

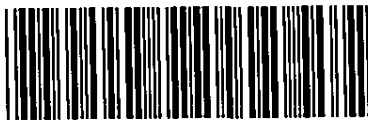
COMPANY NO. 995939

ROYAL BANK OF CANADA EUROPE LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 OCTOBER 2009

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ROYAL BANK OF CANADA EUROPE LIMITED

REPORT OF THE DIRECTORS

The directors present their annual report and the audited financial statements for the year ended 31 October 2009.

Business Review and Principal Activities

The Company is a wholly owned indirect subsidiary of Royal Bank of Canada. The Company, together with the London branch of Royal Bank of Canada, comprise the London based entities for the corporate and investment banking business of Royal Bank of Canada conducted in the United Kingdom. The Company is also engaged in the provision of private banking services to individuals. These businesses are managed on a divisional basis and therefore the directors believe that the disclosure of key performance indicators for the Company is not necessary or appropriate for an understanding of the development or performance of the business. The performance of these businesses is discussed in Royal Bank of Canada's consolidated Annual Report.

The Company provides a wide range of corporate and investment banking, sales and trading, research and related products and services to corporations, public sector and institutional clients.

During the year ended 31 October 2009, the Company experienced unprecedented profitability as exceptional market circumstances prevailed through the year. The Fixed Income & Currencies, Treasury Services and Central Funding business lines within Capital Markets benefited from this exceptional market turmoil in the financial sector and were able to take advantage of increased credit spreads and offer liquidity to clients, thereby increasing market share. Fixed Income & Currencies continues to be a major contributor to the Company's profitability. The Infrastructure Finance business experienced a downturn in 2009 due to weak investment banking markets. During the year, the Company undertook an extensive balance sheet reconciliation and control exercise and it was determined that £106.1 million of unsubstantiated balances should be written off. Against this amount the £34.7 million provision taken in 2008 has been utilised.

As shown in the Company's profit and loss account on page 7, total operating income increased by £364.6 million from the prior year to £677.1 million. The profit before taxation amounted to £478.9 million (2008: £138.3 million) and was impacted predominantly by the events referred to in the paragraph above. Profit after taxation for the year ended 31 October 2009 was £343.0 million (2008: £98.3 million). During the year no dividends have been paid or proposed (2008:-nil).

Details of the number of employees and related costs can be found in note 7 to the financial statements.

The balance sheet of the Company is shown on pages 9 and 10 of the financial statements. Total assets increased by £7.2 billion to £32.4 billion, principally due to an increase in other trading assets.

The going concern basis of preparation of the financial statements is discussed in note 1(d) to the financial statements.

The Company makes extensive use of financial instruments in the conduct of its business. Further details of financial instruments are set out in note 3 to the financial statements. The Company's principal risks and uncertainties and financial risk management objectives and policies are discussed in note 3 to the financial statements.

Future Prospects

The Company expects to continue to provide corporate and investment banking as well as private banking services for the foreseeable future.

Environment

Royal Bank of Canada recognises the importance of its environmental responsibilities and has established an environmental policy, the goal of which is to minimise the environmental impact of its business operations and lending activities. This policy is applicable to the Company. Further details of the Company's environmental policies are provided in the Corporate Responsibility Report of Royal Bank of Canada.

ROYAL BANK OF CANADA EUROPE LIMITED

REPORT OF THE DIRECTORS

Directors

The following served as directors of the Company during the period from 1 November 2008 to the date of this report, except where noted:

J.E. Roberts - Non-Executive Director and Chairman
Sir Andrew Foster - Deputy Chairman
and Non-Executive Director
J.W. Burbidge - Managing Director
G.de Nadaillac - Vice Chairman
S.T. Foss
J.R. Fukakusa
D. McGregor
J. Greenslade
M.R. Hughes

N.P.H. Meier
H.J. Samuel
M.A. Standish
J. Wright (Secretary)
K. Flanagan
M. Lagopoulos
M. MacBain (resigned 03/04/2009)
A.J. Bell (resigned 12/06/2009)

On 18 December 2009 the Board resolved to appoint Charles McManus and Jim Pettigrew as directors of the Company subject to regulatory approval.

Third Party Indemnities

During the financial year, the Company's directors benefited from qualifying third party indemnities granted by the Company's parent Royal Bank of Canada indemnifying the directors against liabilities and associated costs, which they could incur in the course of their duties to the Company. The indemnities remain in force as at the date of these financial statements. A copy of each of the indemnities is kept at the registered office of the Company.

Charitable Donations

The Company made charitable donations totalling £50,000 (2008: £50,000) to several registered charities during the year and no political donations (2008: £nil).

Disabled employees

The Company is an equal opportunities employer. It is the Company's policy not to discriminate against employees or job applicants on the grounds of disability.

The Company's Equal Opportunities Policy applies to the advertisement of jobs, recruitment and appointments, training, conditions of work, pay and to every other aspect of employment.

When a disabled person is recruited and where employees become disabled during the course of their employment, the Company will make reasonable adjustments as are practicable which may assist them in the performance of their duties.

Employee Consultation

The Company keeps its employees informed on matters directly affecting them through individual meetings as is necessary. Employees are kept informed on the performance of the Company through Town Halls, team briefings and the Company Intranet.

The Company operates a Share Incentive Plan as part of the RBC group and is eligible to all employees who have completed 12 months' service. Under this plan, participating employees are awarded one additional share for every share purchased under the plan. All employees are eligible from time to time to be considered for a discretionary annual bonus. Bonuses will be influenced by business results as well as individual contribution and performance.

ROYAL BANK OF CANADA EUROPE LIMITED

REPORT OF THE DIRECTORS

Auditors

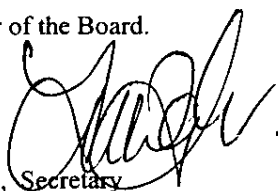
In the case of each of the directors of the Company as at the date when this report was approved:

- as far as each of the directors is aware, there is no relevant audit information (as defined in the Companies Act 2006) of which the Company's auditors are unaware; and
- each of the directors has taken all the steps they ought to have taken as a director to make themselves aware of any relevant audit information (as defined) and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provision of S416 of the Companies Act 2006.

Deloitte LLP have expressed their willingness to continue in office as auditors.

By order of the Board.



J. Wright, Secretary
26 January 2010

ROYAL BANK OF CANADA EUROPE LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

ROYAL BANK OF CANADA EUROPE LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF

ROYAL BANK OF CANADA EUROPE LIMITED

We have audited the financial statements of Royal Bank of Canada Europe Limited for the year ended 31 October 2009 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Reconciliation of Movements In Shareholder Funds, the Balance Sheet and the related notes 1 to 26. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with sections 495 and 496 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 October 2009 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

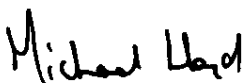
Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



Michael Lloyd
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
16 January 2010

ROYAL BANK OF CANADA EUROPE LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 OCTOBER 2009

	Note	2009 £'000	2008 £'000
Interest receivable and similar income	5	220,153	466,196
Interest expense and similar charges	5	(190,154)	(417,081)
		<u>29,999</u>	<u>49,115</u>
Net finance income	8	102	512
		<u>30,101</u>	<u>49,627</u>
Net interest income			
Fee and commission income		57,432	57,948
Net trading income	6	589,547	204,949
		<u>646,979</u>	<u>262,897</u>
Total operating income		677,080	312,524
Administrative expenses	7	(198,038)	(139,273)
Amortisation of goodwill	14	(165)	(326)
Other provisions and charges	7 (b)	-	(34,741)
Provision for bad and doubtful debts		10	82
		<u>478,887</u>	<u>138,266</u>
Profit on ordinary activities before taxation			
Tax charge on profit on ordinary activities	9	(135,870)	(39,950)
		<u>343,017</u>	<u>98,316</u>
Profit for the financial year	22		

The results for the current and prior year reflect continuing activities

ROYAL BANK OF CANADA EUROPE LIMITED

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES FOR THE YEAR ENDED 31 OCTOBER 2009

	Note	2009 £'000	2008 £'000
Profit attributable to shareholder		343,017	98,316
Actuarial loss recognised in post-retirement benefit scheme	8	(6,823)	(630)
Deferred tax thereon		1,917	175
		(4,906)	(455)
Gains recognised on available for sale securities	3(g)	1,091	-
Current tax thereon		(305)	-
		786	-
Total recognised gain during the year		338,897	97,861

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS FOR THE YEAR ENDED 31 OCTOBER 2009

	Note	2009 £'000	2008 £'000
Profit for the year attributable to shareholders		343,017	98,316
Net actuarial loss recognised in post retirement benefit scheme net of deferred tax		(4,906)	(455)
New share capital subscribed		-	180,000
Net gain recognised on available for sale securities	22(b)	786	-
		338,897	277,861
Opening shareholder's funds		712,480	434,619
Closing shareholder's funds		1,051,377	712,480

ROYAL BANK OF CANADA EUROPE LIMITED

BALANCE SHEET AS AT 31 OCTOBER 2009

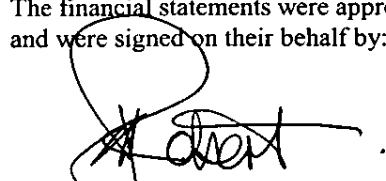
	Note	2009 £'000s	2008 £'000s
ASSETS			
Cash and balances at central banks		3,895	3,061
Treasury bills and other eligible bills		22,506	5,914
Loans and advances to banks – banking		186,451	21,079
Loans and advances to banks – held for trading		1,972,181	2,869,345
Total loans and advances to banks	10	2,158,632	2,890,424
Loans and advances to customers – banking		716,561	846,353
Loans and advances to customers – held for trading		9,098,491	9,822,777
Total loans and advances to customers	11	9,815,052	10,669,130
Other trading assets	13	14,909,043	7,815,610
Derivative financial instruments	25	616,075	548,466
Investment securities - available for sale	3(g)	3,069	1,978
Goodwill	14	1,398	1,563
Retirement benefit asset	8	-	886
Other assets	15	4,871,542	3,266,675
TOTAL ASSETS		32,401,212	25,203,707

ROYAL BANK OF CANADA EUROPE LIMITED

BALANCE SHEET AS AT 31 OCTOBER 2009 (continued)

	Note	2009 £'000s	2008 £'000s
LIABILITIES			
Deposits by banks – banking		1,006,921	2,725,026
Deposits by banks – held for trading		1,216,398	2,424,237
Total deposits by banks	16	2,223,319	5,149,263
Deposits by customers – banking		9,630,757	7,129,750
Deposits by customers – held for trading		1,527,957	1,128,119
Total deposits by customers	17	11,158,714	8,257,869
Other trading liabilities	18	11,766,426	7,191,290
Derivative financial instruments	25	192,700	550,846
Other liabilities	19	5,693,396	3,032,745
Retirement benefit liability	8	2,736	-
Subordinated liabilities	20	312,544	309,214
TOTAL LIABILITIES		31,349,835	24,491,227
Called up share capital	21	497,996	497,996
Profit and loss reserve	22(a)	515,173	177,062
Other reserves	22(b)	38,208	37,422
TOTAL SHAREHOLDER'S FUNDS		1,051,377	712,480
TOTAL LIABILITIES AND SHAREHOLDER'S FUNDS		32,401,212	25,203,707

The financial statements were approved and authorised to be issued by the Board of Directors on 26 January 2010 and were signed on their behalf by:


J.E. Roberts, Chairman


J.W. Burbidge, Managing Director

ROYAL BANK OF CANADA EUROPE LIMITED

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 OCTOBER 2009

1. Basis of preparation

- a) The financial statements have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities measured at fair value, and in compliance with the Companies Act 2006. They are prepared in accordance with applicable UK accounting standards issued by the Accounting Standards Board (ASB) and pronouncements of its Urgent Issues Task Force (UITF) and with the Statement of Recommended Practice (SORP) issued by the British Bankers Association (BBA).
- b) The Company is a wholly owned subsidiary of Royal Bank of Canada, incorporated in Canada, and is included in the consolidated financial statements of Royal Bank of Canada, which are publicly available. Consequently, the Company has taken advantage of the exemption from preparing a cash flow statement in accordance with Financial Reporting Standard 1 (revised 1996).
- c) In accordance with the Financial Reporting Standard 8 'Related Party Disclosures', the Company is exempt from the requirement to disclose related party transactions within the Royal Bank of Canada group of companies on the grounds that 100% of voting rights are controlled within the group. There were no other related party transactions or balances requiring disclosure.
- d) The Company's business activities, together with factors likely to affect its future development, performance and position are set out in the directors' report. The Company's liquidity position and borrowing facilities are described in note 3 to the financial statements which also includes the Company's objectives, policies and processes for managing its capital, its financial risk management objectives, and details of its financial instruments and its exposures to credit risk and liquidity risk.

