T. Rowe Price®
INVEST WITH CONFIDENCE

2019

T. ROWE PRICE INTERNATIONAL Ltd PILLAR 3 DISCLOSURE

Contents

Overview

The European Union Capital Requirements Directive ("CRD") and the Capital Requirements Regulation ("CRR"), collectively known as CRD IV, sets out the regulatory capital framework for Europe based on the provisions of the Basel III Capital Accord. Investment firms that are authorised under the Markets in Financial Instruments Directive ("MiFID") are subject to prudential requirements set out in CRD IV and CRR.

The framework consists of three "Pillars":

- **Pillar 1** sets out the minimum capital requirements and variable capital requirements that a firm is required to meet for credit, market and operational risk;
- **Pillar 2** requires that a firm undertakes an internal assessment of capital against risks, including those not covered by Pillar 1; and
- **Pillar 3** promotes market discipline by requiring a firm to disclose information on their capital resources and Pillar 1 requirements, risk exposures and risk management framework.

This document sets out the Pillar 3 disclosure for T. Rowe Price International Ltd ("TRPIL" or "the firm"). The disclosures have been prepared on a consolidated basis including TRPIL's wholly owned subsidiaries: T. Rowe Price UK Ltd, T. Rowe Price Hong Kong Limited, T. Rowe Price Singapore Private Ltd, T. Rowe Price (Switzerland) Gmbh, T. Rowe Price (Luxembourg) Management Sarl, T. Rowe Price Japan, Inc., and T. Rowe Price Australia Limited. TRPIL is a wholly owned subsidiary of T. Rowe Price Associates, Inc. ("TRPA"). TRPA is a wholly owned subsidiary of T. Rowe Price Group ("TRPG" or "the company"), publicly owned in the United States of America (NASDAQ: TROW).

This disclosure is made as at 30 June 2019[1]. It is not subject to audit and has been produced solely for the purposes of satisfying the Pillar 3 regulatory requirements.

Summary capital position and requirements

TRPIL's capital position and Pillar 1 capital requirements are shown in the table below. All TRPIL's capital is high quality common equity tier 1 capital.

Capital resources	30 June 2019 $m	31 December 2017 $m
Permanent share capital	174.1	174.1
Profit and loss and other reserves	441.9	353.9
Total tier one capital	616.0	528.0
Less: deductibles (goodwill and intangibles, and unaudited profit*)	262.7	220.2
Less: Pillar 1 capital requirement	85.0	75.5
Surplus capital	268.3	232.3
Surplus capital as a % of Pillar 1 capital requirement	316%	308%

** Current year profit has not been audited and accordingly has been excluded from surplus capital for 2019 only.*

[1] Except for the remuneration disclosure section, which is as at 31 December 2018. Pillar 1 numbers are now based on financials as at 30 June. Given the cyclical nature of certain balance sheet positions, these mid-year balance sheet figures provide a more transparent representation of our average financial position. Previously, Pillar 1 was based on financials as at 31 December.

Capital requirements

TRPIL's Pillar 1 capital requirement is shown in the table below.

Capital resources	30 June 2019 $m	31 December 2017 $m
(A) Credit risk	18.6	13.0
(B) Market risk	5.3	3.0
(C) Total credit and market risk (sum of A & B)	23.9	16.0
(D) Fixed overhead requirement	85.0	75.5[2]
Pillar 1 variable capital requirement (higher of C & D)	**85.0**	**75.5**

As a BIPRU Limited Licence 50k firm, TRPIL's minimum capital requirement is €50,000 which acts as a floor for the overall variable capital requirement, as described in the Financial Conduct Authority's (FCA) Handbook. The variable capital requirement is calculated as the higher of the fixed overhead requirement and the sum of the credit and market risk requirements. As a Limited Licence firm, the variable capital requirement for TRPIL does not include an operational risk capital component. As at 30 June 2019, the fixed overhead requirement is TRPIL's Pillar 1 variable capital requirement as it is higher than the sum of the credit and market risk requirements.

