RBC CAPITAL MARKETS CORPORATION & SUBSIDIARIES
(A Wholly-Owned Subsidiary of RBC Capital Markets Holdings (USA) Inc.)
(SEC I.D. No. 8-45411)

CONSOLIDATED STATEMENT OF FINANCIAL CONDITION
AS OF OCTOBER 31, 2008
AND
INDEPENDENT AUDITORS' REPORT

A copy of our October 31, 2008 audited statement
of financial condition filed pursuant to Rule 17a-5
under Securities and Exchange Act of 1934 is available
for examination at the New York regional office of the SEC
or our principal office at One Liberty Plaza, 165 Broadway,
New York, NY 10006-1404

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholder of
RBC Capital Markets Corporation
New York, New York

We have audited the accompanying consolidated statement of financial condition of RBC Capital Markets Corporation and subsidiaries (the "Company") as of October 31, 2008. This financial statement is the responsibility of the Company's management. Our responsibility is to express an opinion on this 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 statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement, 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 the Company at October 31, 2008 in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

December 29, 2008

RBC CAPITAL MARKETS CORPORATION & SUBSIDIARIES
(A Wholly-Owned Subsidiary of RBC Capital Markets Holdings (USA) Inc.)

CONSOLIDATED STATEMENT OF FINANCIAL CONDITION
OCTOBER 31, 2008
(In thousands except share and per-share information)

ASSETS	
Cash and cash equivalents	$ 188,023
Cash segregated under Federal and other regulations	1,453,935
Securities purchased under agreements to resell	4,878,915
Securities borrowed	2,711,363
Securities owned, at fair value (includes securities pledged of $5,257,609)	7,639,023
Receivable from broker-dealers and clearing organizations	6,855,374
Receivable from Parent and affiliates	94,850
Receivable from customers	2,437,507
Other receivables	1,815,698
Deferred income taxes	141,239
Fixed assets, at cost, net of accumulated depreciation and amortization of $136,290	282,828
Goodwill	768,054
Intangible assets, net of accumulated amortization of $7,038	17,490
Other assets	624,001
TOTAL ASSETS	$ 29,908,300
LIABILITIES AND STOCKHOLDER'S EQUITY	
Short-term borrowings	$ 2,880,318
Drafts payable	92,100
Securities sold under agreements to repurchase	10,774,511
Securities loaned	654,976
Securities sold, but not yet purchased, at fair value	2,088,782
Payable to broker-dealers and clearing organizations	569,217
Payable to affiliates	1,975,549
Payable to customers	3,600,537
Accrued compensation	893,258
Long-term borrowings with affiliates	600,000
Accounts payable and accrued liabilities	1,834,858
	25,964,106
Liabilities subordinated to claims of general creditors	1,465,000
TOTAL LIABILTIES	27,429,106
Stockholder's Equity:	
Non-voting, non-convertible, non-interest bearing preferred stock, par value $0.10 per share, 100 shares authorized, 1 share outstanding, $10,000 liquidation preference	10
Common stock, par value $0.125 per share, 160,000 shares authorized, 149,118 issued and outstanding	19
Additional paid-in capital	2,202,823
Retained earnings	276,342
TOTAL STOCKHOLDER'S EQUITY	2,479,194
TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY	$ 29,908,300

See notes to the consolidated statement of financial condition.

1. ORGANIZATION AND NATURE OF BUSINESS

RBC Capital Markets Corporation and Subsidiaries (the "Company") is a wholly-owned subsidiary of RBC Capital Markets Holdings (USA) Inc. (the "Parent"), a Delaware corporation. The Parent is ultimately wholly-owned by Royal Bank of Canada ("RBC" or "Ultimate Parent"). The consolidated statement of financial condition includes the Company and its wholly-owned subsidiaries.

The Company is a registered broker-dealer, a Futures Commission Merchant and is a member of the New York Stock Exchange ("NYSE") and other securities and commodities exchanges. The Company offers full-service brokerage and investment banking services to individual, institutional, corporate and governmental clients. In conjunction with those services to its clients, the Company conducts principal trading primarily in municipal bonds and other fixed income securities. The Company provides asset management services for its customers and clearing services to unaffiliated correspondent firms through its RBC Correspondent Services division ("RBC CS"), formerly RBC Dain Correspondent Services. The Company is a clearing broker for affiliated broker-dealers. The Company carries all customer accounts of the correspondent brokers and extends margin credit to these customers.

At the close of business on February 29, 2008, RBC Dain Rauscher Inc. ("RBC Dain") merged with RBC Capital Markets Corporation ("RBCCMC"), an affiliated company. RBC Dain was the surviving legal entity. Immediately following the merger, RBC Dain changed its name to RBC Capital Markets Corporation. The merger was achieved through an exchange of equity interests between enterprises under common control and is accounted for as a related party transaction. In conjunction with this transaction, RBC Dain issued 49,118 shares to acquire all of RBCCMC's outstanding stock. The consolidated statement of financial condition is presented as if the merger occurred on November 1, 2007.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation — The consolidated statement of financial condition includes the accounts of the Company and its subsidiaries. Intercompany transactions and balances are eliminated in consolidation. Additionally, all entities that meet the criteria of a variable interest entity ("VIEs") requiring consolidation under Financial Accounting Standards Board ("FASB") Interpretation No. 46(R), *Consolidation of Variable Interest Entities,* have been consolidated into the statement of financial condition (see Note 21). The Company follows accounting principles generally accepted in the United States of America.

