

**COMPANY NO. 1124733**

**ROYAL BANK OF CANADA HOLDINGS (U.K.) LIMITED**

**ANNUAL REPORT AND FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 OCTOBER 2002**



**ROYAL BANK OF CANADA HOLDINGS (U.K.) LIMITED**

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**REPORT OF THE DIRECTORS**

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The directors present their annual report and the audited financial statements for the year ended 31 October 2002.

**Principal activities and state of affairs**

The company is a United Kingdom incorporated holding company. Its subsidiaries provide a range of banking and other financial services, primarily in the United Kingdom, as part of the international activities of Royal Bank of Canada. The company's principal subsidiary is Royal Bank of Canada Europe Limited, an authorised bank, which is primarily engaged in corporate and investment banking. This business operates under the global brand name 'RBC Capital Markets'. The group is also engaged in the provision of private banking and asset management services. The global brand name for this business is 'RBC Investments'.

**Results and dividends**

The loss attributable to shareholders for the year ended 31 October 2002 was £4,069,000 (2001 restated: profit £28,307,000). No dividends have been proposed or paid (2001: £ nil).

**Future prospects**

The group continues to source increasing volumes of business from corporate, institutional and private clients.

**Share Capital**

On 30 October 2002 the US\$1 and €1 classes of ordinary shares were consolidated into the £1 class of ordinary shares. This was effected by issuing 103,603,964 ordinary shares of £1 each and using the consideration received to repurchase and cancel all the existing ordinary shares of US\$1 and €1 each.

**Directors**

The following served as directors of the company during the year:

J.W. Burbidge, Managing Director  
C.J.H. Fisher

The company is an indirect wholly-owned subsidiary of Royal Bank of Canada. None of the directors has any discloseable interest in the company or any other UK group company.

**Charitable donations**

The group made charitable donations of £17,500 (2001: £17,500) to several registered charities.

**Auditors**

Following the conversion of our auditors PricewaterhouseCoopers to a Limited Liability Partnership (LLP) from 1 January 2003, PricewaterhouseCoopers resigned on 23 January 2003 and the directors appointed its successor, PricewaterhouseCoopers LLP, as auditors.

By order of the Board.



C.J.H. Fisher  
Company Secretary  
28 May 2003

**STATEMENT OF DIRECTORS RESPONSIBILITIES  
IN RELATION TO FINANCIAL STATEMENTS**

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The following statement, which should be read in conjunction with the Auditors' statement of their responsibilities set out on page 3, is made with a view to distinguishing for shareholders the respective responsibilities of the Directors and of the Auditors in relation to the financial statements.

The Companies Act 1985 requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and the group as at the end of the financial year and of the profit or loss of the group for the financial year. The Directors are required to prepare the financial statements on the going concern basis unless that is not appropriate. Since the Directors are satisfied that the group has the resources to continue in business for the foreseeable future, the financial statements continue to be prepared on the going concern basis.

The Directors consider that in preparing the financial statements the group has used appropriate accounting policies, consistently applied, save as disclosed in the 'Notes to the financial statements', and supported by reasonable and prudent judgements and estimates, and that all accounting policies that they consider to be applicable have been followed.

The Directors are responsible for ensuring that the group keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and the group and which enable them to ensure that the financial statements comply with the Companies Act 1985.

The Directors are also responsible for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF  
ROYAL BANK OF CANADA HOLDINGS (UK) LIMITED**

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We have audited the financial statements on pages 4 to 38 which have been prepared under the accounting policies set out on pages 9 to 12.

**Respective responsibilities of directors and auditors**

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities on page 2.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This opinion has been prepared for and only for the company's members in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any person to whom this report is shown or in to whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company or group has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the directors' report.

**Basis of audit opinion**

We conducted our audit in accordance with auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's and group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

**Opinion**

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group at 31 October 2002 and of the loss of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers LLP  
Chartered Accountants and Registered Auditors  
London, England  
28 May 2003

**CONSOLIDATED PROFIT AND LOSS ACCOUNT  
FOR THE YEAR ENDED 31 OCTOBER 2002**

	Note	2002 £'000	2001 restated £'000
Interest receivable:			
Interest receivable from debt securities		495	2,896
Other interest receivable and similar income		212,295	291,109
Interest payable		(188,766)	(259,852)
Net interest income		24,024	34,153
Fees and commissions receivable		19,329	24,495
Dealing profits	4	46,506	42,671
Other operating income/(expense)	5	(11,394)	1,078
		54,441	68,244
Total operating income		78,465	102,397
Administrative expenses	6	(62,427)	(57,366)
Depreciation and amortisation	6	(637)	(1,086)
Provisions for bad and doubtful debts	11	(15,404)	(1,781)
Provisions for fixed asset investments	13	(392)	-
(Loss)/profit on ordinary activities before taxation		(395)	42,164
Tax on profit on ordinary activities	8	(3,674)	(13,857)
Retained (loss)/profit for the financial year	25	(4,069)	28,307

The results for the current and prior years reflect continuing activities.

There is no difference between the loss/profit on ordinary activities before taxation and the retained profit for the year stated above and their historical cost equivalents.

There were no recognised gains and losses other than those included in the profit and loss account above.

**RECONCILIATION OF MOVEMENTS IN CONSOLIDATED  
SHAREHOLDERS' FUNDS FOR THE YEAR ENDED 31 OCTOBER 2002**

	Note	2002 £'000	2001 restated £'000
(Loss)/profit for the year attributable to shareholders		(4,069)	28,307
New share capital subscribed	24	103,604	89,000
Redemption of share capital	24	(97,737)	-
Increase in shareholders' funds		<u>1,798</u>	<u>117,307</u>
Opening shareholders' funds (originally £278,657,000 before prior period adjustment of £1,420,000)		<u>280,077</u>	<u>162,770</u>
Closing shareholders' funds at 31 October		<u><b>281,875</b></u>	<u><b>280,077</b></u>

**CONSOLIDATED BALANCE SHEET AS AT 31 OCTOBER 2002**

	Note	2002 £'000	2001 restated £'000
<b>ASSETS</b>			
Cash and balances at central banks		3,685	4,914
Loans and advances to banks	9	380,045	110,408
Loans and advances to customers	10	916,331	982,475
Amounts due under reverse repurchase agreements		4,739,503	3,472,318
Debt securities	12	3,811,012	3,342,995
Equity shares	13	76,206	76,640
Intangible assets	14	8,779	3,101
Tangible fixed assets	15	22	15
Other assets	16	34,103	8,057
Prepayments and accrued income		30,561	44,280
Deferred taxation	17	2,695	2,478
Settlement accounts	18	979,410	1,070,497
<b>TOTAL ASSETS</b>		<b>10,982,352</b>	<b>9,118,178</b>



**CONSOLIDATED BALANCE SHEET AS AT 31 OCTOBER 2002** (continued)

	Note	2002 £'000	2001 restated £'000
<b>LIABILITIES</b>			
Deposits by banks	19	4,197,538	4,381,458
Customer accounts	20	277,236	229,469
Amounts owed under repurchase agreements		2,686,765	1,581,830
Other liabilities	21	76,134	79,278
Settlement accounts	18	1,094,568	1,211,328
Short positions	22	2,059,123	1,033,456
Accruals and deferred income		34,009	35,154
Subordinated liabilities	23	275,104	286,128
		<u>10,700,477</u>	<u>8,838,101</u>
Called up share capital	24	214,359	208,492
Profit and loss account	25	67,516	71,585
		<u>281,875</u>	<u>280,077</u>
<b>TOTAL EQUITY SHAREHOLDERS' FUNDS</b>			
		<u>10,982,352</u>	<u>9,118,178</u>
<b>MEMORANDUM ITEMS</b>			
Contingent liabilities:			
Guarantees and assets pledged as collateral security	26	229,568	200,021
Commitments:			
Undrawn formal standby facilities, credit lines and other commitments to lend.	27	1,060,283	1,151,103

