

Corporate governance

Royal Bank of Canada is a business founded on ethical priorities. Our Code of Conduct, adopted by the Board of Directors, expresses fundamental principles that guide the board in its deliberations and shape the organization's business activities worldwide. The Code applies to members of the board, the Chief Executive Officer, the Chief Financial Officer and all employees throughout the organization. It incorporates our guiding principles: upholding the law, honouring trust, fairness, objectivity, confidentiality, integrity, and corporate and individual responsibility. It creates a frame of reference for dealing with sensitive and complex issues, and provides for accountability if standards of conduct are not upheld.

To ensure adherence to the principles outlined in the Code of Conduct, the board has approved the establishment and mandate of an Ethics and Compliance Committee, composed of senior management. This committee has responsibility for ensuring that appropriate policies and management systems are effectively implemented.

Royal Bank's business goal is to build client relationships, and by doing so to benefit our shareholders, our employees and the communities where we do business. To this end, our corporate governance practices are designed to support the ability of the Board of Directors to supervise management and enhance long-term shareholder value.

As a Canadian financial services company with common shares listed on the Toronto Stock Exchange (TSX), Royal Bank meets or exceeds the TSX guidelines for effective corporate governance (the TSX Guidelines).

A more detailed description of our corporate governance practices, including disclosure required by the TSX Guidelines, can be found in Schedule 'C' of the Management Proxy Circular issued in connection with the 2004 Annual Meeting (the Circular).

Our common shares are also listed on the New York Stock Exchange (NYSE). As a non-U.S. company, we are not required to comply with most of the NYSE corporate governance listing standards (the NYSE Rules), and instead may comply with Canadian governance practices. However, except as summarized on our Web site, our governance practices comply with the NYSE Rules in all significant respects.

Royal Bank is subject to various requirements governing the independence of board and committee members, including those imposed by the *Bank Act* (Canada), the TSX and the *Sarbanes-Oxley Act of 2002*. Royal Bank is in compliance with the requirements of the *Bank Act* which limit the number of affiliated directors. Currently, only 2 of the 17 persons proposed for election to the board at the 2004 Annual Meeting are affiliated with Royal Bank. We are also in compliance with standards in the TSX Guidelines regarding unrelated directors, and comply voluntarily with NYSE Rules regarding director independence. To assist in making determinations as to the independence of members of the Board of Directors and its committees, the board has adopted categorical standards of independence expressed in our Director Independence Policy, set out on our Web site and as Appendix '1' to Schedule 'C' to the Circular. A director who qualifies as independent under this policy is both "unrelated" to Royal Bank within the meaning of the TSX Guidelines and "independent" under the NYSE Rules. Currently, only 3 of the 17 persons proposed for election to the board at the 2004 Annual Meeting do not qualify as independent under this policy. More detailed information on the independence status of individual directors is provided in the Circular.

An independent director acts both as Chairman of the Board and as Chair of the Corporate Governance and Public Policy Committee. Following every board meeting, the Chairman chairs sessions attended only by non-management directors. Annually, the Chairman chairs sessions attended only by independent directors. Board policy permits no more than two board members from management.

The Corporate Governance and Public Policy Committee reviews the composition and the charters of the board's four committees. These charters are summarized on page 113. The Board of Directors also has a written charter setting out its key functions.

Our governance Web site at rbc.com/governance sets out the Code of Conduct, position descriptions for the Chairman of the Board and for the President & CEO, the charters of the Board of Directors and its committees, the Director Independence Policy and a summary of significant differences between the NYSE Rules and Royal Bank's governance practices. Printed versions of these documents are also available upon request to the Corporate Secretary.

Charter of the Board of Directors

The role of the board has two fundamental elements: decision-making and oversight. The decision-making function is exercised with respect to the formulation with management of fundamental policies and strategic goals and through the approval of certain significant actions; the oversight function concerns the review of management decisions, the adequacy of systems and controls and the implementation of policies.

The Board of Directors establishes formal delegations of authority, defining the limits of management's power and authority and delegating to management certain powers to manage the business of the bank. The delegations of authority conform to statutory limitations specifying responsibilities of the board that cannot be delegated to management. Any responsibilities not delegated to management remain with the Board of Directors and its committees.

