	3,930	3,930
Total securities	3,930	2,420,977	2,398,643	2,398,643
Assets purchased under reverse repurchase agreements	-	840,115	840,115	840,115
Loans				
Loans and advances to banks	-	1,134,210	1,134,210	1,134,210
Loans and advances to customers [(2)]	-	517,111	517,111	513,699
Total loans	-	1,651,321	1,651,321	1,647,909
Other				
Trade and other receivables	-	32,085	32,085	32,085
Derivatives	53,578	-	53,578	53,578
Financial Liabilities				
Deposits				
Deposits due to banks	-	20,284	20,284	20,284
Deposits due to customers	-	4,236,020	4,236,020	4,236,020
Total deposits	-	4,256,304	4,256,304	4,256,304
Other				
Trade and other payables	-	45,124	45,124	45,124
Derivatives	8,215	-	8,215	8,215
Loans due to related parties	-	155,376	155,376	151,492

[(1)] The carrying amount of the amortised cost investment securities includes the changes in fair value (gains or losses) due to the hedge risk and will remain as part of the carrying amount until the hedge investment security is expired, sold or otherwise terminated.
[(2)] Carrying amount is net of the allowance for loan losses.

4. FAIR VALUE OF FINANCIAL INSTRUMENTS - CONTINUED

Carrying value and fair value of selected financial instruments - continued

As at 31 October 2023

(Thousands of British Pounds)	Financial instruments at FVTPL	Financial Instruments measured at amortised cost	Total carrying amount	Total fair value
Financial Assets				
Securities				
OECD government debt	-	1,373,246	1,313,326	1,313,326
Corporate debt and other debt	-	1,397,615	1,373,154	1,373,154
Equities	3,421	-	3,421	3,421
Total securities	3,421	2,770,861	2,689,901	2,689,901
Assets purchased under reverse repurchase agreements	-	1,045,787	1,045,787	1,045,787
Loans				
Loans and advances to banks	-	1,197,227	1,197,227	1,200,579
Loans and advances to customers	-	664,889	664,889	666,751
Total loans	-	1,862,116	1,862,116	1,867,330
Other				
Trade and other receivables	-	48,662	48,662	48,662
Derivatives	115,678	-	115,678	115,678
Financial Liabilities				
Deposits				
Deposits due to banks	-	30,846	30,846	30,846
Deposits due to customers	-	5,098,985	5,098,985	5,098,985
Total Deposits	-	5,129,831	5,129,831	5,129,831
Other				
Trade and other payables	-	38,398	38,398	38,398
Derivatives	6,694	-	6,694	6,694
Loans due to related parties	-	164,935	164,935	164,935

(1) The carrying amount of the amortised cost investment securities includes the changes in fair value (gains or losses) due to the hedge risk and will remain as part of the carrying amount until the hedge investment security is expired, sold or otherwise terminated.

4. FAIR VALUE OF FINANCIAL INSTRUMENTS - CONTINUED

Fair value of assets and liabilities classified using the fair value hierarchy

IFRS 13 requires that all financial instruments measured at fair value be categorised into one of three hierarchy levels, as described below, for disclosure purposes. Each level is based on the transparency of the inputs used to measure the fair values of assets and liabilities.

- Level 1 – inputs are unadjusted quoted prices of identical instruments in active markets.
- Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 – one or more significant inputs used in a valuation technique are unobservable in determining fair values of the instruments.

Determination of fair value and the resulting hierarchy requires the use of observable market data whenever available. The classification of a financial instrument in the hierarchy is based upon the lowest level of input that is significant to the measurement of fair value.

The following describes how fair values are determined, what inputs are used and where they are classified in the fair value hierarchy table for the Group's significant assets & liabilities that are measured at fair value on a recurring basis:

Transfers between fair value hierarchy levels
During the year there were no transfers between fair value hierarchy levels.

Securities borrowed or purchased under resale agreements and securities loaned or sold under repurchase agreements
In the fair value hierarchy table, these instruments are included in Assets purchased under reverse repurchase agreements and securities borrowed, and Obligations related to assets sold under repurchase agreements and securities loaned. The fair values of these contracts are determined using valuation techniques such as the discounted cash flow method using interest rate curves as inputs. They are classified as Level 2 instruments in the hierarchy as the inputs are observable.

Derivatives
Over-the-counter derivatives primarily consist of interest rate and cross currency swaps, interest rate options and foreign exchange forward contracts and options. The exchange-traded or over-the-counter interest rate and foreign exchange derivatives are included in interest rate contracts, Foreign exchange contracts and other contracts, respectively, in the fair value hierarchy table. The fair values of over-the-counter derivatives are determined using valuation models when quoted market prices or third-party consensus pricing information are not available. The valuation models, such as discounted cash flow method or Black-Scholes option model, incorporate observable or unobservable inputs for interest and foreign exchange rates, equity and commodity prices (including indices), credit spreads, corresponding market volatility levels, and other market-based pricing factors. Other adjustments to fair value include bid-offer, credit valuation adjustments, funding valuation adjustments, overnight index swap, parameter and model uncertainties, and unrealised gain or loss at inception of a transaction. A derivative instrument is classified as Level 2 in the hierarchy if observable market inputs are available or the unobservable inputs are not significant to the fair value. Otherwise, it is classified as Level 3 in the hierarchy.

OECD government debt
The fair values of government issued or guaranteed debt securities in active markets are determined by reference to recent transaction prices, broker quotes, or third-party vendor prices and are classified as Level 1 in the hierarchy. The fair values of securities that are not traded in active markets are based on either security prices, or valuation techniques using implied yields and risk spreads derived from prices of actively traded and similar government securities. Securities with observable prices or rate inputs as compared to transaction prices, dealer quotes or vendor prices are classified as Level 2 in the hierarchy. Securities where inputs are unobservable are classified as Level 3 in the hierarchy.

Corporate debt and other debt
The fair values of corporate bonds, which are included in Corporate debt and other debt, are determined using either recently executed transaction prices, broker quotes, pricing services, or in certain instances, the discounted cash flow method using rate inputs such as benchmark yields (Canadian Dealer Offered Rate ("CDOR"), LIBOR and other similar reference rates) and risk spreads of comparable securities. Securities with observable prices or rate inputs are classified as Level 2 in the hierarchy. Securities where inputs are unobservable are classified as Level 3 in the hierarchy.

4. FAIR VALUE OF FINANCIAL INSTRUMENTS - CONTINUED

Fair value of assets and liabilities classified using the fair value hierarchy – continued

Investment securities
Investment securities consist of equities of listed and unlisted common shares. The fair values of common shares are based on quoted prices in active markets, where available, and are classified as Level 1 in the hierarchy. Where fair value is determined based on quoted market prices for similar securities, this is classified as Level 2 in the hierarchy. Where quoted prices in active markets are not readily available, fair value is determined based on quoted market prices for similar securities or through valuation techniques, such as multiples of earnings and the discounted cash flow method with forecasted cash flows and discount rate as inputs and are classified as Level 3 in the hierarchy as their inputs are not observable.

The following tables present the financial instruments measured at fair value classified by the fair value hierarchy set out in IFRS 13.

As at 31 October 2024

(Thousands of British Pounds)	Fair value measurements using: Level 1	Level 2	Level 3	Total gross fair value	Assets/ liabilities at fair value
Financial Assets					
Investment securities	506	-	3,425	3,931	3,931
Derivatives:					
Interest rate contracts	-	52,265	-	52,265	52,265
Foreign exchange contracts	-	1,313	-	1,313	1,313
Total	506	53,578	3,425	57,509	57,509
Financial Liabilities					
Derivatives:					
Interest rate contracts	-	4,692	-	4,692	4,692
Foreign exchange contracts	-	3,523	-	3,523	3,523
Total	-	8,215	-	8,215	8,215

As at 31 October 2023

(Thousands of British Pounds)	Fair value measurements using: Level 1	Level 2	Level 3	Total gross fair value	Assets/ liabilities at fair value
Financial Assets					
Investment securities	745	-	2,675	3,420	3,420
Derivatives:					
Interest rate contracts	-	111,610	-	111,610	111,610
Foreign exchange contracts	-	4,068	-	4,068	4,068
Total	745	115,678	2,675	119,098	119,098
Financial Liabilities					
Derivatives:					
Interest rate contracts	-	1,107	-	1,107	1,107
Foreign exchange contracts	-	5,587	-	5,587	5,587
Total	-	6,694	-	6,694	6,694

4. FAIR VALUE OF FINANCIAL INSTRUMENTS - CONTINUED

Fair value of assets and liabilities classified using the fair value hierarchy – continued

The following tables present the instruments that are carried at amortised cost and classified by the fair value hierarchy set out in IFRS 13.