The financial statements were approved by the Board of Directors on 28 May 2003 and were signed on their behalf by:

  
J.W. Burbidge, Managing Director


  
C.J.H. Fisher, Director

**BALANCE SHEET OF ROYAL BANK OF CANADA HOLDINGS (UK) LIMITED  
AS AT 31 OCTOBER 2002**

	Notes	2002 £'000	2001 £'000
<b>FIXED ASSETS</b>			
Investments in subsidiaries	31	352,987	361,685
<b>CURRENT ASSETS</b>			
Amounts owed by parent undertakings		5	3,545
Amounts owed by subsidiary undertakings		6,677	11,736
Prepayments and accrued income		-	7
Other assets		326	138
		<u>7,008</u>	<u>15,426</u>
<b>CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR</b>			
Amounts owed to subsidiary undertakings		(3,350)	(20,375)
Current taxation		(1,223)	(150)
		<u>(4,573)</u>	<u>(20,525)</u>
<b>NET CURRENT ASSETS/(LIABILITIES)</b>		<u>2,435</u>	<u>(5,099)</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>355,422</u>	<u>356,586</u>
<b>CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR</b>			
Subordinated liabilities due to immediate parent undertaking	23	(154,816)	(159,695)
<b>PROVISIONS FOR LIABILITIES AND CHARGES</b>		<u>(3,746)</u>	<u>(3,854)</u>
<b>TOTAL NET ASSETS</b>		<u>196,860</u>	<u>193,037</u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	24	214,359	208,492
Profit and loss account	25	(17,499)	(15,455)
<b>EQUITY SHAREHOLDERS' FUNDS</b>		<u>196,860</u>	<u>193,037</u>



*J.W. Burbidge, Managing Director*



*C.J.H. Fisher, Director*

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 OCTOBER 2002

### 1. Basis of presentation

- a) The financial statements have been prepared under the historical cost convention as modified by the revaluation of certain investments. They are prepared in accordance with applicable accounting standards of the Accounting Standards Board (ASB) and pronouncements of its Urgent Issues Task Force (UITF) and with the Statements of Recommended Practice (SORPs) issued by the British Bankers Association (BBA).
- b) The consolidated financial statements have been prepared in compliance with Schedule 9 to the Companies Act 1985 ('the Act'). The balance sheet of the company has been prepared in compliance with Schedule 4 to the Act. As permitted by Section 230 of the Act, no profit and loss account is presented for the company.
- c) The company is a wholly owned subsidiary of the Royal Bank of Canada, incorporated in Canada, and is included in the consolidated financial statements of the 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).
- d) In accordance with 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 more than 90% of the voting rights are controlled within the group.
- e) Changes in accounting policy and presentation

The implementation of Financial Reporting Standard 17 'Retirement Benefits' has been delayed and will only become fully effective for the year ending 31 October 2005. The transitional disclosures required by FRS 17 for the current year are set out in note 7 and show the potential impact on the financial statements when it is fully implemented.

The requirements of Financial Reporting Standard 18 'Accounting Policies' with respect to compliance with 'Statements of Recommended Practice' became fully effective during the current year. This did not result in any changes to the company's accounting policies.

Financial Reporting Standard 19 'Deferred Tax' became effective during the current year and its adoption has required a change to the accounting treatment of deferred tax. Prior year results have been restated as follows:

	As previously reported £'000	Effect of adoption of FRS 19 £'000	2001 restated £'000
<u>Balance sheet</u>			
Deferred tax asset	1,058	1,420	2,478
Profit and loss account reserve	70,165	1,420	71,585
<u>Profit and loss account</u>			
Tax on profit on ordinary activities	13,371	486	13,857
Retained profit for the financial year	28,793	(486)	28,307

If FRS 19 had not been adopted in the current year the charge for deferred tax would have been £498,000 and loss on ordinary activities after taxation would have been £3,788,000.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 OCTOBER 2002 (continued)**

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2. Principal Accounting Policies(a) Income Recognition

Interest income is recognised in the profit and loss account as it accrues other than interest of doubtful collectability, which is credited to a suspense account 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. Suspended interest is written off when there is no longer any realistic prospect of it being recovered.

Fees receivable which represent a return for services provided are credited to income when the related service is performed. Fees receivable which represent a return for risk borne which are in the nature of interest are taken to the profit and loss account, through interest received, over the period of the loan or on a systematic basis over the expected life of the transaction to which they relate.

Dealing profits comprise 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.

(b) Foreign Currencies

Assets and liabilities expressed in foreign currencies are translated into sterling at the rates of exchange ruling at the end of the financial year, or where applicable, at forward contracted rates, with the exception of share capital denominated in foreign currencies, which is translated at the historic rate of exchange ruling when the share capital was issued. The results of overseas branches are translated into sterling at the average rates of exchange for the year. All exchange differences are recognised in the Profit and Loss Account.

(c) Pension Costs

The expected cost of providing pensions is charged to the Profit and Loss Account so as to spread the cost over the service lives of employees.

(d) Loans and Advances and the Provision for Impairment

Specific provisions are made when the company considers that the recovery of the whole or part of an advance is in serious doubt. The amount of each specific provision raised is estimated on an individual case-by-case basis in order to reduce the book value of the advance to its expected net realisable value. In arriving at the amount of each specific provision, consideration is given, among other factors, to the financial standing of the customer, the value of any security provided against the loan, and any costs associated with repayment or realisation of the security.

A general provision is established to cover any losses on loans and advances in the lending portfolio that have not been specifically identified as in serious doubt. The level of the general provision is reviewed periodically in relation to the distribution of the loan portfolio across internally calculated credit gradings that are used to measure the quality of each borrower.

Specific and general provisions are deducted from loans and advances to customers in the balance sheet. Changes to provisions made during the year and recoveries from loans previously written off are charged/credited to profits.

(e) 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.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 OCTOBER 2002 (continued)**

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2. Principal Accounting Policies (continued)

## (f) Debt Securities and Equity Shares

Debt securities and equity shares intended for use on a continuing basis in the company's activities are classified as investment securities and are stated at cost less any provision for permanent diminution in value.

Debt securities and equity shares held for trading purposes, including short positions, are stated at their market value with changes in market value being taken to the Profit and Loss Account and included in Dealing Profits as they arise.

Interest rate swaps held as hedges against security positions are valued on an equivalent basis to the securities which they are hedging. Any profit or loss is recognised on the same basis as that arising from the related hedged positions.

## (g) Investments in subsidiaries

Investments in subsidiaries are stated at cost less, where necessary, any provision for permanent diminution in value.

## (h) 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 differs from the fair value of the net assets acquired, the difference is treated as goodwill and is amortised through the Profit and Loss Account on a straight line basis over the directors' estimate of its useful life.

## (i) Derivatives

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

Derivatives classified as trading 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 "Other Assets" and "Other Liabilities". Gains and losses are taken directly to the profit and loss account and reported within Dealing Profits. 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.

