

***RBC Dain Rauscher Inc.***  
***(SEC I.D. No. 8-45411)***

***Consolidated Statement of Financial Condition as of  
April 30, 2005***

***Unaudited***

## RBC DAIN RAUSCHER INC.

### CONSOLIDATED STATEMENT OF FINANCIAL CONDITION

APRIL 30, 2005

(In thousands, except share and per share information)

(UNAUDITED)

---

#### ASSETS

|   |                     |
|---|---------------------|
| Cash and cash equivalents (Note 2)                                    | \$ 60,980           |
| Receivable from customers (Note 2)                                    | 1,598,304           |
| Receivable from brokers, dealers, and clearing organizations (Note 3) | 678,366             |
| Receivable from Parent and affiliates—net (Note 13)                   | 76,123              |
| Securities borrowed (Note 2)  | 920,783             |
| Securities purchased under agreements to resell (Note 2)              | 486,877             |
| Trading securities owned—at market value (Notes 2 and 4)              | 2,149,203           |
| Equipment and leasehold improvements—net (Notes 2 and 5)              | 17,670              |
| Other receivables (Note 2)  | 202,935             |
| Deferred income taxes (Notes 2 and 17)                                | 36,332              |
| Goodwill (Note 2)   | 118,976             |
| Other assets (Note 6)   | <u>181,267</u>      |
| Total assets  | <u>\$ 6,527,816</u> |

#### LIABILITIES AND SHAREHOLDER'S EQUITY

|   |                     |
|---|---------------------|
| Short-term borrowings (Note 7)  | \$ 332,000          |
| Short-term borrowings from affiliate (Note 7)                                     | 300,000             |
| Drafts payable  | 130,999             |
| Payable to customers (Note 2)   | 783,195             |
| Payable to brokers, dealers, and clearing organizations (Note 3)                  | 131,645             |
| Securities loaned (Note 2)  | 1,050,482           |
| Securities sold under repurchase agreements (Note 2)                              | 1,071,761           |
| Trading securities sold, but not yet purchased—at market value (Notes 2 and 4)    | 1,019,423           |
| Accrued compensation  | 292,278             |
| Long-term borrowings from affiliate (Note 8)                                      | 350,000             |
| Income taxes payable (Notes 2 and 17)   | 46,031              |
| Other accrued expenses  | <u>113,324</u>      |
|   | 5,621,138           |
| Liabilities subordinated to claims of general creditors (Note 9)                  | <u>240,000</u>      |
| Total liabilities   | <u>5,861,138</u>    |
| Shareholder's equity:   |                     |
| Common stock (\$.125 par value, 100,000 share authorized, issued and outstanding) | 13                  |
| Additional paid-in capital  | 480,165             |
| Retained earnings   | <u>186,500</u>      |
|   | <u>666,678</u>      |
| Total liabilities and shareholders' equity  | <u>\$ 6,527,816</u> |

The accompanying notes are an integral part of this consolidated statement of financial condition.

## RBC DAIN RAUSCHER INC.

### NOTES TO CONSOLIDATED STATEMENT OF FINANCIAL CONDITION

April 30, 2005

(UNAUDITED)

---

#### 1. OWNERSHIP AND NATURE OF BUSINESS

RBC Dain Rauscher Inc. and Subsidiaries (the “Company”) is a registered broker-dealer in securities and an introducing futures commission merchant. The Company is a member firm of the New York Stock Exchange, Inc. (“NYSE”) and other securities and commodities exchanges. The Company is a wholly owned subsidiary of RBC Dain Rauscher Corp. (the “Parent”). The Parent is ultimately owned by Royal Bank of Canada (“RBC”). The Company offers full-service brokerage and investment banking services to individual, institutional, corporate and governmental clients. Additionally, the Company conducts principal trading, primarily in municipal bonds and other fixed income securities. The Company also provides asset management services for its customers and clearing services to correspondent firms introduced through its RBC Dain Correspondent Services (“RBC DCS”) division. The Company carries all customer accounts of the correspondent brokers and extends margin credit to these customers. The consolidated financial statements include the Company and two wholly owned subsidiaries. Intercompany balances and transactions have been eliminated in consolidation.