Use of Estimates — The preparation of the consolidated statement of financial condition in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts and disclosure of assets and liabilities (including valuation of certain securities owned and securities sold, but not yet purchased, the outcome of litigation and the carrying amounts of goodwill) and the disclosure of contingent assets and liabilities at the date of the consolidated statement of financial condition. Actual results could differ from those estimates.

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 **—** Proprietary securities transactions in regular-way trades are recorded on trade date, as if they had settled. Profit and loss arising from all securities transactions entered for the account and risk of the Company are recorded on a trade date basis. Customers' securities transactions are reported on a settlement date basis.

Securities owned and securities sold, but not yet purchased, are recorded at fair value. Amounts receivable and payable for securities transactions that have not reached their contractual settlement date are recorded net in the consolidated statement of financial condition.

Resale and Repurchase Transactions **—** Transactions involving purchases of securities under agreements to resell (“reverse repurchase agreements”) or sales of securities under agreements to repurchase (“repurchase agreements”) are accounted for as collateralized financing transactions and are recorded at their contracted resale or repurchase amounts plus accrued interest. 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 reverse repurchase agreements. Collateral is valued daily, and the Company may require counterparties to deposit additional collateral or return collateral pledged when appropriate.

Securities Borrowed and Securities Loaned — Securities borrowed and securities loaned transactions are recorded at the amount of cash collateral advanced or received. Securities borrowed transactions require the Company to deposit cash, securities, letters of credit, or other collateral with the lender. With respect to securities loaned, it is the policy of the Company to receive collateral in the form of cash, securities or other collateral in an amount equal to or in excess of the market value of securities loaned. The Company monitors the market value of securities borrowed and loaned on a daily basis, with additional collateral obtained or refunded as necessary.

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 also files various separate as well as unitary and combined state income tax returns with various members of RBC Holdings consolidated group. The provision for income taxes is calculated as if the Company filed on a separate return basis, and the amount of current tax or benefit calculated is either remitted to or received from RBC Holdings. The amount of current and deferred taxes payable or refundable is recognized as of the date of the financial statements, utilizing currently enacted tax laws and rates.

The Company accounts for income taxes under the asset and liability method prescribed by FASB No. 109, *Accounting for Income Taxes*. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amount of existing assets and liabilities and their respective tax bases using currently enacted tax rates.

The Company adopted the provisions of FASB Interpretation ("FIN") No. 48, *Accounting for Uncertainty in Income Taxes*, on November 1, 2007.

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 student loans of $1.5 billion related to the consolidation of VIEs (see Note 21). Also 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 on a straight-line basis over the term of the loans, which is generally two to ten years.

Stock Based Compensation — The Company accounts for certain stock-based compensation plans in accordance with FASB No. 123(R), *Shared-Based Payments*.

Depreciation and Amortization — Depreciation for equipment and furniture is provided on a straight-line basis using estimated useful lives of one to five years. Leasehold improvements are amortized over the lesser of the economic useful life of the improvement or the term of the lease. Capitalized software costs are amortized based on a straight-line basis over the estimated economic life, generally over three to five years. Depreciation for equipment and furniture and amortization for leasehold improvements and capitalized software commence on the date placed into service.

Memberships in Exchanges — The Company maintains memberships on various domestic exchanges. Exchange memberships owned by the Company are carried at cost. Assessments of the potential impairment of carrying value, in accordance with FASB No. 144, *Impairment and Disposal of Long Lived Assets,* are made periodically. There were no exchange membership impairments in 2008.

Goodwill and Other Intangible Assets — Goodwill primarily relates to the acquisitions of First Institutional Securities, LLC, William R. Hough & Co., Carlin Financial Group ("Carlin"), Daniels & Associates, LP ("Daniels"), Seasongood & Mayer, LLC, and the acquisition of Ferris, Baker Watts, Incorporated ("FBW") and Richardson Barr & Co ("Richardson Barr"). Under the provisions of FASB No. 142, *Goodwill and Other Intangible Assets*, intangible assets acquired in a business combination, which possess finite useful lives, are tested for impairment at least annually. An indicator of impairment of goodwill results if the net book value of the reporting unit exceeds its estimated fair value. The Company performed its annual assessment in August 2008 and no impairment loss was recorded as a result of this assessment.

The changes in the carrying amount of goodwill for the year ended October 31, 2008 are as follows (in thousands):

Balance as of October 31, 2007	$	608,656
Goodwill - Carlin		3,147
Goodwill - Daniels		404
Goodwill - FBW		135,305
Goodwill - Richardson Barr		20,542
Balance as of October 31, 2008	$	768,054

Other intangible assets, which include customer relationships and non-compete agreements, are recorded in other assets and amortized over their estimated useful lives of three to ten years on a straight-line basis.