Derivatives classified as non-trading are those entered into for the purpose of matching or eliminating risk from potential movements in foreign exchange rates, interest rates, and equity prices inherent in the non-trading assets, liabilities and positions. Non-trading derivatives are accounted for on an accruals basis, consistent with the item being hedged with the income and expense on these being recognised as they accrue over the life of the instrument. Where a non-trading derivative no longer represents a hedge because, either the underlying asset, liability or position has been de-recognised, transferred to a trading portfolio, or the effectiveness of the hedge is undermined, it is restated to fair value and any change in value taken to the Profit & Loss Account.

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 OCTOBER 2002 (continued)

### 2. Principal Accounting Policies (continued)

#### (j) 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 3 years, Fixtures and Fittings and Leasehold Improvements 3 to 5 years.

#### (k) Deferred Taxation

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 crystallize 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.

### 3. Segmental Analysis by Class of Business

	2002 £'000	2001 restated £'000
Net interest income:		
RBC Capital Markets	22,293	32,746
RBC Investments	1,731	1,407
	<u>24,024</u>	<u>34,153</u>
Non interest income:		
RBC Capital Markets	49,705	62,272
RBC Investments	4,736	5,972
	<u>54,441</u>	<u>68,244</u>
(Loss)/profit on ordinary activities before taxation:		
RBC Capital Markets	(675)	39,556
RBC Investments	280	2,608
	<u>(395)</u>	<u>42,164</u>
Total assets:		
RBC Capital Markets	10,744,970	8,949,800
RBC Investments	237,382	168,378
	<u>10,982,352</u>	<u>9,118,178</u>
Net assets:		
RBC Capital Markets	267,771	271,747
RBC Investments	14,104	8,330
	<u>281,875</u>	<u>280,077</u>

In all material respects, the group operates in only one geographical segment, that being the United Kingdom.

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 OCTOBER 2002** (continued)

4. Dealing Profits

	2002 £'000	2001 £'000
Debt securities	34,604	32,078
Equity securities	9,940	9,724
Sale and repurchase transactions	1,962	869
	<u>46,506</u>	<u>42,671</u>

5. Other Operating Income/(Expenses)

	2002 £'000	2001 £'000
Foreign exchange translation gains/(losses) (see note 30 (b))	(11,434)	710
Other operating income	40	368
	<u>(11,394)</u>	<u>1,078</u>

6. Administrative Expenses

	2002 £'000	2001 £'000
Staff costs:		
Wages and salaries	35,378	33,102
Social security costs	4,064	3,795
Pension costs (note 7)	1,281	1,285
	<u>40,723</u>	<u>38,182</u>
Other administrative expenses	21,704	19,184
	<u>62,427</u>	<u>57,366</u>

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

	2002 £'000	2001 £'000
Amortisation of goodwill (note 14)	631	490
Depreciation of tangible fixed assets (note 15)	6	596
	<u>637</u>	<u>1,086</u>
Auditors' remuneration		
- audit fee (of which £15,300 related to the company (2001: £18,300))	186	182
- non-audit fees for reporting under regulatory requirements	20	28
- other non-audit fees	126	44
Group recharge in respect of rental of premises	1,049	981
	<u>1,381</u>	<u>1,235</u>

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 OCTOBER 2002 (continued)

#### 6. Administrative Expenses (continued)

The average number of employees during the year was 236 (2001: 233).

The Directors of the company are employed and remunerated by the company's ultimate parent company. Included within administrative expenses above is an amount of £426,484 (2001: £554,566) that has been charged to the group in respect of the services of the directors by the ultimate parent company. The charge in respect of the highest paid director was £395,010 (2001: £512,596).

#### 7. Pension Costs

Royal Bank of Canada group of companies, of which the group is a member, operates the RBC (UK) Pension Plan ('the Principal Scheme') for employees of all Royal Bank of Canada group companies in the United Kingdom. The Principal Scheme is a funded defined benefit scheme with the assets held in separate trustee administered funds. This scheme covers 91% of the group's employees. During 2001 the Principal Scheme was closed to new members, and the group commenced operating a defined contribution scheme.

The most recent formal actuarial valuation of the Principal Scheme was conducted as at 1 April 2000. The valuation was performed by a qualified independent actuary using the projected unit method. At that date the market value of the scheme's assets was £76,674,000 representing 126% of the benefits that had accrued to members, after allowing for expected future increases in earnings. The assumptions most material to the results of that valuation were a discount rate of 7.5%, a rate of increase in salaries of 5.0% and an inflation rate of 2.5%.

With effect from 1 April 2001 the group ceased its contributions holiday to the Principal Scheme, and recommenced making contributions at the rate of 11.5% of pensionable salaries.

The pension cost to the group for the year ended 31 October 2002 was £1,244,000 (2001: £1,285,000) in respect of the principal scheme. The pension cost in respect of the defined contribution scheme was £37,000 (2001: £nil).

The group accounts for pensions in accordance with Statement of Standard Accounting Practice 24, 'Accounting for pension costs'. In November 2000 Financial Reporting Standard 17, 'Retirement benefits' was issued for which transitional disclosures are required to be made prior to its full implementation in 2003. These disclosures are set out below. The amounts disclosed represent the share of the assets and liabilities of the Principal Scheme that relate to employees of the company its subsidiaries and exclude assets and liabilities of the scheme that relate to employees of other Royal Bank of Canada group companies that participate in the scheme. For closed schemes, where the age profile of the active membership is rising, the current service cost will increase as the members of the scheme approach retirement when using the projected unit method to value the liabilities of the scheme.

The financial assumptions used to calculate scheme liabilities for the Principal Scheme under FRS 17 were:

	2002	2001
	%	%
Rate of increase in salaries	4.75	5.00
Rate of increase in pensions in payment	2.25	2.50
Discount rate	5.50	6.00
Inflation assumption	2.25	2.50



# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 OCTOBER 2002 (continued)

## 7. Pension Costs (continued)

The group's share of the assets in the Principal Scheme and their expected rates of return were:

	Expected rate of return 2002 %	Value 2002 £'000	Expected rate of return 2001 %	Value 2001 £'000
Equities	8.0	10,270	8.0	11,632
Bonds	4.6	4,465	5.1	3,877
Other assets	8.0	1,286	-	-
Total market value of assets		16,021		15,509
Present value of scheme liabilities		(27,667)		(23,704)
Deficit in the scheme		(11,646)		(8,195)
Related deferred tax asset		3,494		2,459
Net pension liability		(8,152)		(5,736)

The following amounts would have been recognised in the performance statements in the year to 31 October 2002 under FRS 17:

	2002 £'000	
<u>Operating profit charge</u>		
Current service cost	1,632	
Past service cost	-	
Total operating charge	1,632	
<u>Net interest income</u>		
Expected return on pension scheme assets	1,186	
Interest on pension scheme liabilities	(1,508)	
Net return	(322)	
<u>Statement of total recognised gains and losses (STRGL)</u>		
Actual return less expected return on pension scheme assets	(3,591)	22% of scheme assets.
Experience gains and losses arising on the scheme liabilities	649	2% of present value of scheme liabilities.
Change in assumptions underlying the present value of the scheme liabilities	(1,893)	
Actuarial (loss) recognised in the STRGL	(4,835)	17% of present value of scheme liabilities.