In November 2004, the Company sold at book value the net assets and liabilities of its former Middle Markets (“MM”) business line to RBC Capital Markets (“RBCCM”), an affiliate of the Company, for \$2.4 million. MM provided traditional institutional equity sales and block trading, industry/sector specific research and electronic execution services to smaller institutional investment managers, pension funds, mutual funds and hedge funds.

In January 2005, the Company acquired the net assets and liabilities of the High Yield Sales and Trading (“HY”) business of RBCCM, an affiliate of the Company, for \$1.7 million over its book value. HY provides sales, trading and research services related to non-investment grade securities to institutional clients.

#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Cash and Cash Equivalents**—Cash and cash equivalents include cash on hand, cash in depository accounts with other financial institutions and money market investments with original maturities of 90 days or less.

**Securities Transactions**—The Company records its profits on principal transactions and the related commission revenue and expense on a settlement date basis, which is not materially different than if transactions were recorded on trade date, except for transactions that are hedged with derivative instruments, which are recorded on a trade date basis (see Note 12).

Trading securities owned and trading securities sold, but not yet purchased, including derivative financial instruments, are recorded on a trade date basis and are stated at market value. The Company marks securities to market and includes resulting unrealized gains and losses in revenue from principal transactions. The Company determines market value by using public market quotations, quoted prices from dealers or recent market transactions, depending upon the underlying security.

The Company also has venture capital investments in securities that are currently non-marketable. These securities, which are accounted for at estimated fair value, are included in other assets. Management has determined that when the investments remain restricted, cost generally approximates fair value. When the restrictions expire on these investments or they are otherwise readily marketable, the Company uses public market quotations or determines fair value through an analysis of financial statements or other sources of financial data.

At April 30, 2005, the fair value of these equity instruments and venture capital investments was \$1.9 million.

***Securities Borrowed and Securities Loaned***—Securities borrowed and securities loaned are recorded at the amount of cash collateral advanced or received in connection with the transaction. The Company or its counterparties may terminate these transactions on short notice. Securities borrowed transactions require the Company to deposit cash as collateral with the lender. With respect to securities loaned, the Company receives cash as collateral. The initial collateral advanced or received has a market value equal to or greater than the market value of the securities borrowed or loaned. The Company monitors the market value of the securities borrowed and loaned on a daily basis and requests additional collateral or returns excess collateral, if necessary.

***Resale and Repurchase Transactions***—Securities sold under repurchase agreements or purchased under agreements to resell (resale agreements) are accounted for as collateralized financing transactions. The Company records these agreements at the contract amount at which the securities will subsequently be resold or reacquired, plus accrued interest. These agreements provide for termination by the Company or its counterparties on short notice. It is the policy of the Company to obtain possession of collateral with a market value equal to, or in excess of, the principal amount loaned under resale agreements. Collateral is valued daily and the Company may require counterparties to deposit additional collateral or return collateral pledged when appropriate.

The Company may pledge its financial instruments owned to collateralize repurchase agreements, securities lending agreements and other securities financing transactions. Pledged securities that can be resold or repledged by the secured party are included in trading securities owned in the consolidated statement of financial condition. As of April 30, 2005, the fair value of pledged securities was \$1.071 billion. Additionally, there may be financial instruments owned by the Company that have been loaned or pledged to counterparties, where those parties do not have the right to sell or repledge the collateral. As of April 30, 2005, the Company did not have any securities in this classification. The Company enters into reverse repurchase agreements and repurchase agreements to, among other things, finance the Company's inventory positions, acquire securities to cover short positions and settle other securities obligations. The Company receives collateral in the form of securities in connection with reverse repurchase agreements. In many cases, the Company is permitted to sell or repledge these securities held as collateral and use the securities to secure repurchase agreements, to enter into securities lending transactions or for the delivery to counterparties to cover short positions. At April 30, 2005, the fair value of securities received as collateral where the Company is permitted to sell or repledge the securities was \$479.7 million, and the fair value of the portion that has been sold or repledged was \$468.0 million.