The Company has demonstrated an ability to thrive in the recent challenging economic environment as well as the flexibility to adapt businesses to these circumstances. Its business plans project stable profitability through the foreseeable future. It also holds considerable financial resources, well in excess of regulatory requirements. Liquidity positions within the Company are actively managed on a daily basis to ensure sufficient liquidity is maintained at all times to support businesses while at the same time remaining well within regulatory and internal limits. In addition the Company has unsecured funding arrangements in place with other Royal Bank of Canada entities, details of which are set out in note 3 (d). Taking these factors into consideration, the directors believe that the Company is well placed to manage its business risks successfully despite the current uncertain economic outlook.

After undertaking a detailed analysis of its financial resource requirements under both normal and stressed operating conditions the directors have a reasonable expectation that the Company has adequate resources to meet its minimum capital and liquidity regulatory requirements and appropriate contingency plans to ensure that the Company continues to operate with a prudent capital and liquidity buffer over its internal requirements for the foreseeable future. Therefore the Company continues to adopt the going concern basis in preparing the annual report and financial statements.

ROYAL BANK OF CANADA EUROPE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 OCTOBER 2009 (continued)

2. **Principal accounting policies**

a) **Recognition and derecognition of financial assets and liabilities**

The Company recognises financial assets and financial liabilities on its balance sheet when, and only when, it becomes party to the contractual provisions of the instrument.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Company has transferred substantially all the risks and rewards of ownership. Financial liabilities are derecognised when they are extinguished – that is, when the obligation is discharged, cancelled or expires.

b) **Financial assets**

In accordance with FRS 26, the Company has classified financial assets in the following categories: financial assets held for trading; loans and receivables; held to maturity investments; and available for sale financial assets. Management determines the classification of its assets at initial recognition. The carrying amount of financial assets split by FRS 26 category is shown in note 3(h).

(i) **Financial assets held for trading**

A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking.

Financial assets that are held for trading are initially recognised at fair value, and transaction costs are expensed in the profit and loss account. Financial assets held for trading are subsequently measured at fair value. Gains and losses arising from changes in the fair value of financial assets held for trading are included in the profit and loss account in the period in which they arise.

(ii) **Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Loans and receivables are initially recognised at fair value plus transaction costs. Loans and receivables are subsequently measured at amortised cost using the effective interest method less impairment. Interest is recognised by applying the effective interest rate, except for short-term receivables where the recognition would be immaterial.

(iii) **Held to maturity financial assets**

Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. If the Company were to sell other than an insignificant amount of held to maturity assets, the entire category would be reclassified as available for sale.

Held to maturity investments are initially recognised at fair value plus transaction costs. Held to maturity investments are subsequently measured at amortised cost using the effective interest rate method.

ROYAL BANK OF CANADA EUROPE LIMITED

NOTES TO THE FINANCIAL STATEMENTS **YEAR ENDED 31 OCTOBER 2009** (continued)

2. Principal accounting policies (continued)

(iv) Available for sale financial assets

Available for sale investments are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Interest calculated using the effective interest method and foreign currency gains and losses on monetary assets classified as available for sale are recognised in the profit and loss account. Dividends on available for sale equity instruments are recognised in the profit and loss account when the Company's right to receive payment is established.

Available for sale financial assets are initially and subsequently measured at fair value. Gains and losses arising from changes in the fair value of available for sale financial assets are recognised directly in equity, until the financial asset is derecognised or impaired. At this time, the cumulative gain or loss previously recognised in equity is recognised in the profit and loss account.

The valuations of financial assets that are quoted investments in active markets are based on current bid prices. If there is no active market for a financial asset, the Company establishes fair value using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

c) Financial liabilities

Financial liabilities are classified either as financial liabilities held for trading or other financial liabilities. The carrying amount of financial liabilities split by FRS 26 category is in note 3(h).

(i) Financial liabilities held for trading

Financial liabilities that are held for trading are initially recognised at fair value and subsequently stated at fair value with any resulting gain or loss recognised in the profit and loss account. The net gain or loss recognised in the profit and loss account incorporates any interest paid on the financial liability.

(ii) Other financial liabilities

Other financial liabilities are initially measured at fair value. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

ROYAL BANK OF CANADA EUROPE LIMITED

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 OCTOBER 2009 (continued)

2. Principal accounting policies (continued)

d) **Income Recognition**

(i) **Interest income and interest expense**

Interest income is recognised in the profit and loss account as it accrues, with the exception of interest of doubtful collectability, which is suspended and excluded from interest income. The closing balance on the suspense account is netted in the balance sheet against the amount debited to the borrower.

Interest income and interest expense on financial assets and financial liabilities that are not held for trading is recognised based on the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

When calculating the effective interest rate, the Company estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses.

The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

(ii) **Fees and commissions**

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Upfront loan fees are deferred and recognised as an adjustment to the effective interest rate on the loan.

Loan syndication fees are recognised as revenue when the syndication has been completed and the Company has retained no part of the loan package for itself or has retained a part at the same effective interest rate as the other participants. Commission and fees arising from negotiating, or participating in the negotiation of, a transaction for a third party – such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses – are recognised on completion of the underlying transaction.

(iii) **Trading income/loss**

Trading income/loss comprises the profits and losses arising both on the purchase and sale of trading instruments and from their revaluation to market value, together with the interest and dividend income earned from these instruments and the related funding cost.

e) **Offsetting financial instruments**

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

ROYAL BANK OF CANADA EUROPE LIMITED

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 OCTOBER 2009 (continued)

2. Principal accounting policies (continued)

f) **Derivative financial instruments**

Derivative transactions include interest rate swaps, cross currency swaps, futures, equity derivatives, options and other similar instruments and are used for both trading and risk management purposes.

Derivatives are held for trading, market making or portfolio management purposes. Trading activity is the buying and selling of financial instruments in order to take advantage of short-term changes in market prices or for market making purposes in order to facilitate customer requirements. Trading derivatives are carried at fair value in the balance sheet within derivative financial instruments. Gains and losses are taken directly to the profit and loss account and reported as a part of net trading income.

The fair value of derivatives is measured by reference to independent liquid market prices where these are available. For those transactions where there are no independently quoted prices, fair values are determined by reference to independently sourced rates, using valuation models. Adjustments are made for illiquid positions where appropriate.

The Company does not employ hedge accounting as defined in FRS 26.

g) **Recognition of deferred day one profit and loss**

The best evidence of fair value at initial recognition is the transaction price (i.e. the fair value of the consideration given or received), unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets.

The Company has entered into transactions where fair value is determined using valuation models for which not all inputs are market observable prices or rates. Such a financial instrument is initially recognised at the transaction price, which is the best indicator of fair value, although the value obtained from the relevant valuation model may differ. The difference between the transaction price and the model value, commonly referred to as 'day one profit and loss', is not recognised immediately in profit and loss.

The timing of recognition of deferred day one profit and loss is determined individually. It is either amortised over the life of the transaction, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement. The financial instrument is subsequently measured at fair value, adjusted for the deferred day one profit and loss. Subsequent changes in fair value are recognised immediately in the profit and loss account without reversal of deferred day one profits and losses.

h) **Foreign currencies**

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account.

ROYAL BANK OF CANADA EUROPE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 OCTOBER 2009 (continued)

2. Principal accounting policies (continued)

i) Pension costs

The Company provides retirement benefits, in the form of defined benefit pensions, to certain eligible employees through a separately administered scheme. The current service cost accrued by employees and any past service costs are charged to the profit and loss account within administrative expenses – staff costs. The expected return on scheme assets less the unwinding of the discount on the scheme liabilities is included in other finance expense.

The difference between the fair value of the scheme assets and the present value of scheme liabilities is recognised as an asset or liability on the balance sheet, net of any related deferred tax. Any difference between the expected and actual return on scheme assets together with differences that arise from experience or assumption changes are recognised in the statement of total recognised gains and losses, net of related deferred tax.

The Company also provides defined contribution schemes, for which the pension cost recognised in the profit and loss account represents the contributions payable.

j) Impairment of financial assets

Financial assets other than those that are held for trading are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after initial recognition of the financial assets, the estimated cash flows of the investment have been impacted.

The Company uses various pre-set criteria to determine whether there is objective evidence of an impairment loss. The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant.

If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised, are not included in a collective assessment of impairment.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the profit and loss account.

As a practical expedient, the Company may measure impairment on the basis of an instrument's fair value using an observable market price.

ROYAL BANK OF CANADA EUROPE LIMITED

NOTES TO THE FINANCIAL STATEMENTS **YEAR ENDED 31 OCTOBER 2009** (continued)

2. Principal accounting policies (continued)

k) Sale and repurchase transactions

Securities which have been sold with an agreement to repurchase continue to be shown in the balance sheet and the sale proceeds recorded as a deposit. Securities acquired in reverse sale and repurchase agreements are not recognised in the balance sheet and the purchase price is treated as a loan. The difference between the sale price and the repurchase price is accrued evenly over the life of the transaction and taken to the profit and loss account as interest using the effective interest rate method.

l) Goodwill

On the acquisition of a subsidiary or business, fair values are attributed to the net assets. Where the fair value of the consideration given exceeds the fair value of the net assets acquired, the difference is capitalised as goodwill and is amortised to the profit and loss account over the directors' estimate of its useful life. Provision is made for any impairment.

Goodwill in relation to the acquisition in 2002 of the private banking business is being amortised to the profit and loss account on a straight line basis over its expected useful life of 15 years. All other goodwill is being amortised on the same basis over a period of 10 years.

m) Taxation

Provision is made for taxation at current or substantively enacted rates on taxable profits taking into account relief for overseas taxation where appropriate.

Deferred taxation is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date. These timing differences arise from the inclusion of items of income and expenditure in the Company's tax computations in different periods from those in which they are included in the financial statements. The amounts provided are calculated at the rates expected to apply when they crystallise based on current tax rates and law. Deferred tax assets and liabilities are not discounted. Deferred tax assets are recognised only to the extent that it is regarded as more likely than not that they are recoverable.

n) Tangible fixed assets and depreciation

All property and equipment is stated at historical cost less depreciation. Depreciation is provided on all tangible fixed assets, calculated on the straight line method over the assets' estimated useful lives as follows: Computer Equipment three years, Fixtures and Fittings and Leasehold Improvements three to five years.

