

## Schedule 'B' Statement of Corporate Governance Practices and Guidelines

A sound and effective approach to corporate governance is fundamental to enhancing the board's ability to supervise and counsel management in generating long-term shareholder value. To maintain high standards of governance in a rapidly changing environment, the Bank's governance system is subject to ongoing review and assessment. The Board of Directors has proactively adopted governance policies and practices designed to align the interests of the board and management with those of shareholders and to promote high standards of ethical behaviour at every level of the organization.

The Bank's Common Shares are listed on the Toronto Stock Exchange (TSX), the New York Stock Exchange (NYSE) and the Swiss Exchange (SWX). The board exercises its authority in accordance with the Bank's Code of Conduct, the Bank's By-laws and the *Bank Act*, as well as other applicable laws and regulations, including those imposed by the Canadian Securities Administrators (CSA), the TSX, the U.S. Securities and Exchange Commission (SEC) and the NYSE. The Bank's governance practices are consistent with the CSA's corporate governance guidelines and rules relating to audit committees. The Bank is not required to comply with most of the corporate governance listing standards of the NYSE (NYSE Rules) and instead may comply with Canadian governance practices. However, except as summarized on our website at [rbc.com/governance](http://rbc.com/governance)<sup>(1)</sup>, the Bank meets or exceeds the NYSE Rules in all significant respects.

On the recommendation of its Corporate Governance and Public Policy Committee, the Board of Directors has approved this corporate governance disclosure, which is responsive to the CSA's disclosure requirements as well as applicable NYSE Rules and SEC rules adopted pursuant to the U.S. *Sarbanes-Oxley Act of 2002* (SOX).

### Independence of the board

The board believes that independence from management is fundamental to its effectiveness. As a Canadian financial services company listed on the TSX and NYSE, the Bank is subject to various guidelines, requirements and disclosure rules governing the independence of the board and its committees.

The Bank complies with provisions of the *Bank Act* that limit the number of affiliated directors. Of the 16 persons proposed in this Circular for election to the board at the 2007 Annual Meeting, only Gordon M. Nixon, President and Chief Executive Officer, is affiliated with the Bank.

The board also meets the independence requirements of the CSA corporate governance guidelines and voluntarily conforms to the NYSE Rules regarding independent directors. To assist it in making determinations as to the independence of directors, the board has adopted the categorical standards of independence expressed in our Director Independence Policy, attached as Appendix '1'. A director will be considered independent only if the board has affirmatively determined that the director has no direct or indirect material relationship with the Bank. A director who qualifies as independent under this policy will be independent under the CSA's corporate governance guidelines and the NYSE Rules.

The board has analyzed the relationships between each director and the Bank, and on advice from the Corporate Governance and Public Policy Committee, has affirmatively determined that the following 14 of the 16 persons proposed in this Circular for election as directors (or 87.5%), have no direct or indirect material relationship with the Bank and are therefore independent: W. Geoffrey Beattie, George A. Cohon, Douglas T. Elix, John T. Ferguson, Paule Gauthier, Timothy J. Hearn, Alice D. Laberge, Jacques Lamarre, Brandt C. Louie, David P. O'Brien, Robert B. Peterson, J. Pedro Reinhard, Kathleen P. Taylor and Victor L. Young. To assist the board in these determinations, directors annually complete a detailed questionnaire concerning their personal and business relationships with the Bank. The Bank has banking or business relationships with some of the directors or the entities in which they serve as officers. The board considered these relationships in its evaluation and determined they were within the materiality limits defined in the Director Independence Policy.

The board has determined that the following two persons proposed in this Circular for election as directors are not independent:

- Gordon M. Nixon, as President and Chief Executive Officer of the Bank; and
- Michael H. McCain, as an officer and director of an entity that is a borrower of the Bank.

Following every board meeting, the Chairman of the Board leads sessions attended only by non-management directors and, at least once a year, leads sessions attended only by independent directors. During the 2006 financial year there was one session attended only by independent directors.