***Asset Management Fees***—Asset management fees are calculated and billed to clients quarterly in advance based on assets under management at the beginning of the quarter. Fee revenue is recognized equally across each month for a given quarter. These revenues are determined in accordance with contracts between the Company and retail and institutional clients to which the Company provides fee-based brokerage and investment advisory services.

The Company also receives fees from an affiliate based on money market fund assets managed by the affiliate for the Company's clients. The fees are calculated based on average assets under management for each month and are recorded monthly by the Company.

***Investment Banking and Underwriting Revenue***—Fixed income underwriting and management fees and the related selling concessions are recorded when the transaction is complete and the Company's revenue is reasonably determinable. Financial advisory fees are recorded when earned and determinable, which is as services are provided. Equity selling concessions are recorded when the transaction is complete and the Company's revenue is reasonably determinable.

***Receivable from and Payable to Customers***—Amounts receivable from customers are primarily related to margin balances. Other customer receivables and payables result from cash transactions. The Company does not include in its consolidated statement of financial condition the securities owned by customers or the securities sold short by customers.

***Other Receivables***—Included in other receivables are forgivable loans made to financial consultants and other revenue-producing employees, typically in connection with their recruitment. These loans are forgivable based on continued employment and are amortized over the term of the loan, which is generally three to eight years, using the straight-line method.

***Depreciation and Amortization***—Furniture and equipment are depreciated using the straight-line method over estimated useful lives of two to eight years. Leasehold improvements are amortized over the lesser of the estimated useful life of the improvement or the term of the lease.

***Goodwill and Intangible Assets***—Goodwill is primarily related to the 2004 acquisition of William R. Hough & Co. and the 2003 acquisition of First Institutional Securities, LLC. Effective January 1, 2002, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 142, *Goodwill and Other Intangible Assets*, which addresses the accounting and reporting for acquired goodwill and other intangible assets. Under the provisions of SFAS No. 142, intangible assets acquired in a business combination, which do not possess finite useful lives, will no longer be amortized into net income over an estimated useful life. However, these intangible assets will be tested for impairment at least annually based on specific guidance provided in the new standard.

Under SFAS No. 142, an indicator of impairment of goodwill results if the net book value of a reporting unit exceeds its estimated fair value. The Company performed its annual assessment as of August 31, 2004 and no impairment loss was recorded as a result of this test.

Intangible assets are recorded in other assets and include customer relationship intangible assets. Intangible assets are amortized over their estimated useful lives of two to ten years using the straight-line basis.

***Income Taxes***—The Company is included in the consolidated income tax returns filed by RBC's U.S.-based holding company RBC Holdings (USA), Inc. ("RBC Holdings"). The Company's provision for income taxes is recorded on the basis of filing a separate income tax return. Income taxes currently payable or receivable are paid to or received from the Parent. The Company determines deferred tax liabilities and assets and any provision for deferred income taxes based on the differences between the financial statement and tax bases of assets and liabilities at each year end, using the tax rate expected to exist when the temporary difference reverses.

**Fair Value of Financial Instruments**—Substantially all of the Company’s financial assets and liabilities are carried at fair value or at amounts which, because of their short-term nature, approximate fair value. The fair value of the Company’s borrowings, if recalculated based on current interest rates, would not differ significantly from the amounts recorded at April 30, 2005.