ROYAL BANK OF CANADA EUROPE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 OCTOBER 2009 (continued)

3. Financial and other risk management

The Company acts as a London based entity for corporate and investment banking business undertaken by Royal Bank of Canada. The Company is also engaged in the provision of private banking services to individuals. From a risk management perspective all financial transactions entered into by the Company are classified as either "trading" or "non-trading". The Company's trading activities principally comprise:

- the underwriting of primary bond issues;
- trading of bonds in the secondary market hedged by credit default swaps, interest rate swaps & futures;
- trading of loans hedged by total return swaps;
- trading of debt securities under repurchase agreements;
- equity sales to institutional customers; and
- proprietary equity arbitrage trading.

Non-trading activities principally comprise:

- lending to corporates and individuals;
- deposit taking;
- issuance of guarantees and letters of credit; and
- treasury asset and liability management.

Capital Markets operations dominate the Company's risk profile by being the primary contributor to all the material risks, including credit, market, operational, reputation, liquidity and business and strategic risks. In contrast, International Wealth Management operations mainly contribute to credit, operational, and reputation risk, and that too is limited given the Company's stringent lending standards and the scale of overall operations.

ROYAL BANK OF CANADA EUROPE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 OCTOBER 2009 (continued)

3. Financial and other risk management (continued)

Financial and other risk management objectives

The Company's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the financial business, and the operational risks are an inevitable consequence of being in business. The Company's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Company's financial performance.

The Company's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Company regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

The risk and capital management framework in the Company is implemented as part of a consistent group-wide approach, but a local governance framework also exists to ensure that risk and capital management in the Company is directed and overseen by the local management team.

The Board of Directors has ultimate responsibility for risk and capital management and reporting in the Company. The Board sets risk appetite and strategy and directs risk and capital management. To perform its duties the Board is supported by the RBCEL risk committee, the European Banking Risk Management Committee (EBRMC), European Trading Risk Management Committee (ETRMC), and the Asset and Liability Committee (ALCO) as well as Group Risk Management (GRM).

In addition, Internal Audit is responsible for the independent review of risk management and the control environment. The most material types of risk are credit, market, operational, reputation, liquidity and business and strategic risks. Market risk includes currency risk, interest rate and other price risk. The Company seeks to minimise the effects of these risks by using derivative financial instruments to hedge these risk exposures. The use of derivatives in the course of non trading activities is limited to hedging activities which mitigate the risk of loss. The Company does not employ hedge accounting as defined per FRS 26. The table below sets out the types of non trading activity undertaken for which derivatives are used to manage risks.

<u>Activity</u>	<u>Risk</u>	<u>Type of hedge</u>
Fixed rate lending	Reduced earnings due to an increase in interest rates	Pay fixed interest rate swaps
Fixed rate deposit taking	Reduced earnings due to a reduction in interest rates	Receive fixed interest rate swaps
Corporate lending	Reduced earnings due to default by borrower	Purchase credit protection using credit default swaps

ROYAL BANK OF CANADA EUROPE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 OCTOBER 2009 (continued)

3. Financial and other risk management (continued)

a) **Market risk**

Market risk is defined as the risk of changes in the value of trading book positions due to price movements in the financial markets. The price changes impact, among other things, interest rates, equities, foreign exchange rates and credit spreads.

(i) **Management of market risks**

Trading portfolios include those positions arising from transactions where the Company acts as principal with clients or with the market. All trading books are subject to a hierarchy of limits, appropriate to their activities and subject to independent price verification by the valuations group.

Non Trading books comprise primarily the Company's loan portfolio and money market loans and deposits. All non-trading books are subject to a hierarchy of limits, appropriate to their activities, with additional oversight provided by the ALCO.

Interest rate risk and foreign exchange risk are discussed in sections 3 (b) and (c) respectively.

(ii) **Exposure to market risks-trading portfolios**

The principal tools used to measure and control market risk exposure within the Company's trading portfolio are Value at Risk (VaR) and stress testing, supplemented by appropriate risk metrics such as sensitivity to market risk factors.

The VaR of a trading portfolio is the estimated minimum loss that will arise on the portfolio over a specified period of time (holding period) from adverse market movements with a specified probability (confidence) level.

The VaR model used by the Company estimates the potential decline in the value of a position or portfolio and is computed at a 1 day holding period, 99% confidence interval. It uses a two year historic simulation, with largely full revaluation.

Risk managers use VaR data alongside conventional trader risk reports to ensure that the VaR measures move as anticipated. VaR is also used to identify changes in the risk profile of the Company. VaR information is produced daily, for each of the Company's business lines and is monitored by the risk managers aligned with each business, to track changes in market risk profile.

Daily reports of utilisation of VaR limits are distributed to senior management by Market Risk with regular summaries submitted to ETRMC and the RBCEL Risk Committee. VaR limits are set by the Head of Market Risk with review by the RBCEL Risk Committee, ETRMC and the Board of Directors. A summary of the Company's Total Risk VaR 99 and the annualised Average VaR (Av VaR) as at 31 October is as follows:

2009	2009	2008	2008
£'000	£'000	£'000	£'000
VaR	Av	VaR	Av
99	VaR	99	VaR
8,684	8,128	4,529	3,250

It should be noted that the Total Risk VaR 99 figure includes diversification arising from the effects of correlation of the major market risk categories.

ROYAL BANK OF CANADA EUROPE LIMITED

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 OCTOBER 2009 (continued)

3. Financial and other risk management (continued)

a) Market risk (continued)

Although VaR is an important tool for measuring market risk, the assumptions on which the model is based give rise to certain limitations including the following:-

- A 1-day holding period is used as it is consistent with daily profit & loss reporting. A 1-day holding period does not factor into account market liquidity. Larger positions in inventory could take longer to hedge, especially in times of severe market illiquidity.
- A 99 percent confidence level does not reflect losses that may occur beyond this level. There is a one percent probability that losses could exceed the VAR.
- VaR is calculated on an end-of-day basis and does not reflect exposures that may arise on positions during the trading day.
- The VaR measure is dependent upon the Company's position and the volatility of market prices. The VaR of an unchanged position reduces if the market price volatility declines and vice versa.

The limitations of the VaR methodology are recognised by supplementing VaR limits with other positions and sensitivity limit structures, including limits to address potential concentration risks within each trading portfolio.

In addition the Company uses stress test models, which provide an indication of the potential size of losses that could arise in extreme conditions. Stress testing is performed daily on trading books to estimate the impact of extreme but plausible movements.

Stress tests are also performed on a variety of "10 day" historical and hypothetical scenarios to gain a full understanding of short-term impacts on trading portfolios, as well as longer term scenarios, which are used in the development of the Company's capital plan.

Stress test results are assessed against predefined limits. Excesses are discussed and reviewed on a regular basis by the RBCEL Risk Committee and ETRMC.

ROYAL BANK OF CANADA EUROPE LIMITED

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 OCTOBER 2009 (continued)

3. Financial and other risk management (continued)

b) Interest rate risk

The principal market risk to which the portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair value of financial instruments because of changes in market interest rate.

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The financial instruments that have cash flow interest rate risk are included within loans and advances, debt securities and deposits.

Fair value interest rate risk is the risk that the values of a financial instrument will fluctuate because of changes in market interest rates. The financial instruments that have fair value interest rate risk are included within debt securities and other trading instruments.

Royal Bank of Canada interest rate risk policies define the management standards and acceptable limits within which risks to net interest income over a 12-month time horizon are to be contained.

The Company's interest rate risk exposure is monitored against daily limits and reported to the Board of Directors via the ALCO on a quarterly basis. The Company's interest rate risk in the banking book is also globally managed by Corporate Treasury. Interest rate risk in the banking book is proactively transferred to the trading book. The interest rate risk on the trading book is monitored by VaR which is covered in the Market Risk section.

The Company uses trade sensitivity as its primary measure of interest rate risk measured against operational limits set by GRM Market Risk. Sensitivities are expressed as the profit / (loss) observed given a 1 basis point increase in interest rates. The result of this sensitivity for interest rate risk in the banking book is not considered material.

ROYAL BANK OF CANADA EUROPE LIMITED

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 OCTOBER 2009 (continued)

3. Financial and other risk management (continued)

b) Interest rate risk (continued)

The following tables summarise the Company's year end net positions in assets and liabilities according to how long their interest rate terms remain fixed.

Interest rate re-pricing of trading book assets and liabilities as at 31 October 2009:

	Less than 3 months	3 to 12 months	1 to 5 years	Greater than 5 years	Non - interest bearing	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Treasury bills and other eligible bills	22,506	-	-	-	-	22,506
Loans and advances to banks - held for trading	1,972,181	-	-	-	-	1,972,181
Due from customers - held for trading	6,637,208	2,461,283	-	-	-	9,098,491
Debt securities	8,364,502	5,943,245	50,672	7,059	-	14,365,478
Equities	-	-	-	-	543,565	543,565
Derivative financial instruments	-	-	-	-	616,075	616,075
Prepayments and accrued income	-	-	-	-	85,610	85,610
Investment securities- available for sale	-	-	-	-	3,069	3,069
Other assets	-	-	-	-	29,390	29,390
Deposits by banks – held for trading	(1,216,398)	-	-	-	-	(1,216,398)
Due to customers – held for trading	(1,527,957)	-	-	-	-	(1,527,957)
Other trading liabilities	(14,054)	(282,433)	(2,699,965)	(3,557,757)	(5,212,217)	(11,766,426)
Derivative financial instruments	-	-	-	-	(192,700)	(192,700)
Accruals and deferred income	-	-	-	-	(38,946)	(38,946)
Settlement accounts (net)	-	-	-	-	(740,457)	(740,457)
Other liabilities	-	-	-	-	(62,040)	(62,040)
Net funding from non-trading activities	(10,802,187)	(378,829)	(10,425)	-	-	(11,191,441)
Net position	<u>3,435,801</u>	<u>7,743,266</u>	<u>(2,659,718)</u>	<u>(3,550,698)</u>	<u>(4,968,651)</u>	<u>-</u>
Cumulative interest rate sensitivity gap	<u>3,435,801</u>	<u>11,179,067</u>	<u>8,519,349</u>	<u>4,968,651</u>	<u>-</u>	<u>-</u>

ROYAL BANK OF CANADA EUROPE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 OCTOBER 2009 (continued)

3. Financial and other risk management (continued)

b) Interest rate risk (continued)

Interest rate re-pricing of trading book assets and liabilities as at 31 October 2008:

	Less than 3 months £'000	3 to 12 months £'000	1 to 5 years £'000	Greater than 5 years £'000	Non- interest bearing £'000	Total £'000
Treasury bills and other eligible bills	186	5,728	-	-	-	5,914
Loans and advances to banks - held for trading	1,897,112	733,071	239,162	-	-	2,869,345
Due from customers - held for trading	4,634,913	2,488,929	617,990	2,135,235	(54,290)	9,822,777
Debt securities	1,458,862	2,781,704	3,330,456	16,889	7,121	7,595,032
Equities	-	-	-	-	220,578	220,578
Derivative financial instruments	-	-	-	-	548,466	548,466
Settlement accounts (net)	-	-	-	-	172,756	172,756
Prepayments and accrued income	-	-	-	-	204,891	204,891
Other assets	-	-	-	-	(2,215)	(2,215)
Deposits by banks - held for trading	(2,381,345)	(42,892)	-	-	-	(2,424,237)
Due to customers - held for trading	(1,005,063)	(123,056)	-	-	-	(1,128,119)
Other trading liabilities	(852,257)	(2,104,851)	(55,758)	(34,464)	(4,143,960)	(7,191,290)
Derivative financial instruments	-	-	-	-	(550,846)	(550,846)
Accruals and deferred income	-	-	-	-	(107,727)	(107,727)
Other liabilities	-	-	-	-	19,693	19,693
Net funding from non-trading activities	(9,414,417)	(640,601)	-	-	-	(10,055,018)
Net position	(5,662,009)	3,098,032	4,131,850	2,117,660	(3,685,533)	-
Cumulative interest rate sensitivity gap	(5,662,009)	(2,563,977)	1,567,873	3,685,533	-	-