(1) Information contained in or otherwise accessible through websites mentioned in this Statement of Corporate Governance Practices and Guidelines does not form a part of this Statement. All references in this Statement to websites are inactive textual references only.

To enhance board independence each board committee may engage external advisors at the expense of the Bank. In addition, with the approval of the Chairman of the Board, individual directors may engage external advisors at the expense of the Bank.

The board's policies permit no more than two board members from management, and further provide that no more than two board members may sit on the same public company board<sup>(2)</sup>. The biographies on pages 4 to 9 of this Circular identify the other reporting issuers of which each nominee is a director. Common memberships on boards of public companies among the Bank's directors are set out below. The board has determined that these common board memberships do not impair the ability of these directors to exercise independent judgment as a member of the Board of Directors of the Bank.

Common public company board memberships	
TransCanada Corporation	
Paule Gauthier	Director
David P. O'Brien	Director
Imperial Oil Limited	
Timothy J. Hearn	Director, Chairman, President and Chief Executive Officer
Victor L. Young	Director

### Independent Chairman of the Board

An independent director, David P. O'Brien, serves as Chairman of the Board and Chair of the Corporate Governance and Public Policy Committee. Mr. O'Brien was first appointed Chairman on February 27, 2004. The non-executive Chairman of the Board is responsible for the management, development and effective functioning of the Board of Directors and provides leadership in every aspect of its work. The Chairman chairs meetings of shareholders and of the Board of Directors, including those when management is not present, as well as sessions of independent directors. The Chairman also participates in the orientation and mentoring of new directors and the continuing education of current directors. The Chairman oversees the process for regular director peer review and supplements the formal review process by meeting with each director individually. The Chairman is also a key advisor to the President and Chief Executive Officer on major issues and serves as a liaison among the directors and between the board and senior management. The board has approved and annually reviews the written position description for the Chairman of the Board, which is available at [rbc.com/governance](http://rbc.com/governance).

(2) Board policy allows more than two directors to sit on the board of a Bank subsidiary or, when it is in the best interests of the Bank in order to ensure appropriate oversight, an entity in which the Bank holds a substantial investment.

### Director attendance

Board members are expected to attend the Annual Meeting as well as board meetings and meetings of committees on which they serve. Minimum attendance of 75% of board and committee meetings is required, except where the Corporate Governance and Public Policy Committee determines that factors beyond a director's control prevented the director from achieving the minimum attendance level.

Each director's attendance record during the 2006 financial year is disclosed in Schedule 'A' to this Circular.

### The role of the board

The Board of Directors is responsible for the overall stewardship of the Bank. The board is elected by shareholders to supervise management of the Bank's business and affairs, with the goal of enhancing long-term shareholder value. In performing its role, the board makes major policy decisions, participates in strategic planning, delegates to management the authority and responsibility for day-to-day affairs and reviews management's performance and effectiveness.

The *Bank Act* specifies certain important matters that must be dealt with by the board, such as approval of financial statements and declarations of dividends. By formal resolution, the Board of Directors reserves for itself the right to make certain decisions and delegates other decisions to management. Any responsibilities not delegated to management remain with the board and its committees. In some matters, management's discretion is limited by dollar thresholds beyond which board approval is required. For example, such thresholds exist for investments and divestitures, equity commitments, intra-group transactions and entering into strategic alliances, licensing and outsourcing agreements.

Some of the board's supervisory responsibilities are described below. The board's functions are more fully described in its charter, attached as Appendix '2', and in the charters of its committees, which are available at [rbc.com/governance](http://rbc.com/governance).

#### Strategic planning

- The board oversees the Bank's strategic direction and major policy decisions.
- Strategies and their implementation are frequently discussed at board meetings.
- The board participates with management in an annual session dedicated to strategic planning.
- The board approves the enterprise strategy, which takes into account, among other things, the opportunities and risks of the businesses.