As at 31 October 2024

	Fair value may not approximate carrying value				FV approximates	Assets/
	Fair value measurements using:			Total gross	Carrying	liabilities
(Thousands of British Pounds)	Level 1	Level 2	Level 3	fair value	Value	at fair value
Financial Assets						
Assets purchased under reverse repurchase agreements	-	-	-	-	840,115	840,115
OECD government debt	-	1,179,293	-	1,179,293	-	1,179,293
Corporate debt and other debt	-	1,215,420	-	1,215,420	-	1,215,420
Loans and advances to banks	-	-	-	-	1,134,210	1,134,210
Loans and advances to customers	-	-	-	-	513,699	513,699
Total	-	2,394,713	-	2,394,713	2,488,024	4,882,737
Financial Liabilities						
Deposits due to banks	-	-	-	-	20,284	20,284
Deposits due to customers	-	-	-	-	4,236,020	4,236,020
Loans due to related parties	-	-	-	-	151,492	151,492
Total	-	-	-	-	4,407,796	4,407,796

As at 31 October 2023

	Fair value may not approximate carrying value				FV approximates	Assets/
	Fair value measurements using:			Total gross	Carrying	liabilities
(Thousands of British Pounds)	Level 1	Level 2	Level 3	fair value	Value	at fair value
Financial Assets						
Assets purchased under reverse repurchase agreements	-	-	-	-	1,045,787	1,045,787
OECD government debt	-	1,313,326	-	1,313,326	-	1,313,326
Corporate debt and other debt	-	1,373,154	-	1,373,154	-	1,373,154
Loans and advances to banks	-	-	-	-	1,197,227	1,197,227
Loans and advances to customers	-	-	-	-	664,889	664,889
Total	-	2,686,480	-	2,686,480	2,907,903	5,594,383
Financial Liabilities						
Deposits due to banks	-	-	-	-	30,846	30,846
Deposits due to customers	-	-	-	-	5,098,985	5,098,985
Loans due to related parties	-	-	-	-	164,935	164,935
Total	-	-	-	-	5,294,766	5,294,766

5. EQUITY DIVIDENDS

No equity dividends were paid during the year (2023: £Nil).

6. INCOME TAXES

For the year ended 31 October (Thousands of British Pounds)	2024	2023
Current taxation		
Tax at Jersey and Guernsey rate of 10% (2023: 10%)	4,782	3,524
Canadian withholding tax paid	18,183	17,574
Current tax for the year	22,965	21,098

Jersey- Current tax
Jersey operations in the Group are taxable at the rate applicable to regulated financial services companies of 10% (2023: 10%).
Jersey - Deferred tax
Deferred tax is provided on timing differences which will reverse after the year end at 10% (2023: 10%), the rate it is anticipated will be in force when timing differences reverse.
Guernsey - Current Tax
Royal Bank of Canada (Channel Islands) Limited derives its profits from activities which are subject to the intermediate 10% (2023: 10%) tax rate applicable to banks as well as other business which is subject to the standard rate of 0% (2023: 0%).
Canada - Withholding Tax
Royal Bank of Canada (Channel Islands) Limited suffers withholding tax at a rate of 25% (2023: 25%) on interest income derived from deposits with ultimate parent company, Royal Bank of Canada.

Reconciliation to statutory tax rate
The difference between the total tax shown above and the amount calculated by applying the standard rate of tax to the Group income before tax is as follows:

For the year ended 31 October (Thousands of British Pounds)	2024	2023
Income before tax	112,879	124,247
Tax at Jersey and Guernsey rate of 10% (2023: 10%)	11,288	12,425
Effects of:		
Expenses not deductible	412	32
Adjusted capital requirement	-	(60)
Adjustments to tax charge in respect of previous years	357	(2,049)
Double tax relief	(7,275)	(6,824)
Income tax at Jersey and Guernsey	4,782	3,524

Significant components of deferred tax assets and liabilities
Included in the Consolidated Statement of Financial Position is a provision for deferred tax as follows:

For the year ended 31 October (Thousands of British Pounds)	2024	2023
Assets/(Liabilities):		
Balance brought forward November 1	(1,513)	(1,248)
Loss allowances for Financial Assets	(213)	24
Employee benefits (consolidated other comprehensive income movement)	(369)	(281)
Premises and equipment	14	(8)
Intangible assets	(15)	-
Deferred tax balance at 31 October	(2,096)	(1,513)

6. INCOME TAXES - CONTINUED

Deferred tax assets and liabilities result from temporary differences between the tax basis of assets and liabilities and their carrying amount in the Consolidated Statement of Financial Position.

7. CASH AND CASH EQUIVALENTS

As at 31 October

(Thousands of British Pounds)	2024	2023
Amount owed by fellow subsidiary companies	631	147
Amount owed by ultimate parent company	113	6,174
Balances with banks	23,294	15,850
Total	24,038	22,171

Cash and cash equivalents comprise demand deposits that are readily convertible into known amounts of cash and which are subject to an insignificant risk of change in value.

8. INVESTMENT SECURITIES, NET OF APPLICABLE ALLOWANCES

The following tables present the investment securities at the end of the year:

As at 31 October 2024

(Thousands of British Pounds)	FVTPL	Amortised cost	(1) Gross unrealised gains/losses	Carrying Value
OECD government debt	-	1,198,711	(19,377)	1,179,334
Corporate debt and other debt	-	1,222,266	(6,846)	1,215,420
ACL	-	(41)	-	(41)
Equities	3,930	-	-	3,930
	3,930	2,420,936	(26,223)	2,398,643
Remaining maturity:				
Up to one year	-	437,702	(3,141)	434,561
1 year to 3 years	-	1,867,540	(24,252)	1,843,288
3 years to 5 years	-	115,694	1,170	116,864
No specific maturity	3,930	-	-	3,930
	3,930	2,420,936	(26,223)	2,398,643

As at 31 October 2023

(Thousands of British Pounds)	FVTPL	Amortised cost	(1) Gross unrealised gains/losses	Carrying Value
OECD government debt	-	1,373,246	(59,870)	1,313,376
Corporate debt and other debt	-	1,397,615	(24,461)	1,373,154
ACL	-	(50)	-	(50)
Equities	3,139	-	-	3,421
	3,139	2,770,811	(84,331)	2,689,901
Remaining maturity:				
Up to one year	-	658,639	(15,283)	643,356
1 year to 3 years	-	1,351,439	(37,490)	1,313,949
3 years to 5 years	-	760,733	(31,558)	729,175
No specific maturity	3,139	-	-	3,421
	3,139	2,770,811	(84,331)	2,689,901

(1) The carrying amount of the amortised cost investment securities includes the changes in fair value (gains or losses) due to the hedge risk and will remain as part of the carrying amount until the hedge investment security is expired, sold or otherwise terminated.

8. INVESTMENT SECURITIES, NET APPLICABLE ALLOWANCES - CONTINUED

Allowance for credit losses – securities at amortised cost

Credit risk exposure on Investment Securities
The following table presents the gross carrying amount of securities at amortised cost and the allowance for credit losses. For amortised cost securities, the gross carrying amount of these assets net of the loss allowance represents the maximum exposure to credit risk.

