RBC Dain Rauscher Inc.

Statement of Financial Condition

June 30, 2002

Available for Public Inspection

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Statement of Financial Condition (Unaudited)
June 30, 2002
(In Thousands, except share information)

ASSETS	2002
Cash and cash equivalents	$ 75,022
Receivable from customers	1,419,226
Receivable from brokers, dealers and clearing organizations	456,050
Securities purchased under agreements to resell	338,737
Trading securities owned, at market value	790,365
Equipment and leasehold improvements, at cost, less accumulated depreciation and amortization of $37,147	31,066
Payable to Parent and affiliates, net	41,550
Other receivables	171,472
Income taxes receivable	88,004
Goodwill, net of amortization of $22,017	128,879
Other assets	22,331
Total assets	$ 3,562,702
LIABILITIES AND SHAREHOLDER'S EQUITY	
Customer drafts payable	$ 135,713
Payable to customers	806,930
Payable to brokers, dealers and clearing organizations	779,194
Securities sold under repurchase agreements	240,311
Trading securities sold, but not yet purchased, at market value	353,006
Accrued compensation	243,676
Long-term borrowings	100,000
Other accrued expenses	102,517
Short-term borrowings	81,000
	2,842,347
Liabilities subordinated to claims of general creditors	240,000
	3,082,347
Shareholder's equity:	
Common stock ($.125 par value, 100,000 shares issued and outstanding)	13
Additional paid-in capital	277,250
Accumulated other comprehensive loss	(695)
Retained earnings	203,787
	480,355
Total liabilities and shareholder's equity	$ 3,562,702

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

1. Nature of Business

RBC Dain Rauscher Inc. (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 Company offers full service brokerage and investment banking services to individual, institutional, corporate, and government 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 division. The Company carries all customer accounts of the introducing brokers and extends margin credit to its customers.

On January 10, 2001, Royal Bank of Canada (“RBC”) acquired the Parent in a cash transaction accounted for as a purchase. The Company remains a wholly owned subsidiary of the Parent. On November 1, 2001, the Company changed its name from Dain Rauscher Incorporated to RBC Dain Rauscher Inc.

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

Securities transactions and the related commission revenue and expense are recorded on a settlement date basis, which is not materially different than if transactions were recorded on a trade date.

Trading securities owned, trading securities sold, but not yet purchased and derivative financial instruments are stated at market value. The Company marks securities to market and determines market value by using public market quotations, quoted prices from dealers or recent market transactions, depending upon the underlying security.

The Company may, from time to time, receive equity instruments as compensation for certain underwriting transactions. The Company accounts for these instruments as investments and records them at fair value. The Company also has venture capital investments in securities that are currently non-marketable. These securities, which are accounted for at fair value, are included in other assets. Management has determined that cost generally approximates fair value for these investments. Where the Company has information that makes it likely that fair value is less than cost, the Company will write-down the value of the investments. When the restrictions expire on these investments and they are readily marketable, the Company uses public market quotations to determine fair value. At June 30, 2002, the fair value of these equity instruments and venture capital investments was $3.8 million.

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.

Investment Banking and Underwriting Revenue

Underwriting management fees and the related selling concession are recorded when the transaction is complete and the Company's revenue is reasonably determinable (generally trade date.) Underwriting fee revenue is recorded when determinable, generally 90 days after the transaction closes. Merger and acquisition and other advisory fees are recorded when earned and determinable.

Receivables From and Payables to Customers

Amounts receivable from customers are primarily margin balances. Other customer receivables and payables result from cash transactions. The Company does not include in its statement of financial condition either the securities owned by customers but held by the Company as collateral for margin loans 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

Equipment is 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

Goodwill is primarily related to the 1998 acquisition of Wessels, Arnold & Henderson, LLC. Until December 31, 2001, the Company amortized this goodwill on a straight-line basis over 25 years. Effective January 1, 2002 the Company adopted Statement of Financial Accounting Standards No. 142 and as a result stopped amortizing goodwill. In management's opinion, no impairment exists as of June 30, 2002.