- The board reviews and approves the corporate financial objectives, operating plans and actions of the Bank, including significant capital allocations, expenditures and transactions that exceed delegated authorities.

#### *Identification of risks*

- Through its Conduct Review and Risk Policy Committee, the board identifies the principal risks of the Bank's businesses and seeks to ensure that an effective risk control environment is in place. Among other things, that Committee reviews risk management policies and processes, including those concerning credit risk, market risk, operational risk, liquidity and funding risk, reputation risk, regulatory and legal risk, environmental risk and insurance risk. The Committee receives regular reports on key risks affecting the Bank.
- The Audit Committee reviews reports from the internal audit function and reviews the internal controls and risk management policies and processes related to management of capital and liquidity and prevention and detection of fraud and error.
- Both the Audit Committee and the Conduct Review and Risk Policy Committee receive reports on regulatory compliance matters.

#### *Succession planning*

- The Human Resources Committee reviews succession planning for the President and Chief Executive Officer and other key senior officers and reviews the Bank's plans for the development of senior talent and candidates for senior positions.
- The Committee reports to the board at least annually on succession planning matters.
- The President and Chief Executive Officer has a written objective that makes succession planning a priority.

#### *Communications*

- The board reviews and approves the contents of major disclosure documents, including the Annual Report, quarterly reports to shareholders, the annual information form, management's discussion and analysis, and this Circular.
- The board approves the Bank's disclosure policy that addresses how the Bank interacts with analysts, investors and the public and that contains measures to avoid selective disclosure in accordance with the Bank's policies and procedures and legal disclosure requirements.
- Procedures are in place to provide timely information to current and potential investors and respond to their inquiries.
- The Bank's Investor Relations group is responsible for maintaining communications with the investing public. It is the Bank's policy that every shareholder inquiry

should receive a prompt response. Investor Relations staff are available to shareholders by telephone, email and fax, and significant disclosure documents are available at [rbc.com/investorrelations](http://rbc.com/investorrelations).

- Senior executives, including the President and Chief Executive Officer, Chief Operating Officer, Chief Financial Officer and Head, Investor Relations, meet regularly with financial analysts and institutional investors.
- The quarterly earnings conference calls with analysts and institutional investors are broadcast live and, for a period of three months after each call, are archived on the Bank's Investor Relations website at [rbc.com/investorrelations/conference](http://rbc.com/investorrelations/conference) and are accessible for a period of three months after each call.
- Shareholders may communicate directly with the independent directors by writing to the Chairman of the Board of Directors, Royal Bank of Canada, Royal Bank Plaza, P.O. Box 1, Toronto, Ontario, Canada M5J 2J5.

#### *Integrity of internal controls and management information systems*

- The board establishes the Bank's values, as set out in the Code of Conduct.
- The board requires management to implement and maintain effective systems of internal control.
- The Audit Committee regularly meets with the Chief Internal Auditor and with management of the Bank to assess the adequacy and effectiveness of systems of internal control.
- The board reviews the Bank's financial statements and oversees its compliance with applicable audit, accounting and reporting requirements.

#### *Governance*

- The board develops the Bank's corporate governance principles and guidelines and establishes appropriate structures and procedures to allow the board to function effectively and independently of management.

#### **Position descriptions of the Chairman of the Board, board committee chairs and the President and Chief Executive Officer**

The Board of Directors has approved written position descriptions for the Chairman of the Board and the chairs of the board's committees. In addition, the board has approved and reviews annually a written position description for the President and Chief Executive Officer. These position descriptions are available at [rbc.com/governance](http://rbc.com/governance). The Human Resources Committee of the board approves the corporate objectives that the President and Chief Executive Officer is responsible for meeting and assesses the President and Chief Executive Officer against these objectives.

### Director orientation and continuing education

The Bank has procedures in place that are designed to ensure that the board has timely access to the information it needs to carry out its duties. Directors are involved in setting the agenda for board and committee meetings. They receive a comprehensive package of information prior to each board and committee meeting, and attend an annual strategic planning session. As well, after each committee meeting, the board receives a report on the committee's work. Directors have full access to senior management and employees of the Bank.