**Use of Estimates**—The Company has made estimates and assumptions in reporting certain assets and liabilities (including trading securities, legal accruals and goodwill impairment) and the disclosure of contingent liabilities in preparing these consolidated financial statements, and the reported amounts of revenues and expenses in conformity with accounting principles generally accepted in the United States of America. Actual results could differ from those estimates.

### 3. RECEIVABLE FROM AND PAYABLE TO BROKERS, DEALERS AND CLEARING ORGANIZATIONS

The Company’s receivable from and payable to brokers, dealers and clearing organizations at April 30, 2005 consisted of the following (in thousands):

|  |                   |
|--|-------------------|
| Receivable from brokers, dealers and clearing organizations: |                   |
| Securities failed to deliver                                 | \$ 124,728        |
| Clearing organizations, correspondent brokers and other      | <u>553,638</u>    |
|  | <u>\$ 678,366</u> |
| Payable to brokers, dealers and clearing organizations:      |                   |
| Securities failed to receive                                 | \$ 104,805        |
| Clearing organizations, correspondent brokers and other      | <u>26,840</u>     |
|  | <u>\$ 131,645</u> |

Securities failed to deliver and receive represent the contract value of securities that have not been delivered or received by the Company or its counterparties subsequent to settlement date.

### 4. TRADING SECURITIES

The market values of trading securities at April 30, 2005 are summarized as follows (in thousands):

|  |                     |
|--|---------------------|
| Owned:   |                     |
| U.S. government and government agency securities | \$ 830,267          |
| Municipal securities                             | 971,043             |
| Corporate fixed income and other securities      | 319,864             |
| Certificates of deposit                          | 23,425              |
| Equity securities                                | <u>4,604</u>        |
|  | <u>\$ 2,149,203</u> |
| Sold, but not yet purchased:                     |                     |
| U.S. government and government agency securities | \$ 912,963          |
| Corporate fixed income and other securities      | <u>106,460</u>      |
|  | <u>\$ 1,019,423</u> |

Trading securities owned include \$1.071 billion of U.S. government, government agency, municipal and corporate securities that were subject to repurchase agreements at April 30, 2005. The Company has entered into resale agreements for U.S. government and government agency securities with a market value of \$479.7 million related to trading securities sold, but not yet purchased at April 30, 2005.

## 5. EQUIPMENT AND LEASEHOLD IMPROVEMENTS

The Company's equipment and leasehold improvements at April 30, 2005 consisted of the following (in thousands):

|                                 |                  |
|---------------------------------|------------------|
| Furniture and equipment         | \$ 9,544         |
| Computer equipment and software | 4,663            |
| Leasehold improvements          | <u>25,129</u>    |
|                                 | 39,336           |
| Accumulated depreciation        | <u>(21,666)</u>  |
| Net fixed assets                | <u>\$ 17,670</u> |

## 6. INTANGIBLE ASSETS

The Company's intangible assets at April 30, 2005 consisted of the following (in thousands):

|                          |                  |
|--------------------------|------------------|
| Intangible assets        | \$ 11,828        |
| Accumulated amortization | <u>(1,337)</u>   |
| Net intangible assets    | <u>\$ 10,491</u> |

## 7. SHORT-TERM BORROWINGS AND SHORT-TERM BORROWINGS FROM AFFILIATE

The Company has \$1.190 billion in short-term (overnight) credit facilities with nonaffiliated banks. These facilities are used to manage short-term liquidity needs. As of April 30, 2005, there was \$332 million outstanding on these facilities. Interest is paid monthly and is a floating rate based on the federal funds rate.

The Company has a \$300 million unsecured revolving credit agreement with RBC. As of April 30, 2005, \$300 million was outstanding under this facility. Interest is paid monthly and is based on a floating rate of 30-day LIBOR plus 35 basis points.

## 8. LONG-TERM BORROWINGS

The Company has a \$100 million unsecured term loan agreement with RBUS LLC, an RBC affiliate. As of April 30, 2005, \$100 million was outstanding under this facility. The loan matures August 10, 2006 with no scheduled principal payments until maturity. Interest is paid quarterly and is based on a floating rate of 90-day LIBOR plus 0.325%.