Credit risk capital requirement

Credit risk is the risk of financial loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations. As TRPIL does not conduct lending activity or principal trading, the risk associated with this category is narrowed to counterparty risk in relation to trade debtors, cash at bank and cash investments. Concentration of credit risk in trade debtors is believed to be minimal in that our clients have substantial assets, including those in the investment portfolios that we manage for them. TRPIL's Pillar 1 credit risk requirement is calculated as 8% of the risk weighted exposures, using risk weights defined by Financial Conduct Authority (FCA) under the standardised approach. The risk weights are applied based the credit quality of counterparties, based on the External Credit Assessment Institutions' (ECAI) credit assessments.

The credit risk capital requirement calculation as at 30 June 2019 is shown in the table below.

Exposure class	Exposure $m	Risk weight %	Risk weighted exposure	Pillar 1 credit risk requirement (8%)
Institutions[3]	217.4	20.0	43.4	3.5
Collective Investment Undertaking[4]	293.5	19.7	58.0	4.6
Collective Investment Undertaking[4]	207.2	30.5	63.2	5.1
Institutions[3]	67.9	100.0	67.9	5.4
Central Banks	0.3	0.0	0.0	0.0
Total	**786.3**		**232.5**	**18.6**

[2] A preliminary figure of $70.0m was reported in the 2017 Pillar 3 Disclosure.

[3] Risk weight differences in the Institutions exposure classes reflect the risk weight of each underlying holding based on the corresponding BIPRU credit quality step.

[4] The risk weight for the Collective Investment Undertakings (CIU) vary due to a calculated average risk weight used for the underlying holding of each specific CIU, which is known.

Market risk capital requirement

Market risk is defined as the risks that arise from fluctuations in values of, or income from, assets or in interest or exchange rates. TRPIL does not conduct principal trading.

TRPIL's revenue and retained profit are based on the value and composition of assets under management. Accordingly, fluctuations in financial markets and the composition of assets under our management directly affect revenue and operating results. The firm's exposure to market risk in relation to the balance sheet is related to cash and trade debtor balances denominated in currencies other than TRPIL's functional currency, whereby changes in foreign exchange results can impact the financial results. In accordance with BIPRU 7.5 and the Foreign Currency PRR, TRPIL has calculated the Pillar 1 market risk capital requirement as 8% of the firm's currency exposure (defined as the greater of the net long or short positions), including cash balances and trade receivables as at 30 June 2019, shown in the table below.

Currency exposure	30 June 2019 $m
(A) Long position	65.6
(B) Short position	(4.2)
(C) Greater of A & B	65.6
Pillar 1 market risk requirement (8% of C)	**5.3**

Operational risk requirement

As a limited licence firm, TRPIL is not required to hold capital at Pillar 1 for operational risk under the FCA's standardised approach, but it is the most significant risk for TRPIL under Pillar 2.

Liquidity risk

Liquidity risk is the risk that the firm will not be able to meet its financial obligations as they fall due. TRPIL maintains liquidity resources to meet expected obligations as they fall due both under normal conditions and stressed conditions and maintains cash and cash investments in excess of its Pillar 1 requirements. As required by the FCA under PS09 "Strengthening Liquidity Management Standards, TRPIL has documented its Liquidity Risk Management Framework.

Risk management framework and governance

The TRPIL Board of Directors ("TRPIL Board") is accountable for risk and oversight of the risk management process. The TRPIL Board recognises that risk is inherent in TRPIL's business and the markets in which it operates and places a high priority on a strong risk management culture within the firm. Effective risk management and internal controls are therefore central to the firm's business model. TRPIL has risk tolerance statements and tolerances set by the TRPIL Board and metrics in place for each key risk type. The risk metrics are regularly reported to the TRPIL Board.

The TRPIL Board relies on oversight committees to ensure that risks are appropriately monitored, controlled, and align with the firm's stated risk tolerance. The key oversight committees include, but are not limited to:

- **Risk and Operational Steering Committee ("ROSC")** – company-wide committee, which provides oversight, monitoring, and communication of the firm's risk management structure, processes, and business unit risk management efforts.