The Bank prepares and updates a Director's Guide for new and existing board members. The Director's Guide describes the role of the board, its committees and directors, contains the Bank's key policies and procedures and provides information relating to the Bank and its management.

New directors also meet with members of the Group Executive representing the Bank's core businesses, and with other senior officers, to discuss the business functions and activities of the Bank. The goal is to ensure that new directors fully understand the nature and operation of the Bank's businesses, the role of the board and its committees and the contribution that individual directors are expected to make, including the commitment of time and energy that the Bank expects of its directors.

To assist board members in understanding their responsibilities and liabilities, as well as keeping their knowledge and understanding of the Bank's businesses current, the Bank provides directors with an ongoing education program. Presentations on the business and regulatory environment and on specialized and complex aspects of the Bank's business operations are regularly made to the board. In 2006, these included educational sessions concerning:

- the implications of the Basel II Capital Accord for the Bank's capital management framework;
- complex products and related risk management;
- specialized aspects of accounting related to insurance liabilities, derivatives and hedge funds; and
- new financial instruments standards and their impact on financial statements and disclosure controls and certifications.

### Our Code of Conduct

By setting the tone at the top, the Board of Directors fosters a strong governance culture that influences every level of the organization. The board endorses the principles and compliance elements expressed in Our Code of Conduct, which is also approved annually by the Human Resources Committee. Our Code of Conduct is filed on SEDAR and is also available at [rbc.com/governance](http://rbc.com/governance).

The Code establishes written standards designed to promote integrity and ethical behaviour that apply to the Chairman and members of the Board of Directors, senior management and all employees. The Code sets out fundamental principles that guide the board in its deliberations and shape the organization's business activities globally:

- upholding the law at all times;
- confidentiality, privacy and security of personal information;
- fairness in all our dealings;
- corporate responsibility and adding value to society;
- honouring trust by safeguarding client and corporate assets;
- objectivity and avoidance of conflicts of interest;
- integrity and telling the truth in all our communications; and
- individual responsibility and respect within working relationships.

The Code also deals with reporting of unethical or illegal behaviour. It creates a frame of reference for dealing with sensitive and complex issues, and provides for accountability if standards of conduct are not upheld. Waivers are considered only in exceptional circumstances, and any waiver must be reported to the Conduct Review and Risk Policy Committee. Waivers for the members of the Board of Directors or members of the Bank's top management team must be approved by the Conduct Review and Risk Policy Committee, reported to the Human Resources Committee and promptly disclosed. In the 2006 financial year, no waivers from the Code were granted.

To enhance understanding throughout our worldwide organization of the values and principles outlined in Our Code of Conduct, an online learning program was designed and implemented, together with regular online testing and tracking of completion by employees, including senior management. Members of the Board of Directors annually acknowledge they have read and understand the Code and certify that they are in compliance with its principles, as they apply to the Bank's directors.

The board has approved the establishment and mandate of an Ethics and Compliance Committee, composed of senior management, to monitor effectiveness of the Bank's overall ethics and compliance program in promoting a corporate culture that encourages ethical conduct and a commitment to compliance with laws and regulations. This committee establishes ethics and compliance training and awareness programs and advises senior management and the board on significant compliance and regulatory issues.

Where the personal or business relationships or interests of directors may conflict with those of the Bank, directors are required to disclose in writing the nature and extent of the conflict of interest. In the event of a conflict of interest, the director or executive officer will leave the relevant portion of the meeting and the director will not vote or participate in the decision.

### **Nomination of directors by the Corporate Governance and Public Policy Committee**

The board derives its strength from the background, diversity, qualities, skills and experience of its members. Directors are elected by the shareholders at each Annual Meeting to serve for a term expiring on the date of the next Annual Meeting.