As at 31 October 2024

(Thousands of British Pounds)	Performing Stage 1	Stage 2	Impaired Stage 3	Total
Securities at amortised cost				
Securities at amortised cost	2,394,754	-	-	2,394,754
	2,394,754	-	-	2,394,754
Allowance for credit losses	(41)	-	-	(41)
Amortised cost	2,394,713	-	-	2,394,713

As at 31 October 2023

(Thousands of British Pounds)	Performing Stage 1	Stage 2	Impaired Stage 3	Total
Securities at amortised cost				
Securities at amortised cost	2,686,530	-	-	2,686,530
	2,686,530	-	-	2,686,530
Allowance for credit losses	(50)	-	-	(50)
Amortised cost	2,686,480	-	-	2,686,480

9. ASSETS PURCHASED UNDER REVERSE REPURCHASE AGREEMENTS

As at 31 October

(Thousands of British Pounds)	2024	2023
Amortised cost	840,115	1,045,787
	840,115	1,045,787
With maturities as follows:		
Up to 1 year	840,115	1,045,787
	840,115	1,045,787

10. LOANS AND ADVANCES TO BANKS

As at 31 October

(Thousands of British Pounds)	2024	2023
Deposits with fellow subsidiary companies	44,572	27,213
Deposits with ultimate parent company	1,089,638	1,170,014
	1,134,210	1,197,227
Repayable:		
Up to one month	44,568	36,347
From one month to three months	1,087,632	1,154,544
From three months to one year	2,010	6,336
From one year to three years	-	-
From three to five years	-	-
	1,134,210	1,197,227

11. LOANS AND ADVANCES TO CUSTOMERS

As at 31 October

(Thousands of British Pounds)	2024	2023
Repayable in less than one year:		
Secured	408,098	439,999
Unsecured	1,711	690
Repayable after one year:		
Secured	107,535	226,070
	517,344	666,759
Less provision for loan losses:		
Provisions against clients	(233)	(1,870)
	517,111	664,889

Key inputs and assumptions
The measurement of expected credit losses is a complex calculation that involves a large number of interrelated inputs and assumptions and the allowance is not sensitive to any one single factor alone. The key drivers of changes in expected credit losses include the following:

1) Changes in the credit quality of the borrower or instrument, primarily reflected in changes in internal risk rating;
2) Changes in forward-looking macroeconomic conditions, specifically the macroeconomic variables to which the models used are calibrated, which are those most closely correlated with credit losses in the relevant portfolio;
3) Changes in scenario design and the weights assigned to each scenario; and
4) Transfers between stages, which can be triggered by changes to any of the above inputs.

To reflect relevant risk factors not captured in our modelled results, we applied expert credit judgment in determining significant increases in credit risk since origination as well as in the measurement of our weighted allowance for credit losses due to uncertainty related to the pace and level of deterioration in economic forecasts.

11. LOANS AND ADVANCES TO CUSTOMERS - CONTINUED

Key inputs and assumptions – continued
Further details on the key inputs and assumptions used and their impact on expected credit losses are provided below.

Internal risk ratings
Internal risk ratings are assigned according to the risk management framework outlined in Note 3 Review of the Group's Risk Profile under the heading "Credit Risk Ratings". Changes in internal risk ratings are primarily reflected in the PD parameters, which are estimated based on historical loss experience at the relevant risk segment or risk rating level, adjusted for forward-looking information.

Forward-looking macroeconomic variables
The PD, LGD and EAD inputs used to estimate Stage 1 and Stage 2 credit loss allowances are modelled based on the macroeconomic variables (or changes in macroeconomic variables) that are most closely correlated with credit losses in the relevant portfolio. Each macroeconomic scenario used in the expected credit loss calculation includes a projection of all relevant macroeconomic variables used in the models for a five year period, reverting to long-run averages generally within the medium-term outlook. Depending on their usage in the models, macroeconomic variables are projected at a country, province/state or more granular level.

Scenario design and weightings
The estimation of expected credit losses in Stage 1 and Stage 2 considers five distinct future macroeconomic scenarios. Scenarios are designed to capture a wide range of possible outcomes and are weighted according to the expectation of the relative likelihood of the range of outcomes that each scenario represents at the reporting date. Each scenario is then weighted to take into account historical frequency, current trends, and forward-looking conditions which will change over time. The base case scenario is based on forecasts of the expected rate, value or yield for each of the macroeconomic variables. The upside and downside scenarios are set by adjusting the base projections to construct reasonably possible scenarios that are more optimistic and pessimistic, respectively.

Transfers between stages
Transfers between Stage 1 and Stage 2 are based on the assessment of significant increases in credit risk relative to initial recognition as described in Note 2. The impact of moving from 12 months expected credit losses to lifetime expected credit losses, or vice versa, varies by product and is dependent on the expected remaining life at the date of the transfer. Stage transfers may result in significant fluctuations in expected credit losses.

Allowance for loan losses
The following table reconciles the opening and closing allowance for loan losses.

(Thousands of British Pounds)	Balance at 1 November 2023	Provision for credit losses	Exchange rate and other	Balance at 31 October 2024
Allowance for loan losses	(1,870)	1,348	289	(233)

(Thousands of British Pounds)	Balance at 1 November 2022	Provision for credit losses	Exchange rate and other	Balance at 31 October 2023
Allowance for loan losses	(1,560)	(381)	71	(1,870)

12. DERIVATIVES

Derivatives are financial contracts whose value is derived from an underlying interest rate or foreign exchange rate. The notional amount of derivatives represents the contract amount used as a reference point to calculate payments. Notional amounts are generally not exchanged by counterparties, and do not reflect the Group's exposure at default. The Group has entered into forward foreign exchange contracts and interest rate swaps.

Forward foreign exchange contracts are contractual obligations to exchange one currency for another at a specified price for settlement at a predetermined future date. The Group manages exposure to foreign currency risk with forward foreign exchange contracts.

Interest rate swaps are over-the-counter contracts in which two counterparties exchange a series of cash flows based on agreed upon rates to a notional amount. Interest rate swaps are agreements where two counterparties exchange a series of payments based on different interest rates applied to a notional amount in a single currency. Interest rate swaps are used to manage the Group's exposure to interest rate risk by modifying the repricing or maturity characteristics of existing and/or anticipated assets and liabilities, including funding and investment activities.

Certain derivatives are specifically designated and qualify for hedge accounting. The Group applies hedge accounting to minimise volatility in earnings and capital caused by changes in interest rates. Interest rate fluctuations will either cause assets and liabilities to appreciate or depreciate in market value or cause variability in forecasted cash flows. When a hedging relationship is effective, gains, losses, revenue and expenses of the hedging instrument will offset the gains, losses, revenue and expenses of the hedged item. The Group assesses and measures the effectiveness of a hedging relationship based on the change in the fair value or cash flows of the derivative hedging instrument relative to the change in the fair value or cash flows of the hedged item attributable to the hedged risk.

12. DERIVATIVES - CONTINUED

Notional amounts of derivatives by term to maturity

As at 31 October 2024

(Thousands of British Pounds)	Term to maturity: Less than one year	Term to maturity: One to five years	Term to maturity: Over five years	Total
Over-the-counter contracts:				
Interest rate swaps	286,086	1,351,347	-	1,637,433
Forward foreign exchange contracts	900,869	-	-	900,869

As at 31 October 2023

(Thousands of British Pounds)	Term to maturity: Less than one year	Term to maturity: One to five years	Term to maturity: Over five years	Total
Over-the-counter contracts:				
Interest rate swaps	107,439	1,714,853	-	1,822,292
Forward foreign exchange contracts	2,616,940	-	-	2,616,940

Fair Value of derivative instruments

As at 31 October

(Thousands of British Pounds)	2024		2023	
	Positive	Negative	Positive	Negative
Interest rate swaps	52,265	4,692	111,610	1,107
Forward foreign exchange contracts	1,313	3,523	4,068	5,587
	53,578	8,215	115,678	6,694

Fair Value of derivative instruments by term to maturity

As at 31 October 2024

(Thousands of British Pounds)	Term to maturity: Less than one year	Term to maturity: One to five years	Term to maturity: Over five years	Total
Derivative assets	10,445	43,133	-	53,578
Derivative liabilities	8,215	-	-	8,215

As at 31 October 2023

(Thousands of British Pounds)	Term to maturity: Less than one year	Term to maturity: One to five years	Term to maturity: Over five years	Total
Derivative assets	10,648	105,030	-	115,678
Derivative liabilities	6,694	-	-	6,694

12. DERIVATIVES - CONTINUED

Interest rate benchmark reform

The Group uses interest rate contracts in fair value hedges to manage our exposure to interest rate risk from our existing and/or forecast assets. The hedging instruments designated to manage these risks referenced IBORs in multiple jurisdictions and were affected by the Reform as the markets transitioned to ABRs as discussed in Note 2.

The notional amount of the Group's interest rate contracts which referenced IBORs and were affected by the Reform is no longer material to the Group's financial statements (2023: £29,716 thousands).