Recent Accounting Pronouncements —In September 2006, the FASB issued Statement No. 157, *Fair Value Measurements*. FASB No. 157 defines fair value, establishes a framework for measuring fair value and enhances disclosure about fair value measurements. FASB No. 157 nullifies the guidance

provided by the Emerging Issues Task Force on Issue *02-3, Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities* ("EITF 02-3") that prohibits recognition of day one gains or losses on derivative transactions where model inputs that significantly impact valuation are not observable. In addition, FASB No. 157 prohibits the use of block discounts for large positions of unrestricted financial instruments that trade in an active market and requires an issuer to consider changes in its own credit spreads when determining the fair value of its liabilities. FASB No. 157 is effective for the Company's fiscal year beginning November 1, 2008, with earlier adoption permitted. The provisions of FASB No. 157 are to be applied prospectively, except that the provisions related to block discounts and existing derivative financial instruments measured under EITF 02-3 are to be applied as a one-time cumulative effect adjustment to opening retained earnings in the year of the adoption. The Company is currently evaluating the potential impact of adopting FASB No. 157 on its consolidated statement of financial condition.

In February 2007, the FASB issued Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* including an amendment of FASB Statement No. 115. FASB No. 159 is effective for the Company's fiscal year beginning November 1, 2008, with earlier adoption permitted. FASB No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. The Company adopted FASB No. 159 on November 1, 2008 and did not elect the fair value option for any FASB No. 159 for any of its financial instruments.

In December 2007, the FASB issued Statement No. 141(R), *Business Combinations - Revised*. This statement applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. This Statement replaces FASB No. I41, *Business Combinations*. This statement is intended to improve the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial reports about a business combination and its effects. The Company is currently evaluating the potential impact of adopting FASB No. 141(R) on its consolidated statement of financial condition.

In February 2008, the FASB issued FSP No. 157-2, *Effective Date of FASB Statement No. 157,* which delays the effective date of FASB No. 157 for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in an entity's financial statements on a recurring basis (at least annually), to fiscal years beginning after November 15, 2008. The Company is currently assessing the impact of FASB No. 157 on its consolidated statement of financial condition.

In March 2008, the FASB issued Statement No. 161, *Disclosures about Derivative Instruments and Hedging Activities*. This Statement is effective for the Company's fiscal year beginning November 1, 2009. This statement amends the disclosure requirements of FASB No. 133, *Accounting for Derivative Instruments and Hedging Activities*, by requiring qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair values and gains and losses on derivative instruments, and disclosures about credit-risk related contingent features in derivative agreements. FASB No. 161 does not require any new derivative or hedging measurements. The Company is currently evaluating the impact of the adoption of FASB No. 161 on its consolidated statement of financial condition.

In April 2008, the FASB issued FASB Staff Position ("FSP") No. FAS 142-3, *Determination of the Useful Life of Intangible Assets*. This Statement is effective for the Company's fiscal year beginning November 1, 2009. This statement amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FASB

Statement No. 142, *Goodwill and Other Intangible Assets*. The intent of this FSP is to improve the consistency between the useful life of a recognized intangible asset under Statement 142 and the period of expected cash flows used to measure the fair value of the asset under FASB Statement No. 141(R), *Business Combinations,* and other U.S. generally accepted accounting principles. The Company is currently evaluating the impact of the adoption of this statement on its consolidated statement of financial condition.

In October 2008, the FASB issued FSP FAS 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active.* The purpose of FSP FAS 157-3 was to clarify the application of FASB No. 157 for a market that is not active. It also allows for the use of management's internal assumptions about future cash flows with appropriately risk-adjusted discount rates when relevant observable market data does not exist. FSP FAS 157-3 did not change the objective of FASB No. 157 which is the determination of the price that would be received in an orderly transaction that is not a forced liquidation or distressed sale at the measurement date. FSP FAS 157-3 was effective upon issuance, including prior periods for which financial statements had not been issued. The Company is currently assessing the impact of FASB No. 157 on its consolidated statement of financial condition.

3. BUSINESS COMBINATIONS

The Company completed two acquisitions during the year which were accounted for under the purchase method of accounting.

Ferris, Baker Watts, Incorporated ("FBW")

On June 20, 2008, the Company acquired Washington, D.C.-based FBW via a $232.2 million non-cash contribution by its Parent. At the acquisition date, the Company accrued an additional $28.2 million in costs primarily related to severance and professional fees. FBW is a full-service broker-dealer serving individual, corporate and institutional clients, with 42 branch offices in eight states and the District of Columbia, and approximately $19 billion in assets under administration. This acquisition enhances the mid-Atlantic presence of the Company as part of its national wealth management network.

The purchase price of $260.4 million for the acquisition was structured as follows:

- FBW net assets at close - $118.5 million
- Customer relationship intangible assets resulting from acquisition - $6.6 million
- Goodwill resulting from acquisition - $135.3 million

The consideration on the date of acquisition paid by RBC, consisted of RBC common stock, of which $20 million has been placed in an escrow account for payment of claims that arose prior to the acquisition and related expenses.