The Corporate Governance and Public Policy Committee, which is composed solely of independent directors, acts as the nominating committee responsible for recommending to the board individuals qualified to become board members. Every year, the Committee considers the competencies and skills that the board, as a whole, should possess. It reviews the credentials and performance of candidates proposed for election to the board, and assesses their competencies and skills. In doing so, it considers their qualification under applicable laws, regulations and rules as well as the needs of the Bank and the talents already represented on the board. Based on its assessment of the existing strengths of the board and the changing needs of the organization, the Committee determines the competencies, skills and personal qualities it should seek in new board members to add value to the organization. The Committee considers all qualified candidates identified by members of the Board of Directors, by management and by shareholders.

Nominees are selected for such qualities as integrity and ethics, business judgment, independence, business or professional expertise, international experience and residency and familiarity with geographic regions relevant to the Bank's strategic priorities. The Committee reviews each candidate's biographical information, assesses each candidate's suitability against criteria that have been developed by the Committee and set out in the Committee's charter and considers the results of internal and external due diligence reviews.

This assessment involves exercise of the Committee's independent judgment. The Committee uses the same process for evaluating all potential candidates, including those recommended by shareholders. In this context, the Committee considers whether:

- in personal and professional dealings, the candidate has demonstrated integrity, high ethical standards and commitment to the values expressed in the Bank's Code of Conduct;
- the candidate has sufficient time and energy to devote to the performance of duties as a member of the Board of Directors, having regard to positions the candidate holds in other organizations and other business and personal commitments;
- the candidate possesses knowledge and appreciation of public issues and exhibits familiarity with international, as well as national and local affairs;
- the candidate has a history of achievements that demonstrates the ability to perform at the highest level and that reflects high standards for themselves and others;
- the candidate's background includes business, governmental, professional, non-profit or other experience that is indicative of sound judgment and the ability to provide thoughtful advice;
- the candidate is likely to take an independent approach and to provide a balanced perspective;
- the candidate is financially literate and able to read financial statements and other indices for evaluating corporate performance;
- the candidate has specific skills, expertise or experience that would complement those already represented on the board; and
- the candidate recognizes the strengths of diversity.

On this basis, the Committee makes recommendations to the board regarding potential director candidates.

*External consultants:* The Committee has sole authority to retain, and approve the fees of, any external consultants to conduct searches for appropriate candidates, or other external advisors that it determines to be necessary to carry out its duties.

*Nomination by shareholders:* Any shareholder who wishes to recommend a candidate to be considered by the Committee may do so by submitting the candidate's name and biographical information, including background, qualifications and experience to: Chairman of the Board, Royal Bank of Canada, Royal Bank Plaza, P.O. Box 1, Toronto, Ontario, Canada M5J 2J5. Potential candidates may be informally approached to determine their interest in joining the board.

*Director tenure policies:* Directors are not renominated at the Annual Meeting following their 70th birthday. In the following circumstances a director is expected to submit his or her resignation to the Chairman of the Board for determination by the board upon recommendation of the Corporate Governance and Public Policy Committee if:

- the director is no longer qualified under the *Bank Act* or other applicable laws;

- the director does not meet eligibility rules under the board's conflict of interest guidelines; or
- the credentials underlying the appointment of the director change.

In addition, board policy requires that in an uncontested election of directors, any nominee who receives a greater number of votes "withheld" than votes "for" will tender a resignation to the Chairman of the Board promptly following the Bank's Annual Meeting. The Corporate Governance and Public Policy Committee will consider the offer of resignation and, except in special circumstances, will be expected to recommend that the board accept the resignation. The Board of Directors will make its decision and announce it in a press release within 90 days following the Annual Meeting, including the reasons for rejecting the resignation, if applicable.

*Board size:* The Board of Directors has carefully considered issues relating to its size. The optimal size for the board represents a balance between two opposing needs: a business need for strong geographical, professional and industry sector representation; and the need to be small enough to facilitate open and effective dialogue and decision making. In keeping with the board's determination based on the recommendation of the Corporate Governance and Public Policy Committee, this year 16 nominees are proposed for election as directors at the Annual Meeting on March 2, 2007.