- **International Risk Committee ("IRC")** – The IRC is responsible for overseeing and monitoring key business risks in TRPIL, for monitoring risk versus the firm's risk tolerance, and for oversight of the adequacy and effectiveness of the business risk framework in TRPIL. The IRC includes senior management representation from the major business functions, including representation from the second and third lines of defense and provides a path for risk escalation to the ROSC and the TRPIL Board.
- **International Equity, Fixed Income and Asset Allocation Steering Committees** – Business unit committees which oversee the investment process, monitor risk and ensure that portfolio managers understand and comply with our investment philosophy.
- **Counterparty Risk Committee** – company-wide committee, which oversees counterparty risk.
- **Valuation Committee** – company-wide committee, which oversees the policies, processes and practices governing security valuation.
- **Ethics Committee** – company-wide committee, which sets policy on appropriate conduct and provides guidance on the application of the Code of Ethics and Conduct.
- **Management Compensation and Executive Compensation and Management Development Committees** – company-wide committees, which are involved in determining the total amount allocated to the bonus pool and reviewing the annual compensation recommendations for the senior-most positions in the organisation as well as all investment and sales roles. They are also involved in considering whether the program rewards reasonable risk-taking and whether the incentive opportunities achieve the proper balance between the need to reward employees and the need to protect clients' interests.

Executive oversight of risk in TRPIL is performed by the Chief Risk Officer of the company, who leads the Enterprise Risk Group and reports to the Chief Financial Officer.

Three lines of defence

Our risk management approach is designed with three lines of defence to ensure effective identification, assessment and management of risk.

The first line of defence is our business unit leaders. Business unit leaders are responsible for overseeing our operations and managing risks specific to their respective business areas. These executives and the managers reporting to them are in the best position to understand the complexities and challenges of our business and therefore can make the most immediate and appropriate decisions regarding risk management based on the firm's overall risk philosophy. Business unit leaders are responsible for identifying and assessing risks, establishing controls and executing action plans to mitigate risks. Various steering and governance committees provide oversight, policy, and strategic direction for certain critical business activities.

The second line of defence is composed of the Enterprise Risk Group and Legal and Compliance. These groups support business unit management by providing management with advice, oversight and guidance, along with tools, frameworks and policies for managing risk. The Enterprise Risk Group reports to the TRPIL Board and relevant committees on a regular basis.

Internal Audit forms the third line of defence, providing independent assurance that established internal controls are operating effectively and that our risks are adequately mitigated.

The three lines of defence provide the TRPIL Board and executive management with the ability to quickly address identified issues and continually assess and strengthen the overall risk management program. All of this enables us to earn the trust that our clients have placed in us as a fiduciary of their assets.

Key risks to TRPIL

The firm takes a holistic, enterprise-wide approach to risk management and views risk under three primary types: Strategic risk, Operational risk, and Financial risk. Each risk type, and its categories, is outlined below:

Strategic risks

Strategic risk is defined as the failure to develop and implement goals/strategies that support the corporate mission of offering investment management products and services that help clients achieve their long-term financial goals. Strategic risks include:

- Business concentration risk
- Investment capacity risk
- Governance and oversight risk
- Organisational culture risk
- Core values risk
- Investment risk
- Competitive positioning risk
- Investment performance risk

Our framework for managing strategic risks includes the identification of risks to the strategic plan and significant change initiatives, with top-down assessments facilitated by the Enterprise Risk Group. Executive committees oversee strategic risks. These committees include the Product Strategy Committee and Investment Management Steering Committee, and the ROSC who oversee the strategic change portfolio.