Derivative-related credit risk

Credit risk from derivative transactions is generated by the potential for the counterparty to default on its contractual obligations when one or more transactions have a positive market value to the Group. Therefore, derivative-related credit risk is represented by the positive fair value of the instrument and is normally a small fraction of the contract's notional amount.

The Group subjects derivative-related credit risk to the same credit approval, limit and monitoring standards that is used for managing other transactions that create credit exposure. This includes evaluating the creditworthiness of counterparties, and managing the size, diversification and maturity structure of the portfolio. Credit utilisation for all products is compared with established limits on a continual basis and is subject to a standard exception reporting process. The Group utilises a single internal rating system for all credit risk exposure. In most cases, these internal ratings approximate the external risk ratings of public rating agencies.

Given that the significant financial liabilities are with RBC Group counterparties, any adjustments for own credit risk have been deemed to be immaterial.

Offsetting is a technique that can reduce credit exposure from derivatives and is generally facilitated through the use of master netting agreements and achieved when specific criteria are met in accordance with the accounting policy in Note 2. A master netting agreement provides for a single net settlement of all financial instruments covered by the agreement in the event of default. However, credit risk is reduced only to the extent that the Group's financial obligations to the same counterparty can be set off against obligations of the counterparty to the Group.

Derivatives in hedging relationships

The Group applies hedge accounting to minimise volatility in earnings and capital caused by changes in interest rates or foreign exchange rates. Interest rate and currency fluctuations will either cause assets and liabilities to appreciate or depreciate in market value or cause variability in forecasted cash flows. When a hedging relationship is effective, gains, losses, revenue and expenses of the hedging instrument will offset the gains, losses, revenue and expenses of the hedged item. Refer to Note 2 for our policies on hedge accounting including presentation of hedge effectiveness and ineffectiveness amounts.

12. DERIVATIVES - CONTINUED

Derivatives in hedging relationships - continued
Hedge accounting movements from Derivatives used in hedging relationships are recorded in Investment Securities on the Statement of Financial Position. Gains and losses relating to hedging ineffectiveness are recorded in Non-Interest income.

The Group assesses and measures the effectiveness of a hedging relationship based on the change in the fair value of the derivative hedging instrument relative to the change in the fair value of the hedged item attributable to the hedged risk.

Potential sources of ineffectiveness can be attributed to differences between hedging instruments and hedged items:

- Mismatches in the terms of hedged items and hedging instruments, for example the frequency and timing of when interest rates are reset and frequency of payment.
- Difference in the discounting factors between the hedged item and the hedging instrument, taking into consideration the different reset frequency of the hedged item and hedging instrument.
- Hedging derivatives with a non-zero fair value at inception date of the hedging relationship, resulting in mismatch in terms with the hedged item.

Below is a description of the Group's risk management strategy for the risk exposure that the Group decide to hedge:

Interest rate risk
The Group uses interest rate contracts to manage the exposure to interest rate risk by modifying the repricing characteristics of existing and/or forecasted assets and liabilities, including funding and investment activities. The swaps are designated in a fair value hedge. Certain swaps were affected by the Reform as the market transitioned from referencing IBORs to ABRs.

The Group has hedged the OECD government debt and the Corporate and other debt with interest rate swaps to reduce profit and loss volatility.

Derivative instruments designated in hedging relationships
The following tables provide the maturity analysis of the notional amounts and the weighted average rates of the hedging instruments and their carrying amounts by types of hedging relationships:

Fair value hedge

	As at 31 October 2024					
	Notional amounts				Carrying amount	
(Thousands of British Pounds)	Within 1 year	1 through 5 years	Over 5 years	Total	Assets	Liabilities
Interest rate risk						
Interest rate contracts:						
Hedge of fixed rate assets	286,086	1,286,027	-	1,572,113	50,977	(3,199)
Weighted average fixed interest rate:						
Hedge of fixed rate assets	1.9%	2.8%	0.0%	2.7%		

Fair value hedge

	As at 31 October 2023					
	Notional amounts				Carrying amount	
(Thousands of British Pounds)	Within 1 year	1 through 5 years	Over 5 years	Total	Assets	Liabilities
Interest rate risk						
Interest rate contracts:						
Hedge of fixed rate assets	107,439	1,714,853	-	1,822,292	111,554	(1,149)
Weighted average fixed interest rate:						
Hedge of fixed rate assets	0.7%	2.6%	0.0%	2.5%		

12. DERIVATIVES - CONTINUED

Derivative instruments designated in hedging relationships - continued
The following tables present the details of the hedged items categorised by their hedging relationships:

Fair value hedge - assets and liabilities designated as hedge items

	As at and for the year ended 31 October 2024					
	Carrying amount		Accumulated amount of fair value adjustments on the hedged item included in the carrying amount			
(Thousands of British Pounds)	Assets	Liabilities	Assets	Liabilities	Balance sheet item	Changes in fair values used for calculating hedge effectiveness
Interest rate risk						
Fixed rate assets	1,521,358	-	(26,223)	-	Investment Securities	52,921

	As at and for the year ended 31 October 2023					
	Carrying amount		Accumulated amount of fair value adjustments on the hedged item included in the carrying amount			
(Thousands of British Pounds)	Assets	Liabilities	Assets	Liabilities	Balance sheet item	Changes in fair values used for calculating hedge effectiveness
Interest rate risk						
Fixed rate assets	1,698,811	-	(84,331)	-	Investment Securities	9,240

Effectiveness of designated hedge relationships

	For the year ended 31 October 2024			
(Thousands of British Pounds)	Change in fair value of hedging instrument	Hedge ineffectiveness recognised in income	Changes in the value of the hedging instrument recognised in OCI	Amount reclassified from hedge reserves to income
Fair value hedges				
Interest rate risk:				
Interest rate contracts - fixed rate assets	(52,985)	(64)	-	-

	For the year ended 31 October 2023			
(Thousands of British Pounds)	Change in fair value of hedging instrument	Hedge ineffectiveness recognised in income	Changes in the value of the hedging instrument recognised in OCI	Amount reclassified from hedge reserves to income
Fair value hedges				
Interest rate risk:				
Interest rate contracts - fixed rate assets	(9,079)	161	-	-

13. TRADE AND OTHER RECEIVABLES

As at 31 October

(Thousands of British Pounds)	2024	2023
Due from ultimate parent company	544	187
Due from fellow subsidiaries	25	1,700
Accrued interest on securities	17,748	20,607
Prepayments	2,528	1,442
Accrued custodial and trust revenue	2,520	2,651
Margin	10,734	23,005
Others	514	512
	34,613	50,104

Amounts due from related parties are interest free, unsecured and repayable on demand. The directors are of the opinion that the carrying value of trade and other receivables equates to their fair value.

Margin includes a variation margin account and a default fund held with London Clearing House.

14. GOODWILL

As at 31 October

(Thousands of British Pounds)	2024	2023
RBC Treasury Services (CI) Limited	3,370	3,370
RBC Investment Services Limited	1,687	1,687
	5,057	5,057

Goodwill of £3,370k disclosed in the Consolidated Statement of Financial Positions arose on the acquisition of subsidiaries as part of the Abacus group acquisition. The recoverable amount of the treasury business (formerly RBC Treasury Services (CI) Limited, now amalgamated with Royal Bank of Canada (Channel Islands) Limited, but still separately identifiable as a CGU) is the higher of its fair value less cost to sell, and its value in use. Value in use is the present value of the expected future cash flows from the treasury business.

On 1 November 2021 RBC Investment Solutions (CI) Limited ("Investment Solutions") merged with the Guernsey company, known as Royal Bank of Canada (Channel Islands) Limited and continued as a new Jersey company, Royal Bank of Canada (Channel Islands) Limited incorporated on 1 November 2021 under the laws of Jersey.

Goodwill of £1,687k in RBC Investment Solutions (CI) Limited was added to the Group following the merger with the Guernsey company which arose when RBC Investment Solutions (CI) Limited acquired RBC Investment Services Ltd (the "investments business") as part of the Abacus group acquisition. No goodwill arose from the merger of RBC Investment Solutions (CI) Limited with the Guernsey company.

Goodwill is tested for impairment at the end of each financial year. Recoverable amounts are determined based on value in use, which is derived based on underlying net assets and anticipated future cash flows from the treasury business. Future cash flows are based on financial plans agreed by management for a five-year period, and cash flows beyond five years are determined based on a terminal growth rate of 3.0%. A discount rate of 10.6% was used to determine the value in use. The assessment was performed as at 31 October 2024, and based on the result, management are of the opinion that there has been no impairment of Goodwill.