### **Compensation**

*Board compensation:* The Corporate Governance and Public Policy Committee, which is composed solely of independent directors, reviews the amount and the form of compensation of directors. In recommending the form of directors' compensation, the Committee seeks to align the interests of directors and shareholders. Directors are required to own Common Shares or Director Deferred Stock Units with a minimum value of \$500,000. In addition, directors receive a dedicated annual retainer in the form of Common Shares or Director Deferred Stock Units, which must be retained until retirement from the board. Directors must also retain until retirement ownership of the number of Common Shares that corresponds to one-half of the realizable gain after cost of exercise and imputed taxes on each exercise of options granted under the Director Stock Option Plan prior to the end of 2002, at which time all further grants of options under this Plan were permanently discontinued.

The Committee has sole authority to retain and approve the fees of any compensation consultant to assist in determining board compensation. The Committee did not retain a consultant for this purpose in 2006 and recommended no

increase in board compensation for the coming year. Directors who are also officers of the Bank receive no remuneration as directors. More specific information concerning the compensation of directors is disclosed under the heading "Compensation of directors" on pages 13 to 15 of this Circular.

*Executive compensation:* The Human Resources Committee, which is composed solely of independent directors, acts as the compensation committee of the board. This Committee advises the board on compensation and human resource principles, as well as related policies, programs and plans designed to achieve the strategic goals and financial objectives of the Bank. The Committee approves the financial performance objectives and other corporate priorities, such as strategy, talent management and corporate reputation, against which the President and Chief Executive Officer's performance is assessed.

The President and Chief Executive Officer's compensation is approved by the board's independent directors based on the recommendation of the Human Resources Committee, in light of the Bank's performance against approved objectives and comparable financial institutions.

The Human Resources Committee also makes recommendations to the board on the compensation of other senior management. The process by which the board determines compensation for senior officers is described in this Circular under the heading "Report on executive compensation." The Committee has sole authority to retain, and approve the fees of, any independent compensation consultant to assist in determining compensation of officers of the Bank. Details of compensation consultants retained to assist in determining compensation for the Bank's senior officers are provided on page 16 of this Circular under the subheading "Report on executive compensation – Independent advice."

### **Committees of the Board of Directors**

To assist it in exercising its responsibilities, the board has established four committees. Each committee is composed entirely of non-management directors. The Audit Committee, the Corporate Governance and Public Policy Committee (the board's nominating committee) and the Human Resources Committee (the board's compensation committee) are composed solely of independent directors. A significant majority of the members of the Conduct Review and Risk Policy Committee are independent. Each committee is chaired by an independent director. Each committee may engage external advisors at the expense of the Bank. The Board of Directors does not have an executive committee.

### *Corporate Governance and Public Policy Committee*

Members: D.P. O'Brien (Chair), W.G. Beattie, J.T. Ferguson, P. Gauthier, T.J. Hearn, B.C. Louie, V.L. Young

At the Bank, ensuring the effectiveness of the board is an ongoing process, at the centre of which is a strong, independent Corporate Governance and Public Policy Committee. In addition to serving as the nominating committee of the board, this Committee:

- advises and assists the board in applying governance principles and practices;
- monitors developments in corporate governance, adapting best practices to the needs and circumstances of the Bank;
- reviews shareholder proposals and recommends to the board responses to the proposals; and
- makes recommendations regarding the effectiveness of the system of corporate governance at the Bank, including:
  - the information requirements of the board;
  - the frequency and content of meetings;
  - communication processes between the board and management;
  - the charters of the board and its committees; and
  - policies governing retirement or resignation of board members and the size and composition of the board.

### *Human Resources Committee*

Members: J.T. Ferguson (Chair), G.A. Cohon, D.T. Elix, D.P. O'Brien, R.B. Peterson, K.P. Taylor

In addition to its role in setting executive compensation, the independent Human Resources Committee annually approves the Code of Conduct, reviews senior talent development programs and executive compensation disclosure and advises the board on matters concerning the Bank's pension plans.