The Company has a \$250 million unsecured term loan agreement with RBUS LLC. As of April 30, 2005, \$250 million was outstanding under this facility. The loan matures March 27, 2006 with no scheduled principal payments until maturity. Interest is paid quarterly and is based on a floating rate of 90-day LIBOR plus 0.3825%.

## **9. LIABILITIES SUBORDINATED TO CLAIMS OF GENERAL CREDITORS**

The Company has a five-year \$240 million subordinated debt agreement with RBUS LLC. The subordinated debt matures April 28, 2006 with no scheduled principal payments until maturity. Interest is paid quarterly and is based on a floating rate of 90-day LIBOR plus 0.775%.

The liabilities subordinated to claims of general creditors are covered by agreements approved by the NYSE and are available in computing net capital under the Securities and Exchange Commission's Uniform Net Capital Rule. To the extent such borrowings are required for the Company's continued compliance with minimum net capital requirements (Note 10), they may not be repaid.

## **10. REGULATORY REQUIREMENTS**

As a broker-dealer and member firm of the NYSE, the Company is subject to the Uniform Net Capital Rule (the "Rule") of the Securities and Exchange Commission ("SEC"). The Rule is designed to measure the general financial position and liquidity of a broker-dealer and the minimum net capital deemed necessary to meet the broker-dealer's continuing commitments to customers. The Rule provides for two methods of computing net capital (as defined). The Company uses what is known as the alternative method. Under this method, minimum net capital is defined as the greater of \$1 million or 2% of aggregate debit items from customer transactions (as defined). In addition to the SEC rule, the NYSE may also require a member organization to reduce its business if net capital is less than 4% of aggregate debit items and may prohibit a member firm from expanding its business and declaring cash dividends if its net capital is less than 5% of aggregate debit items. Failure to maintain the required net capital may subject a firm to suspension or expulsion by the NYSE, the SEC and other regulatory bodies and may ultimately require its liquidation. The Company has at all times maintained its net capital above both SEC and NYSE required levels. At April 30, 2005, the Company had net capital of \$306.2 million, or 17.47% of aggregate debit items, which was \$271.2 million in excess of 2% of aggregate debit items and \$218.6 million in excess of 5% of aggregate debit items. The Company is also subject to the minimum financial requirements of the Commodity Exchange Act (the "CEA"). Based on the Company's commodity activity, the CEA requirements are less restrictive than those of the SEC.

Rule 15c3-3 of the Securities Exchange Act of 1934 specifies when broker-dealers carrying customer accounts may be required to maintain cash or qualified securities in a special reserve account for the exclusive benefit of customers. At April 30, 2005, the Company was not required to maintain a balance in the special reserve account.

The Company also computes a reserve requirement for the proprietary accounts of introducing brokers ("PAIB"). At April 30, 2005, the Company's PAIB deposit requirement was met by excess debits in the customer reserve formula as prepared in accordance with Rule 15c3-3 under the Securities Exchange Act of 1934.



## 11. COMMITMENTS AND CONTINGENT LIABILITIES

**Leases**—The Company leases office space, furniture and communications and information technology equipment under various non-cancelable operating leases. Most office space lease agreements include rate increases, which are recognized on a straight-line basis over the life of the lease, and cover payment of real estate taxes, insurance and other occupancy expenses.

**Litigation**—The Company is a defendant in various legal actions, suits and proceedings before courts, arbitrators and governmental agencies. Certain of these actions, including those described below, claim substantial damages and could have a material adverse effect on the Company's consolidated financial condition and/or consolidated results of operations should these matters not be resolved favorably. While the outcome of any litigation is uncertain, management believes, based in part upon consultation with legal counsel, that the resolution of all matters pending or threatened against the Company will not have a material adverse effect on the Company's consolidated financial condition or consolidated results of operations.