Income Taxes

The Company is included in the consolidated income tax returns filed by the Parent. 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.

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 June 30, 2002.

Use of Estimates

The Company has made certain estimates and assumptions in reporting certain assets and liabilities and the disclosure of contingent liabilities in preparing these 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

	2002 (in thousands)
Receivable from brokers and dealers:	
Deposits for securities borrowed	$ 352,555
Securities failed to deliver	93,425
Clearing organizations, correspondent brokers and other	10,070
	$ 456,050
Payable to brokers and dealers:	
Deposits for securities loaned	$ 678,656
Securities failed to receive	88,667
Clearing organizations, correspondent brokers and other	11,871
	$ 779,194

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. 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.

4. Trading Securities

The market values of trading securities at June 30, 2002 are summarized as follows:

		2002 (in thousands)
Owned:		
U.S. Government and Government agency securities	$	375,936
Municipal securities		254,116
Corporate fixed income and other securities		153,863
Equity securities		6,450
	$	790,365
Sold, but not yet purchased:		
U.S. Government and Government agency securities	$	328,687
Corporate fixed income and other securities		24,319
	$	353,006

Trading securities owned includes $225.1 million of U.S. Government and Government agency securities that were subject to repurchase agreements at June 30, 2002. Trading securities sold, but not yet purchased includes $317.5 million of U.S Government and Government agency securities that were subject to resale agreements at June 30, 2002.

5. Long-Term Borrowings

On August 17, 2001, the Company entered into a $100 million term loan agreement with RBUS LLC, an RBC affiliate. The loan matures on August 10, 2006 with no scheduled principal payments until maturity. Interest is paid quarterly and is based on the 90-day LIBOR rate plus 0.325%.

6. Liabilities Subordinated to Claims of General Creditors

In April 2001, the Company entered into a five-year $240 million subordinated debt agreement with RBUS LLC, an RBC affiliate. The subordinated debt matures in April 2006 with no scheduled principal payments until maturity. Interest is paid quarterly and is based on the 90-day LIBOR rate 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 7), they may not be repaid.

7. 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 integrity 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. 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. 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 regulatory 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 June 30, 2002, the Company had net capital of $183.2 million, or 12.38% of aggregate debit items, which was $153.6 million in excess of 2% of aggregate debit items and $109.2 million in excess of 5% of aggregate debit items. The Company is also subject to the minimum financial requirements of the Commodity Exchange Act, which based on the Company's commodity activity, are below those of the SEC requirements.

8. Commitments and Contingent Liabilities

Leases

The Company leases office space, furniture and communications and data processing equipment under several non-cancelable operating leases. Most office space lease agreements include rate increases and cover payment of real estate taxes, insurance and other expenses of occupancy.

Litigation

The Company is a defendant in various 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 financial condition or 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 financial condition or results of operations.

The Company is involved in three actions concerning The Midwest Life Insurance Company ("MWL"). MWL, a former subsidiary the Company acquired in 1980 and sold in early 1986, issued annuities that were sold primarily through the private client sales force of Dain Bosworth Incorporated, a predecessor broker-dealer. MWL was sold twice subsequent to its 1986 sale by the Company, was relocated from Nebraska to Louisiana by its final owner, Southshore Holding Corp., and was declared insolvent and ordered liquidated by the State of Louisiana in August 1991. Suits against the Company by policyholders and state guaranty associations (which had reimbursed most policyholder losses) followed. The Company settled certain of these cases in late 1998 and early 1999 for a total of approximately $44 million.

The first of the remaining MWL cases was brought against the Company by the liquidator of MWL and is pending in federal court in Louisiana. The complaint alleges violations of the Racketeer Influenced and Corrupt Organizations Act ("RICO") and certain state law claims. The plaintiff is seeking to recover in excess of $59 million in compensatory damages, plus treble damages under RICO, interest, costs, attorneys' fees and other relief. The complaint challenges certain coinsurance transactions between MWL and Central National Life Insurance Company ("Central National," also a defendant) in 1980 and the subsequent reporting of those transactions.