ROYAL BANK OF CANADA EUROPE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 OCTOBER 2009 (continued)

3. Financial and other risk management (continued)

b) Interest rate risk (continued)

Interest rate re-pricing of banking book assets and liabilities as at 31 October 2009:

	Less than 3 months £'000	3 to 12 months £'000	1 to 5 years £'000	Greater than 5 years £'000	Non- interest bearing £'000	Total £'000
Cash and balances at central banks	-	-	-	-	3,895	3,895
Loans and advances to banks-banking	186,451	-	-	-	-	186,451
Due from customers- banking	477,181	102,381	71,094	65,905	-	716,561
Prepayments and accrued income	-	-	-	-	17,864	17,864
Other assets	-	-	-	-	11,829	11,829
Net funding of trading activities	10,802,187	378,829	10,425	-	-	11,191,441
Deposits by banks- banking	(1,006,921)	-	-	-	-	(1,006,921)
Due to customers- banking	(9,070,785)	(559,972)	-	-	-	(9,630,757)
Other liabilities	-	-	-	-	(109,067)	(109,067)
Accruals and deferred income	-	-	-	-	(17,375)	(17,375)
Subordinated liabilities	-	-	-	-	(312,544)	(312,544)
Shareholders' funds	-	-	-	-	(1,051,377)	(1,051,377)
Net on-balance sheet items	1,388,113	(78,762)	81,519	65,905	(1,456,775)	-
Cumulative interest rate sensitivity gap	1,388,113	1,309,351	1,390,870	1,456,775	-	-

ROYAL BANK OF CANADA EUROPE LIMITED

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 OCTOBER 2009 (continued)

3. Financial and other risk management (continued)

b) Interest rate risk (continued)

Interest rate re-pricing of banking book assets and liabilities as at 31 October 2008:

	Less than 3 months £'000	3 to 12 months £'000	1 to 5 years £'000	Greater than 5 years £'000	Non- interest bearing £'000	Total £'000
Cash and balances at central banks	-	-	-	-	3,061	3,061
Loans and advances to banks- banking	10,365	10,714	-	-	-	21,079
Due from customers-banking	603,437	242,488	428	-	-	846,353
Investment securities-available for sale	-	-	-	-	1,978	1,978
Prepayments and accrued income	-	-	-	-	63,372	63,372
Other assets	-	-	-	-	42,079	42,079
Retirement benefit asset	-	-	-	-	886	886
Net funding of trading activities	9,414,417	640,601	-	-	-	10,055,018
Deposits by banks-banking	(2,637,885)	(87,141)	-	-	-	(2,725,026)
Due to customers-banking	(7,065,076)	(64,674)	-	-	-	(7,129,750)
Other liabilities	-	-	-	-	(90,229)	(90,229)
Accruals and deferred income	-	-	-	-	(67,127)	(67,127)
Subordinated liabilities	(55,838)	-	(253,376)	-	-	(309,214)
Shareholder' funds	-	-	-	-	(712,480)	(712,480)
Net on-balance sheet items	269,420	741,988	(252,948)	-	(758,460)	-
Cumulative interest rate sensitivity gap	269,420	1,011,408	758,460	758,460	-	-

ROYAL BANK OF CANADA EUROPE LIMITED

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 OCTOBER 2009 (continued)

3. Financial and other risk management (continued)

c) Foreign exchange risk

The Company undertakes certain transactions denominated in foreign currencies, hence exposures to exchange rate fluctuations arise. Foreign exchange risk is managed by monitoring exposure by currency against foreign exchange gap limits. However the Company does not maintain material non trading open currency positions.

The carrying amount of the Company's foreign currency denominated monetary assets and liabilities are as follows:

	Assets	Liabilities and shareholders funds
<u>As at 31 October 2009</u>	£'000s	£'000s
Sterling	10,677,137	10,659,708
United States dollars	13,141,476	13,122,155
Canadian dollars	2,330,482	2,330,088
Euro	4,844,909	4,873,932
Australian dollar	753,975	753,975
Japanese Yen	7,303	12,836
Other	645,930	648,518
	<u>32,401,212</u>	<u>32,401,212</u>

	Assets	Liabilities and shareholders funds
<u>As at 31 October 2008</u>	£'000s	£'000s
Sterling	5,929,741	5,928,681
United States dollars	9,538,162	9,532,910
Canadian dollars	4,292,322	4,284,165
Euro	3,059,690	3,044,384
Australian dollar	577,926	577,926
Japanese Yen	292,852	292,852
Other	1,513,014	1,542,789
	<u>25,203,707</u>	<u>25,203,707</u>

ROYAL BANK OF CANADA EUROPE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 OCTOBER 2009 (continued)

Financial and other risk management (continued)

d) Liquidity risk

Liquidity risk is the risk that the Company is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay depositors and fulfill commitments to lend.

The Company is an integrated part of the RBC Group and therefore follows, and is obliged to comply with, all applicable aspects of the RBC Group's policy regarding liquidity management. The Company has a significant balance sheet that requires funding, but has limited deposits that can be considered as core. It is mostly dependent on other Royal Bank of Canada entities for unsecured funding. Details of these facilities greater than USD500million are shown in the table below (all numbers are in USD millions):

Lender	Authorised	Outstanding	Description	Term	Type
RBC (Barbados) Funding Ltd.	6,500	3,956	Money market facility	Renewed annually on 30th November	Uncommitted
Royal Bank of Canada (Channel Islands) Limited	6,150	5,293	Money market facility	Renewed annually on 30th November	Uncommitted
Royal Bank of Canada, London branch	5,000	1,661	Money market facility	Renewed annually on 30th November	Uncommitted
RBC (Barbados) Funding Ltd.	3,000	3,000	3 year revolver	Matures 13th July 2011	Committed
Royal Bank of Canada Trust Company (Cayman) Limited	1,500	1,103	Money market facility	Renewed annually on 30th November	Uncommitted
Royal Bank of Canada Trust Company (Bahamas) Limited	750	351	Money market facility	Renewed annually on 30th November	Uncommitted
Total of above	22,900	15,364			

The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due under normal and stressed conditions, without incurring losses or risking damage to the Company's reputation. The Company also accesses the secured funding markets to finance its assets wherever possible.

ROYAL BANK OF CANADA EUROPE LIMITED

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 OCTOBER 2009 (continued)

3. Financial and other risk management (continued)

d) Liquidity risk (continued)

Liquidity risk management process

The Company's liquidity is managed within a global framework that manages the liquidity position on a consolidated basis and considers legal, regulatory, tax, operational and any other restrictions when analysing the ability to lend or borrow funds between legal entities. Within this framework, the Company's liquidity is monitored daily by GRM-Market Risk and is reviewed by the Risk Committee on a monthly basis and by ALCO on a quarterly basis.

Liquidity is managed and reported separately and on a consolidated basis for fungible currencies. Non-fungible currencies are managed separately. In addition to all money market cash flows, known or forecasted cash flows from material off balance sheet transactions are considered and included in all cash outflow/inflow calculations where necessary.

Liquidity risk mitigation exists at both tactical and contingency levels. At a tactical level 1, 4 and 9 week cash flow limits are monitored daily to ensure funds are available and that the asset profile is matched by sufficient term liabilities. ALCO reviews liquidity utilisation and limits quarterly.

At a contingency level, as part of the liquidity management framework, RBC has designed a group Liquidity Contingency Plan (Group LCP) which includes specific crisis types and associated action plans. The Company's liquidity management is integrated within the Group LCP and is also covered within a Company specific Liquidity Contingency Plan (Company LCP).

During the current period there have been improvements to the liquidity risk management procedures including a new Company LCP as noted above. In addition, a new Company specific Liquidity Crisis Team has been established and new Company specific liquidity stress testing has been performed.

Liquidity table

The table below presents the undiscounted cash flows payable by the Company by remaining contractual maturities at the balance sheet date.

The Company has recorded all derivative liabilities in the 'Less than 1 month' category to reflect the common market practice of terminating derivative contracts at fair value upon the counterparty's request. The Company has provided the present value rather than contractual undiscounted cash flows for these instruments. The Company considers it unlikely that, in any given period, all the derivatives will unwind in the short-term, and although it is current market practice to terminate contracts upon the counterparty's request, the Company is generally not contractually obliged to do so. All other figures are undiscounted and show contractual maturities.

ROYAL BANK OF CANADA EUROPE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 OCTOBER 2009 (continued)

3. Financial and other risk management (continued)

d) Liquidity risk (continued)

Liquidity table as at 31 October 2009:

	Less than 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Greater than 5 years	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Liabilities						
Deposits by banks	1,609,212	524,014	70,409	19,502	182	2,223,319
Customer accounts	7,165,163	1,586,992	584,512	1,822,047	-	11,158,714
Other trading liabilities	11,766,426	-	-	-	-	11,766,426
Derivatives	192,700	-	-	-	-	192,700
Other liabilities	5,696,132	-	-	-	-	5,696,132
Subordinated liabilities	-	-	-	-	312,544	312,544
	26,429,633	2,111,006	654,921	1,841,549	312,726	31,349,835

Liquidity table as at 31 October 2008:

	Less than 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Greater than 5 years	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Liabilities						
Deposits by banks	5,011,324	50,798	87,141	-	-	5,149,263
Customer accounts	6,080,924	257,987	64,674	1,854,284	-	8,257,869
Other trading liabilities	7,191,290	-	-	-	-	7,191,290
Derivatives	550,846	-	-	-	-	550,846
Other liabilities	3,032,745	-	-	-	-	3,032,745
Subordinated liabilities	-	-	-	-	309,214	309,214
	21,867,129	308,785	151,815	1,854,284	309,214	24,491,227

ROYAL BANK OF CANADA EUROPE LIMITED

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 OCTOBER 2009 (continued)

3. Financial and other risk management (continued)

e) Credit risk

The Company takes on exposure to credit risk, which is the risk that a counterparty will cause a financial loss for the Company by failing to discharge an obligation. Credit risk is one of the most important risks for the Company's business; management therefore carefully manages its exposure to credit risk.

Credit exposures in the banking book arise principally in lending activities to corporations that are largely investment grade and to private banking clients, where the loans are secured on portfolios of securities and real estate. Credit risk in the trading book arises from repo activities, traded loan portfolios, initial margin on exchange traded futures and options and other cash balances. The Company also enters into derivative contracts to hedge market and credit risk exposures.

During the current period there have been no changes in the credit risk management procedures other than the introduction of various additional exposure limits.

Credit risk management

Credit risk management in the banking book

Credit risk is subject to strict rules relating to the establishment, approval and monitoring of limits. Maximum exposure limits must be adhered to by risk rating, product, industry sector and country. There is a transaction-specific sign-off process in place for all new loans, as well as fixed income and equity underwritings.

New business is authorised in line with the Company's policy. Credit approval is only given after assessment of the following:

- Client assessment in terms of strategic fit and return on equity;
- Credit assessment, including internal risk rating; and
- Total credit exposure, taking into account other facilities.

Royal Bank of Canada has an enterprise-wide risk policy on credit risk mitigation to which the Company adheres. Lending exposures in the banking book are approved by the EBRMC and GRM providing positive advice and counsel for all credit requests. The lending portfolio is reviewed on a monthly basis by the EBRMC.

As part of the early warning process, accounts can be added to a watch list, which is reviewed on a monthly basis by the EBRMC. The Company's Board of Directors reviews the portfolio quarterly.