Richardson Barr & Co ("Richardson Barr")

On August 4, 2008, the Company acquired 100% of Richardson Barr, a leading Houston-based energy advisory firm specializing in acquisitions and divestitures in the exploration and production sector. This acquisition gives the Company the ability to provide its private company clients a complete range of financing and merger & acquisition support, as well as ready access to strong public company

relationships, solid financial resources, and expanded product capabilities in equity, high yield, loan syndications, private placement, and convertibles.

The purchase price of $24.9 million, paid fully in cash, for the acquisition was structured as follows:

- Richardson Barr net assets at close - $2.9 million
- Non-compete intangible assets resulting from acquisition - $1.5 million
- Goodwill resulting from acquisition - $20.5 million

Payments contingent on the employment of several key employees total $10.8 million over the next three years.

4. CASH SEGREGATED UNDER FEDERAL AND OTHER REGULATIONS

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, 2008, the Company had a balance of $1.5 billion in the special reserve account, which represented $800.0 million for the Company, $579.8 million for FBW and $72.3 million for the VIEs.

The Company also computes a reserve requirement for the proprietary accounts of introducing brokers (“PAIB”). Based on this calculation, at October 31, 2008, the Company was not subject to a deposit requirement.

Cash of approximately $2.1 million has been segregated under the Commodity Exchange Act.

5. RELATED PARTY TRANSACTIONS

The Company provides certain services related to securities transactions with its Parent and other affiliates. The Company also manages the business affairs of certain of its affiliates under agency agreements, and acts as a computation agent, accounting resource, risk manager and legal representative for affiliates under technical service agreements.

RBC USA Holdco Corporation (“Holdco”), the parent company of RBC Capital Markets Holdings (USA) Inc., guarantees the due and punctual performance of all obligations to the New York Clearing Corporation arising out of accounts cleared by the Company.

In addition to the affiliate receivables and payables disclosed on the statement of financial condition or in other disclosures, the Company had the following outstanding receivables and payables with affiliates (in thousands):

	Receivable	Payable
Securities purchased under agreements to resell	$ 1,571,862	$ -
Securities sold under agreements to repurchase	-	2,002,780
Securities borrowed	216,049	-
Securities loaned	-	261,272
Receivable from brokers-dealers and clearing organizations	4,380,345	-
Short-term borrowings	-	2,880,318

6. RECEIVABLE/PAYABLE FROM/TO BROKER-DEALERS AND CLEARING ORGANIZATIONS

Amounts receivable from and payable to broker-dealers and clearing organizations at October 31, 2008, consisted of the following (in thousands):

	Receivable	Payable
Receivable from RBC Capital Markets Arbitrage S.A. (an affiliate)	$ 4,380,345	$ -
Trade date/settlement date accrual	466,415	-
Deposits with/payable to broker-dealers and clearing organizations	711,777	89,150
Fails to deliver/receive	1,296,837	480,067
	$ 6,855,374	$ 569,217

7. SECURITIES OWNED AND SECURITIES SOLD, BUT NOT YET PURCHASED

Securities owned and securities sold, but not yet purchased, at October 31, 2008 consisted principally of trading securities at fair value as follows (in thousands):

	Owned	Sold, But Not Yet Purchased
U.S. and Canadian government agency obligations	$ 2,329,747	$ 1,415,401
State and municipal obligations	1,550,848	665
Corporate obligations	2,204,358	471,327
Equities and warrants	114,229	102,086
Commercial paper	595,558	99,136
Money market funds	693,161	-
Other	151,122	167
	$ 7,639,023	$ 2,088,782

The Company pledges its securities owned to collateralize repurchase agreements and other securities financing. Pledged securities that can be sold or repledged by the secured party are parenthetically disclosed in securities owned on the consolidated statement of financial condition.

At October 31, 2008, the fair value of securities received as collateral where the Company is permitted to sell or repledge the securities was approximately $9.3 billion, and substantially all has been sold or repledged.

8. FIXED ASSETS

The Company's fixed assets at October 31, 2008, consisted of the following (in thousands):

Furniture and equipment	$ 39,728
Computer equipment and software	193,424
Leasehold improvements	140,381
Land	59
Work in Progress	45,526
	419,118
Accumulated depreciation and amortization	(136,290)
Net fixed assets	$ 282,828

Depreciation and amortization for work in progress begins when the assets are placed in service.

9. INTANGIBLE ASSETS

The Company's intangible assets at October 31, 2008 consisted of the following (in thousands):

Customer relationships	$	23,058
Non-compete		1,470
		24,528
Accumulated amortization		(7,038)
Net intangible assets	$	17,490

Other intangible assets, which include customer relationships and non-compete intangible assets, are amortized over their estimated useful lives of three to ten years on a straight-line basis.