The discount rate used of 10.6% (2023: 10.7%) is based on the RBC-wide cost of capital, adjusted for the risks to which each cash generating unit (CGU) is exposed. CGU-specific risks include: country risk, business/operational risk, geographic risk (including political risk, devaluation risk, and government regulation), currency risk, and price risk (including product pricing risk and inflation). The terminal growth rate applied of 3.0% (2023: 3.0%) is based on the current market assessment of gross domestic product and inflation for the countries within which the CGU operates.

14. GOODWILL - CONTINUED

The environment is rapidly evolving and as a result, the economic outlook has a higher than usual degree of uncertainty, which may materially change the estimated recoverable amount of CGUs and result in an impairment charge in future periods. Actual experience may differ materially from current expectations, including in relation to the duration and severity of the economic contraction and the ultimate timing and extent of a future recovery.

The Group has conducted a sensitivity analysis on the impairment test of the carrying value of the treasury and investments businesses. A nil growth rate assumption would continue to support a value of goodwill in excess of the carrying amount.

15. INTANGIBLE ASSETS

2024

(Thousands of British Pounds)	Client list	Computer software	Software work in process	Total
Cost				
Balance at 1 November 2023	7,587	355	6,811	14,753
Additions	-	-	2,563	2,563
Transfers from work in process	-	4,819	(4,819)	-
Disposals	-	(46)	(29)	(75)
Balance at 31 October 2024	7,587	5,128	4,526	17,241
Accumulated amortisation				
Balance at 1 November 2023	7,587	316	-	7,903
Charge for the year	-	1,217	-	1,217
Disposals	-	(25)	-	(25)
Balance at 31 October 2024	7,587	1,508	-	9,095
Net carrying amount at 31 October 2024	-	3,620	4,526	8,146

2023

(Thousands of British Pounds)	Client list	Computer software	Software work in process	Total
Cost				
Balance at 1 November 2022	7,587	15	4,034	11,636
Additions	-	349	2,777	3,126
Disposals	-	(9)	-	(9)
Balance at 31 October 2023	7,587	355	6,811	14,753
Accumulated amortisation				
Balance at 1 November 2022	7,587	1	-	7,588
Charge for the year	-	324	-	324
Disposals	-	(9)	-	(9)
Balance at 31 October 2023	7,587	316	-	7,903
Net carrying amount at 31 October 2023	-	39	6,811	6,850

Estimates of the recoverable amounts of the intangible assets rely on certain key inputs, including future cash flows and discount rates. Future cash flows are based on sales projections and allocated costs which are estimated based on forecast results and business initiatives. Discount rates are based on the bank-wide cost of capital, adjusted for asset-specific risks.

16. PREMISES AND EQUIPMENT

2024

(Thousands of British Pounds)	Office equipment	Computer hardware	Total
Cost			
Balance at 1 November 2023	1	1,025	1,026
Additions	7	3	10
Balance at 31 October 2024	8	1,028	1,036
Accumulated depreciation			
Balance at 1 November 2023	1	536	537
Charge for the year	1	175	176
Balance at 31 October 2024	2	711	713
Net carrying amount at 31 October 2024	6	317	323

2023

(Thousands of British Pounds)	Office equipment	Furniture and fittings	Computer hardware	Total
Cost				
Balance at 1 November 2022	1	96	959	1,056
Additions	-	-	108	108
Disposals	-	(96)	(42)	(138)
Balance at 31 October 2023	1	-	1,025	1,026
Accumulated depreciation				
Balance at 1 November 2022	-	92	374	466
Charge for the year	1	4	204	209
Disposals	-	(96)	(42)	(138)
Balance at 31 October 2023	1	-	536	537
Net carrying amount at 31 October 2023	-	-	489	489

17. DEPOSITS DUE TO BANKS

As at 31 October (Thousands of British Pounds)	2024	2023
Deposit accounts – banks	845	2,958
Amounts owed to fellow subsidiaries and the ultimate parent company	19,439	27,888
	20,284	30,846
Deposit accounts		
Repayable:		
Up to one month	845	2,958
	845	2,958
Fellow subsidiaries and ultimate parent company		
Repayable:		
Up to one month	19,439	27,888
	19,439	27,888

18. DEPOSITS DUE TO CUSTOMERS

As at 31 October (Thousands of British Pounds)	2024	2023
Current and call accounts	2,407,954	2,920,931
Deposit accounts – others	1,360,621	943,554
Amounts owed to fellow subsidiaries, ultimate parent company and other related parties	467,445	1,234,500
	4,236,020	5,098,985
Deposits accounts		
Repayable:		
Up to one month	3,587,696	4,556,110
From one month to three months	361,961	365,102
From three months to one year	281,641	177,773
From one year to three years	4,722	-
From three years to five years	-	-
	4,236,020	5,098,985

19. TRADE AND OTHER PAYABLES

As at 31 October (Thousands of British Pounds)	2024	2023
Ultimate parent company	12,701	4,398
Fellow subsidiaries	11,374	12,571
Other interest payable	10,949	8,776
Other creditors	4,852	7,755
ACL for off-balance sheet items	17	58
Payroll and related compensation	5,247	4,898
Total	45,140	38,456

Amounts due to related parties are unsecured, interest free and repayable on demand. The directors are of the opinion that the carrying value of the trade and other payables equates to their fair value.

20. LOANS DUE TO RELATED PARTIES

As at 31 October (Thousands of British Pounds)	2024	2023
Subordinated loan – RBC (Cayman) Funding Limited (Former name: RBC (Barbados) Funding Limited)	155,376	164,935

Subordinated loan
The lender of the subordinated loan of US$200,000,000 to the Group is RBC (Cayman) Funding Limited. On 1 October 2024, RBC (Barbados) Funding Limited was redomiciled to the Cayman Islands and was renamed to RBC (Cayman) Funding Limited. The subordinated loan is unsecured and subordinated in right of payment to all other prior claims. The loan is repayable in full on the tenth anniversary of receipt of funds which was on 30 March 2033. An early repayment of any part of the loan after 30 March 2028 can only be made at the option of the company and is subject to the provision of prior notification to the Jersey Financial Services Commission (JFSC) and either no objection is raised or consent is provided by the JFSC and the Company both at the time of notification and prepayment is in compliance with its capital adequacy requirements as provided in the Jersey Capital Regulations. The interest rate on the loan is set at SOFR plus 2.55% and is reset every three months, the interest expense recorded for the year ended 31 October 2024 was £12,445,073 (2023: £11,831,694). As at 31 October 2024, the interest payable on the loan was £44,340 (31 October 2023: £36,011). The next reset date is 30 December 2025.

The effect of changes in foreign exchange rates on the loan balance for the year ended 31 October 2024 was £-9,558,839 (2023: £-8,796,908).

21. PENSION SCHEME ASSETS/LIABILITIES

The Group participates in a defined contribution pension plan for the Channel Islands employees and two defined benefit pension plans, one for Guernsey and one for Jersey employees.

Royal Bank of Canada Defined Contribution Pension Plan for the Channel Islands
From 1 July 2006 in Guernsey, and 1 December 2005 in Jersey, all new employees, subject to meeting eligibility criteria, are required to join the Royal Bank of Canada Defined Contribution Pension Plan for the Channel Islands. The Plan is a money purchase pension scheme where a defined contribution is payable by the Company on behalf of eligible employees. Pension costs in respect of contributions payable are charged to the Consolidated Statement of Income as contributions payable in the year. The pension arrangements including investment, plan benefits and funding decisions are governed by the RBC Channel Islands Pension Committee. On 31 October 2024 there were no contributions outstanding to the Plan (2023: £Nil).

As at 31 October (Thousands of British Pounds)	2024	2023
Contributions paid in the year	1,375	1,310

21. PENSION SCHEME ASSETS/LIABILITIES - CONTINUED

Defined benefit scheme for Guernsey employees

The Group participates in the Channel Islands section of the Pension Fund Society of Royal Bank of Canada ("the Canadian Plan"), incorporated in Canada, a final salary defined benefit pension scheme in which a number of other Royal Bank of Canada Group companies also participate. The defined benefit plan is administered by separate trustees that are legally segregated from the Group. The Canadian Plan provides benefits based on years of service, contributions and average earnings at retirement. The Canadian Plan is funded by the Royal Bank of Canada Group companies who participate in the plan in accordance with actuarially determined amounts required to satisfy employee benefit obligations under current pension regulations. Contributions are made to the scheme annually and the actuary has stated the expected contributions for 2024 but there is no stated agreement for calculating the Company's share of the expected annual contributions. The Canadian plan is valued using the projected unit-credit method.