Credit risk management in the trading book

The Company maintains internal limits for trading inventory set by the Company's risk management function. Utilisation against limits is monitored daily by the risk management function. The Company shares global counterparty and inventory limits set by RBC Group Risk Management.

ROYAL BANK OF CANADA EUROPE LIMITED

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 OCTOBER 2009 (continued)

3. Financial and other risk management (continued)

e) Credit risk (continued)

In the table below, the carrying amount of financial assets recorded in the financial statements, net of any allowances for losses, represents the Company's maximum exposure to credit risk without taking into account any collateral or netting benefits obtained.

	2009 £'000	2008 £'000
Cash and balances at central banks	3,895	3,061
Treasury bills and other eligible bills	22,506	5,914
Loans and advances to banks-banking	186,451	21,079
Loans and advances to banks-held for trading	1,972,181	3,122,300
Due from customers - banking	716,561	846,353
Due from customers - held for trading	15,301,024	12,102,352
Other trading assets	14,909,043	7,815,610
Investment securities-available for sale	3,069	1,978
Goodwill	1,398	1,563
Derivative financial instruments	932,051	1,030,353
Retirement benefit asset	-	886
Other assets	4,871,542	3,266,675
	<u>38,919,721</u>	<u>28,218,124</u>
Off Balance sheet:		
Financial guarantees	23,476	30,891
Loan Commitments	1,089,970	1,198,962
	<u>40,033,167</u>	<u>29,447,977</u>

ROYAL BANK OF CANADA EUROPE LIMITED

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 OCTOBER 2009 (continued)

3. Financial and other risk management (continued)

e) Credit risk (continued)

Management is confident in its ability to continue to control and sustain acceptable exposure to credit risk to the Company resulting from both its loans and advances portfolio and its debt securities portfolio based on the following:-

- The Capital Markets Loan Portfolio, included within Loans and advances to banks - banking and Loans and advances to customers - banking, is comprised mainly of investment grade exposures. 68% (2008: 87%) of the Company's Capital Markets authorised exposures are to investment grade names (S&P rating of BBB- or above). None of the Capital Markets loan portfolio as at 31 October 2009 (2008: £nil) is considered past due.
- The International Wealth Management Loan Portfolio, included within Due from customers - banking, is collateralised 57% with cash. The majority of the remainder is collateralised with securities and real estate.
- Reverse repurchase loans, which make up the majority of Loans and advances to banks - held for trading and Due from customers - held for trading, have recourse to high quality collateral comprising securities, equities and convertibles which have been legally transferred to the Company. As at 31 October 2009, these loans were collateralised at 108% (2008 - 117 %).
- 90% of investments in debt securities as at 31 October 2009, included within other trading assets have an S&P rating of at least A-.

Collateral and security are important mitigants of credit risk. The Company holds collateral mainly in the form of debt securities and equity shares and uses credit default swaps as a form of credit enhancement.

ROYAL BANK OF CANADA EUROPE LIMITED

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 OCTOBER 2009 (continued)

3. Financial and other risk management (continued)

The Company ensures that any collateral held is sufficiently liquid, legally effective, enforceable and regularly reassessed. Any collateral taken is generally subject to a 'haircut'. A haircut is the valuation percentage applicable to each type of collateral and will be largely based on liquidity and price volatility of the underlying security.

As at 31 October 2009, the Company had pledged out £5,002 million (2008:- £8,683 million) of the collateral it had received.

The Company also actively monitors concentrations of credit risk by sector.

Analyses of concentrations within the banking book, excluding loans with group companies of £174.0million (2008 - £3.4 million), are shown below:

	2009 £'000	2008 £'000
Financial Services	333,190	307,543
Real Estate and related	53,270	118,476
Mining and Metals	199,214	258,672
Energy	52,363	42,947
Other	91,032	126,780
	<u>729,069</u>	<u>854,418</u>

ROYAL BANK OF CANADA EUROPE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 OCTOBER 2009 (continued)

3. Financial and other risk management (continued)

e) Credit risk (continued)

Credit Risk in the banking book

The Company has two distinct portfolios within the banking book, the Capital Markets Loan portfolio and the International Wealth Management Loan portfolio.

The loans and advances in these portfolios within the banking book are summarised as follows:

31 October 2009

	Due from customers- banking	Loans and advances to banks- banking
	£'000	£'000
Neither past due nor impaired	716,569	12,500
Past due but not impaired	-	-
Impaired	7,142	-
	<hr/>	<hr/>
	723,711	12,500
Less: allowance for impairment/past due	(7,142)	-
	<hr/>	<hr/>
	716,569	12,500
	<hr/>	<hr/>

31 October 2008

	Loans and advances to customers- banking	Loans and advances to banks- banking
	£'000	£'000
Neither past due nor impaired	841,918	12,500
Past due but not impaired	-	-
Impaired	6,872	-
	<hr/>	<hr/>
	848,790	12,500
Less: allowance for impairment/past due	(6,872)	-
	<hr/>	<hr/>
	841,918	12,500
	<hr/>	<hr/>

ROYAL BANK OF CANADA EUROPE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 OCTOBER 2009 (continued)

3. Financial and other risk management (continued)

e) Credit risk (continued)

The credit quality of the portfolio of loans and advances that were neither past due or impaired can be assessed by reference to the internal ratings adopted by the company

31 October 2009

	Due from customers - banking	Loans and advances to banks- banking
	£'000	£'000
Investment Grade	330,859	12,500
Non Investment Grade	385,710	-
	<u>716,569</u>	<u>12,500</u>

31 October 2008

	Due from customers - banking	Loans and advances to banks- banking
	£'000	£'000
Investment Grade	621,954	12,500
Non Investment Grade	219,964	-
	<u>841,918</u>	<u>12,500</u>

Investment Grade are loans with an S&P rating of BBB- inclusive and above and Non Investment Grade are loans with an S&P rating of BB+ inclusive and below. The loans in the above table represent third party loans and exclude any loans to group companies.

There were no past due loans in the Capital Markets Loan Portfolio that were not impaired. Loans were impaired in this category because the recovery of the principal amount was in doubt.

ROYAL BANK OF CANADA EUROPE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 OCTOBER 2009 (continued)

3. Financial and other risk management (continued)

e) Credit risk (continued)

Credit Risk in the trading book

The principal risk within the trading book is counterparty credit risk. The Company's counterparty credit risk profile is largely made up of equity securities finance / stock lending, fixed income repurchase agreements (repo) with asset managers, tri-party custodians and professional repo counterparties.

Counterparty credit risk is managed through increasing over-collateralisation margins on riskier counterparties with margins being actively managed and exchanged daily.

The trading desk actively monitors the collateral received against single name concentration limits and also monitors the quality of this received collateral. Single name concentration risk limits are established and monitored by GRM.

The fair values of these collateral securities are indicated in the table below and cash margins are introduced once the market value of collateral is insufficient to cover the underlying amount of the repurchase agreement or securities borrowed or loaned.

The table below displays the carrying value of the repo asset and liability values against the collateral obtained/pledged:

As at 31 October 2009

	Collateral Market Value £'000	Carrying Value £'000	Collateral %
Reverse repos (asset)	11,662,268	10,794,605	108%
Repos (liabilities)	2,060,191	2,071,314	99%

As at 31 October 2008

	Collateral Market Value £'000	Carrying Value £'000	Collateral %
Reverse repos (asset)	14,057,710	11,970,434	117%
Repos (liability)	2,432,899	2,505,258	97%

Credit risk on other loans in the trading book, initial margin on exchange traded futures/options and cash balances such as nostros are monitored by reference to the external rating of the counterparty.

ROYAL BANK OF CANADA EUROPE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 OCTOBER 2009 (continued)

3. Financial and other risk management (continued)

e) Credit risk (continued)

Debt securities, treasury bills and other eligible bills

The table below presents an analysis of debt securities included within other trading assets, treasury bills and other eligible bills by rating agency designation as at 31 October 2009 and 31 October 2008 based on Standard & Poor's ratings or their equivalent:

	Trading securities £'000	Certificates of Deposit £'000	Total £'000
AAA to AA-	9,819,057	5,203	9,824,260
A+ to A-	3,073,199	89,887	3,163,086
BBB+ to BBB-	799,562	-	799,562
BB+ to BB-	90,282	-	90,282
B+ to b-	12,443	-	12,443
CCC+ and below	37,129	-	37,129
Not Rated	461,222	-	461,222
	<u>14,292,894</u>	<u>95,090</u>	<u>14,387,984</u>

	Trading securities £'000	Certificates of Deposit £'000	Total £'000
AAA to AA-	4,943,488	417,424	5,360,912
A+ to A-	1,176,073	-	1,176,073
BBB+ to BBB-	395,031	-	395,031
BB+ to BB-	25,263	-	25,263
B+ to b-	19,321	-	19,321
CCC+ and below	4,475	124,742	129,219
Not Rated	495,129	-	495,129
	<u>7,058,780</u>	<u>542,166</u>	<u>7,600,946</u>

Derivatives

The majority of derivative transactions that appear on the books of the Company are with fellow group companies. Derivatives with an external counterparty are usually subject to margining under a Credit Support Annex.

ROYAL BANK OF CANADA EUROPE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 OCTOBER 2009 (continued)

3. Financial and other risk management (continued)

f) Regulatory Capital

The Company is regulated by the Financial Services Authority (FSA) as a Bank and it provides the Company with an Individual Capital Guidance (ICG) through its Supervisory Review and Evaluation Process (SREP). The ICG represents the minimum amount and quality of capital that the FSA considers appropriate that a entity must hold in order to meet its adequate financial resources rule.

It is the Company's capital management policy to ensure that it remains adequately capitalised in accordance with its Risk Appetite. The Company is committed to maintaining sufficient capital to underpin all risks as defined and measured by internal and external regulatory capital requirements. The Company assesses capital adequacy by comparing the actual solvency ratio to the internal solvency ratio and to the FSA's prescribed ICG and solvency ratio. Whenever there is a shortfall the RBCEL Risk Committee and ALCO recommends appropriate action to the Company's Board.

The Company's regulatory financial resources are analysed into three tiers:-

- Tier I capital includes ordinary share capital, deferred share capital, capital contribution reserves and share premium reserves.
- Tier II capital consists of long term subordinated debt.
- Tier III capital includes unaudited current year trading profits.

Relevant deductions are made to the financial resources e.g. holding of investments in other financial institutions share capital and subordinated debt, goodwill and securitisation positions.

The FSA require the Company to submit a series of Regulatory Returns for capital monitoring and measurement of risk. During 2009 the Company fully complied with its external limits and external reporting requirements. The table below details the capital resources and capital requirements as at 31 October 2009.

	2009 £'000	2008 £'000
Capital Resources		
Tier One Capital	710,196	612,151
Tier Two Capital	312,544	306,074
Tier Three Capital	340,780	102,927
	<u>1,363,520</u>	<u>1,021,152</u>
Less Deductions	(2)	(13)
Capital Resources	<u>1,363,518</u>	<u>1,021,139</u>
 RBCEL Solvency Ratio	 226.38%	 221.38%
 Pillar I Capital Requirements		
Credit Risk	240,906	229,975
Market Risk	307,743	205,970
Operational Risk	53,659	25,309
Capital Requirements	<u>602,308</u>	<u>461,254</u>

ROYAL BANK OF CANADA EUROPE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 OCTOBER 2009 (continued)

3. Financial and other risk management (continued)

Basel II

Basel II is an international accord on capital requirements that applies to banking institutions in various countries including Canada, United States of America and the United Kingdom (UK). It is intended to strengthen the measurement and monitoring of financial institutions' capital by adopting a more risk sensitive approach to capital management. The EU implemented the Basel II framework through the Capital Requirements Directive (CRD) which has been adopted by UK Financial Services Authority (FSA).