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 OCTOBER 2002** (continued)

7. Pension Costs (continued)

If the above pension liability had been recognised in the company's financial statements the net assets and profit and loss reserve would have been as follows:

	2002 £'000	2001 £'000
Net assets excluding pension liability	281,875	280,077
Pension liability	(8,152)	(5,736)
Net assets including pension liability	<u>273,723</u>	<u>274,341</u>
Profit and loss reserve excluding pension liability	67,516	71,585
Pension liability	(8,152)	(5,736)
Profit and loss reserve including pension liability	<u>59,364</u>	<u>65,849</u>

8. Tax on Profit on Ordinary Activities

	2002 £'000	2001 restated £'000
UK corporation tax at 30%	7,770	13,890
Relief for overseas taxation	(3,476)	(1,128)
Overseas taxation	<u>4,294</u> <u>(403)</u>	<u>12,762</u> <u>1,128</u>
Total current tax	3,891	13,890
Deferred tax (origination and reversal of timing differences)	(217)	(33)
	<u>3,674</u>	<u>13,857</u>

Tax reconciliation:

	2002 £'000	2001 £'000
(Loss)/profit on ordinary activities before taxation	<u>(395)</u>	<u>42,164</u>
(Loss)/profit on ordinary activities before taxation multiplied by standard rate of corporation tax in the UK of 30%.	(119)	12,649
Effects of:		
Expenses not deductible for tax purposes	1,550	1,454
Overseas taxation	(2,715)	-
Tax treatment of foreign exchange movements	4,792	(213)
Other items	166	(33)
Tax on profit on ordinary activities	<u>3,674</u>	<u>13,857</u>

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 OCTOBER 2002** (continued)

9. Loans and Advances to Banks

	2002 £'000	2001 £'000
Repayable		
- on demand	59,805	16,059
- within three months	248,594	13,445
- between three months and one year	5,600	15,952
- between one and five years	66,046	64,952
	<b>380,045</b>	<b>110,408</b>

Included in the above is £11,566,000 (2001: £7,980,000) due to other group companies.

10. Loans and Advances to Customers

	2002 £'000	2001 £'000
Repayable		
- on demand or at short notice	18,323	23,813
- within three months	56,883	187,139
- between three months and one year	66,231	133,779
- between one and five years	666,539	590,386
- after five years	141,312	65,194
Less: Provisions for bad and doubtful debts	(32,957)	(17,836)
	<b>916,331</b>	<b>982,475</b>

The company has the following concentrations of loans and advances to customers.

	2002 £'000	2001 £'000
Real estate & construction	225,157	124,095
Energy & chemicals	163,159	161,924
Financial services	130,664	131,595
Telecommunications, IT & media	94,940	162,667
Transportation	76,572	111,721
Food & beverages	67,654	76,409
Mining & metals	50,068	14,933
Manufacturing	39,670	101,919
Personal loans	38,757	11,986
Consumer products	12,605	49,801
Other sectors	17,085	35,425
	<b>916,331</b>	<b>982,475</b>

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 OCTOBER 2002** (continued)

11. Provisions for Bad and Doubtful Debts

(a) Movements on provisions for bad and doubtful debts

	Specific £'000	General £'000	Total £'000
Provisions at 31 October 2001	14,809	3,027	17,836
Foreign exchange movement	(314)	(16)	(330)
Amounts written off	(15)	-	(15)
Recoveries from loans previously written off	62	-	62
Charge to profit and loss for the year	15,404	-	15,404
Balance at 31 October 2002	<u>29,946</u>	<u>3,011</u>	<u>32,957</u>

(b) Movements on suspended interest account

	2002 £'000	2001 £'000
Opening balance	85	1,688
Foreign exchange movement	(1)	-
Interest suspended during the year	896	19
Suspended interest written off	(807)	-
Suspended interest recovered	-	(1,622)
Balance at 31 October	<u>173</u>	<u>85</u>

(c) Non-performing loans

	2002 £'000	2001 £'000
Loans on which interest has been suspended	48,277	3,018
Other non-performing loans	-	19,989
Specific provisions	(29,946)	(14,809)
Total non-performing loans (net of specific provisions)	<u>18,331</u>	<u>8,198</u>

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 OCTOBER 2002** (continued)

12. Debt Securities

	Book value 2002 £'000	Market value 2002 £'000	Book value 2001 £'000	Market value 2001 £'000
Investment securities:				
Government securities	-	-	867	904
Other debt securities	8,103	7,699	16,488	19,052
	<u>8,103</u>	<u>7,699</u>	<u>17,355</u>	<u>19,956</u>
Other debt securities:				
Government securities	986,298	986,298	504,361	504,361
Other public bodies	32,300	32,300	66,718	66,718
Bank and building society certificates of deposit	517,358	517,358	678,709	678,709
Other debt securities	2,266,953	2,266,953	2,075,852	2,075,852
	<u>3,811,012</u>	<u>3,810,608</u>	<u>3,342,995</u>	<u>3,345,596</u>
Analysed by maturity:				
Due within one year	722,986		1,244,446	
Due after one year	3,088,026		2,098,549	
	<u>3,811,012</u>		<u>3,342,995</u>	
Amounts above include:				
Subordinated securities	32,621		25,868	
Securities issued by ultimate parent undertaking	1,143		8,125	
Provided as security in respect of sale and repurchase agreements	<u>2,693,260</u>		<u>1,593,408</u>	

All securities are listed on a recognised Stock Exchange. Debt securities held for investment purposes are stated inclusive of unamortised net premiums of £nil (2001: £73,000). The cost of securities held for trading purposes was £3,602,805,000 (2001: £3,287,841,000).

The movement on debt securities held for investment purposes was as follows:

	£'000
Cost:	
At 31 October 2001	17,355
Foreign exchange movement	(10)
Additions	7,920
Maturities	(17,089)
Amortisation of premiums/discounts	(73)
	<u>8,103</u>
At 31 October 2002	

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 OCTOBER 2002** (continued)

13. Equity Shares

	Book value 2002 £'000	Market value 2002 £'000	Book value 2001 £'000	Market value 2001 £'000
Investment securities – unlisted	-	-	421	432
Other securities – listed	76,206	76,206	76,219	76,219
	<u>76,206</u>	<u>76,206</u>	<u>76,640</u>	<u>76,651</u>

The movement on equity shares held as investment securities was as follows:

	Cost £'000	Provisions £'000	Book value £'000
At 31 October 2001	421	-	421
Foreign exchange movements	(29)	-	(29)
Provisions made	-	(392)	(392)
At 31 October 2002	<u>392</u>	<u>(392)</u>	<u>-</u>

14. Intangible Fixed Assets

	Cost	Amortisation	Net book value
<u>Goodwill</u>			
At 31 October 2001	4,900	(1,799)	3,101
Additions	6,309	-	6,309
Charge for the year	-	(631)	(631)
At 31 October 2002	<u>11,209</u>	<u>(2,430)</u>	<u>8,779</u>

During the year Royal Bank of Canada Group ("the Group") acquired the private banking business of Barclays PLC in the Americas. As part of this acquisition, certain subsidiaries of the company have acquired the London based banking and asset management business of the clients of the acquired business, and have contributed to the total consideration payable by the Group. No assets or liabilities were acquired at the date of acquisition, and accordingly all of the consideration payable has been capitalised as goodwill. The total goodwill acquired of £6,309,000 comprises cash consideration paid of £2,203,000 and deferred contingent consideration of £4,106,000. The contingent consideration payable is dependent on the volume and value of business attracted as a result of the acquisition, and represents the amount that is reasonably expected to be payable. However, the amount may be revised as further and more certain information becomes available, with a corresponding adjustment made to goodwill. The contingent consideration becomes payable on 30 June 2003.