### *Audit Committee*

Members: R.B. Peterson (Chair), G.A. Cohon, T.J. Hearn, A.D. Laberge, J. Lamarre, J.P. Reinhard, K.P. Taylor

All members of the Audit Committee must be independent directors who also meet additional independence standards specified for Audit Committee members in our Director Independence Policy. None of the members of the Committee receives, directly or indirectly, any compensation from the Bank, other than for service as a director and a member of the board committees of the Bank or of a subsidiary.

All members of the Committee are financially literate. In considering criteria for determinations of financial literacy, the board looks at the ability to read and understand a balance sheet, an income statement and a cash flow statement of a financial institution.

The board has determined that each of Alice D. Laberge and J. Pedro Reinhard qualifies as an "audit committee financial expert" as defined by SEC rules.

Board policy provides that none of the members of the Audit Committee will serve on the audit committees of more than three public companies, including the Bank.

The Committee assists the board in its oversight of:

- the integrity of the Bank's financial statements;
- the external auditor's qualifications and independence;
- the performance of the Bank's internal audit function;
- the performance of the Bank's external auditor;
- the adequacy and effectiveness of internal controls; and
- compliance with legal and regulatory matters.

Subject to the powers of the shareholders under the *Bank Act* to appoint and revoke the appointment of the external auditor, the Committee has the authority and responsibility to recommend the appointment and revocation of appointment of the external auditor and to approve the external auditor's remuneration. The Committee is directly responsible for the oversight of the work of the external auditor, including resolution of differences between management and the external auditor regarding financial reporting. It 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 auditor, and has established policies and procedures for the pre-approval of audit and legally permissible non-audit services. The Committee is responsible for reviewing the independence and objectivity of the external auditor, including reviewing any relationships between the external auditor and the Bank that may affect the external auditor's independence and objectivity. The Audit Committee is also charged with reviewing with the external auditor any audit issues and management's response.

Among other things, the Committee reviews:

- the annual and quarterly financial statements, the annual information form, the annual and quarterly management's discussion and analysis and earnings press releases;
- investments and transactions that could adversely affect the well-being of the Bank, as identified by the external auditor or management;
- prospectuses relating to the issuance of securities by the Bank; and
- any significant issues reported to management by the internal audit function and management's responses to any such reports.

The Audit Committee's charter provides that the Committee will, at least quarterly, meet separately with the external auditor, the Chief Internal Auditor and management to discuss and review specific issues as appropriate. The Committee has oversight responsibility for management reporting on internal controls and requires that management implement and maintain appropriate internal control procedures, including internal controls over financial reporting and for the prevention and detection of fraud and error. The Committee meets with the Chief Internal Auditor and with management to assess the adequacy and effectiveness of these systems of internal control. In addition, the Committee has established procedures for the receipt and resolution by the Bank of complaints concerning accounting, internal accounting controls or auditing matters, as well as procedures for the confidential and anonymous submission by employees of concerns regarding accounting or auditing matters.

For further information relating to the Audit Committee and the Bank's external auditor, please refer to the Report of the Audit Committee on pages 10 and 11 of this Circular and to the section entitled "Audit Committee" in the Bank's annual information form dated November 29, 2006. The annual information form may be found on SEDAR at *sedar.com* or obtained on request from the Secretary of the Bank.

#### *Conduct Review and Risk Policy Committee*

Members: J.P. Reinhard (Chair), W.G. Beattie, P. Gauthier, A.D. Laberge, J. Lamarre, B.C. Louie, M.H. McCain, V.L. Young

The other standing committee of the board is the Conduct Review and Risk Policy Committee. As a matter of board policy, a majority of the members of the Conduct Review and Risk Policy Committee must be independent. Currently, seven of the eight members of the Committee are independent.

