

At Royal Bank of Canada, sound corporate governance has long been recognized as an essential element in developing investor confidence and increasing shareholder value.

The board's strengths include an independent Chairman and experienced and well-informed directors who give priority to strategic planning, ensure that standards exist to promote ethical behaviour throughout the organization, and drive continuous improvement in governance practices. Through its commitment to high standards of corporate governance, the board retains the confidence of shareholders. Our governance policies and practices support the ability of the Board of Directors to supervise management and enhance long-term shareholder value.

RBC's dynamic approach to corporate governance is responsive to the changing regulatory environment and anticipates best practices as they evolve. Our governance system determines the fundamental relationships among the members of the Board of Directors, management, shareholders and other stakeholders. It defines the framework in which ethical values are established and the context in which corporate strategies and objectives are set.

Regulatory compliance

Canadian securities regulators have recently adopted revised corporate governance guidelines (the Governance Guidelines), Audit Committee Rules (the Audit Committee Rules) and corporate governance disclosure rules (the Disclosure Rules) (1). As a Canadian financial services company with common shares listed on the Toronto Stock Exchange, RBC has governance practices that are consistent with the standards reflected in the Governance Guidelines. A more detailed description of our corporate governance practices, including disclosure required by the Disclosure Rules, can be found in the Management Proxy Circular (the Circular) issued in connection with the 2006 Annual Meeting.

Our common shares are also listed on the New York Stock Exchange (NYSE). Although we are not required to comply with most of the NYSE corporate governance rules, our practices meet or exceed the NYSE rules in all significant respects except as summarized on our corporate governance website at rbc.com/governance.

The role of the Board of Directors

The role of the board is to safeguard and advance the interests of RBC and its shareholders. The Board of Directors has a written charter setting out its role and key functions. As expressed in the board's charter, its role 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 activities that derive from these responsibilities are set out in the board's charter and include the board's involvement in the strategic planning process, the identification and management of risks, succession planning, communications and public disclosure, internal controls and governance. The charter of the Board of Directors is reproduced in full in the Circular and at rbc.com/governance. The charters of the committees of the Board of Directors are summarized on page 145 and are reproduced in full at rbc.com/governance.

Board independence

RBC is subject to various guidelines, requirements and rules governing independence of board and committee members, including those established by the *Bank Act* (Canada), the Governance Guidelines, the Audit Committee Rules, the Disclosure Rules, the NYSE Rules and the *Sarbanes-Oxley Act of 2002*. We fulfill the requirements of the *Bank Act* that limit the number of affiliated directors. We also conform to the standards regarding director independence in the Governance Guidelines and the NYSE Rules. To assist it 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 that are expressed in our Director Independence Policy, which is set out at rbc.com/governance and in the Circular. A director who qualifies as independent under this policy is independent within the meaning of the Governance Guidelines and the NYSE Rules. More detailed information on the independence status of individual directors, including the disclosure required by the Disclosure Rules, 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. The independent Chairman facilitates full and candid discussion of matters coming before the board and ensures that the board functions independently of management. Board policy permits no more than two board members from management.

Independence is also an important consideration in determining the membership of board committees. As a matter of policy the board ensures that:

- All members of the Audit Committee are independent directors who meet special, higher standards of independence, which are specified for Audit Committee members in our Director Independence Policy.
- All members of the Human Resources Committee and the Corporate Governance and Public Policy Committee are independent directors.
- A majority of the members of the Conduct Review and Risk Policy Committee are independent.

Currently, all members of each committee of the Board of Directors are independent.

Board assessment

The directors conduct an annual evaluation of the performance and effectiveness of the board and each of its committees. 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. 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.

Annual Meeting

Shareholders are invited to attend our Annual Meeting at 9:00 a.m. (Eastern Standard Time) on Friday, March 3, 2006, at the Metro Toronto Convention Centre in Toronto, Ontario, or to listen to a webcast of the event. Further details will be made available on our investor relations website at rbc.com/investorrelations/conference.