Goodwill amortisation is based on the directors' estimate of its useful economic life. The goodwill arising from the acquisition of the Barclays 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.

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 OCTOBER 2002** (continued)

15. Tangible Fixed Assets

	Computer Equipment £'000	Fixtures, Equipment and Leasehold Improvements £'000	Total £'000
<u>Cost</u>			
At 31 October 2001	5,442	13	5,455
Foreign exchange movements	(1)	-	(1)
Additions	3	10	13
Disposals	(6)	(6)	(12)
At 31 October 2002	<u>5,438</u>	<u>17</u>	<u>5,455</u>
<u>Depreciation</u>			
At 31 October 2001	(5,430)	(10)	(5,440)
Foreign exchange movements	1	1	2
Charge for the year	(5)	(1)	(6)
Disposals	5	6	11
At 31 October 2002	<u>(5,429)</u>	<u>(4)</u>	<u>(5,433)</u>
Net Book Value at 31 October 2002	<u>9</u>	<u>13</u>	<u>22</u>
Net Book Value at 31 October 2001	<u>12</u>	<u>3</u>	<u>15</u>

16. Other assets

	2002 £'000	2001 £'000
Positive values of derivatives	1,282	577
Other	32,821	7,480
	<u>34,103</u>	<u>8,057</u>

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 OCTOBER 2002 (continued)

## 17. Deferred Tax

	2002 £'000	2001 restated £'000
Opening balance - as previously reported	1,058	539
Prior year adjustment (see note 1 (e))	1,420	1,906
	<hr/>	<hr/>
Opening balance - restated	2,478	2,445
Credited to profit and loss account	217	33
	<hr/>	<hr/>
Deferred tax asset at 31 October	2,695	2,478
	<hr/>	<hr/>
Amounts provided:		
Excess of depreciation over capital allowances	779	1,058
General provisions	900	900
Other timing differences	1,016	520
	<hr/>	<hr/>
	2,695	2,478
	<hr/>	<hr/>

## 18. Settlement accounts

Settlement accounts represent amounts payable in respect of transactions not due until a future settlement date, which arise because of the requirement to report investments on a contract date basis.

## 19. Deposits by Banks

	2002 £'000	2001 £'000
Repayable		
- on demand	447,595	456,356
- within three months	3,608,539	3,922,189
- between three months and one year	138,345	787
- between one and five years	3,059	2,126
	<hr/>	<hr/>
	4,197,538	4,381,458
	<hr/>	<hr/>

Included in the above is £4,182,647,000 (2001: £4,377,095,461) due to other group companies.

## 20. Customer Accounts

	2002 £'000	2001 £'000
Repayable		
- on demand	134,659	85,891
- within three months	126,109	134,446
- between three months and one year	8,692	7,057
- between one and five years	7,776	-
- after five years	-	2,075
	<hr/>	<hr/>
	277,236	229,469
	<hr/>	<hr/>

Included in the above is £3,541,000 (2001: £5,410,000) due to other group companies.



**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 OCTOBER 2002** (continued)

21. Other Liabilities

	2002 £'000	2001 £'000
Current taxation	1,968	5,872
Negative values of derivatives	37,378	50,079
Agency funds	18,970	18,094
Other	17,818	5,233
	<u>76,134</u>	<u>79,278</u>

22. Short positions

	Held for trading purposes	
	2002 £'000	2001 £'000
Debt Securities		
- Governments securities	1,113,515	653,362
- Other public sector securities	17,471	34,068
- Other debt securities	687,794	323,833
Equity Shares	240,343	22,193
	<u>2,059,123</u>	<u>1,033,456</u>

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 OCTOBER 2002** (continued)

23. Subordinated Liabilities

	2002 £'000	2001 £'000
Issued by the company:		
£16.1m repayable 2006-2015	16,100	16,100
£2.2m repayable 2007-2016	2,200	2,200
£7.65m repayable 2006	7,650	7,650
£31.2m repayable 2009	31,234	31,234
£8m repayable 2010	8,000	8,000
£17m repayable 2011	17,000	17,000
£13m repayable 2011	13,000	13,000
US\$92.5m repayable 2011	59,632	64,511
	<b>154,816</b>	<b>159,695</b>
Issued by Royal Bank of Canada Europe Limited:		
US\$60m floating rate repayable 2042	38,441	41,277
£37m floating rate repayable 2045	37,000	37,000
US\$70m floating rate repayable 2047	44,847	48,156
	<b>275,104</b>	<b>286,128</b>

All loans are unsecured and subordinated in right of payment to ordinary creditors, including, in the case of loan capital issued by Royal Bank of Canada Europe Limited, its depositors. All loan capital issued by the company is non-interest bearing. Loan capital issued by Royal Bank of Canada Europe Limited bears interest rates based on a margin above LIBOR. The £37m floating rate loan repayable 2045 may be repaid in whole or in part prior to maturity, at the option of the company. The US\$60m floating rate loan repayable 2042 and the US\$70m floating rate loan repayable 2047 provide the option for repayment in five equal annual instalments, the first instalment commencing six years after which notice of repayment has been given. All such repayments are subject to prior approval from the UK Financial Services Authority. Interest payable on subordinated liabilities amounted to £3,966,027 (2001: £8,229,198).

24. Share Capital

	2002 £'000	2001 £'000
<u>Authorised</u>		
230,000,000 Ordinary shares of £1 each	230,000	230,000
(2001: 140,000,000 Ordinary shares of US\$1 each)	-	84,742
(2001: 25,000,000 Ordinary shares of €1 each)	-	15,535
	<b>230,000</b>	<b>330,277</b>
<u>Allotted</u>		
214,358,536 (2001: 110,754,572) Ordinary shares of £1 each, fully paid	214,359	110,755
(2001: 140,000,000 Ordinary shares of US\$1 each, fully paid)	-	84,742
(2001: 20,912,767 Ordinary shares of €1 each, fully paid)	-	12,995
	<b>214,359</b>	<b>208,492</b>

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 OCTOBER 2002 (continued)

### 24. Share Capital (continued)

On 30 October 2002 the US\$1 and €1 classes of ordinary shares were consolidated into the £1 class of ordinary shares. This was effected by issuing 103,603,964 ordinary shares of £1 each and using the consideration received to repurchase and cancel all the existing ordinary shares of US\$1 and €1 each.

The movement in share capital during the year was as follows:

	£'000
At 31 October 2001	208,492
New share capital subscribed	103,604
Redemption of share capital	(97,737)
At 31 October 2002	<u>214,359</u>

### 25. Reserves

	Profit and loss account Group £'000	Profit and loss account Company £'000
At 31 October 2001	70,165	(15,455)
Prior year adjustment (see note 1.(e))	1,420	-
At 31 October 2001 - restated	<u>71,585</u>	<u>(15,455)</u>
Profit for the year	(4,069)	(2,044)
At 31 October 2002	<u>67,516</u>	<u>(17,499)</u>

### 26. Contingent Liabilities

Guarantees and assets pledged as collateral security comprise:

	Contract amount 2002 £'000	Credit equivalent amount 2002 £'000	Risk- weighted amount 2002 £'000	Contract amount 2001 £'000	Credit equivalent amount 2001 £'000	Risk- weighted amount 2001 £'000
Guarantees and irrevocable letters of credit	<u>229,568</u>	<u>227,753</u>	<u>172,839</u>	<u>200,021</u>	<u>181,874</u>	<u>128,244</u>

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 OCTOBER 2002** (continued)

27. Commitments

	Contract amount 2002 £'000	Credit equivalent amount 2002 £'000	Risk- weighted amount 2002 £'000	Contract amount 2001 £'000	Credit equivalent amount 2001 £'000	Risk- weighted amount 2001 £'000
Formal standby facilities, credit lines and other commitments to lend:						
- less than one year	125,355	-	-	158,805	-	-
- one year and over	934,928	467,464	421,778	992,298	496,149	433,369
	<u>1,060,283</u>	<u>467,464</u>	<u>421,778</u>	<u>1,151,103</u>	<u>496,149</u>	<u>433,369</u>

There were no capital expenditure commitments outstanding as at 31 October 2002 (2001: £ nil).