The Group made pension contributions to the Pension Fund Society of Royal Bank of Canada for full-time employees during 2024 of £Nil (2023: £Nil). No contribution is expected to be paid next year. Contributions outstanding for full time staff at 31 October 2024 amounted to £Nil (2023: £Nil).

The financial position of the Canadian Plan at 31 October 2024 was a surplus of $3,244 million (2023: surplus of $2,566 million). There are 0.04% of active members of the Group included in total Canadian Plan participants. In view of the low number of participants covered by the Channel Islands section of the Pension Fund Society of Royal Bank of Canada in comparison to the overall participants, the Group is unable to identify the Group's share of underlying assets and liabilities of the Canadian Plan or the implications of the deficit for the Group. The Group, therefore, determined the scheme to be a scheme of entities under common control and has recognised a cost equal to its contribution payable for the period. For detailed disclosures on this scheme, refer to the Royal Bank of Canada Annual Report 2024.

Defined benefit scheme for Jersey employees

The Group, together with a number of fellow RBC Group companies in the Channel Islands, participates in the defined benefit scheme, Royal Bank of Canada (Channel Islands) Limited, Jersey Pension Scheme ("the Jersey Plan"). This scheme closed to new employees on 1 December 2004. The assets of the scheme are held separately from those of the Group. The defined benefit scheme is administered by separate trustees that are legally segregated from the Group (RBC Trustees (Jersey) Limited). Contributions paid into the scheme during the current year in respect of employees of the Group totalled £1,058,000 (2023: £1,147,000). Similar levels of contributions are expected to be paid next year. There are no restrictions on current realisability of the net defined benefit recognised.

Risks

By their design, the defined benefit plans expose the Group to risks such as investment performance, reductions in discount rates used to value the obligations, increased longevity of plan members, future inflation levels impacting future salary increases as well as future increases in health care costs. By closing the defined benefit plan and migrating to the defined contribution plan, for new employees, the volatility associated with future service costs will reduce over time.

The following table presents the financial position related to the defined benefit plan:

As at 31 October

(Thousands of British Pounds)	2024	2023
Fair value of plan assets	53,144	47,319
Present value of defined benefit obligation	(32,004)	(29,868)
Total net surplus	21,140	17,451
Amounts recognised in the Consolidated Statement of Financial Position consist of:		
Pension scheme assets	21,140	17,451
Total net surplus	21,140	17,451

21. PENSION SCHEME ASSETS/LIABILITIES - CONTINUED

The following table presents an analysis of the movement in the financial position related to all of the Group's material pension schemes:

As at and for the year ended 31 October

(Thousands of British Pounds)	2024	2023
Change in fair value of plan assets		
Opening fair value of plan assets	47,319	48,475
Interest income	2,669	2,271
Contributions – Employer	1,059	1,147
Contributions – Plan participant	84	91
Remeasurements:		
Return on plan assets (excluding interest income)	3,692	(2,976)
Benefits paid	(1,679)	(1,689)
Closing fair value of plan assets	53,144	47,319
Change in benefit obligation		
Opening benefit obligation	29,868	33,832
Current service cost	718	868
Interest expense	1,649	1,542
Remeasurements:		
Actuarial gains from demographic assumptions	(229)	(397)
Actuarial losses/(gains) from financial assumptions	1,766	(3,782)
Actuarial gains from experience adjustments	(173)	(597)
Contributions – Plan participant	84	91
Benefits paid	(1,679)	(1,689)
Closing benefit obligation	32,004	29,868

For the year ended 31 October

(Thousands of British Pounds)	2024	2023
Reconciliation of the total net surplus		
Opening net surplus	17,451	14,643
Defined benefit costs expense	302	(139)
Remeasurements included in OCI	2,328	1,800
Contributions – Employer	1,059	1,147
Closing net surplus	21,140	17,451

21. PENSION SCHEME ASSETS/LIABILITIES - CONTINUED

Pension and other post-employment benefit expense
The following table presents the composition of the Group's pension and other post-employment expense:

For the year ended 31 October

(Thousands of British Pounds)	2024	2023
Current service costs	718	868
Net interest expense	(1,020)	(729)
Defined benefit pension (income) / expense	(302)	139

Remeasurements of employee benefit plans
The following table presents the composition of the remeasurements recorded in Other Comprehensive Income:

For the year ended 31 October

(Thousands of British Pounds)	2024	2023
Actuarial (gains)/losses		
Changes in demographic assumptions	(229)	(397)
Changes in financial assumptions	1,766	(3,782)
Experience adjustments	(173)	(597)
Return on plan assets (excluding interest based on discount rate)	(3,692)	2,976
Remeasurement of net defined benefit plan	(2,328)	(1,800)

Investment policy and strategies
Defined benefit pension plan assets are invested prudently in order to meet longer term pension obligations. The pension plan's investment strategy is to structure a diversified mix of investments by asset classes and geographic location, in order to reduce investment-specific risk to the funded status to an acceptable level while maximising the expected returns to meet pension obligations. Investment of the plan's assets is conducted with close consideration of the risk exposures of the pension obligations to interest rates, credit spreads and inflation which are the key factors impacting the obligation. The asset mix policy is therefore consistent with an asset/liability framework. Factors taken into consideration in developing the asset mix include but are not limited to the following:

(i) the nature of the underlying benefit obligations, including the duration and term profile of the liabilities;
(ii) the member demographics, including normal retirements, terminations and deaths;
(iii) the financial position of the pension plans;
(iv) the diversification benefits obtained by the inclusion of multiple asset classes; and
(v) expected asset returns, including assets liability volatility and correlations.

To implement the asset mix policy, the plans may invest in equity securities, debt securities, alternative investments and derivative instruments. Holdings in certain investments, including common shares, emerging market equity and debt, debt securities rated lower than BBB and residential and commercial mortgages, cannot exceed a defined percentage of the market value of the defined benefit pension plans assets. Derivative instruments may be used as either a synthetic investment to more efficiently replicate the performance of an underlying security, or as a hedge against financial risks associated with the underlying portfolio. To manage credit risk exposure, counterparties of the Group's derivative instruments are required to meet minimum credit ratings and enter into collateral agreements.

The defined benefit pension plan assets are primarily composed of equity and debt securities, some of which are held within pooled investment vehicles ("PIV"). The performance of the Plans' investment manager(s) is reviewed by the Channel Islands Pension Committee ("CIPC") on a regular basis, but not less than annually. A customised benchmark and value added objective is established and agreed upon by the CIPC and the investment manager(s), to reflect the expected risk profile and investment characteristics of the individual components of the Funds. The performance of the investment manager(s) is judged against these targets. The benchmark reflects the targeted asset mix for the portfolio over longer time periods.

21. PENSION SCHEME ASSETS/LIABILITIES - CONTINUED

Asset allocation of defined benefit pension plans

As at 31 October (Thousands of British Pounds)	2024		
	Fair value	**Percentage of total plan assets (%)**	**Quoted in active market (%)**
Debt securities	31,339	59	100
Alternative investments and other	20,991	39	100
Cash	814	2	-
Closing fair value of plan assets	53,144	100	

As at 31 October (Thousands of British Pounds)	2023		
	Fair value	**Percentage of total plan assets (%)**	**Quoted in active market (%)**
Debt securities	25,255	54	100
Alternative investments and other	21,502	45	100
Cash	562	1	-
Closing fair value of plan assets	47,319	100	

Maturity profile

As at 31 October (Thousands of British Pounds)	2024
Benefits expected to be paid 2025	803
Benefits expected to be paid 2026	1,731
Benefits expected to be paid 2027	1,731
Benefits expected to be paid 2028	1,731
Benefits expected to be paid 2029	1,731
Benefits expected to be paid 2030	1,731
Benefits expected to be paid 2031-2035	8,665
Number of plan participants	417 participants
Weighted average duration of defined benefit	11 years

21. PENSION SCHEME ASSETS/LIABILITIES - CONTINUED

Significant assumptions
Methodologies used to determine significant assumptions used in calculating the defined benefit pension expense are as follows:

Discount rate
All future expected benefit payments at each measurement date are discounted at spot rates from an AA corporate bond yield curve. The currency and term of the instruments chosen are consistent with the currency and estimated term of the benefit obligations. The discount rate is the equivalent single rate that produces the same discounted value as that determined using the entire discount curve. This valuation methodology does not rely on assumptions regarding reinvestment returns.

