Deloitte & Touche

RBC Dain Rauscher Inc.

(SEC I.D. No. 8-45411)

Consolidated Statement of Financial Condition as of October 31, 2003 and Independent Auditors' Report

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INDEPENDENT AUDITORS' REPORT

Board of Directors and Shareholder
RBC Dain Rauscher Inc.
Minneapolis, Minnesota

We have audited the accompanying consolidated statement of financial condition of RBC Dain Rauscher Inc. and subsidiaries (the "Company") as of October 31, 2003. This consolidated financial statement is the responsibility of the Company's management. Our responsibility is to express an opinion on this consolidated financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. Our procedures included a review of the Company's control activities for safeguarding securities. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such consolidated statement of financial condition presents fairly, in all material respects, the financial position of RBC Dain Rauscher Inc. and subsidiaries at October 31, 2003, in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

December 22, 2003

RBC DAIN RAUSCHER INC.

CONSOLIDATED STATEMENT OF FINANCIAL CONDITION
OCTOBER 31, 2003
(In thousands, except share and per share information)

ASSETS

Cash and cash equivalents (Note 2)	$ 146,188
Receivable from customers (Note 2)	1,321,027
Receivable from brokers, dealers and clearing organizations (Note 3)	131,733
Securities borrowed (Note 3)	556,070
Securities purchased under agreements to resell (Note 2)	251,549
Trading securities owned, at market value (Notes 2 and 4)	857,813
Equipment and leasehold improvements, at cost, net of accumulated depreciation and amortization of $28,615 (Note 2)	30,045
Other receivables (Note 2)	161,530
Income taxes deferred (Notes 2 and 14)	75,612
Goodwill (Note 2)	142,560
Other assets	26,012
Total assets	$ 3,700,139

LIABILITIES AND SHAREHOLDER'S EQUITY

Drafts payable	$ 109,496
Payable to customers (Note 2)	813,009
Payable to brokers, dealers and clearing organizations (Note 3)	139,040
Securities loaned (Note 3)	684,251
Securities sold under repurchase agreements (Note 2)	289,605
Trading securities sold, but not yet purchased, at market value (Notes 2 and 4)	285,518
Accrued compensation	332,828
Income taxes payable (Notes 2 and 14)	20,594
Borrowings from affiliate (Note 6)	100,000
Payable to Parent and affiliates, net (Note 11)	17,095
Other accrued expenses	108,175
	2,899,611
Liabilities subordinated to claims of general creditors	240,000
	3,139,611
Shareholder's equity:	
Common stock ($.125 par value, 100,000 shares authorized, issued and outstanding)	13
Additional paid-in capital	302,250
Accumulated other comprehensive income	7,993
Retained earnings	250,272
	560,528
Total liabilities and shareholder's equity	$ 3,700,139

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

1. 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 division. The Company carries all customer accounts of the correspondent brokers and extends margin credit to these customers. The consolidated statement of financial condition includes the Company and two wholly owned subsidiaries. Intercompany balances and transactions have been eliminated in consolidation.

In March 2003, the Company acquired certain assets and assumed certain liabilities of First Institutional Securities, L.L.C. ("First Institutional"). First Institutional was engaged in the brokerage business of providing investment products to institutional and individual clients. The transaction was accounted for as an acquisition of assets and an assumption of liabilities and resulted in the recognition of $13.7 million of goodwill.

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 are recorded on a settlement date basis, which is not materially different than if transactions were recorded on trade date.

Trading securities owned and trading securities sold, but not yet purchased, including derivative financial instruments, are stated at market value. The Company marks securities to market. 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 may, from time to time, receive equity instruments as compensation for certain underwriting transactions. The Company accounts for these instruments as investments at fair value and includes them in other assets. 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 also included in other assets. Management has determined that, when the investments remain restricted, cost generally approximates fair value and when the restrictions expire on these investments or they are otherwise readily marketable, the Company uses public market quotations or determines fair value though an analysis of financial statements or other sources of financial data.

At October 31, 2003, the fair value of these equity instruments and venture capital investments was $4.4 million.

Stock Borrowed and Stock 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 on the consolidated statement of financial condition. As of October 31, 2003, the fair value of pledged securities was $293.4 million. 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 October 31, 2003, 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, and accommodate customers' needs. 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 October 31, 2003, the fair value of securities received as collateral where the Company is permitted to sell or repledge the securities was $248.3 million, and the fair value of the portion that has been sold or repledged was $240.5 million.

Asset Management Fees—Investment management fees are recognized as services are provided and are accrued monthly based upon assets under management at the beginning of the period. These revenues are determined in accordance with contracts between the Company and retail and institutional clients to which the Company provides fee-based investment management 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**—**Underwriting management fees and the related selling concessions 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.