The Basel II framework is comprised of three complementary pillars:-

- Pillar 1 establishes rules for the calculation of minimum capital for Credit, Market and Operational Risk (capital adequacy requirements).
- Pillar 2 is an internal discipline to evaluate the adequacy of the regulatory capital requirement under Pillar 1 and other non Pillar 1 risks. This pillar requires the FSA to undertake a supervisory review to assess the robustness of the regulated entity's internal assessment. (Supervisory review).
- Pillar 3 complements the other pillars and effects market discipline through public disclosure. Expanded disclosure about capital and risk enables interested parties to better understand the risk profile of individual banks and companies and to make comparisons (market discipline).

Basel II Pillar 1 Capital Requirements.

Market Risk

Market risk calculations are undertaken according to the standardised approach which provides a method for calculating position risk requirement (PRR) for all categories of market risk in the trading book (interest rate risk, equity position risk, foreign exchange risk, commodities risk, options risk, collective investment undertakings risk and securities underwriting risk). A set of rules is prescribed to calculate the capital requirement using a 'building block' approach for application to financial instruments across the four categories of market risk and specific risks. These are based upon more 'traditional' sensitivity measures of market risk.

Under the building block approach, the risks arising from each factor are calculated separately (e.g. equities, interest rates etc). Identical, or very similar, long and short positions are netted together and a percentage of this net position is calculated. This percentage often called the 'capital haircut' or position risk adjustment (PRA), represents a potential change in the price of the position. The size and method of applying this haircut varies between and within risk types. Further treatments are specified for credit derivatives reflecting the additional risks that such products may contain.

Interest rate and equity risks are also split between General Risk and Specific Risk:-

- General risk represents the potential move in prices/rates due to a move in the market as a whole, as represented by the main market index (e.g. FTSE) or government yield curves.
- Specific risk represents the potential move in prices/rates due to events particular to that underlying issuer.

ROYAL BANK OF CANADA EUROPE LIMITED

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 OCTOBER 2009 (continued)

3. Financial and other risk management (continued)

Credit risk

Under Basel II, the Company uses the standardised approach for credit risk for both the trading and non trading book. Non trading book exposures relate to loans, commitments, guarantees, facilities and letters of credit. These exposures are categorised into the standardised FSA exposure classes to which risk weights are applied from external credit rating agencies (S&P, Moody's and Fitch) to calculate the credit risk capital requirements. Counterparty credit risk in the trading book mainly consists of Traditional/ Equity Finance repos, FX/ MM and fixed income derivatives and unsettled transactions.

Concentration risk

Concentration risk capital requirement (CNCOM) is part of credit risk and is calculated where trading book exposures to an individual counterparty or group of connected counterparties or its connected counterparties exceeds 25% of a measure of financial resources. Unless exposures fall into a exempt category, CNCOM is the additional capital that needs to be set aside.

Operational risk

The Company has implemented the Basic Indicator Approach (BIA) for operational risk under Basel II. Under the BIA capital for operational risk is determined by multiplying gross positive revenues for the past three years by a fixed percentage. Figures for any year in which annual gross income is negative or zero are excluded from both the numerator and denominator when calculating the average. The fixed percentage 'alpha' is typically 15 percent of annual gross income.

Basel II Pillar 3 Disclosures

As a condition of the FSA Pillar 3 disclosure waiver granted to the UK consolidation group of which the Company forms a part of and in accordance with the requirements of the FSA Prudential Sourcebook for Banks, Building Societies and Investment Firms, BIPRU 11 (Pillar 3), the Company is required to publish on the RBC Group website the Capital Adequacy Reports (FSA003) which detail the composition and amount of Capital Resources (CR) and also provide the analysis of the credit, market and operational risk, Capital Resources Requirements (CRR).

ROYAL BANK OF CANADA EUROPE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 OCTOBER 2009 (continued)

3. Financial and other risk management (continued)

g) Fair value of financial instruments not held for trading

The following table details the fair value of financial assets and liabilities that are not carried at fair value. Due to the frequency of repricing of the majority of loans and advances and deposits, the fair value is considered to be equivalent to the carrying value of these financial assets and liabilities.

As at 31 October 2009

	Carrying Value		Fair Value	
	Assets £'000	Liabilities £'000	Assets £'000	Liabilities £'000
Loans and advances to Banks	186,451	-	186,451	-
Loans and advances to Customers	716,561	-	716,561	-
Investment securities available for sale	3,069	-	3,069	-
Deposits from Banks-Banking	-	1,006,921	-	1,006,921
Deposits from Customers	-	9,630,757	-	9,630,757
Subordinated debt	-	312,544	-	284,415

As at 31 October 2008

	Carrying value		Fair Value	
	Assets £'000	Liabilities £'000	Assets £'000	Liabilities £'000
Loans and advances to banks	21,079	-	21,079	-
Loans and advances to customers	846,353	-	846,353	-
Investment securities-available for sale	1,978	-	1,978	-
Deposits from banks - banking	-	2,725,026	-	2,725,026
Deposits from customers	-	7,129,750	-	7,129,750
Subordinated debt	-	309,214	-	291,292

ROYAL BANK OF CANADA EUROPE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 OCTOBER 2009 (continued)

3. Financial and other risk management (continued)

h) Classification of financial instruments

The tables below show the carrying amount of the company's financial instruments classified in the FRS 26 categories as per the requirements of FRS 29.

<u>Assets as at 31 October 2009</u>	Loans and Receivables £'000	Held for Trading £'000	Available for sale £'000	Non Financial Assets £'000	Total carrying amount £'000
Cash and balances at central banks	3,895	-	-	-	3,895
Treasury bills and other eligible bills	-	22,506	-	-	22,506
Loans and advances to banks - banking	186,451	-	-	-	186,451
Loans and advances to banks - held for trading	-	1,972,181	-	-	1,972,181
Due from customers - banking	716,561	-	-	-	716,561
Due from customers - held for trading	-	9,098,491	-	-	9,098,491
Other trading assets	-	14,909,043	-	-	14,909,043
Derivative financial instruments	-	616,075	-	-	616,075
Investment securities - available for sale	-	-	3,069	-	3,069
Goodwill	-	-	-	1,398	1,398
Retirement benefit asset	-	-	-	-	-
Other assets	4,728,247	-	-	143,295	4,871,542
Total	5,635,154	26,618,296	3,069	144,693	32,401,212

ROYAL BANK OF CANADA EUROPE LIMITED

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 OCTOBER 2009 (continued)

3 Financial and other risk management (continued)

	Financial Liabilities held for trading	Other Financial Liabilities	Non Financial Liabilities	Total carrying amount
<u>Liabilities as at 31 October 2009</u>	£'000	£'000	£'000	£'000
Deposits by banks - banking	-	1,006,921	-	1,006,921
Deposits by banks - held for trading	1,216,398	-	-	1,216,398
Due to customers - banking	-	9,630,757	-	9,630,757
Due to customers - held for trading	1,527,957	-	-	1,527,957
Other trading liabilities	11,766,426	-	-	11,766,426
Derivative financial instruments	192,700	-	-	192,700
Other liabilities	-	5,468,704	224,692	5,693,396
Retirement benefit liability	-	-	2,736	2,736
Subordinated liabilities	-	312,544	-	312,544
Total	14,703,481	16,418,926	227,428	31,349,835

ROYAL BANK OF CANADA EUROPE LIMITED

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 OCTOBER 2009 (continued)

3 Financial and other risk management (continued)

<u>Assets as at 31 October 2008</u>	Loans and Receivables	Held for Trading	Available for sale	Non Financial Assets	Total carrying amount
	£'000	£'000	£'000	£'000	£'000
Cash and balances at central banks	3,061	-	-	-	3,061
Treasury bills and other eligible bills	-	5,914	-	-	5,914
Loans and advances to banks - banking	21,079	-	-	-	21,079
Loans and advances to banks - held for trading	-	2,869,345	-	-	2,869,345
Due from customers - banking	846,353	-	-	-	846,353
Due from customers - held for trading	-	9,822,777	-	-	9,822,777
Other trading assets	-	7,815,610	-	-	7,815,610
Derivative financial instruments	-	548,466	-	-	548,466
Investment securities - available for sale	-	-	1,978	-	1,978
Goodwill	-	-	-	1,563	1,563
Retirement benefit asset	-	-	-	886	886
Other assets	2,960,111	-	-	306,564	3,266,675
Total	3,830,604	21,062,112	1,978	309,013	25,203,707

ROYAL BANK OF CANADA EUROPE LIMITED

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 OCTOBER 2009 (continued)

3 Financial and other risk management (continued)

<u>Liabilities as at 31 October 2008</u>	Financial Liabilities held for trading £'000	Other Financial Liabilities £'000	Non Financial Liabilities £'000	Total carrying amount £'000
Deposits by banks - banking	-	2,725,026	-	2,725,026
Deposits by banks - held for trading	2,424,237	-	-	2,424,237
Due to customers - banking	-	7,129,750	-	7,129,750
Due to customers - held for trading	1,128,119	-	-	1,128,119
Other trading liabilities	7,191,290	-	-	7,191,290
Derivative financial instruments	550,846	-	-	550,846
Other liabilities	-	2,787,355	245,390	3,032,745
Subordinated liabilities	-	309,214	-	309,214
Total	11,294,492	12,951,345	245,390	24,491,227

4. Segmental analysis

In the opinion of the directors, in all material respects the Company is engaged in one activity, being the provision of capital market services to commercial organisations. Although the Company is also engaged in the provision of private banking services to individuals, this activity is not material in relation to the total activities of the Company and accordingly is not disclosed separately. In all material respects, the Company operates in only one geographical segment, that being the United Kingdom.

ROYAL BANK OF CANADA EUROPE LIMITED

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 OCTOBER 2009 (continued)

5. Net interest income

Net interest income includes the following amounts:

<u>Interest income</u>	2009 £'000	2008 £'000
Interest receivable from banks and customers	203,702	465,406
Interest receivable from group companies	<u>16,451</u>	<u>790</u>
	<u>220,153</u>	<u>466,196</u>
 <u>Interest Expense</u>		
Interest payable to customers	2,323	6,062
Other interest payable to group companies	181,234	401,569
Interest payable to subordinated liabilities	<u>6,597</u>	<u>9,450</u>
	<u>190,154</u>	<u>417,081</u>

6. Net trading income

	2009 £'000	2008 £'000
Fixed income and money markets	584,323	186,161
Equity	21,711	21,658
Financial products	<u>(16,487)</u>	<u>(2,870)</u>
	<u>589,547</u>	<u>204,949</u>

During 2009 management undertook a detailed balance sheet reconciliation and control exercise which included an investigation of the entries processed through the set of accounts that made up the unsubstantiated balances within the Fixed Income line of business. The investigation determined that the balances have arisen over a number of years and that £106.1million of the balances should be written off. The amounts written off have been presented as a charge to the profit and loss within 'net trading income'. The provision of £34.7million created in 2008 (see note 7 (b)) has been utilised against the amounts written off.

Management has implemented appropriate controls and procedures around the accounts comprising the unsubstantiated balances.

ROYAL BANK OF CANADA EUROPE LIMITED

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 OCTOBER 2009 (continued)

7. Administrative expenses

	2009 £'000	2008 £'000
Staff costs:		
Wages and salaries	126,007	80,353
Social security costs	15,574	9,931
Pension costs	2,822	2,725
	<u>144,403</u>	<u>93,009</u>
Other administrative expenses	53,635	46,264
	<u>198,038</u>	<u>139,273</u>

Included within wages and salaries above are total directors' emoluments, excluding pension contributions, of £11,497,573 (2008: £8,646,875). Included within total directors' emoluments is an amount of £2,576,727 (2008: £1,536,746) that has been charged to the Company in respect of the services of certain directors who are employed by other group companies. Two directors are members of the defined benefit pension scheme (2008: five directors). The Company made contributions of £46,331 (2007: £27,731) to defined contribution pension schemes in respect of three directors (2008: three directors).