10. OTHER ASSETS

Other assets, at October 31, 2008, consist of the following (in thousands):

Dividend and interest receivables	$	241,529
Investment in wealth accumulation plan		206,152
Current income taxes		137,035
Other assets		39,285
Total other assets	$	624,001

11. INCOME TAXES

The Company is included in the consolidated federal income tax returns filed by RBC Holdings. The Company also files various separate as well as unitary and combined income tax returns with various members of RBC Holdings consolidated group. In accordance with the intercompany tax-sharing agreement, the Company calculates its taxes on a separate company basis and the total amount of taxes payable or receivable (current and deferred) are recorded on a net basis. Income taxes currently payable or receivable are paid to or received from RBC Holdings. Members of the combined group received tax benefits for the utilization of their tax attributes.

The Company's tax rate differs from the statutory Federal rate primarily due to tax exempt income, state and local taxes and the disallowance of meals and entertainment expenses.

At October 31, 2008, the Company had net deferred tax assets of $141.2 million. The tax effects of temporary differences that gave rise to deferred tax assets and liabilities relate primarily to compensation expense, reserves and goodwill. The Company has $8.9 million of foreign tax credits carryover, which will expire in 2014-2018. It is projected that $2.5 million of the foreign tax credits will be utilized by October 31, 2009. Thus, a valuation allowance of $6.4 million has been established against the foreign tax credits carryover not projected to be utilized by October 31, 2009.

The Company has a branch in Canada. Accordingly, it is subject to Canadian federal and provincial taxes on the net income of the branch.

On November 1, 2007, the Company adopted FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109 (*"FIN 48"). FIN 48 provides specific guidance on the recognition, de-recognition, measurement and disclosure of income tax positions in financial statements, including the accrual of related interest and penalties. Under FIN 48, income tax benefits are recognized and measured based on a two-step model: (i) a tax position must be more-likely-than-not of being sustained where "more-likely-than-not" means a likelihood of more than 50%, and (ii) the benefit is measured as the dollar amount of the position that is more-likely-than-not of being realized upon ultimate settlement with a taxing authority. The difference between the tax benefit recognized in accordance with the FIN 48 model and the tax benefit claimed on a tax return in referred to as an unrecognized tax benefit ("UTB"). A reconciliation of the change in the UTB balance (excluding any related accrual for interest) from November 1, 2007 to October 31, 2008 is as follows (in thousands):

Unrecognized Tax Benefits as at October 31, 2007	$54,681
Add: Increases related to positions taken during prior years	-
Add: Increases related to positions taken during current year	-
Add: Positions acquired or assumed in business combinations	-
Less: Decreases related to positions taken during prior years	(13,092)
Less: Settlements	-
Less: Expiration of statute of limitations	-
Unrecognized Tax Benefits as at October 31, 2008	$41,589

As at October 31, 2008 and November 1, 2007, the balances of the Company's UTBs, excluding any related accrual for interest, were $41.6 million and $54.7 million, respectively, of which $41.6 million and $54.7 million, respectively, if recognized, would affect the Company's effective tax rate. It is difficult to project how unrecognized tax benefits will change over the next 12 months.

The adoption of FIN 48 had no material impact on our retained earnings or goodwill as at November 1, 2007.

The following are the major tax jurisdictions in which the Company operates and the earliest tax year subject to examination.

Jurisdiction	Tax Year
Canada	2003
United States	2003

12. 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 payments of real estate taxes, insurance, and other occupancy expenses. At October 31, 2008, the aggregate future minimum rental payments were as follows (in thousands):

Year	
2009	$ 80,076
2010	72,974
2011	62,871
2012	56,815
2013	46,181
Thereafter	180,532
Total	$ 499,449

Exchange Memberships

The Company is a member of several exchanges and clearinghouses. Under the standard membership agreements, members are generally required to guarantee the performance of other members. Under the

agreements, if a member becomes unable to satisfy its obligations to the clearinghouse, other members would be required to meet shortfalls. To mitigate these performance risks, the exchanges and clearinghouses often require members to post collateral. The Company's maximum potential liability under these arrangements cannot be quantified. However, the potential for the Company to be required to make payments under these arrangements is unlikely. Accordingly, no contingent liability was recorded for these arrangements at October 31, 2008.

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 statement of financial condition 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 statement of financial condition.

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. On December 5, 2006, the Court of Appeals for the Second Circuit held that six focus cases in the litigation could not be certified as class actions, although on April 9, 2007, the Court held on reconsideration that the plaintiffs could try to certify a "more modest class, one as to which the Rule 23 criteria might be met, according to the standards we have outlined". Rule 23 is the rule in the Federal Rules of Civil Procedure relating to certification of class actions. Management does not believe the impact of this matter will have a material adverse effect on the Company's consolidated statement of financial condition, although the amounts involved could be substantial.

The Company is a defendant in a purported class action lawsuit related to claims by financial consultants that they were entitled to compensation for vesting under certain benefit plans and for overtime under certain state and federal laws. Management does not believe the impact of this matter will have a material adverse effect on the Company's consolidated statement of financial condition, although the damages claimed by the plaintiffs are substantial.

Repurchase offer of Auction Rate Securities ("ARS")

On October 8, 2008, the Company announced that, as part of an agreement in principle to settle with the U.S. regulators, the Company will offer to purchase, at par, for a six-month period beginning no later than December 15, 2008, ARS held by retail brokerage clients that are qualified for the repurchase offer. Qualifying clients who sold eligible ARS below par between February 11, 2008 and October 8, 2008 will be paid the difference between par and the price of the sale.