Among the board activities that derive from these responsibilities are:

1. Strategic planning process

- Supervising the formulation of the strategic direction, plans and priorities of the bank
- Monitoring implementation and effectiveness of the approved strategic and operating plans
- Reviewing and approving the corporate financial goals and operating plans and actions of the bank, including capital allocations, expenditures and transactions which exceed threshold amounts set by the board
- Approving major business decisions

2. Identification and management of risks

- Ensuring that processes are in place to identify the principal risks of the bank's business
- Reviewing the systems that are implemented by management to manage those risks
- Reviewing the processes that ensure respect for and compliance with applicable regulatory, corporate, securities and other legal requirements

3. Succession planning and evaluation of management performance

- Supervising the succession planning processes of the bank, including the selection, appointment, development, evaluation and compensation of the Chairman of the Board, the Chief Executive Officer and the top management team

4. Oversight of communications and public disclosure

- Assessing the effectiveness of the bank's communications policy
- Overseeing establishment of processes for accurate, timely and full public disclosure
- Reviewing due diligence processes and controls in connection with certification of the bank's financial statements

5. Internal controls

- Reviewing the effectiveness of the bank's internal controls and the bank's management information systems
- Establishing the bank's values, as set out in policies expressed in the Code of Conduct
- Reviewing the bank's financial statements and overseeing its compliance with applicable audit, accounting and reporting requirements
- Approving dividends, as well as capital allocations, expenditures and transactions which exceed threshold amounts set by the board

6. Governance

- Establishing appropriate structures and procedures to allow the board to function independently of management
- Establishing board committees and defining their mandates to assist the board in carrying out its roles and responsibilities
- Undertaking regular evaluation of the board, its committees and its members, and reviewing its composition with a view to the effectiveness and independence of the board and its members

Summary of charters and activities of board committees

The board delegates certain work to board committees. This allows in-depth analysis of issues by the committees and more time for the full board to discuss and debate items of business. As noted above, complete charters of the board committees are available on our governance Web site.

Audit Committee

- Reviews matters prescribed by the *Bank Act* (including annual and quarterly financial statements) and by SEC regulations, as well as returns specified by the Superintendent of Financial Institutions Canada, the annual information form, the annual and quarterly management's discussion and analysis and earnings press releases.
- At least quarterly, meets separately with the external auditors, the Chief Internal Auditor and management to discuss any matters they deem appropriate
- Recommends to the shareholders the appointment of the external auditors and has sole authority to approve all audit engagement fees and terms as well as the provision of any legally permissible non-audit services provided by the external auditors
- Oversees the work of the external auditors (and any other registered public accounting firm performing audit, review or attestation services), including resolution of disagreements between management and the external auditors regarding financial reporting, and reviews with the external auditors any audit problems or difficulties and management's response
- Reviews with the external auditors the annual audit plan, the results of the audit, and the qualifications, independence and objectivity of the external auditors, including formal written statements delineating relationships between the external auditors and Royal Bank that may impact on such independence and objectivity
- Evaluates the lead audit partner and discusses rotation of the lead audit partner and other active audit engagement team partners
- Reviews hiring policies concerning employees or former employees of the external auditors
- Requires management to implement and maintain appropriate systems of internal control and meets with the Chief Internal Auditor and management to assess the adequacy and effectiveness of those systems
- Reviews the annual internal audit plan and duties, responsibilities, performance, degree of independence, objectivity and staffing of the internal audit function
- Reviews the mandate of and concurs in the appointment of the Chief Internal Auditor and meets with the Chief Internal Auditor to review any significant issues reported to management and management's responses to any such reports
- Discusses major issues concerning accounting principles and financial statement presentations
- Discusses steps taken to monitor and control major financial risk exposures
- Establishes procedures regarding complaints received regarding accounting or auditing matters and for the submission by employees of concerns regarding accounting or auditing matters
- Reviews any reports concerning material violations submitted pursuant to attorney professional responsibility rules
- Reviews investments and transactions, as identified by the external auditors or management, that could adversely affect the well-being of Royal Bank
- Reviews reports on significant litigation and regulatory compliance matters and prospectuses relating to the issue of securities of Royal Bank
- Reviews internal controls and the control environment and policies related to liquidity management and capital management in compliance with the Canada Deposit Insurance Corporation Standards of Sound Business and Financial Practices (the CDIC Standards)
- Annually evaluates its effectiveness in carrying out the duties specified in its charter