The emoluments of the highest paid director, excluding pension contributions, were £3,997,889 (2008: £1,812,278). Contributions of £10,860 (2008: £10,860) were made to a defined contribution scheme in respect of the highest paid director.

The average number of employees during the year was 417 (Capital Markets 273, International Wealth Management 74 and Functions 70) (2008: 383, Capital Markets 260, International Wealth Management 59 and Functions 64).

Profit on ordinary activities before taxation is stated after charging the following items:

	2009 £'000	2008 £'000
Auditors' remuneration		
- Total audit fees payable to the Company's auditors for the audit of the Company's annual accounts	241	270
- Total non-audit fees - tax consultancy services	87	72
Inter-company recharge in respect of rental of premises	2,416	3,702
Amortisation of goodwill	165	326
	<u> </u>	<u> </u>

ROYAL BANK OF CANADA EUROPE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 OCTOBER 2009 (continued)

7 (b) Other provisions and charges

In the previous period a £34.7 million provision was created relating to unsubstantiated balances within 'other assets' relating to the Fixed Income line of business. This provision has been utilised against amounts written off within net trading income (see note 6).

	£'000
Provision as at 1 November 2008	(34,741)
Provision utilised within 'net trading income'	34,741
Provision as at 31 October 2009	-

8. Pension costs

The Company is a participating employer in the RBC (UK) Pension Plan ('the Plan'), a defined benefit pension scheme in which a number of other Royal Bank of Canada group companies also participate. The plan is closed to new members and therefore, under the projected unit method, the current service cost as a percentage of pensionable salaries will increase as the members of the Plan approach retirement.

The latest full actuarial valuation of the plan was carried out as at 1 April 2009 by a qualified independent actuary using the projected unit method. Interim valuations have been prepared as at 1 April 2007 and 1 April 2008. Contributions have been made to the plan at a rate of 23.8% of pensionable salaries. (2008: 23.8% of pensionable salaries).

The funded status at the end of the year, and the related amounts recognised on the balance sheet, are as follows:

	2009 £'000	2008 £'000
Fair value of plan assets	56,900	46,153
Benefit obligations	(60,700)	(44,923)
Funded status	(3,800)	1,230
Related deferred tax liability	1,064	(344)
Net amount recognised at 31 October (after deferred taxes)	(2,736)	886

ROYAL BANK OF CANADA EUROPE LIMITED

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 OCTOBER 2009 (continued)

8. Pension costs (continued)

The components of benefit cost recognised in profit or loss are as follows:

	2009 £'000	2008 £'000
Interest cost	3,046	3,033
Expected return on plan assets	(3,148)	(3,545)
Other finance income	(102)	(512)
Current service cost	1,100	1,302
Employer pension expense	998	790
Actual loss on plan assets	9,770	6,784
Analysis of Statement of Total Recognised Gains and Losses (STRGL):		
Actuarial loss	6,823	630

	2009 £'000	2008 £'000
Cumulative amount recognised in STRGL		
At 1 November	(9,759)	(10,389)
Actuarial loss	6,823	630
At 31 October	(2,936)	(9,759)

Pension costs included in administrative expenses comprise:

	2009 £'000	2008 £'000
Defined benefit scheme	1,100	1,302
Defined contribution schemes	1,722	1,423
	2,822	2,725

ROYAL BANK OF CANADA EUROPE LIMITED

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 OCTOBER 2009 (continued)

8. Pension costs (continued)

	2009 £'000	2008 £'000
The changes in the Projected Benefit Obligation (PBO) are as follows:		
At 1 November	44,923	50,800
Current service cost	1,100	1,302
Interest cost	3,046	3,033
Actuarial loss/(gain)	12,060	(9,700)
Gross benefits paid	(429)	(512)
At 31 October	60,700	44,923

The changes in the fair value of plan assets are as follows:

	2009 £'000	2008 £'000
At 1 November	46,153	52,094
Expected return	3,148	3,545
Actuarial gain/(loss)	5,238	(10,329)
Employer contribution	2,790	1,355
Gross benefits paid	(429)	(512)
At 31 October	56,900	46,153

The major categories of plan assets at the end of the year are as follows:

	2009 £'000		2008 £'000	
Equities	22,900	40.25%	19,143	41.50%
Debt securities	23,400	41.12%	21,281	46.10%
Other	10,600	18.63%	5,729	12.40%
Total	56,900	100%	46,153	100%

ROYAL BANK OF CANADA EUROPE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 OCTOBER 2009 (continued)

8. Pension costs (continued)

The weighted average assumptions used to determine the PBO at the end of the year are as follows:

	2009	2008
Discount rate	5.50%	6.65%
Inflation assumption	3.30%	3.25%
Expected rate of return on plan assets	5.50%	6.75%
Rate of compensation increase	3.75%	3.75%
Pension Increase assumption (capped at 5% pa)	3.20%	3.15%
Pension Increase assumption (capped at 2.5% pa)	2.25%	2.25%
Life expectancy of a male aged 65 at end of year	22.3	21.2
Life expectancy of a female aged 65 at end of year	24.7	23.5

The expected rates of return on assets are developed using a building block approach based on the Plan's strategic asset allocation at 31 October 2009 and the assumed return on assets for each asset category. The expected rate of return for equities is derived by adding a risk premium to the current yield on fixed interest government bonds.

<u>Experience adjustments</u>	2009	2008	2007	2006	2005
DB pension plan					
Fair value of assets	56,900	46,153	52,094	47,482	33,101
PBO	(60,700)	(44,923)	(50,799)	(54,267)	(43,558)
Funded status	(3,800)	1,230	1,295	(6,785)	(10,457)
Experience gain/(loss) adjustment on PBO	3,839	196	-	(4,931)	(176)
Experience gain/(loss) adjustment on plan assets	5,238	(10,329)	603	11,414	2,456

ROYAL BANK OF CANADA EUROPE LIMITED

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 OCTOBER 2009 (continued)

9. Tax on Profit on Ordinary Activities

	2009 £'000	2008 £'000
Current tax:		
UK corporation tax at 28% (2008: 28.83%)	125,411	28,564
Adjustments in respect of prior periods	1,413	289
Relief for overseas taxation	(1,353)	(1,572)
	<u>125,471</u>	<u>27,281</u>
Overseas taxation	2,072	1,572
Current tax charge for the year	<u>127,543</u>	<u>28,853</u>
Deferred tax:		
Reversal of timing differences	9,097	11,239
Adjustments in respect of prior periods	(770)	(142)
	<u>135,870</u>	<u>39,950</u>
Tax reconciliation:	2009 £'000	2008 £'000
Profit on ordinary activities before taxation	<u>478,887</u>	<u>138,266</u>
Profit on ordinary activities before taxation multiplied by standard rate of corporation tax in the UK of 28% (2008: 28.83%)	134,088	39,863
Effects of:		
Expenses not deductible for tax purposes	420	300
Overseas taxation	718	-
Effect of changes in tax rate	-	(361)
Adjustments in respect of prior periods	644	148
Current tax charge for the year	<u>135,870</u>	<u>39,950</u>

ROYAL BANK OF CANADA EUROPE LIMITED

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 OCTOBER 2009 (continued)

10. Loans and advances to banks

	2009 £'000	2008 £'000
Repayable		
-One month or less	2,158,632	1,905,691
-More than one month but not more than three months	-	733,071
-More than three months but not more than one year	-	239,162
-More than one year but not more than five years	-	12,500
-More than five years	-	-
	<u>2,158,632</u>	<u>2,890,424</u>

Included in the above is £195.8 million (2008: £60.7 million) due from other group companies.

11. Loans and advances to customers

	2009 £'000	2008 £'000
Repayable		
-One month or less	5,621,183	4,823,784
-More than one month but not more than three months	1,377,577	2,519,440
-More than three months but not more than one year	2,573,293	758,798
-More than one year but not more than five years	142,746	2,470,225
-More than five years	107,395	103,665
Less: Provision for bad and doubtful debts	(7,142)	(6,782)
	<u>9,815,052</u>	<u>10,669,130</u>

Included in the above is £1,217.0million (2008: £359.7 million) due from other group companies.

12. Provisions for bad and doubtful debts

a) Movements on provisions for bad and doubtful debts

	£'000
Provisions at 1 November 2008	6,872
Foreign exchange movement	270
Balance as at 31 October 2009	<u>7,142</u>

ROYAL BANK OF CANADA EUROPE LIMITED

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 OCTOBER 2009 (continued)

12. Provisions for bad and doubtful debts (continued)

b) Non-performing loans

	2009 £'000	2008 £'000
Gross balance of non-performing loans	7,142	6,872
Specific provisions	(7,142)	(6,872)
Total non-performing loans (net of specific provisions)	-	-

All non performing loans have been fully provided for.

13. Other trading assets

	2009 £'000	2008 £'000
Debt securities:		
Government securities	4,054,704	752,997
Other public bodies	67,010	59,020
Bank and building society certificates and other securities	4,493,463	4,149,278
Other issues	5,750,301	2,633,737
	<u>14,365,478</u>	<u>7,595,032</u>
Equities:		
Equity shares	543,565	220,578
	<u>14,909,043</u>	<u>7,815,610</u>
 Amounts above include:		
Subordinated securities	86,245	61,075
Securities issued by ultimate parent undertaking	17,224	32,208
 Provided as security in respect of sale and repurchase agreements and other similar agreements	<u>2,468,875</u>	<u>3,153,691</u>

ROYAL BANK OF CANADA EUROPE LIMITED

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 OCTOBER 2009 (continued)

14. Goodwill

	Cost £'000	Amortisation £'000	Net book Value £'000
At 1 November 2008	7,377	(5,814)	1,563
Charge for the year	-	(165)	(165)
As at 31 October 2009	<u>7,377</u>	<u>(5,979)</u>	<u>1,398</u>

15. Other assets

		2009 £'000	2008 £'000
Settlement accounts	15 (a)	4,728,247	2,960,111
Prepayments and accrued income		103,474	268,263
Other assets		31,712	22,038
Deferred tax	15 (b)	8,109	16,263
		<u>4,871,542</u>	<u>3,266,675</u>

15(a) Settlement accounts

Settlement accounts represent amounts payable and receivable in respect of transactions not due until a future settlement date, which arise because of the requirement to report investments on a trade date basis. All transactions are accounted for on a trade date basis.

ROYAL BANK OF CANADA EUROPE LIMITED

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 OCTOBER 2009 (continued)

15(b) Deferred tax

	2009	2008
	£'000	£'000
Opening balance	16,263	27,229
Credited to profit and loss account	(8,327)	(11,097)
Debited to other liabilities	173	131
	<u>8,109</u>	<u>16,263</u>

Amounts provided:

-excess of depreciation over capital allowances	401	293
-Timing differences	7,708	15,970
	<u>8,109</u>	<u>16,263</u>

16. Deposits by banks

	2009	2008
	£'000	£'000
Repayable		
-One month or less	1,609,212	5,011,324
-More than one month but not more than three months	524,014	50,798
-More than three months but not more than one year	70,409	87,141
-More than one year but not more than five years	19,502	
-More than five years	182	
	<u>2,223,319</u>	<u>5,149,263</u>

Included in the above is £1,496 million (2008: £3,952 million) due to other group companies.