28. Assets and Liabilities Denominated in Sterling and Foreign Currencies

	2002 £'000	2001 £'000
Denominated in sterling	4,818,136	3,135,139
Denominated in currencies other than sterling	6,164,216	5,983,039
Total assets	<u>10,982,352</u>	<u>9,118,178</u>
Denominated in sterling	4,736,383	3,074,026
Denominated in currencies other than sterling	6,245,969	6,044,152
Total liabilities	<u>10,982,352</u>	<u>9,118,178</u>

29. Funds under Management

	2002 £'000	2001 £'000
Discretionary and advisory funds under management	<u>813,952</u>	<u>867,589</u>

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31 OCTOBER 2002 (continued)

#### 30. Financial Instruments

The company's subsidiary, Royal Bank of Canada Europe Limited ('RBCEL'), acts as a London based entity for corporate and investment banking business undertaken in Europe by Royal Bank of Canada. The global brand name for this business is RBC Capital Markets. The group is also engaged in the provision of private banking services to individuals. The global brand name for this business is RBC Investments. All financial transactions entered into by the group are classified as either "trading" or "non-trading". In accordance with the accounting policies set out in note 2, trading activities are accounted for on a mark-to-market basis, whilst non-trading activities are accounted for on an accruals basis. The group's trading activities, which are all conducted by RBCEL, principally comprise:

- the underwriting of primary bond issues;
- trading of bonds in the secondary market;
- trading of debt securities under repurchase agreements;
- equity sales to institutional customers; and
- proprietary equity arbitrage trading.

The non-trading activities of the group comprise:

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

#### *Risk management of trading activities*

The extent to which RBCEL will enter into transactions in financial instruments is subject to a comprehensive set of limits for dealings with individual customers and counterparties and for taking proprietary trading positions. The implementation and monitoring of these limits is conducted by an independent middle office function. Additionally, RBCEL is subject to value-at-risk (VaR) limits that are set by Royal Bank of Canada which apply to total group trading positions on a global basis.

The risks RBCEL enters into during the course of its trading activities can be broadly classified into the following categories:

- the credit risk that a counterparty defaults on its obligations,
- the interest rate risk arising from the company's exposure to changes in interest rates,
- the market risk that the value of financial instruments fluctuates due to movements in market rates and prices.

RBCEL does not engage in foreign exchange trading and does not take proprietary foreign exchange positions with the exception of de-minimus positions to facilitate other trading activity.

#### *Derivatives*

The use of derivatives in the course of non-trading activities is limited to hedging activities which mitigate the risk of loss. The table below sets out the types of non-trading activity undertaken where derivatives are used to manage risk.

<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.
Borrowing in foreign currencies.	Sensitivity to weakening of sterling against borrowing currency.	Forward foreign exchange contracts.

# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 OCTOBER 2002 (continued)

### 30. Financial Instruments (continued)

#### Derivatives (continued)

The trading activities of RBCEL involve trading in a wide range of derivative instruments. These instruments are used primarily to mitigate risks from on-balance sheet positions in the trading book, but also in certain circumstances to create risk positions. Further details of derivatives used for trading activities are contained in section (d) of this note.

#### a) Interest rate risk

The following tables summarise the group's year end net positions in financial instruments according to how long their interest rate terms remain fixed, analysed between the trading and non-trading instruments. The tables are based on the contractual re-pricing terms of the instruments, and do not reflect the potential impact of early repayment or withdrawal. All derivative instruments held by the group whose effect is to alter the interest bases of assets and liabilities are reflected in the tables within off balance sheet items.

Interest rate repricing of trading instruments as at 31 October 2002:

	Less than 3 months £'000	3 to 6 months £'000	6 to 12 months £'000	1 to 5 years £'000	Greater than 5 years £'000	Non- interest bearing £'000	Total £'000
Loans and advances to banks	54,252	-	-	-	-	-	54,252
Loans and advances							
To customers	17,534	-	-	-	-	-	17,534
Reverse repurchase agreements	4,478,737	74,079	186,687	-	-	-	4,739,503
Debt securities	1,064,246	132,354	142,224	1,080,078	1,384,007	-	3,802,909
Equity shares	-	-	-	-	-	76,206	76,206
Prepayments and accruals	-	-	-	-	-	21,052	21,052
Other assets	-	-	-	-	-	31,604	31,604
Deposits by banks	(16,770)	-	-	-	-	-	(16,770)
Customer accounts	(4,206)	-	-	-	-	-	(4,206)
Repurchase agreements	(2,384,955)	(55,142)	(246,668)	-	-	-	(2,686,765)
Other liabilities	-	-	-	-	-	(56,521)	(56,521)
Accruals and deferred income	-	-	-	-	-	(115,158)	(115,158)
Settlement accounts (net)	(14,312)	(25,612)	(39,856)	(807,212)	(931,788)	(240,343)	(2,059,123)
Short positions	-	-	-	-	-	(20,206)	(20,206)
Net funding from non-trading activities	(3,585,108)	(180,175)	(16,043)	-	-	(2,985)	(3,784,311)
Net on balance sheet items	(390,582)	(54,496)	26,344	272,866	452,219	(306,351)	-
Off balance sheet items	783,964	23,968	(14,575)	(418,929)	(374,428)	-	-
Net Position	393,382	(30,528)	11,769	(146,063)	77,791	(306,351)	-
Cumulative interest rate sensitivity gap	393,382	362,854	374,623	228,560	306,351	-	-

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 OCTOBER 2002 (continued)**

30. Financial Instruments (continued)

a) Interest rate risk (continued)

Interest rate repricing of trading instruments as at 31 October 2001:

	Less than 3 months £'000	3 to 6 months £'000	6 to 12 months £'000	1 to 5 years £'000	Greater than 5 years £'000	Non- interest bearing £'000	Total £'000
Loans and advances to banks	7,355	-	-	-	-	-	7,355
Reverse repurchase agreements	3,185,733	174,771	111,814	-	-	-	3,472,318
Debt securities	931,433	255,895	186,964	1,027,884	923,464	-	3,325,640
Equity shares	-	-	-	-	-	76,219	76,219
Prepayments and accruals	-	-	-	-	-	33,761	33,761
Other assets	-	-	-	-	-	4,855	4,855
Deposits by banks	(30,204)	-	-	-	-	-	(30,204)
Repurchase agreements	(1,406,299)	(141,611)	(33,920)	-	-	-	(1,581,830)
Other liabilities	-	-	-	-	-	(71,181)	(71,181)
Accruals and deferred income	-	-	-	-	-	(10,567)	(10,567)
Settlement accounts (net)	-	-	-	-	-	(140,831)	(140,831)
Short positions	(18,033)	(5,252)	(34,222)	(436,528)	(517,228)	(22,193)	(1,033,456)
Net funding from non-trading activities	(3,606,319)	(312,534)	(128,123)	(5,103)	-	-	(4,052,079)
Net on balance sheet items	(936,334)	(28,731)	102,513	586,253	406,236	(129,937)	-
Off balance sheet items	1,132,072	(333,426)	(4,216)	(491,446)	(302,984)	-	-
Net Position	195,738	(362,157)	98,297	94,807	103,252	(129,937)	-
Cumulative interest rate sensitivity gap	195,738	(166,419)	(68,122)	26,685	129,937	-	-