Operational risks

Operational risk refers to unintended outcomes arising from inadequate or failed internal processes, people, technology, or from external events. This includes:

- Cyber risk
- Fraud risk
- Human capital risk
- Legal and compliance risk
- Process and execution risk
- Technology risk
- Third-party risk

Our framework for managing operational risks include our policy framework, the identification and quantification of risks and controls through risk assessments, our incident management process, internal controls assurance (SOX, SOC 1 and SOC2) and business continuity and disaster recovery program. Second line of defence control functions provide oversight, escalation and reporting on operational risks. Risk monitoring programmes, third party, cyber, financial crime and data privacy risk frameworks are in place, along with change management procedures for technology risk.

Financial risks

Financial risks are those associated with managing and maintaining the financial strength and viability of the firm, such as:

- Capital, liquidity and credit risks
- Market and environmental risk
- Operating results risk

Our framework for managing financial risks includes our SOX certifications, maintenance of a strong balance sheet with capital in excess of regulatory requirements and no debt. Market and credit risks arising from TRPIL's cash held at banks, investments, and debtors are monitored by the respective oversight teams in line with policies and procedures.

Pillar 2 and ICAAP

TRPIL undertakes an Internal Capital Adequacy Assessment Process ("ICAAP") to assess and quantify the capital required to support key risks impacting TRPIL under Pillar 2. This assessment is performed annually and may be updated more frequently if significant changes in TRPIL's business activities or risk profile occur. The ICAAP is led by the Business Risk team within the Enterprise Risk Group, with input from senior business managers, other control functions and the TRPIL Board. Financial projections, capital positions and stress testing are prepared by the Finance team. The results of the ICAAP are reviewed by the IRC and approved by the TRPIL Board. Risks are assessed in line with regulatory methodologies and the firm utilises operational risk scenario analysis to determine severe but plausible events across the Operational risks to TRPIL noted above. Strategic risks are taken into consideration when assessing capital requirements and developing stress tests.

Capital resources are stress tested using a variety of scenarios considering business plans, financial position, the risk framework and internal and external factors.

Remuneration Code Disclosure

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

The Remuneration Policy Statement ("RPS") sets out the policies, practices and procedures followed by TRPIL including its branch offices and subsidiaries as applicable, in order to comply with the Code and ensure that its remuneration policy does not conflict with its duty to act in the best interest of its clients. TRPIL is a wholly owned subsidiary of TRPG and the policies, practices and procedures are predominately driven by those of TRPG. TRPIL Board reviews the RPS annually to ensure the remuneration practices are consistent with the firm's risk profile.

TRPIL believes that its compensation programs are designed to reward executives and other senior officers for building and strengthening the very core of the company's long-term viability, which contributes to long-term value creation for the clients and shareholders. It seeks to accomplish this through a balance of short-term fixed and variable cash compensation, and long-term equity-based incentives. We believe the stability of our management team over long periods of time, our executives' and staff-wide level of ownership in the company, and our unwavering focus on generating outstanding long-term performance for our clients are evidence that we have created a powerful alignment of incentives between our executive team, our associates, our clients and our company's shareholders.

In determining an individual's compensation, we analyse the goals, objectives and the results of each individual. Inherent in that analysis is reviewing "how" the individual achieved his or her results. Thus, risk analysis is imbedded in how we evaluate an associate's performance. Any risk management or compliance concerns which are raised about an associate may be taken into consideration when assessing the associate's performance. For example, a regulatory or Code of Ethics breach by an associate may be taken into consideration when assessing an individual associate's performance, and ultimately could impact their compensation. Likewise, if an associate contributes to inappropriate risk taking that resulted or could have resulted in a material exposure to the firm; this is also considered in the determination of both annual cash and equity-based compensation adjustments.

The policy aims to ensure that the firm:

- attracts talent in a highly competitive marketplace and is effectively retaining talent for long periods of time;
- protects its corporate integrity and reputation as the keys to maintaining valued clients' trust;
- provides the highest possible level of service quality and client focus;
- nurtures a culture of quality, collaboration and independent thought to create an organisation of motivated, engaged, team-oriented professionals who are loyal to our clients and our firm.