The Company is involved in a consolidated class action suit related to initial public offerings where the Company participated as an underwriter. A sample of "focus" cases has been selected from the total claims brought within the consolidated class action. The focus cases are proceeding through discovery and litigation. The expected outcome of the focus cases has not been determined by the parties involved and damages have not been determined. Management does not believe the impact of the class action will have a material adverse effect on the Company's consolidated financial condition and results of operations, although the amounts involved could be substantial.

Regulators at the state and federal level continue to investigate the manner in which mutual funds compensate broker-dealers in connection with the sale of the mutual funds' shares by the broker-dealer, as well as whether broker-dealers distributing the funds complied with the terms of the relevant prospectuses in selling shares in those funds. It is likely in the future that broker-dealers will be required to provide more disclosure to their clients with respect to such payments, and it is possible that such payments may be restricted. It is also possible that broker-dealers, including the Company, will be required to provide restitution to clients for any amounts, including, for example, sales charges, collected by broker-dealers contrary to the terms of the relevant mutual fund prospectus. Any further resultant action from the task force and regulatory studies concerning mutual funds, or required remedial efforts by the Company to address noncompliant sales or other practices, could negatively affect the Company's consolidated financial condition and results of operations.

## 12. OFF-BALANCE-SHEET RISK

The Company may enter into transactions involving derivative financial instruments. Derivative contracts are financial instruments such as a future, forward, swap, floor, collar or option contract. Generally, a derivative represents a future commitment to purchase or sell a financial instrument at specific terms and dates or to exchange interest payment streams based on the contract or notional amount. These financial instruments may have market or credit risk, which is not reflected in the market values included on the consolidated statement of financial condition.

The Company has risk management policies that limit the size and risk of securities owned and securities sold, not yet purchased. These policies include a risk point methodology, which assigns risk points to certain inventories based on modified duration (adjusts all securities to a one-year maturity) and a value at risk methodology. The Company also monitors inventories for factors that include credit and concentration risk, contract length and inventory age. These inventories are held primarily for distribution to individual and institutional clients in order to meet those clients' needs. The Company does not enter into derivative financial instruments with off-balance-sheet risk other than those described in this note. The Company utilizes these types of derivatives to manage risk exposure.

**Market Risk**—As part of its broker-dealer activities, the Company purchases and sells a variety of cash and derivative financial instruments in order to reduce exposure to market risk. Market risk includes changes in interest rates, currency exchange rates, indices or value fluctuations in the underlying financial instruments. The Company's hedging strategy involves the purchase and sale of derivative financial instruments to offset market risk associated with other transactions.

The Company regularly sells securities not yet purchased (short sales) for its own account, primarily to hedge fixed income trading securities. Short positions may expose the Company to market risk not recorded in the statement of financial condition in the event prices increase, as it may be obligated to acquire the securities at prevailing market prices.

The Company uses notional (contract) amounts to measure derivative activity. Notional amounts are not included on the Company's consolidated statement of financial condition, as these contract amounts are not actually paid or received. Notional amounts allow the Company to calculate the cash flows to be exchanged and its involvement in any particular type of financial instrument; however, these amounts are not indicative of overall market risk.

The Company may also pledge customers' securities as collateral for bank loans, securities loaned, or to satisfy margin deposit requirements of various clearing agents and exchanges. In the event the Company's counterparty is unable to return the securities pledged, the Company might need to acquire the securities at prevailing market prices. In the case of repurchase agreements, the Company risks holding collateral at a market value less than contract value of the repurchase agreement. To control these risks, the Company monitors the market value of securities pledged and requires adjustments of collateral levels when deemed necessary.