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 OCTOBER 2002** (continued)
30. Financial Instruments (continued)a) Interest rate risk (continued)

Interest rate repricing of non-trading instruments as at 31 October 2002:

	Less than 3 months £'000	3 to 6 months £'000	6 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	3,045	-	-	-	-	640	3,685
Loans and advances to banks	276,475	8,543	4,951	34,479	-	1,345	325,793
Loans and advances to customers	812,074	49,327	20,817	1,510	-	15,069	898,797
Debt securities	-	-	-	8,103	-	-	8,103
Prepayments and accruals	-	-	-	-	-	9,509	9,509
Other assets	-	-	-	-	-	13,995	13,995
Net funding of trading activities	3,585,108	180,175	16,043	-	-	2,985	3,784,311
Deposits by banks	(4,039,268)	(107,015)	(34,389)	-	-	(96)	(4,180,768)
Customer accounts	(261,635)	(6,074)	(2,618)	-	-	(2,703)	(273,030)
Other liabilities	-	-	-	-	-	(19,613)	(19,613)
Accruals and deferred income	-	-	-	-	-	(13,803)	(13,803)
Subordinated liabilities	(81,847)	-	(38,441)	-	-	(154,816)	(275,104)
Shareholders' funds	-	-	-	-	-	(281,875)	(281,875)
Net on balance sheet items	293,952	124,956	(33,637)	44,092	-	(429,363)	-
Off balance sheet items	53,115	(4,810)	(5,722)	(42,583)	-	-	-
Net Position	347,067	120,146	(39,359)	1,509	-	(429,363)	-
Cumulative interest rate sensitivity gap	347,067	467,213	427,854	429,363	429,363	-	-



# NOTES TO THE FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 OCTOBER 2002 (continued)

### 30. Financial Instruments (continued)

#### a) Interest rate risk (continued)

Interest rate repricing of non-trading instruments as at 31 October 2001:

	Less than 3 months £'000	3 to 6 months £'000	6 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	3,784	-	-	-	-	1,130	4,914
Loans and advances to banks	34,601	4,539	19,673	44,240	-	-	103,053
Loans and advances to customers	834,468	91,931	2,512	53,482	82	-	982,475
Debt securities	8,278	5,220	3,857	-	-	-	17,355
Equity shares	-	-	-	-	-	421	421
Prepayments and accruals	-	-	-	-	-	10,519	10,519
Other assets	-	-	-	-	-	8,796	8,796
Net funding of trading activities	3,606,319	312,534	128,123	5,103	-	-	4,052,079
Deposits by banks	(4,243,233)	(53,012)	(52,883)	(2,126)	-	-	(4,351,254)
Customer accounts	(218,781)	(4,591)	(2,467)	-	(75)	(3,555)	(229,469)
Other liabilities	-	-	-	-	-	(8,097)	(8,097)
Accruals and deferred income	-	-	-	-	-	(24,582)	(24,582)
Subordinated liabilities	(85,156)	-	(41,277)	-	-	(159,695)	(286,128)
Shareholders' funds	-	-	-	-	-	(280,077)	(280,077)
Net on balance sheet items	(59,720)	356,621	57,538	100,699	7	(455,145)	-
Off balance sheet items	105,958	-	(15,000)	(90,958)	-	-	-
Net Position	46,238	356,621	42,538	9,741	7	(455,145)	-
Cumulative interest rate sensitivity gap	46,238	402,859	445,397	455,138	455,145	-	-

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 OCTOBER 2002** (continued)

30. Financial Instruments (continued)

b) Currency risk

The group does not have any structural currency exposures. All currency exposures that arise from non-trading activities are transferred to trading book.

The net amounts of monetary assets and liabilities held in the trading book, after taking account of currency swaps, forwards and other currency derivative contracts, denominated in currencies other than Sterling were as follows:

	Net asset	Net liability	Net asset	Net liability
	2002	2002	2001	2001
	£'000	£'000	£'000	£'000
Canadian Dollars	-	138	277	-
US Dollars	-	375	-	358
Euros	59	-	-	98
Japanese Yen	-	3	-	3
Australian Dollars	-	20	970	-
Other currencies	-	12	221	-
	<u>-</u>	<u>548</u>	<u>1,468</u>	<u>459</u>

In accordance with the accounting policies of the company, share capital denominated in foreign currencies is translated into sterling at the historic rate of exchange ruling when the share capital was issued. Because all other foreign currency assets and liabilities are translated at rates ruling at the balance sheet date, a foreign currency translation gain or loss arises which is taken directly to the profit and loss account. The translation loss for the year was £11,434,000 (2001: profit £710,000).

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 OCTOBER 2002 (continued)

## 30. Financial Instruments (continued)

### c) Fair values

The table below sets out the aggregate fair values of all trading book assets and liabilities, except for short-term debtors and creditors. All such items are carried in the balance sheet at fair value.

	Assets 2002 £'000	Liabilities 2002 £'000	Assets 2001 £'000	Liabilities 2001 £'000
Loans and advances to banks	54,252	-	7,355	-
Loans and advances to customers	17,534	-	-	-
Repurchase agreements	4,739,503	2,686,765	3,472,318	1,581,830
Debt securities	3,802,909	1,818,780	3,325,640	1,011,263
Equity securities	76,206	240,343	76,219	22,193
Deposits from banks	-	16,770	-	30,204
Customer accounts	-	4,206	-	-
Fair value of derivatives	1,282	37,378	577	50,079

The table below sets out a comparison of aggregate fair values and book values of the group's non-trading assets and liabilities where a liquid and active market exists, and for all non-trading derivative instruments.

#### As at 31 October 2002

	Book value		Fair value	
	Assets £'000	Liabilities £'000	Assets £'000	Liabilities £'000
Debt securities	8,103	-	7,699	-
Equity securities	-	-	-	-
Interest rate derivatives	120	829	1,646	5,198
Foreign exchange derivatives	326	-	-	55
Credit default swaps	-	-	3,450	-

#### As at 31 October 2001

	Book value		Fair value	
	Assets £'000	Liabilities £'000	Assets £'000	Liabilities £'000
Debt securities	17,355	-	19,956	-
Equity securities	421	-	432	-
Interest rate derivatives	84	720	1,203	3,890
Foreign exchange derivatives	138	-	-	728

The valuation techniques used to measure fair values are:

All debt securities, and equity securities held for trading purposes, are valued by reference to quoted market prices. Equity securities held for non-trading purposes represent an investment in a limited liability partnership and are fair valued by reference to the most recent statement of partners' capital and other relevant information provided by the partnership.

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.

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 OCTOBER 2002 (continued)**
30. Financial Instruments (continued)d) Derivatives

**Trading derivatives** - The table below summarises the notional principal amount and the end of period fair value for each type of trading derivative.