Receivable from and Payable 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 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**—**Goodwill is primarily related to the 1998 acquisition of Wessels, Arnold & Henderson, 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, 2003 and no impairment loss was recorded as a result of this test. The changes in the carrying amount of goodwill for the year ended October 31, 2003 are as follows:

	Goodwill
Balance—October 31, 2002	$ 128,879
Additions/Changes—	
First Institutional	13,681
Balance—October 31, 2003	$ 142,560

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 October 31, 2003.

***Use of Estimates*—**The Company has made estimates and assumptions in reporting certain assets and liabilities (including trading assets, legal issues and goodwill impairment) and the disclosure of contingent liabilities in preparing this consolidated statement of financial condition, in conformity with accounting principles generally accepted in the United States of America. Actual results could differ from those estimates.

***Recent Accounting Pronouncements*—**In July 2002, the Financial Accounting Standards Board ("FASB") issued SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*, which supersedes prior accounting guidance, Emerging Issues Task Force Issue No. 94-3, *Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)*. SFAS No. 146 prescribes new guidelines for recognition of costs associated with exit or disposal activities. The provisions of SFAS No. 146 are effective for disposal activities initiated after December 31, 2002 and did not have a significant impact on the Company's statement of financial condition.

In November 2002, the FASB issued FASB Interpretation ("FIN") No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*. FIN No. 45 clarifies the requirements for a guarantor's accounting for and disclosure of certain guarantees issued and outstanding. The initial recognition and the initial measurement provisions of FIN No. 45 are applicable to guarantees issued or modified after December 31, 2002. The disclosure requirements of FIN No. 45 are effective for financial statements of interim or annual periods after December 15, 2002. The adoption of FIN No. 45 did not have a significant impact on the Company's statement of financial condition.

In January 2003, the FASB issued FIN No. 46, *Consolidation of Variable Interest Entities, an Interpretation of Accounting Research Bulletin No. 51*. FIN No. 46 explains how to identify variable interest entities and how an enterprise assesses its interests in a variable interest entity to decide whether to consolidate that entity. This Interpretation requires existing unconsolidated variable interest entities to be consolidated by their primary beneficiaries if the entities do not effectively disperse risks among parties involved. FIN No. 46 was scheduled to be effective immediately for variable interest entities created after January 31, 2003, and to variable interest entities in which an enterprise obtains an interest after that date. However, in October 2003, the FASB deferred the effective date of FIN No. 46 to the first interim or annual period ending after December 15, 2003, for variable interest entities in which an enterprise holds a variable interest that it acquired before February 1, 2003. Management believes the adoption of FIN No. 46 will not have a significant impact on the Company's statement of financial condition.

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

	October 31, 2003 (in thousands)
Receivable from brokers, dealers and clearing organizations:	
Securities failed to deliver	$ 117,580
Clearing organizations, correspondent brokers and other	14,153
	$ 131,733
Payable to brokers, dealers and clearing organizations:	
Securities failed to receive	$ 109,987
Clearing organizations, correspondent brokers and other	29,053
	$ 139,040

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 October 31, 2003 are summarized as follows (in thousands):

Owned:	
U.S. Government and Government agency securities	$ 363,874
Municipal securities	292,900
Corporate fixed income and other securities	179,475
Certificates of deposit	17,710
Equity securities	3,854
	$ 857,813
Sold, but not yet purchased:	
U.S. Government and Government agency securities	$ 267,688
Corporate fixed income and other securities	17,830
	$ 285,518

Trading securities owned includes $289.6 million of U.S. Government and Government agency securities that were subject to repurchase agreements at October 31, 2003. Trading securities sold, but not yet purchased includes $251.5 million of U.S. Government and Government agency securities that were subject to resale agreements at October 31, 2003.

5. SHORT-TERM BORROWINGS AND CREDIT FACILITIES

The Company has $590 million in short-term (overnight) credit facilities with non-affiliated banks. These facilities are used to manage short-term liquidity needs. As of October 31, 2003, there was no balance outstanding on these facilities. Interest is paid monthly and is based on the Federal Funds rate.

6. LONG-TERM BORROWINGS

The Company has 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 and is unsecured. Interest is paid quarterly and is based on the 90-day LIBOR rate plus 0.325%.

7. 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 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 8), they may not be repaid.

8. 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 October 31, 2003, the Company had net capital of $337.5 million, or 23.18% of aggregate debit items, which was $308.3 million in excess of 2% of aggregate debit items and $264.7 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.

Also, the Company computes a reserve requirement for the proprietary accounts of introducing brokers ("PAIB"). At October 31, 2003, 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.

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 October 31, 2003, the Company was not required to maintain a balance in the special reserve account.

9. COMMITMENTS AND CONTINGENT LIABILITIES

Leases—The Company leases office space, furniture and communications and information technology equipment under several noncancelable 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.