Corporate governance at RBC

For more details regarding corporate governance at RBC, please see our website at rbc.com/governance, where the following documents will be posted:

- The Management Proxy Circular, which contains background information for each nominee for the Board of Directors and a complete discussion of our corporate governance practices.
- The written charters of the Board of Directors and each of the committees of the board.
- The Director Independence Policy.
- Position descriptions for the Chairman of the Board of Directors, the chairs of the committees of the Board of Directors and the President and Chief Executive Officer.
- The Code of Conduct.
- A summary of the significant ways that our practices differ from governance requirements of U.S. domestic companies under the NYSE listing standards.
- Information relating to corporate responsibility and sustainability.

(1) The Governance Guidelines are contained in National Policy 58-201, the Audit Committee Rules in Multilateral Instrument 52-110 and the Disclosure Rules in National Instrument 58-101.

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 at rbc.com/governance. Each of the committees annually evaluates its effectiveness in carrying out the duties specified in its charter.

Audit Committee

- Reviews matters prescribed by the *Bank Act* (including annual and quarterly financial statements) and by SEC regulations, as well as the Annual Information Form, the annual and quarterly Management's Discussion and Analysis and earnings press releases.
- Reviews the types of financial information provided and types of presentations made to analysts and rating agencies and assesses the adequacy of procedures for the review of public disclosure of financial information derived from the financial statements.
- At least quarterly, meets separately with the external auditor, the Chief Internal Auditor and management to discuss any matters they deem appropriate.
- Recommends to the shareholders the appointment of the external auditor 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 auditor.
- Oversees the work of the external auditor (and any other registered public accounting firm performing audit, review or attestation services), including resolution of any differences between management and the external auditor regarding financial reporting, and reviews with the external auditor any audit problems or difficulties and management's response.
- Reviews with the external auditor the annual audit plan, the results of the audit, and the qualifications, independence and objectivity of the external auditor, including formal written statements delineating relationships between the external auditor and the bank that may impact on such independence and objectivity, and a report describing quality control procedures.
- Evaluates the lead audit partner and discusses rotation of the lead audit partner and other active audit engagement team partners.
- Reviews hiring policies concerning partners, employees and former partners and employees of the external auditor.
- Requires management to implement and maintain appropriate systems of internal control, including internal controls over financial reporting and for the prevention and detection of fraud and error, 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 the receipt of complaints and the submission by employees of concerns regarding accounting, internal accounting controls 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 auditor or management, that could adversely affect the well-being of the bank.
- Reviews reports on significant litigation and regulatory compliance matters.
- Reviews prospectuses relating to the issue of securities of the bank.
- Reviews internal controls and the control environment and policies related to liquidity and funding management and capital management.

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

Conduct Review and Risk Policy Committee

- Reviews any credits that are granted on an exception basis to entities of which a director of the bank or his or her spouse is also a director, and policies related to those credits.
- Reviews credits, which exceed defined thresholds, to entities controlled by the 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 the 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, including the bank's Code of Conduct.
- Reviews risk management policies and processes concerning significant risks (including credit, market, structural, fiduciary and operational risks).
- 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.

Members: W.G. Beattie, P. Gauthier, J. Lamarre, B.C. Louie, J.P. Reinhard (Chair), V.L. Young

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, 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 external consultant.
- Reviews the credentials of directors standing for re-election.
- Identifies and recommends to the board candidates suitable for nomination as directors, and has sole authority to retain, and approve the fees of, any independent consultant to be used to identify candidates.
- Reviews shareholder proposals and recommends to the board responses 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 recommends appropriate adjustments to the board, and has sole authority to retain and approve the fees of an external consultant to assist in reviewing directors' compensation.
- Reviews the adequacy of efforts to ensure that the conduct of the bank's business is ethical and socially responsible.
- Oversees the communications policy, including processes for communicating with clients, employees, shareholders and communities.
- 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.

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

Human Resources Committee

- Annually approves the Code of Conduct for directors, senior management and employees.
- Reviews management succession plans for executive officers of the bank and its business groups.
- Reviews major compensation policies and recommends incentive programs and equity based compensation plans to the board.
- Reviews the 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, and recommends to the board the remuneration of, 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.
- Recommends to the board the funding and approves the asset investment strategy for the bank's pension plans.
- Reviews reports focusing on pension plan performance and the funded status of the pension plans.
- Approves an annual report on executive compensation for inclusion in the Management Proxy Circular.

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