	2002			2001		
	Notional principal amount £'000	Year-end positive fair value £'000	Year-end negative fair value £'000	Notional principal amount £'000	Year-end positive fair value £'000	Year-end negative fair value £'000
<u>OTC derivatives</u>						
Interest rate contracts:						
- Interest rate swaps	687,305	4,051	32,802	847,406	4,564	52,471
Foreign exchange contracts						
- Forward foreign exchange	313,380	1,494	7,801	307,318	8,663	2,239
- Cross currency swaps	86,260	796	4,439	120,741	1,118	4,509
	399,640	2,290	12,240	428,059	9,781	6,748
Credit derivatives						
- Total return swaps	181,311	-	4,198	-	-	-
- Credit default swaps	969,355	24,597	781	190,594	1,009	117
	1,150,666	24,597	4,979	190,594	1,009	117
Equity contracts						
- Equity swaps	278,697	642	22,536	58,114	169	5,689
- Equity options	6,715	5,076	195	-	-	-
	285,412	5,718	22,731	58,114	169	5,689
Total fair value of OTC derivatives before netting		36,656	72,752		15,523	65,025
Effect of netting		(35,374)	(35,374)		(14,946)	(14,946)
Total net fair value		1,282	37,378		577	50,079

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

	2002 £'000	2001 £'000
Interest rate futures	277,649	1,039,762
Interest rate options	618,086	2,439,942
Equity index futures	3,528	906
	899,263	3,480,610

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.

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 OCTOBER 2002** (continued)

30. Financial Instruments (continued)

d) Derivatives (continued)

**Non-trading derivatives** - The table below summarises the notional principal amount, the end of period book value and the end of period fair value for non-trading OTC derivatives.

	Notional principal amount £'000	Year-end positive book value £'000	Year-end negative book value £'000	Year-end positive fair value £'000	Year-end negative fair value £'000
As at 31 October 2002					
Interest rate swaps	136,805	120	829	1,646	5,198
Forward foreign exchange	59,255	326	-	-	55
Credit default swaps	14,095	-	-	3,450	-
	<u>210,155</u>	<u>446</u>	<u>829</u>	<u>5,096</u>	<u>5,253</u>
As at 31 October 2001	£'000	£'000	£'000	£'000	£'000
Interest rate swaps	105,958	84	720	1,203	3,890
Forward foreign exchange	64,511	138	-	-	728
	<u>170,469</u>	<u>222</u>	<u>720</u>	<u>1,203</u>	<u>4,618</u>

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

	Less than one year £'000	One to five years £'000	Greater than five years £'000	Total £'000
As at 31 October 2002				
Interest rate contracts	72,632	533,129	218,349	824,110
Foreign exchange contracts	384,926	47,519	26,450	458,895
Credit derivatives	80,085	1,039,867	44,809	1,164,761
Equity contracts	284,846	566	-	285,412
Total	<u>822,489</u>	<u>1,621,081</u>	<u>289,608</u>	<u>2,733,178</u>
As at 31 October 2001	£'000	£'000	£'000	£'000
Interest rate contracts	54,295	573,594	325,475	953,364
Foreign exchange contracts	390,117	53,001	49,452	492,570
Credit derivatives	-	190,594	-	190,594
Equity contracts	56,269	1,845	-	58,114
Total	<u>500,681</u>	<u>819,034</u>	<u>374,927</u>	<u>1,694,642</u>

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 OCTOBER 2002** (continued)

30. Financial Instruments (continued)d) Derivatives (continued)

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

	Less than one year £'000	One to five years £'000	Greater than five years £'000	Total £'000
As at 31 October 2002				
Interest rate contracts	-	3,960	1,737	5,697
Foreign exchange contracts	1,617	617	56	2,290
Credit derivatives	47	25,147	2,853	28,047
Equity contracts	5,083	635	-	5,718
	<u>6,747</u>	<u>30,359</u>	<u>4,646</u>	<u>41,752</u>
Effect of netting	(6,747)	(29,077)	(4,646)	(40,470)
Total	<u>-</u>	<u>1,282</u>	<u>-</u>	<u>1,282</u>
As at 31 October 2001	£'000	£'000	£'000	£'000
Interest rate contracts	2,885	2,882	-	5,767
Foreign exchange contracts	8,663	1,004	114	9,781
Credit derivatives	-	1,009	-	1,009
Equity contracts	130	39	-	169
	<u>11,678</u>	<u>4,934</u>	<u>114</u>	<u>16,726</u>
Effect of netting	(11,678)	(3,154)	(114)	(14,496)
Total	<u>-</u>	<u>1,780</u>	<u>-</u>	<u>1,780</u>

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

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 OCTOBER 2002** (continued)
30. Financial Instruments (continued)

## e) Gains and losses on hedges

The table below summarises the movement on unrecognised and deferred gains and losses on hedges during the year.

	Gains		Losses		Total net gains/ (losses)	
	2002	2001	2002	2001	2002	2001
	£'000	£'000	£'000	£'000	£'000	£'000
Opening unrecognised gains/(losses) on hedges	1,119	809	(3,169)	(3,740)	(2,050)	(2,931)
(Gains)/losses arising in previous years that were recognised in the current year	(332)	(662)	945	3,586	613	2,924
Brought forward gains/(losses) not recognised in current year	787	147	(2,224)	(154)	(1,437)	(7)
Unrecognised gains/(losses) arising in the current year	4,189	972	(2,200)	(3,015)	1,989	(2,043)
Unrecognised gains/(losses) on hedges at 31 October	4,976	1,119	(4,424)	(3,169)	552	(2,050)
Of which:						
Gains/(losses) expected to be recognised within one year	4,026	208	(1,201)	(586)	2,825	(378)
Opening deferred gains/(losses) on hedges	-	-	(138)	(1,235)	(138)	(1,235)
(Gains)/losses arising in previous years that were recognised in the current year	-	-	138	1,097	138	1,097
(Gains)/losses arising in the current year	-	-	(326)	-	(326)	-
Deferred gains/(losses) on hedges at 31 October	-	-	(326)	(138)	(326)	(138)
Of which:						
Gains/(losses) expected to be recognised within one year	-	-	(326)	(138)	(326)	(138)

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 OCTOBER 2002 (continued)

## 31. Investment in subsidiaries

	£'000
Cost:	
At 31 October 2001	368,552
Increase in investments	107,104
Return of capital	(97,855)
Liquidation of subsidiaries	(24,814)
	<hr/>
At 31 October 2002	352,987
	<hr/>
Provisions:	
At 31 October 2001	6,867
Utilised on liquidation of subsidiaries	(6,847)
Released during the year	(20)
	<hr/>
At 31 October 2002	-
	<hr/>
Net Book Value:	
At 31 October 2002	352,987
	<hr/>
At 31 October 2001	361,685
	<hr/>

Details of the company's subsidiaries are as follows:-

<u>Company</u>	<u>Business</u>
Royal Bank of Canada Europe Limited	Banking
Royal Bank of Canada Investment Management (U.K.) Limited	Investment management
Royal Bank of Canada Investment Management (USA) Limited	Investment management
Royal Trust (U.K.) Nominees Limited	Nominee
RBC Global Investment Management Limited	Investment management
Orion Leasing Holdings Limited	Leasing
Orion Finance Limited	Leasing
Royal Bank of Canada Trust Corporation Limited	Trustee
RBC Pension Trustees Limited	Trustee
Montco Nominees Limited	Nominee
Roycan Nominees Limited	Nominee

All subsidiaries are 100% owned, incorporated in Great Britain and registered in England and Wales.

## 32. Parent Companies

The company's ultimate parent company and controlling party is Royal Bank of Canada, incorporated in Canada. Copies of the group financial statements of Royal Bank of Canada are available at 71 Queen Victoria Street, London EC4V 4DE.