The repurchase offer represents notional amounts of approximately $850 million as at October 31, 2008. The ultimate financial impact of the repurchase offer will depend on the number of clients who accept the repurchase offer and market conditions at the time they accept. In addition, the Company will also continue to work with issuers and other interested parties to provide liquidity solutions for institutional investors not covered by the repurchase offer.

13. SHORT-TERM BORROWINGS

The Company has $1.2 billion in short-term (overnight) credit facilities with non-affiliated banks. These facilities are used to manage short-term liquidity needs. As of October 31, 2008, there was no outstanding balance under these facilities. Interest is paid monthly and is based on a floating rate of the federal funds rate plus a variable spread which averages 0.50%.

The Company has an $850.0 million short-term (overnight) credit facility with RBC. This facility is used to manage short-term liquidity needs. As of October 31, 2008, there was $480.0 million outstanding balance under this facility. Interest is paid daily and is based on a floating rate of the federal funds rate plus 0.30% (0.52% at October 31, 2008).

The Company has a revolving credit agreement with RBC. The Company amended this facility at various times during the year, with the amounts available ranging from $900.0 million to $5.0 billion. At October 31, 2008, the amount available was $4.0 billion and there was $2.4 billion outstanding under this facility. Interest is paid monthly and is based on a floating rate of 30-day LIBOR, as of each reset date, plus 0.63% (5.01% at October 31, 2008). Loans under this facility are unsecured.

14. LONG-TERM BORROWINGS FROM AFFILIATES

The Company has a $600 million term loan agreement with RBUS2 LLC, an RBC affiliate. The loan matures on April 4, 2011, with no scheduled principal payments until maturity and is unsecured. Interest is paid quarterly and is based on a floating rate of 90-day LIBOR, as of each reset date, plus 0.40% (4.61%) at October 31, 2008.

15. LIABILITIES SUBORDINATED TO CLAIMS OF GENERAL CREDITORS

The borrowings under subordination agreements at October 31, 2008, are as follows (in thousands):

Subordinated debt entered into on August 29, 2008 with RB U.S. Finance LLC, a wholly-owned subsidiary of the Ultimate Parent, maturing on August 31, 2011, with interest rate of 3 months LIBOR plus 1.46% (5.22% at October 31, 2008)	$ 525,000
Subordinated debt entered into on March 31, 2008 with RBC USA Holdco Corporation, maturing on March 31, 2011, with interest rate of LIBOR plus 0.50% (4.26% at October 31, 2008)	350,000
Subordinated debt entered into on May 30, 2008 with RB U.S. Finance LLC, a wholly-owned subsidiary of the Ultimate Parent, maturing May 31, 2011, with interest rate of 3 months LIBOR plus 1.25% (4.05% at October 31, 2008)	100,000
Subordinated debt entered into on September 7, 2006, maturing on September 30, 2009, with RBUS2 LLC, with interest rate of 3 months LIBOR plus 0.60% (4.36% at October 31, 2008)	79,000
Subordinated debt entered into on September 12, 2006, maturing on September 30, 2009, with RB U.S. Finance LLC, a wholly-owned subsidiary of the Ultimate Parent, with interest rate of 3 months LIBOR plus 0.60% (4.36% at October 31, 2008)	71,000
Subordinated debt entered into on October 28, 2005, with RB U.S. Finance LLC, a wholly-owned subsidiary of the Ultimate Parent, renewable annually, with interest rate of 3 months LIBOR plus 0.58% (4.09% at October 31, 2008)	100,000
Subordinated debt entered into on October 17, 2005 with RB U.S. Finance LLC, a wholly-owned subsidiary of the Ultimate Parent, maturing on October 31, 2010 with interest rate of LIBOR plus 0.75% (5.30% at October 31, 2008)	240,000
Total	$ 1,465,000

All liabilities subordinated to claims of general creditors are covered by agreements approved by the New York Stock Exchange and are available for computing the Company's net capital pursuant to the Securities and Exchange Commission's uniform net capital rule. To the extent that such liabilities are required for the Company's continued compliance with minimum net capital requirements they may not be repaid (see Note 20).

16. STOCKHOLDER'S EQUITY

The Company has authorized 160,000 shares of common stock and issued 149,118 shares of common stock to the Parent, at $0.125 par value.

The Company has authorized 100 shares and issued one share of non-voting, non-convertible, non-interest bearing preferred stock, with liquidation preference of $10 thousand, that was purchased by RBC Capital Markets Arbitrage S.A. ("CMA") with par value of $0.10 per share.

The Company received $1.3 billion of capital contributions from the Parent. These contributions were utilized by the Company to support its regulatory capital requirements, the merger of RBCCMC and RBC Dain, and the acquisitions of FBW and Richardson Barr.