Components of remuneration

Fixed basic salary – Based on role of each individual associate, including the extent of the responsibility, job complexity and local market conditions.

Variable Cash bonus – Varies according to the type of role undertaken and is based upon the performance of the individual associate in respect of a number of factors.

Long Term Incentive Program – Provided through a mix of restricted stock and options to certain senior associates as a retention tool, and in order to further align their long-term interests with those of the shareholders. Restricted stock and options both vest to associates over a multiple year period, however stock options have not been granted since 2015.

Pension contributions – Varies to some extent according to local market practice but aims to provide associates with an appropriate pension provision through various defined contribution plans.

Other benefits – Varies to some extent according to local market practice but would typically include medical, sickness and life cover.

Governance

The company has several committees which have different roles within the compensation processes:

1. The Management Compensation Committee ("MCC") is primarily responsible for overseeing and managing the philosophy, approach and scope of the compensation programs (including long-term incentive plans), as well as determining bonus funding for the bonus program. It is also in charge of reviewing annual compensation recommendations (base, bonus and long-term incentives) for the senior positions in the organisation, including investment and sales roles, as well as ensuring that the corporation is responsibly managing the compensation budget, while providing market competitive, internally equitable, performance-based pay.
2. The Executive Compensation and Management Development Committee ("ECMDC") comprises the independent Directors of the company and is primarily responsible for determining the compensation of the Chief Executive Officer and other executive officers, as well as for reviewing and approving general salary and compensation policies for the rest of its senior officers. It also oversees the administration of the Annual Incentive Compensation Pool, stock incentive plans and employee stock purchase plan and assists management in designing compensation policies and plans.

In addition to the above committees, the Human Resources department plays a key role in vetting compensation issues, both during the year and in the year-end processes. The MCC signs off and approves the annual compensation processes. Annually the company's auditors review the compensation and pay practices and Human Resources with the International Compliance team and TRPIL Board review the remuneration policy to ensure the policy and practices are aligned.

The company has an Annual Incentive Compensation Plan Bonus Pool ("AICP") which is administered by the MCC and used to provide cash incentive compensation to employees generally. The key aspects of the annual bonus pool are:

- All employees are eligible to participate in this bonus pool, which provides cash incentive payments to individuals, with no deferral requirements.
- The ECMDC oversees and approves the total amount allocated to this bonus pool, which typically is considered in multiple conversations throughout the year between the ECMDC and certain members of the MCC. The size of the overall pool is determined based on the company's financial, operational and reputational success over time, with a focus on valuing performance that serves the needs of its clients and the best interests of its shareholders. Multiple years typically are considered to determine relevant performance and the size of the bonus pool, which helps keep the employees focused on long-term performance for the clients and shareholders, and reduces in some respects, the year-to-year volatility of the aggregate pool. The size of the pool is not solely formulaic, therefore reducing the risk that a specific action could result in a pre-determined funding level or award amount to any one individual.
- The pool will vary annually based upon the MCC and the ECMDC consideration of financial results of a particular year and other factors, including the competitive environment for talent. In addition, the ECMDC considers the company's investment performance and service quality for clients, as well as progress toward stated objectives.

A Supplemental Savings Plan ("SSP") allows certain senior officers of TRPIL the opportunity to defer receipt of their cash incentive compensation earned in the year during which the services are provided.

Code staff

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

Aggregated quantitative information on remuneration

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

	31 December 2018	31 December 2017
Number of Code staff	10	9
Fixed remuneration[5]	$1.9 million	–
Variable remuneration[5]	$14.0 million	–
Total remuneration	**$15.9 million**	**$15.6 million**

[5] *The fixed and variable remuneration split for 2017 was not available at the time of publishing this Pillar 3 Disclosure.*

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Important information

This material is being furnished for general informational purposes only. The material does not constitute or undertake to give advice of any nature, including fiduciary investment advice, nor is it intended to serve as the primary basis for an investment decision. Prospective investors are recommended to seek independent legal, financial and tax advice before making any investment decision.

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