**Credit Risk**—The notional amounts of derivative instruments also do not represent the Company's potential risk from counterparty nonperformance. The Company periodically offsets its market risk resultant from fixed income trading by entering into financial futures, swaps or option contracts. Transactions in futures or option contracts are conducted through regulated exchanges, which guarantee performance of counterparties and are settled in cash on a daily basis, minimizing credit risk. Management believes that the Company's exposure to credit risk is represented by the fair value of trading securities owned, fails to deliver and customer accounts receivable.

**Customer Activities**—In the normal course of business, the Company executes, settles and finances customer securities transactions. Customers' securities activities are transacted on either a cash or margin basis. The Company may be required to borrow securities in order to meet settlement requirements from customer short sale activity. As part of these customer transactions, the Company also executes option and futures contracts. The risk with these transactions is that customers may fail to satisfy their obligations, requiring the Company to purchase or sell various financial instruments at prevailing market prices to fulfill customer obligations.

The Company mitigates risk by requiring customers to maintain margin collateral in compliance with both regulatory and internal guidelines. The Company monitors necessary margin levels daily and requires customers to either deposit additional collateral or reduce margin positions. Market declines could reduce the collateral value to below the amount the Company has loaned, plus interest, before the Company is able to sell the collateral. However, due to daily monitoring of valuations and the amount of collateral the Company requires, management believes this risk to be minimal.

***Deferred Compensation Economic Hedges***—The Company has entered into economic hedges relating to its deferred compensation plans as further described in Note 16.

### **13. RELATED PARTY TRANSACTIONS**

The Company receives certain fees from an affiliated asset manager for sales of money market fund shares. Under an informal agreement, this affiliate compensates the Company based on a percentage of net assets of these money market funds.

The Company engages in activities with RBC affiliates, mainly RBUS LLC. The Company entered into a five-year \$240 million subordinated debt agreement with RBUS LLC (Note 9), a \$250 million unsecured term loan agreement with RBUS LLC (Note 8), a \$100 million unsecured term loan agreement with RBUS LLC (Note 8) and a \$300 million unsecured revolving credit agreement with RBC (Note 7). Also, in the normal course of business, the Company enters into stock borrow and stock loan transactions with RBCCM. The contract value of these activities outstanding at April 30, 2005 totaled \$3.8 million and \$24.1 million, respectively. The Company also enters into resale and repurchase agreements with RBCCM. There were no amounts outstanding at April 30, 2005 under these agreements. The Company has also entered into total return swaps with an RBC affiliate (Note 16).

The Company has an agreement with the Parent in which the Parent provides certain fixed assets and financing for the Company. The Parent allocates depreciation and interest expense to the Company.

The Company also has net receivables from the Parent and affiliates of \$76.1 million as of April 30, 2005. The receivable is primarily related to the Company managing cash balances, cash receipts and cash distribution for the Parent and affiliates.

The results of operations of the Company are not necessarily indicative of the results that might occur if the Company was operating independently.

### **14. EMPLOYEE BENEFIT PLAN**

The Company sponsors a defined contribution retirement plan available to substantially all full-time employees (the "Plan"). Participants may contribute, on a pretax basis, up to 25% of their eligible compensation subject to certain aggregate limitations. Participants who are at least age 50 may make additional pretax contributions subject to certain aggregate limits. Additionally, all participants may contribute up to another 5% of eligible compensation on an after-tax basis. The Plan's year runs from January 1 to December 31.

The Company matches 6% of eligible pretax compensation. The fixed matching contributions are invested at the direction of the participants. Financial consultants are limited to a total company match of \$1,500. An additional discretionary company stock contribution is credited in January for the prior plan year for eligible employees. Company stock contributions are made in the RBC Stock Fund, and up to 50% of the company stock contributions can be transferred to any other investment option offered in the Plan each year. Employees do not have to be participating in the 401(k) plan to receive the company stock contribution. Financial consultants and employees who are eligible for the Wealth Accumulation Plan are not eligible to receive the company stock contribution.

The Company's policy is to fund plan costs currently.