The purpose of the Committee is to ensure that management has established policies and procedures relating to compliance with the self-dealing provisions of the *Bank Act* and to direct and oversee risk management of the Bank and its business groups, ensuring that management has in place policies and processes to manage significant risks, including compliance with applicable laws and regulations.

The Committee considers the significant risks to which the Bank is exposed, under the Bank's risk framework, and the policies, procedures and controls used by management to assess and manage these risks. The Committee also reviews actions taken to ensure a sound and consistent risk profile.

#### **Assessments of the board, its committees and board members**

To serve the interests of shareholders and other stakeholders, governance must improve continuously and the Bank's governance system is subject to ongoing review and assessment. The Board of Directors employs a number of mechanisms to assess its own performance:

- The directors conduct an annual evaluation of the performance and effectiveness of the board in light of its charter. The resulting data is analyzed by an independent external consultant and reviewed by the Corporate Governance and Public Policy Committee and the Board of Directors.
- In addition, each committee annually evaluates its effectiveness in carrying out the duties specified in its charter.
- There is also a process for regular written peer review to assess individual directors on the attributes that contribute to an effective board. This consists of both an evaluation of peers and a self-evaluation.
- The written peer evaluation process is complemented with one-on-one meetings between the Chairman of the Board and each director.

#### **Controls and certifications**

The Bank has disclosure controls and procedures designed to ensure that material information relating to the Bank is communicated to senior executives of the Bank, including the President and Chief Executive Officer and Chief Financial Officer, and to the Bank's Disclosure Committee.

The Bank's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

The Bank's Disclosure Committee is responsible for ensuring there is an adequate and effective process for establishing, maintaining and evaluating disclosure controls and procedures for the Bank's external disclosures. Senior management, with the assistance of the Disclosure Committee, is responsible for establishing and maintaining adequate internal control over financial reporting as well as annually evaluating the effectiveness of these controls.

In addition to their certifications regarding the Bank's disclosure controls and procedures and internal control over financial reporting, the President and Chief Executive Officer and the Chief Financial Officer, following review by senior management and the Disclosure Committee, also certify that the Bank's annual filings filed with Canadian securities regulatory authorities and the SEC do not contain an untrue statement of a material fact or omit to state a material fact, and that the financial statements and other financial information included in the annual filings fairly present, in all material respects, the financial condition and results of operations of the Bank.

The President and Chief Executive Officer and Chief Financial Officer also certify the financial statements and other financial information included in the Bank's quarterly reports and certify that the design and operation of the Bank's disclosure controls and procedures and internal control over financial reporting are effective.

### **Subsidiary Governance Office**

The Bank's Subsidiary Governance Office (SGO) enhances and harmonizes governance in the Bank's subsidiaries.

The SGO advises on the creation, acquisition, reorganization and termination of subsidiaries by any business or functional unit. Web-based software allows quick and easy access to up-to-date corporate information on all of the Bank's subsidiaries by all parts of the Bank's global network.

The SGO promotes consistency, simplicity and transparency in the organizational structure of the Bank and its subsidiaries. In this regard, the SGO establishes and communicates policies on subsidiary board composition and functioning, the role and qualifications of corporate secretaries and the lifecycle management of subsidiaries. It also plays a key role in maintaining accurate corporate information.

### **Additional governance disclosure**

Additional information about the Bank's governance practices can be found on pages 14 to 16 of our Annual Report.

The following information is available at [rbc.com/governance](http://rbc.com/governance):

- governance information from our Annual Report;
- the Code of Conduct;
- the charters of the Board of Directors and of its committees;
- the Director Independence Policy;
- position descriptions for the Chairman of the Board, the chairs of committees of the board and the President and Chief Executive Officer;
- a summary of significant differences between the NYSE Rules and the Bank's governance practices;
- the Corporate Responsibility Report; and
- this Statement of Corporate Governance Practices and Guidelines.

Printed versions of any of these documents can be obtained from the Secretary of the Bank, 200 Bay Street, South Tower, Toronto, Ontario, Canada M5J 2J5.