Overall expected long-term rate of return on assets
The assumed expected rate of return on assets is determined by considering long-term expected returns on fixed income securities combined with an estimated equity risk premium. The expected long term return for each asset class is then weighted based on the target asset allocation to develop the expected long-term rate of return on assets assumption for that portfolio.

Rate of increase in future compensation
The assumptions for increases in future compensation are developed separately for each plan, where relevant. Each is set based on the price inflation assumption and compensation policies in each market, as well as relevant local statutory and plan-specific requirements.

As at 31 October

	2024	**2023**
Weighted average assumptions to determine benefit obligation:		
Discount rate	5.20%	5.70%
Rate of increase in future compensation	3.00%	3.00%
Rate of Price inflation	3.50%	3.40%
Pension increase rate for certain members	3.30%	3.30%
Pension increase rate	0.00%	0.00%

Mortality assumptions:
Investigations have been carried out into the mortality experience of the Group's defined benefit schemes. These investigations concluded that the current mortality assumptions include sufficient allowance for future improvements in mortality rates. The assumed life expectations on retirement at age 65 are:

As at 31 October

	2024	**2023**
	Years	**Years**
Retiring today		
Males	23	23
Females	24	25
Retiring in 20 years		
Males	24	25
Females	26	26

21. PENSION SCHEME ASSETS/LIABILITIES - CONTINUED

Significant assumptions - continued

Sensitivity analysis

Assumptions adopted can have a significant effect on the obligations and the expense for defined benefit pension and post-employment benefit plans. The increase (decrease) in obligation in the following table has been determined assuming all other assumptions are held constant. In practice, this is unlikely to occur, as changes in some of the assumptions may be correlated. The following table presents the sensitivity analysis of key assumptions for 2024.

As at 31 October	2024
	Defined benefit pension plans - increase/(decrease) in obligation
Discount rate	
Impact of 100bps increase in discount rate	(10.4)%
Impact of 100bps decrease in discount rate	12.7%
Rate of increase in future compensation	
Impact of 50bps increase in future compensation	0.6%
Impact of 50bps decrease in future compensation	(0.7)%
Mortality rate	
Impact of an increase in longevity by one additional year	2.6%
Impact of a decrease in longevity by one additional year	2.7%

Valuation

The defined benefit plan is valued every three years by a professionally qualified, independent actuary, BWCI Consulting Limited. The most recent valuation was carried out as at 31 December 2020.

22. SHARE CAPITAL RESERVES & SHARE PREMIUM

As at 31 October (Thousands of British Pounds)	2024	2023
Authorised share capital		
50,000,000 (2023: 50,000,000) ordinary shares £1 each	50,000	50,000
Issued, allotted and fully paid		
10,700,014 (2023: 10,700,014) ordinary shares of £1 each	10,700	10,700
Share premium	2,500	2,500

The Company has one class of shares in issue - ordinary shares, which may be issued with any such preferred, deferred or other special rights, or such restrictions, with regards dividends, return of capital, voting or otherwise, as the Company may from time to time, by ordinary resolution may determine. No repayments of capital or payment of dividends may be made without the prior written consent of the JFSC.

The Capital Reserve of £3,500,000 (2023: £3,500,000) relates to the conversion of Share capital of the former Royal Bank of Canada (Jersey) Limited on 1 August 2001.

23. OFF STATEMENT OF FINANCIAL POSITION FINANCIAL INSTRUMENTS

A financial instrument is any contract that gives rise to both a financial asset of one enterprise and a financial liability or an equity instrument of another enterprise.

Financial instruments with contractual amounts representing credit risk

In the normal course of business there are various outstanding commitments and contingent liabilities that are not reflected in the consolidated financial statements.

The primary purpose of these instruments is to ensure that funds are available to a customer as required.

As at 31 October

(Thousands of British Pounds)	2024	2023
Undrawn overdraft and loan facilities:		
Original term to maturity of one year or less	-	-
Original term to maturity of one to five years	2,748	2,727
Guarantees	82,615	84,440
Total	85,363	87,167

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. The Group is potentially exposed to loss in an amount equal to the total unused commitments. Commitments to extend credit to non-Group counterparties are generally secured by cash, investments or other assets.

Interbank guarantees and unconditional letters of credit represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties and carry the same credit risk as loans.
All instruments of this nature are fully secured by cash, investments or other assets.

The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

24. OTHER COMMITMENTS AND CONTINGENT LIABILITIES

At 31 October 2024, the Group had no capital commitments. (2023: £Nil).

Companies within the Group have received claims against them in the normal course of business. Legal advice has been sought in relation to the claims and a material unfavourable outcome is considered to be remote. On this basis, there have not been any provisions made.

25. RELATED PARTY TRANSACTIONS

Related parties
Related parties include the parent bank, Royal Bank of Canada (RBC), associated companies over which RBC has direct or indirect control or has significant influence and post-employment benefit plans for the benefit of RBC Group's employees. Related parties also include key management personnel ("KMP"), the Board of Directors of RBC ("RBC Directors"), close family members of KMP and RBC Directors, and entities which are, directly or indirectly, controlled by or jointly controlled by KMP, RBC Directors or their close family members.

Key management personnel and RBC Directors
KMP are defined as those persons having authority and responsibility for planning, directing and controlling the activities of RBC and its subsidiaries, directly or indirectly. They include the senior members of RBC called the Group Executive ("GE"). The GE is comprised of the President and Chief Executive Officer, and the Chief Officers and Group Heads, who report directly to him. The GE is ultimately responsible for all material decisions of RBC. The GE is also responsible for establishing the overall strategic direction of the RBC Group and, in that regard, sets global parameters for the RBC Group within which the board of directors and management of each subsidiary in the RBC Group exercise their respective discretion to make decisions concerning the strategic direction and day-to-day management of the particular subsidiary.

Compensation of Key management personnel and RBC Directors
The following tables present the compensation paid, shareholdings and options held by KMP and RBC Directors.

For the year ended 31 October

	2024 (1)	2023
	CAD million	CAD million
Salaries and other short-term employee benefits (2)	31	23
Post-employment benefits (3)	3	2
Share-based payments	67	39
Total	101	64

(1) During the year ended October 31, 2024, certain executives, who were members of the Bank's GE as at October 31, 2023, left the Bank and therefore were no longer part of KMP. Compensation for the year ended October 31, 2024, attributable to the former executives, including benefits and share-based payments relating to awards granted in prior years was $13 million.

(2) Includes the portion of the annual variable short-term incentive bonus that certain executives elected to receive in the form of deferred share units. RBC Directors receive retainers but do not receive salaries and other short-term employee benefits.

(3) RBC Directors do not receive post-employment benefits.

25. RELATED PARTY TRANSACTIONS - CONTINUED

Stock options, stock awards and shares held by Key management personnel, RBC Directors and their close family members

As at 31 October

	(1)	2024	(2)	2023
	No. of units held	Value CAD million	No. of units held	Value CAD million
Stock options(3)	2,891,158	161	2,805,471	26
Other non-option share-based awards (3)	1,108,143	185	991,909	110
RBC common and preferred shares	208,721	35	181,648	20
Total	4,208,022	381	3,979,028	156

(1) During the year ended October 31, 2024, certain executives, who were members of the Bank's GE as at October 31, 2023, left the Bank and therefore were no longer part of KMP. Total shareholdings held upon their departure was 79,445 units with a value of $12 million.
(2) During the year ended October 31, 2023, certain directors, who were members of the Board of Directors as at October 31, 2022, retired. Total shareholdings and options held upon their departure was 32,958 units with a value of $4 million.
(3) RBC Directors do not receive stock options or any other non-option shared-based awards.

Transactions, arrangements and agreements involving Key management personnel, RBC Directors and their close family members
In the normal course of business, RBC provides certain banking services to KMP, RBC Directors, and their close family members. These transactions were made on substantially the same terms, including interest rates and security, as for comparable transactions with persons of a similar standing and did not involve more than the normal risk of repayment or present other unfavourable features.