Members: J.T. Ferguson, J.E. Newall, R.B. Peterson (Chair), J.P. Reinhard, K.P. Taylor, V.L. Young

Conduct Review and Risk Policy Committee

- Reviews credits, which exceed defined thresholds, to entities controlled by Royal Bank, and policies related to those credits
- Approves delegation of risk limits to management and any transactions exceeding this delegated authority
- Reviews risk reporting on significant risks, including the amount, nature, characteristics, concentration and quality of Royal Bank's credit portfolio, as well as all significant exposures to credit risk
- Establishes investment and lending policies, standards and procedures
- Reviews standards of business conduct and ethical behaviour for the directors, senior management and employees

- Reviews risk management policies and processes concerning significant risks (credit, market, structural, fiduciary and operational) in compliance with CDIC Standards
- Reviews procedures for complying with self-dealing provisions of the *Bank Act*
- Establishes and monitors procedures for restricting the use of confidential information, dealing with complaints, disclosing information to clients and resolving conflicts of interest
- Annually evaluates its effectiveness in carrying out the duties specified in its charter

Members: W.G. Beattie, J.T. Ferguson (Chair), L.Y. Fortier, P. Gauthier, J. Lamarre, B.C. Louie

Corporate Governance and Public Policy Committee

- Makes recommendations regarding the effectiveness of the system of corporate governance, including the board program and forward agenda for board and committee meetings, the frequency and content of meetings, the need for any special meetings, communication processes between the board and management, mandates of board committees and policies governing size and composition of the board
- Assesses the performance of the board, including its committees, and monitors directors' performance. As part of this process, directors evaluate in writing the performance of the board and its committees, and the resulting data is analyzed by an independent outside consultant
- Reviews the credentials of directors standing for re-election
- Identifies and recommends to the board candidates suitable for nomination as directors, with sole authority to retain, and approve the fees of, any search firm to be used to identify director candidates
- Reviews shareholder proposals and recommends to the board the response to the proposals
- Advises management in the planning of the annual strategy meeting attended by directors and senior management
- Reviews the amount and form of compensation of directors and, based on a report from an independent outside consultant, recommends appropriate adjustments
- Reviews whether the conduct of Royal Bank's business is ethical and socially responsible
- Oversees the communications policy, including processes for communicating with clients, employees, shareholders and the community
- Reviews policies designed to create a positive corporate image
- Reviews the policy on and budget for political donations
- Reviews the charitable contributions policy and budget
- Annually evaluates its effectiveness in carrying out the duties specified in its charter

Members: G.A. Cohon, B.C. Louie, C.R. Otto, G. Saint-Pierre (Chair)

Human Resources Committee

- Annually approves the Code of Conduct for directors and employees
- Reviews and approves principles for employee recruitment and hiring
- Reviews management succession plans for executive officers of Royal Bank and its business groups
- Reviews major compensation policies and recommends incentive programs and equity-based compensation plans to the board
- Reviews Royal Bank's major compensation programs against its business objectives and operations and the risks to which it is exposed, and its adherence to its processes, policies, procedures and controls
- In consultation with the Corporate Governance and Public Policy Committee, annually evaluates the non-executive Chairman
- Reviews the position description for the CEO and annually evaluates the CEO's performance against approved corporate objectives
- Recommends to the board the remuneration of the CEO and certain other senior executives and has sole authority to retain, and approve the fees of, any compensation consultant to assist in evaluating that remuneration
- Advises the board on policy with respect to the administration, funding and investment of the pension plans and reviews Royal Bank's pension plan performance and funded status
- Approves an annual report on executive compensation for inclusion in the management proxy circular
- Annually evaluates its effectiveness in carrying out the duties specified in its charter

Members: W.G. Beattie, G.A. Cohon, D.T. Elix, P. Gauthier, R.B. Peterson, G. Saint-Pierre (Chair)