Aggregate minimum rental commitments (net of noncancelable agreements) as of October 31, 2003 are as follows (in thousands):

Fiscal Year Ending October 31	
2004	$ 44,981
2005	39,890
2006	35,678
2007	30,700
2008	26,842
Thereafter	94,830
Total minimum lease payments	$ 272,921

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 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 two actions concerning former Company subsidiary The Midwest Life Insurance Company ("MWL"). MWL, a former subsidiary the Company acquired in 1980 and which was 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. ("Southshore") 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; certain of these cases were settled in late 1998 and early 1999 for a total of approximately $44 million.

The first of the pending remaining MWL cases was brought against the Company by the liquidator of MWL and is pending in Louisiana federal court in Louisiana. The complaint alleges violations of the Racketeer Influenced and Corrupt Organizations Act ("RICO") and certain state law claims. The liquidator 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 stay on the Company proceedings was lifted; however, at present, this case is not being actively litigated. In the second case, pending in Louisiana state court, 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 acts of Louisiana state officials caused the demise of MWL and the Company's losses. The state has counterclaimed for attorney's fees and losses it may incur in litigation brought against it by individual Louisiana residents who held MWL policies and other policies issued by companies affiliated with MWL's last owner and has moved to dismiss. The state's insurance carriers, who were recently added as defendants, have not yet responded to the Company's claims.

As a result of recent regulatory attention on breakpoints in the sale of mutual fund shares, the NASD issued a Notice-to-Members (August 2003, NtM 03-47), which orders restitution where members are aware that customers did not receive the breakpoint discounts to which they were entitled. The Company has not yet determined the amount of restitution that it will ultimately be required to make, though management does not believe the total amount of restitution will have a material adverse effect on the Company's financial condition and results of operations, although the amounts involved could be substantial.

Regulators at the state and federal level, as well as the Congress, are also investigating the manner in which mutual funds compensate broker-dealers in connection with the sale of the mutual funds' shares by the broker-dealer. 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 possible that such payments may be restricted. Any further resultant action from the task force and regulatory studies concerning mutual funds could negatively affect the Company's financial condition and results of operations.

The Company is involved in a class action suit related to initial public offerings where the Company participated as an underwriter. A sample of "focus" cases will be selected from the total claims brought under the class action suits. The focus cases will go 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 by the plaintiffs. Management does not believe the impact of the class action suit will have a material adverse effect on the Company's financial condition and results of operations, although the amounts involved could be substantial.

10. OFF-BALANCE-SHEET RISK

The Company may enter into transactions involving derivative financial instruments. Derivative financial instruments are defined as a futures, 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. 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). 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 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 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 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 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.

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 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, but due to daily monitoring of valuations and the amount of collateral the Company requires, management believes this risk to be minimal.

Deferred Compensation Hedge**—**As further described in Note 13, the Company has entered into a total return swap. Management monitors exposure on this transaction by evaluating the effectiveness of this hedge on a monthly basis.

11. RELATED PARTY TRANSACTIONS

The Company engages in activities with RBC affiliates, mainly RBUS LLC. The Company entered into a five-year $240 million subordinated debt agreement (Note 7) and a $100 million term loan agreement (Note 6) with RBUS LLC. Also, in the normal course of business, the Company enters into stock borrow and stock loan transactions with RBC Dominion Securities Corp. The value of these activities at October 31, 2003 totaled $69.7 million and $1.7 million, respectively. The Company has also entered into a total return swap with an RBC affiliate (Note 13).

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 payables to the Parent and affiliates of $17.1 million as of October 31, 2003. These payables are primarily allocation of interest and shared expenses from the Parent and RBC.

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

12. EMPLOYEE BENEFIT PLANS

The Company sponsors a retirement plan that covers substantially all full-time employees. 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. Once eligible, the Company matches 100% of the first 3% (fixed) of eligible pretax compensation. At the end of each year, an additional variable matching contribution is determined. The variable matching rate is applied against the first 3% of eligible pretax compensation, and can range from 0% up to 200%. The fixed and variable matching contributions are invested at the direction of the participants. Financial consultants are limited to a total company match of $1,500.

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

13. 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 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 0.093% 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.

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.

14. INCOME TAXES

The Company is included in the consolidated federal and state income tax returns filed by RBC Holdings (USA), Inc. In accordance with the intercompany 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 Company's effective tax rate differs from the statutory federal rate primarily due to state taxes and municipal bond income.

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.

15. SUBSEQUENT EVENT

On December 16, 2003 the Company announced that it had signed a definitive agreement to acquire St. Petersburg, Florida-based William R. Hough & Co., a privately held full-service investment firm that specializes in fixed income products and underwriting primarily in the Southeastern U.S. and Texas. The transaction is subject to regulatory approval and is expected to close in early 2004.

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