ROYAL BANK OF CANADA EUROPE LIMITED

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 OCTOBER 2009 (continued)

17. Customer accounts

	2009 £'000	2008 £'000
Repayable		
-One month or less	8,987,210	7,934,893
-More than one month but not more than three months	1,586,992	257,987
-More than three months but not more than one year	584,512	64,674
-More than one year but not more than five years	-	315
-More than five years	-	
	<u>11,158,714</u>	<u>8,257,869</u>

Included in the above is £10,374 million (2007: £7,059 million) due to other group companies.

18. Other trading liabilities

	2009 £'000	2008 £'000
Debt securities		
-Government securities	4,355,400	1,028,764
-Other public sector securities	48,994	37,710
-Other debt securities	2,149,815	1,907,857
Equity Shares	5,212,217	4,216,959
	<u>11,766,426</u>	<u>7,191,290</u>

19. Other liabilities

		2009 £'000	2008 £'000
Settlement accounts	15 (a)	5,468,704	2,787,355
Accruals and deferred income		56,321	174,854
Other		168,371	70,536
		<u>5,693,396</u>	<u>3,032,745</u>

ROYAL BANK OF CANADA EUROPE LIMITED

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 OCTOBER 2009 (continued)

20. Subordinated liabilities

	2009 £'000	2008 £'000
US\$410 million step up floating rate note repayable 28 February 2017 (Libor + 32bp)	249,013	253,376
EUR71 million floating rate note repayable 11 July 2015 (Euribor + 97.5bp)	63,531	55,838
	<u>312,544</u>	<u>309,214</u>

21. Share capital

	2009 £'000	2008 £'000
<u>Allotted</u>		
24,776,290 Deferred shares of £1 each, 84p called and paid	20,812	20,812
477,184,294 Ordinary shares of £1 each, fully paid	477,184	477,184
	<u>497,996</u>	<u>497,996</u>

The deferred shares entitle the holder to a discretionary 3% fixed non-cumulative dividend in any financial year in which the profits attributable to the shareholder exceed £100 million.

On a winding up, the holders of the deferred shares shall be entitled, from the surplus assets of the Company to a return of the capital paid upon the deferred shares held by them respectively after a total sum of £10 million has been distributed in such winding up in respect of each of the ordinary shares of £1 of the Company. The deferred shares do not entitle the holders thereof to attend or vote at any general meeting of the Company by virtue of their holding such deferred shares.

22(a) Profit and Loss Reserve

	2009 £'000	2008 £'000
Balance at the beginning of the year	177,062	79,201
Profit for the year	343,017	98,316
Actuarial loss recognised in post-retirement benefit schemes net of deferred tax	(4,906)	(455)
At the end of the year	<u>515,173</u>	<u>177,062</u>

ROYAL BANK OF CANADA EUROPE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 OCTOBER 2009 (continued)

22. Reserves (continued)

b) Other reserves

	2009 £'000	2008 £'000
Capital reserve		
At the beginning and end of the year	<u>36,619</u>	<u>36,619</u>
	36,619	36,619
Share premium account		
At the beginning and end of the year	803	803
Available for sale reserve		
At the beginning of the year	-	-
Movement during the year net of current tax	<u>786</u>	<u>-</u>
At the end of the year	<u>786</u>	<u>-</u>
Other reserves at the end of the year	<u>38,208</u>	<u>37,422</u>

23. Contingent liabilities

a. Guarantees and assets pledged as collateral security

	Contract amount 2009 £'000	Risk- weighted amount 2009 £'000	Contract amount 2008 £'000	Risk- weighted amount 2008 £'000
Guarantees and irrevocable letters of credit and other commitments to lend:	23,476	23,476	30,891	30,891
	<u>23,476</u>	<u>23,476</u>	<u>30,891</u>	<u>30,891</u>

ROYAL BANK OF CANADA EUROPE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 OCTOBER 2009 (continued)

23. Contingent liabilities (continued)

b) Legal proceedings

In April 2004 the Company was named as a defendant in a civil legal action in the United States following the collapse of Enron Corporation.

The above claim has been made against a large number of defendants and it is the intention of the Company to vigorously defend it. Given the significant uncertainties surrounding the timing and outcome of this litigation, the substantial time before the case will be resolved, and the multiple defendants in it, the directors are unable at this stage to predict with certainty the eventual loss, if any, in this matter and no provision for loss has been recorded in the financial statements.

In September 2008 the Company was named as a defendant in a civil legal action in the United States in connection with its part in the sale of certain structured investment products to five Wisconsin school districts in 2006. The claim has been made against several defendants and it is the intention of the Company to vigorously defend it. Given the significant uncertainties surrounding the timing and outcome of this litigation and the substantial time before the case is likely to be resolved, the directors are unable at this stage to predict with certainty the eventual loss, if any, in the matter and no provision for loss has been recorded in the financial statements.

In May 2009 the Company was named as a defendant in a class action claim in the United States in relation to American International Group Inc (AIG). As in relation to the other claims mentioned above, this claim has been made against a large number of defendants and it is the intention of the Company to vigorously defend it. Given the significant uncertainties surrounding the timing and outcome of the litigation, the substantial time before the case will be resolved, and the multiple defendants in it, the directors are unable at this stage to predict with certainty the eventual loss, if any, in this matter and no provision for loss has been recorded in the financial statements.

24. Commitments

	Contract Amount	Credit equivalent amount	Risk weighted amount	Contract Amount	Credit equivalent amount	Risk weighted amount
	2009	2009	2009	2008	2008	2008
	£'000	£'000	£'000	£'000	£'000	£'000
Formal standby facilities, credit lines and other commitments to lend:						
Less than one year	1,089,970	544,985	349,690	1,198,962	599,481	375,329
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

ROYAL BANK OF CANADA EUROPE LIMITED

NOTES TO THE FINANCIAL STATEMENTS **YEAR ENDED 31 OCTOBER 2009** (continued)

25. Derivative financial instruments

The Company uses the following derivative instruments for both hedging and trading purposes.

The trading activities of the Company involve trading in a wide range of derivatives. These instruments are used primarily to mitigate risk arising from on balance sheet positions in the trading book, but also in certain circumstances to create risk positions.

The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which instruments are favourable or unfavourable, and thus the aggregate fair values of derivative financial assets and liabilities, can fluctuate significantly from time to time. The fair values of derivative instruments are set out below:

ROYAL BANK OF CANADA EUROPE LIMITED

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 OCTOBER 2009 (continued)

25. Derivative financial instruments (continued)

a) Derivatives held for trading

The table below summarises the notional amount and the end of period fair value for each type of trading derivative.

	2009			2008		
	Notional amount	Year-end positive fair value	Year-end negative fair value	Notional amount	Year-end positive fair value	Year-end negative fair value
	£'000	£'000	£'000	£'000	£'000	£'000
<u>OTC derivatives</u>						
Interest rate contracts:						
- Interest rate swaps	3,633,225	42,204	93,046	4,692,378	35,473	89,366
Foreign exchange contracts						
- Forward foreign exchange	5,764,469	100,195	65,495	1,983,509	71,408	7,235
- Cross currency swaps	554,267	80,952	76,792	1,361,097	206,940	93,373
	6,318,736	181,147	142,287	3,344,606	278,348	100,608
Credit derivative contracts						
- Total return swaps	31,519	4,005	-	178,460	25,789	-
- Credit default swaps	2,165,214	411,819	78,972	2,677,474	433,349	121,781
	2,196,733	415,824	78,972	2,855,934	459,138	121,781
Commodity contracts						
- Energy swaps	3,072,631	120,441	120,002	6,763,447	234,937	234,501
- Equity contracts	4,786,440	172,435	74,369	3,045,398	22,457	486,477
Total fair value of OTC derivatives before netting	20,007,765	932,051	508,676	20,701,763	1,030,353	1,032,733
Effect of netting		(315,976)	(315,976)		(481,887)	(481,887)
Total net fair value		616,075	192,700		548,466	550,846

ROYAL BANK OF CANADA EUROPE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 OCTOBER 2009 (continued)

25. Derivative financial instruments (continued)

In addition to the above amounts, the Company has entered into exchange traded futures and options contracts with aggregate notional amounts as follows:

	2009 £'000	2008 £'000
Interest rate futures	4,659,144	7,591,447
Equity futures	1,863,561	4,619,453
	<u>6,522,705</u>	<u>12,210,900</u>

These contracts involve lower credit risk than over-the-counter contracts because they are subject to margining requirements whereby gains and losses are settled through an exchange on a daily basis.

b) Maturity analysis of OTC derivatives

The table below summarises the maturity of the notional amount of both trading and non-trading OTC derivatives.

As at 31 October 2009	Less than one year £'000	One to five years £'000	Greater than five years £'000	Total £'000
Interest rate contracts	1,409,950	1,625,247	598,028	3,633,225
Foreign exchange contracts	5,967,171	195,754	155,811	6,318,736
Credit derivatives contracts	202,154	1,401,141	593,438	2,196,733
Commodity contracts	16,199	806,208	2,250,224	3,072,631
Equity contracts	4,786,440	-	-	4,786,440
Total	<u>12,381,914</u>	<u>4,028,350</u>	<u>3,597,501</u>	<u>20,007,765</u>
As at 31 October 2008	Less than one year £'000	One to five years £'000	Greater than five years £'000	Total £'000
Interest rate contracts	3,714,996	596,890	380,492	4,692,378
Foreign exchange contracts	1,849,862	1,021,823	472,921	3,344,606
Credit derivatives contracts	340,371	1,730,824	784,739	2,855,934
Commodity contracts	310,498	1,359,559	5,093,390	6,763,447
Equity contracts	3,045,398	-	-	3,045,398
Total	<u>9,261,125</u>	<u>4,709,096</u>	<u>6,731,542</u>	<u>20,701,763</u>

ROYAL BANK OF CANADA EUROPE LIMITED

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 31 OCTOBER 2009 (continued)

25. Derivative financial instruments (continued)

b) Maturity analysis of OTC derivatives (continued)

The table below summarises the maturity of both trading and non-trading OTC derivatives with a positive fair value.

As at 31 October 2009	Less than one year £'000	One to five years £'000	Greater than five years £'000	Total £'000
Interest rate contracts	13,210	18,500	10,494	42,204
Foreign exchange contracts	129,310	29,715	22,122	181,147
Credit derivatives	13,398	182,069	220,357	415,824
Commodity contracts	6,054	26,182	88,205	120,441
Equity contracts	172,435	-	-	172,435
	334,407	256,466	341,178	932,051
Effect of netting	(113,368)	(86,945)	(115,663)	(315,976)
Total	221,039	169,521	225,515	616,075

As at 31 October 2008	Less than one year £'000	One to five years £'000	Greater than five years £'000	Total £'000
Interest rate contracts	6,233	20,033	9,207	35,473
Foreign exchange contracts	90,821	119,218	68,309	278,348
Credit derivatives	18,307	243,366	197,465	459,138
Commodity contracts	11,037	48,411	175,489	234,937
Equity contracts	22,457	-	-	22,457
	148,855	431,028	450,470	1,030,353
Effect of netting	(51,424)	(243,832)	(186,631)	(481,887)
Total	97,431	187,196	263,839	548,466

All counterparties to OTC derivative contracts are financial institutions incorporated in OECD countries.

ROYAL BANK OF CANADA EUROPE LIMITED

NOTES TO THE FINANCIAL STATEMENTS **YEAR ENDED 31 OCTOBER 2009** (continued)

26. Parent Company

The Company's ultimate parent company and controlling party is Royal Bank of Canada, incorporated in Canada, which is also the parent undertaking of the largest and smallest group which includes the Company and for which group accounts are prepared. Copies of the group financial statements of Royal Bank of Canada are available at 71 Queen Victoria Street, London EC4V 4DE.