17. EMPLOYEE BENEFIT PLAN

The Company sponsors a defined contribution retirement plan, the RBC-U.S.A. Retirement and Savings Plan (the “Plan”), available to substantially all full-time employees. Participants may contribute both on a pre-tax and/or Roth 401(k) basis, up to 50% of their eligible compensation subject to certain aggregate limitations. Participants who are at least age 50 may make additional pre-tax 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 up to a maximum of 6% of the eligible pre-tax and/or Roth 401(k) contributions, which is invested at the direction of the participants. Financial consultants are limited to a total company match of $1.5 thousand. Company matching contributions gradually vest over five years of service with RBC or any of its subsidiaries.

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

18. DEFERRED COMPENSATION & BENEFIT PLANS

Pension Plan

Effective October 31, 2002, the Company merged its defined benefit pension plan into the Pension Plan for United States Dollar-Based Employees of Royal Bank of Canada and Affiliates (the “RBC Plan”). The RBC Plan sponsored by the Ultimate Parent covers employees of the Company meeting certain eligibility requirements prior to December 31, 1996. Effective December 31, 1996, the plan was frozen. Under this curtailment, the plan will continue to exist but no further benefits will accrue to the participants.

Wealth Accumulation Plan

The Company maintains a non-qualified deferred compensation plan for key employees under an arrangement called the RBC US Wealth Accumulation Plan. 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. The fair value of matching contributions is based on quoted market prices. Other bonuses may also be paid into the plan. Employee deferrals are immediately 100% vested and matching contributions and/or bonuses can vest over a period of zero to five years starting after the plan year. Employees are entitled to the investment returns on their balances based on the performance of the funds they select as well as RBC common shares.

In connection with its obligations under the RBC US Wealth Accumulation Plan, the Company has purchased shares of the various funds offered in the Plan. These investments, which had a market value of $206.2 million at October 31, 2008, are included in other assets. The Company also entered into a total return swap with an affiliate of RBC related to its RBC Share Account obligation under the Plan, which expires in March 2009. Under the swap agreement, the Company pays interest to the counterparty at a rate based on 30 day LIBOR plus 0.02% on the notional value in exchange for receiving the rate of return on RBC common stock on the notional value.

At October 31, 2008, the Company had liability for these plans of $514.9 million.

Performance Deferred Share Plan

The Company maintains a Performance Deferred Share Plan to make certain awards to select key employees of the Company. Prior to December 2006, the awards consisted of RBC common shares that vest three years from the date of grant. The fair value of the awards is based on the quoted market price of the shares at the date of the grant. The grants are 50% fixed and 50% variable performance-based awards. For the performance-based award, the ultimate number of RBC common shares earned by the employee may be increased or decreased by 50% depending on RBC's total shareholder return compared to a peer group of North American financial institutions, as defined in the plan. In connection with the Performance Deferred Share Plan grants prior to December 2006, the Company holds the unvested RBC common shares as custodian for the employees. The Company records the awards as a liability over the vesting period and adjusts its liability to reflect changes in the fair value of the common shares. As of October 31, 2008, $2.5 million of RBC common shares were held by the Company and are recorded as other assets.

Beginning in December 2006, the Company began making Performance Deferred Share Plan awards in the form of phantom shares. The fair value of the phantom shares is based on the quoted market price of RBC common shares. Upon vesting, all amounts are paid to employees in cash based on the market value of the phantom shares. The remaining terms of these phantom share grants are consistent with the RBC common share grants discussed above. The Company entered into total return swaps with an affiliate of RBC related to its phantom share obligation under the Plan, which expire in December 2009 and December 2010. Under the swap agreements, the Company pays interest to the counterparty at a rate based on 90 day LIBOR plus 0.02% on the notional value in exchange for receiving the rate of return on RBC common stock on the notional value.

A summary of the status of the Company's non-vested phantom shares as of October 31, 2008, and changes during the year ended October 31, 2008, is presented below:

Non-vested Phantom Shares	Shares	Fair Value
Non-vested — October 31, 2007	251,937	59.16
Granted	109,045	52.42
Vested	(102,824)	52.68
Forfeited	(6,272)	38.73
Non-vested — October 31, 2008	251,886	38.73

The share-based liabilities paid in cash during fiscal year 2008 were $1.4 million. The total fair value of shares vested during the year was $5.4 million.

Omnibus and Functional Unit Plan

The Company also maintains an Omnibus and Functional Unit Plan ("FUP") to make certain awards to select key employees of the Company. The awards consist of RBC common shares that vest two to five years from the date of grant. The fair value of the awards is based on quoted market prices.

A summary of the status of the Company's non-vested RBC common shares in the Omnibus and FUP as of October 31, 2008, and changes during the year ended October 31, 2008, is presented below:

Non-vested RBC Common Shares	Shares	Fair Value
Non-vested — October 31, 2007	102,226	59.16
Granted	19,952	50.63
Vested	(27,906)	41.86
Forfeited	(6,524)	38.73
Non-vested — October 31, 2008	87,748	38.73

The share-based liabilities paid during fiscal year 2008 were nil and the total fair value of shares vested during the year was $1.2 million.

19. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities, at October 31, 2008, consist of the following (in thousands):

Payable to variable interest entities bondholders (see Note 21)	$ 1,388,700
Non-trade accounts payable	89,638
Deferred revenue	48,115
Interest payable	38,361
Money market fund customers reserve	35,000
Accrued rent reserve	27,661
Legal accruals	22,632
Other liabilities	184,751
Total accounts payable and accrued liabilities	$ 1,834,858

20. NET CAPITAL REQUIREMENTS

The Company is subject to the Securities and Exchange Commission Uniform Net Capital Rule (Rule 15c3-1), which requires the maintenance of minimum net capital. The Company has elected to use the alternative method, permitted by the rule, which requires that the Company maintain minimum net capital, as defined, equal to the greater of $1.5 million or 2% of aggregate debit balances arising from customer transactions, as defined.

The Company is also subject to the Commodity Futures Trading Commission's minimum financial requirements (Regulation 1.17) which require that the Company maintain net capital, as defined, equal to 8% of the total risk margin requirement for positions carried in customer accounts and 4% of the total risk margin requirement for positions carried in noncustomer accounts, as defined. In addition, the NYSE may require a member firm to reduce its business if net capital is less than 4% of aggregate debits and may prohibit a firm from expanding its business if net capital is less than 5% of aggregate debits. At October 31, 2008, the Company had net capital of $759.4 million, which was $620.6 million in excess of the required minimum net capital.

The Company does not receive flow through capital benefits from any of its consolidated broker-dealers. FBW is required to maintain separate net capital requirement established by the regulators. At October 31, 2008, FBW had net capital of $35.3 million, which was $32.7 million in excess of the required minimum net capital.

To allow RBC CMA to classify its assets held by the Company as allowable assets in their computation of net capital, the Company computes a separate reserve requirement for PAIB.

21. VARIABLE INTEREST ENTITIES

Structured Finance Variable Interest Entities

In 2008, the Company purchased ARS from entities which funded their long-term investments in student loans by issuing short-term senior and subordinated notes. Certain of these entities are VIEs. Principal and accrued interest on the student loans are largely guaranteed by government agencies. In the Company's role as auction remarketing agent to these entities, the Company is under no legal obligation to purchase the notes issued by these entities in the auction process. The Company holds significant variable interests in certain unconsolidated entities. The Company consolidates the entities where our investments expose us to a majority of the expected losses.

The following table provides information about VIEs as of October 31, 2008, in which the Company has significant variable interests, and those the Company consolidate because the Company is the primary beneficiary (in millions):

	Total assets	Maximum exposure to loss
Unconsolidated VIEs in which we have significant variable interests (1)		
Structured finance VIEs	$ 7,205	$ 2,781
	$ 7,205	$ 2,781
Consolidated VIEs (2)		
Structured finance VIEs	$ 1,579	$ -
	$ 1,579	$ -

(1) The maximum exposure to loss resulting from our significant variable interests in these VIEs consists of investments.

(2) Investors have recourse only to the assets of the related VIEs and do not have recourse to our general assets unless we breach our contractual obligations relating to those VIEs.

22. FAIR VALUE OF FINANCIAL INSTRUMENTS

Substantially all of the Company's assets and liabilities are carried at fair value or contracted amounts, which approximate fair value.

Securities owned and securities sold, but not yet purchased, are carried at fair value. Fair value is generally based on quoted market prices. If quoted market prices are not available, fair value is determined based on other relevant factors, including dealer price quotations, price activity for equivalent securities and valuation pricing models.

Assets, which are recorded at contracted amounts approximating fair value, consist largely of short-term collateralized receivables, including securities sold under agreements to resell, securities borrowed and certain other receivables. Similarly, the Company's short-term liabilities, consisting of bank loans, repurchase agreements, securities loaned and certain other payables, are recorded at contracted amounts

approximating fair value. These instruments generally have variable interest rates and short-term maturities, in many cases overnight, and accordingly, are not materially affected by changes in interest rates.

The carrying amount of liabilities subordinated to claims of general creditors closely approximates fair value based upon market rates of interest available to the Company at October 31, 2008.

23. FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

In the normal course of business, the Company's clearance activities involve the execution, settlement and financing of various customer securities transactions. These activities may expose the Company to off-balance sheet credit risk in the event the customer or other broker is unable to fulfill its contractual obligations. In the event the customer fails to satisfy its obligations, the Company may be required to purchase or sell securities at prevailing market prices in order to fulfill the customer's obligations.

The Company enters into collateralized reverse repurchase and repurchase agreements and securities borrowing and lending transactions which may result in credit exposure in the event the counterparty to the transaction is unable to fulfill its contractual obligations. The Company attempts to minimize credit risk associated with these activities by monitoring counterparty credit exposure and collateral values on a daily basis and requiring additional collateral to be deposited with or returned to the Company when deemed necessary.

Securities sold, but not yet purchased, represent obligations of the Company to deliver specified securities at contracted prices, thereby creating an obligation to purchase the securities in the market at prevailing prices. Consequently, the Company's ultimate obligation to satisfy the sale of securities sold, but not yet purchased, may exceed the amounts recognized in 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. 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.

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 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.

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.