The court referred all claims against Central National to binding arbitration and stayed all proceedings concerning the claims against the Company, including resolution of the Company's motion to dismiss, pending resolution of the Central National claims. In October 2001, prior to commencement of the arbitration, Central National settled all claims against it for a payment of $1.2 million to the liquidator. The stay on the Company proceedings has not yet been lifted.

In the second case, filed in November 1999, the Company seeks to recover from the State of Louisiana the amounts the Company paid in settlement of claims against it, on the ground that intentional and other acts of officials of the Louisiana Insurance Department and the Louisiana Office of Financial Institutions caused the demise of MWL and the Company's losses. The case is pending in the Louisiana state courts. The State has counterclaimed for attorney's fees and losses it may incur in the litigation described below.

In the third and final case, individual Louisiana residents who held Midwest Life policies sued the State, also on the ground that intentional and other acts of officials of the Louisiana Insurance Department and the Louisiana Office of Financial Institutions caused the demise of MWL and their losses. This case began in 1992 and during 2001 the State of Louisiana brought in the Company as a third party defendant. The theory and damages asserted by the State seem to be the same as in the case described above.

9. Off-Balance Sheet Risk

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

The Company has risk management policies that limit the size and risk of securities owned and securities sold, but 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). 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 footnote. 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 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 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 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 that of the related pledged securities. To control these risks, the Company monitors the market value of securities pledged and requires adjustments of collateral levels when 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 or option contracts. Transactions in futures 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.

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. As part of these customer transactions, the Company trades option contracts and also sells borrowed securities on their behalf (short sales). 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 value of collateral to below the amount the Company has loaned, plus interest, before the Company is able to sell the collateral, but due to daily monitoring of valuations and the amount of collateral the Company requires management believes this risk to be minimal.

10. Related Party Transactions

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

11. Employee Benefit Plans

The Company sponsors a retirement plan that covers substantially all full-time employees. For the period ended June 30, 2002 participants could contribute, on a pretax basis, up to 25% of their eligible compensation subject to certain aggregate limitations. In addition, beginning January 1, 2002 participants can contribute up to another 5% of eligible compensation on an after-tax basis. Once eligible, the Company would then match 100% of the first 3% of eligible pre-tax compensation deferred through a fixed matching contribution. At the end of each year, an additional variable matching contribution is determined. The matching rate is applied against the first 3% of eligible pre-tax compensation deferred, and can range from 0 up to 200%. The fixed and variable matching contributions are invested at the direction of the participants.

12. Retention Bonus Pool

In connection with the acquisition of the Parent by RBC, certain officers and key employees of the Company are eligible to participate in a $200 million 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 will fluctuate in value based upon the value of RBC common stock and will be paid in cash upon vesting. These units vest over a period of up to four years from the date of the agreement.

The Company's ultimate cash obligation for the units fluctuates based on the per share market value of RBC common stock. The Company has hedged its exposure to changes in value of RBC common stock by entering into a total return swap (the "Swap") with an affiliate of RBC. Under the Swap agreement, the Company pays interest to the counterparty at a rate based on LIBOR plus 0.32% on the notional value, as described in the Swap agreement, in exchange for receiving the rate of return of RBC common stock on the notional value. The Company recognizes other comprehensive income/loss for changes in the value of the Swap, that relates to the hedged portion of the Pool that has not yet been recognized as compensation expense. At June 30, 2002, $700,000 of expense associated with the Swap is reflected in other comprehensive loss.

13. Income Taxes

In accordance with the inter-company tax sharing agreement, the Company calculates its tax benefit on a separate company basis and the total amount of taxes payable or receivable (current and deferred) are recorded on a net basis.

The tax effects of temporary differences that give rise to deferred tax assets and deferred tax liabilities relate primarily to compensation accruals not currently deductible, reserves maintained for accounting purposes and goodwill.

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