As at 31 October 2024, total loans to KMP, RBC Directors and their close family members were $16 million (31 October 2023: $18 million). RBC has no Stage 3 allowance or provision for credit losses relating to these loans as at and for the year ended 31 October 2024. No guarantees, pledges or commitments have been given to KMP, RBC Directors or their close family members.

Immediate and ultimate controlling party
Royal Bank of Canada (Channel Islands) Limited is a wholly-owned subsidiary of RBC Holdings (Channel Islands) Limited which is incorporated in Jersey.

The Company's ultimate parent company and controlling party is Royal Bank of Canada, a company incorporated in Canada which is also the parent company of the smallest and largest group which includes the Company and for which group financial statements were prepared. Consolidated financial statements of the ultimate parent company are available from the following address:

Royal Bank of Canada
Royal Bank Plaza
PO Box 1
Toronto
Ontario M5J 2J5
Canada

25. RELATED PARTY TRANSACTIONS - CONTINUED

Subsidiaries
A list of directly owned subsidiary companies is set out below:

Subsidiary name	Principal activity	Country of incorporation	Carrying value of shares (British Pounds)
Interests in group undertakings owned directly by the Company (all 100% owned)			
Guernroy Limited	Nominee Company	Jersey, Channel Islands	7
Brewin Nominees (Channel Islands) Limited	Nominee Company	Jersey, Channel Islands	25,000

On 18 March 2024, Guernroy Limited's country of incorporation was migrated from Guernsey to Jersey.

On 29 October 2024, the Company entered into a Share Purchase Agreement ("SPA") with Brewin Dolphin (Channel Islands) Limited ("BDCIL") to purchase the entire issued share capital of Brewin Nominees (Channel Islands) Limited ("BNCIL"), a wholly owned subsidiary of BDCIL for a consideration of £25,000. BNCIL's had a fully paid up share capital of 25,000 ordinary shares of £1 each.

In the normal course of business the Company undertakes material banking and treasury activities with the following principal Group companies:

Ultimate parent company	**Royal Bank of Canada**
Immediate parent company	RBC Holdings (Channel Islands) Limited
Subsidiaries	Guernroy Limited Brewin Nominees (Channel Islands) Limited
Fellow subsidiaries	RBC Europe Limited Royal Bank of Canada Trust Company (Bahamas) Limited Royal Bank of Canada Trust Company (Asia) Limited RBC Offshore Fund Managers Limited RBC Services (Channel Islands) Limited RBC Trust Company (International) Limited RBC (Cayman) Funding Limited Royal Bank of Canada (Caribbean) Corporation RBC Capital Markets LLC Royal Bank of Canada Insurance Company Limited RBC Trustees (Jersey) Limited RBC Global Asset Management (UK) Limited Royal Trust Properties (Jersey) Limited RBC Shared Services Malaysia RBC Capital Markets (Europe) GMBH RBC Finance (Ireland) D.A.C RBC Finance (Luxembourg) S.A.R.L. RBC Holdings (Luxembourg) S.A.R.L. RBC Luxembourg (Suisse) Holdings S.A.R.L. RBC Brewin Holdings PLC RBC Finance B.V. RBC Finance (Caribbean) Limited RBC Holdings (Germany) S.A.R.L.
Pension Schemes	Pension Fund Society of Royal Bank of Canada Royal Bank of Canada (Channel Islands) Limited, Jersey Pension Scheme

25. RELATED PARTY TRANSACTIONS - CONTINUED

Included in the Consolidated Statement of Income are the following transactions with related parties:

For the year ended 31 October

(Thousands of British Pounds)	2024	2023
Interest Income/Expense		
Ultimate parent - Interest income earned	72,756	64,360
RBC Affiliates - Interest income earned	1,236	7,325
Ultimate parent - Interest expense allocated	(1,376)	(11,101)
RBC Affiliates - Interest expense allocated	(42,298)	(17,529)
Fees and Commission Income		
RBC Affiliates - Management and administration fee income	125	152
Ultimate parent - Guarantee Fees	940	1,062
Expenses		
Ultimate parent – allocated administration and systems costs	15,528	15,549
RBC Affiliates – allocated internal fees and charges	5,959	(3,859)
RBC Affiliates – allocated investment management fee	710	722
RBC Affiliates – allocated occupancy costs	4,075	4,467
RBC Affiliates – allocated referral charges	-	9,655

The Consolidated Statement of Financial Position amounts payable to and receivable from related parties are included within notes 7, 10, 13, 17, 19, 20 and 21 as appropriate.

26. INTEREST INCOME

As at 31 October

(Thousands of British Pounds)	2024	2023
Loans	37,962	41,974
Deposits	587	617
Securities	98,493	96,113
Assets purchased under reverse repurchase agreements	45,876	32,004
Related party interest income earned	73,992	71,685
Total	256,910	242,393

27. INTEREST EXPENSE

As at 31 October

(Thousands of British Pounds)	2024	2023
Deposits and others	(88,862)	(82,237)
Related party interest expense	(43,674)	(28,630)
Total	(132,536)	(110,867)

28. FEES AND COMMISSION INCOME

As at 31 October (Thousands of British Pounds)	2024	2023
Custodial and trust revenues	6,663	7,607
Fiduciary revenue	438	768
Service charges	1,588	1,564
Credit fees	252	425
Portfolio management	15,905	14,937
Related party other income	1,065	1,213
Other fees and commissions	395	303
Total	26,306	26,817

29. FOREIGN EXCHANGE REVENUE

As at 31 October (Thousands of British Pounds)	2024	2023
Gains/(Losses) on foreign currency positions	(2,887)	(3,472)
Others	980	(1,647)
Total	(1,907)	(5,119)

Currency exchange transactions include gains and losses from spot, forward contracts and other currency derivatives plus other foreign exchange differences arising on non–trading activities.

30. HUMAN RESOURCES

As at 31 October (Thousands of British Pounds)	2024	2023
Salaries and Bonuses	24,479	25,126
Social Security costs	1,362	1,352
Pension costs	814	1,135
Share-based compensation	846	286
Other staff benefits	1,886	1,694
Total	29,387	29,593

Share-based Compensation
The Group offers performance deferred share award plans to certain key employees, all of which vest at the end of three years. Upon vesting, the award is paid in cash and is based on the original number of Royal Bank of Canada share units granted plus accumulated dividends. The award is valued using the average closing price of Royal Bank of Canada common shares during the five trading days immediately preceding the vesting date. A portion of the award under certain plans may be increased or decreased up to 25%, depending on the total shareholder return compared to a defined peer group of global financial institutions.

The liabilities for the awards granted under the deferred share award plans are measured at fair value, determined based on the quoted market price of Royal Bank of Canada common shares. Annually, the obligation is increased by additional units earned by plan participants, and is offset by forfeitures, cancellations, and the settlement of vested units. In addition, the obligation is impacted by fluctuations in the market price of Royal Bank of Canada common shares. For performance deferred share award plans, the estimated outcome of meeting the performance conditions also impacts the obligation. The value of the award liability as at 31 October 2024 was £1,273,000 (31 October 2023: £968,000). The compensation expense recorded for the year ended 31 October 2024, in respect of these plans was £846,000 (2023: £286,000).

The compensation expenses for all of the above plans are recorded in Human Resources in the Consolidated Statement of Income.

31. OTHER EXPENSES

As at 31 October

(Thousands of British Pounds)	2024	2023
Service fees	2,565	2,465
Travel and training	412	519
Other	920	450
Total	3,897	3,434

32. EVENTS OCCURING AFTER THE REPORTING PERIOD

Events after the reporting period have been evaluated up to the date the financial statements are available for issue and the material events to be disclosed in these financial statements are below.

On 4 November 2024, the Company entered into a Business Transfer Agreement ("BTA") with Brewin Dolphin Limited ("BDL") to purchase the transferring business as a going concern and the Business assets, as defined in the BTA for a cash consideration of £12 million. The transferring business is defined as the part of the business that was conducted through BDL's Jersey branch. The transaction was classed as a business transfer rather than a transfer of assets due to the staff being considered a significant business process. The business assets comprise amongst other things: goodwill, the rights and benefit of the client contract (the "Client list"), client records and business receivables.