## **15. RETENTION BONUS POOL**

In connection with the acquisition of the Parent by RBC, certain officers and key employees of the Company were selected to participate in a retention bonus pool (the "Pool"). Participants in the Pool were granted units on January 10, 2001, with an aggregate value of \$200 million based on the value of RBC common stock at that date. The units fluctuate in value based upon the value of RBC common stock. The Pool was fully vested and final payments were made in January 2005.

Also, in connection with the Parent's October 31, 2001 acquisition of Tucker Anthony Sutro, certain officers and key employees of the Company were granted cash retention awards on October 31, 2001, with an aggregate value of \$100 million. These awards are being expensed and paid out evenly over the expected service periods of three or four years from the date of the agreement.

## **16. DEFERRED COMPENSATION PLANS**

The Company maintains a nonqualified deferred compensation plan for key employees under an arrangement called the Wealth Accumulation Plan (WAP). This plan allows eligible employees to make deferrals of their annual income and allocate the deferrals among various fund choices, which include an RBC Share Account that tracks the value of RBC common shares. Certain deferrals may also be eligible for matching contributions by the Company. All matching contributions are allocated to the RBC Share Account. Other bonuses may also be paid into the plan. These deferrals and matching contributions vest over a period of zero to five years starting after the plan year.

The Company has hedged its exposure to changes in value of RBC common stock by entering into total return swaps with an affiliate of RBC. Under the Swap agreements, the Company pays interest to the counterparty at a rate based on LIBOR plus .02% to .15% on the notional value, as described in the swap agreements, in exchange for receiving the rate of return of RBC common stock on the notional value. The Company marks these swaps to market and includes resulting gains and losses in other income.

The Company implemented in 2001 a Long Term Incentive Plan to make certain awards based on the value of RBC stock to select key employees of the Company. The awards have been in the form of either stock appreciation rights ("SARs") or share units. The SARs have a five-year term, three-year vesting and an exercise price that is not less than the market price of RBC common shares on the day of grant. Participants choose the exercise date of SARs after vesting, not to be more than five years from the grant date, and payout is in cash. The share units have a vesting provision of up to four years and track the value of RBC common shares. Payout of the share units at vesting is in cash.

## 17. INCOME TAXES

The Company is included in the consolidated federal and state income tax returns filed by RBC Holdings. The Company's provision for income taxes is recorded on the basis of filing a separate income tax return. The Company's effective tax rate differs from the statutory federal rate primarily due to state taxes and nontaxable municipal bond income.

On the basis of filing a separate income tax return, the sale of the Company's CM business line to RBCCM in February 2004 resulted in a taxable gain of \$197.7 million and a deferred income tax liability of \$74.6 million. For income tax purposes, the Company will recognize this deferred tax liability over a period of 15 years as RBCCM amortizes, for income tax purposes, the goodwill associated with this gain. The amortization will result in a current income tax payable to RBC Holdings. In accordance with the inter-company tax-sharing agreement, the Company, RBC Holdings and RBCCM have agreed that the tax benefits related to RBCCM's amortization of the goodwill will flow through RBC Holdings to the Company as an offset to the current tax payable. The impact of this flow-through will be recorded by the Company as additional paid-in capital. For the six months ended April 30, 2005, the Company amortized \$2.5 million of the deferred tax liability. Since the Company and RBCCM are both included in the consolidated federal and most state income tax returns filed by RBC Holdings, there is no current or deferred income tax liability recorded in the consolidated financial statements of RBC relating to the sale of the Company's CM business line.

The tax effects of temporary differences that give rise to deferred tax assets and deferred tax liabilities relate primarily to the sale of the Company's CM business line to RBCCM, compensation accruals not currently deductible, reserves maintained for accounting purposes and goodwill.

The Company has reviewed the components of its net deferred tax asset and has determined that it is more likely than not that the asset will be realized.

\* \* \* \* \*