

## Corporate governance

Our corporate governance policies are designed to support the ability of the Board of Directors to supervise management and to enhance long-term shareholder value.

The board's strengths include an independent chairman, and knowledgeable, well-informed directors who give priority to strategic planning, ensure that standards exist to promote ethical behaviour throughout the organization, and seek continuous improvement in corporate governance practices.

Our system of governance is consistent with the Toronto Stock Exchange's guidelines for effective corporate governance (the TSX Guidelines), including revisions to the TSX Guidelines that were proposed in the spring of 2002 but were not formally implemented as of October 31, 2002.

The board has been reviewing its practices in response to the United States *Sarbanes-Oxley Act of 2002* (SOX), as well as the New York Stock Exchange's corporate governance rule proposals (the NYSE Proposals). As provisions of SOX and the NYSE Proposals come into effect, the board will continue to review and amend its governance practices on an ongoing basis to respond to these standards.

The Management Proxy Circular issued in connection with the 2003 Annual Meeting contains a comparison of the bank's governance procedures with the TSX Guidelines and with certain NYSE Proposals, which differ from or are in addition to the TSX Guidelines.

*Responsibilities:* The board has a written mandate setting out its key functions, which include succession planning, evaluating management performance, reviewing strategy and major business decisions, reviewing and approving corporate financial goals and the operating plan, identifying risks, overseeing communications and public disclosure, and assessing the effectiveness of the bank's internal controls and management information systems. The board specifies those matters that require its approval and delegates others to management.

*Composition:* The board derives its strength from the background, diversity, qualities, skills and experience of its members. With advice from outside consultants, the Corporate Governance and Public Policy Committee recommends to the board candidates suitable for nomination. Nominees are selected for qualities such as integrity, business judgment, independence, business or professional expertise, international experience, residency and familiarity with geographic regions relevant to the bank's strategic priorities.

As of November 19, 2002, there were 19 directors. At the Annual Meeting, 18 directors will be elected. The Corporate Governance and Public Policy Committee reviews the composition and mandates of the board's four committees. Mandates and activities of the board committees are summarized on page 107.

*Independence:* An independent director, Mr. Guy Saint-Pierre, 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.

Board policy permits no more than two board members from management. Currently two directors, the President and Chief Executive Officer of the bank and the Chairman Emeritus of RBC Centura Banks, Inc., are from management.

We comply with provisions of the *Bank Act* and the TSX Guidelines with regard to directors being "affiliated" with or "related" to the bank. Only 2 of the 18 persons proposed for election to the board at the Annual Meeting are "related" to the bank. This is well within the limits required by the *Bank Act* and TSX Guidelines.

Committees of the board consist solely of non-management directors. All members of the Audit Committee are "unrelated" to the bank and a majority of the members of each other committee are "unrelated".

The Corporate Governance and Public Policy Committee is developing categorical standards of "independence" to apply to members of the board and its committees in addition to the "affiliated" and "related" standards. It is anticipated that following this Annual Meeting, all members of the Audit Committee, the Corporate Governance and Public Policy Committee, and the Human Resources Committee will be "unrelated" under the Canadian standards and "independent" under the U.S. standards.

*Information:* The board has timely access to the information it needs to carry out its duties. Directors help set the agenda for board and committee meetings, receive a comprehensive package of information prior to each board and committee meeting, and attend an annual strategy planning session. As well, after each committee meeting, the full board receives a report on the committee's work. An ongoing education program and a Director's Guide, focusing on roles and responsibilities of board members, are provided for directors.

*Ethical Behaviour:* Our Code of Conduct and related policies are reviewed by the board and set high standards for ethical behaviour throughout the organization.

The Code of Conduct provides the entire organization with the same frame of reference for dealing with sensitive and complex issues. It incorporates guiding principles such as upholding the law, confidentiality, integrity and individual responsibility, and provides for accountability if employees fail to meet the Code's standards.

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 our policies and management systems are appropriately implemented to ensure adherence to the principles outlined in the Code of Conduct.

*Communications:* We are committed to excellence and timeliness in our communications. The investor relations staff provides information to current and potential investors and responds to their inquiries. It is our policy that every shareholder inquiry receives a prompt response from an appropriate officer. Senior executives, including the President and Chief Executive Officer, Chief Financial Officer and Senior Vice-President, Investor Relations, meet regularly with financial analysts and institutional investors. The quarterly earnings conference calls with analysts and institutional investors are broadcast live and archived on the Internet and are accessible on a live and recorded basis via telephone to interested retail investors, the media and members of the public for a period of three months after each call. Presentations at investor conferences are promptly made available on the Internet or via telephone. We also make significant disclosure documents available on the investor relations Web site at: [rbc.com/investorrelations](http://rbc.com/investorrelations).

*Subsidiary Governance Office (SGO):* Last year the SGO was launched to enhance and harmonize governance in our many subsidiaries. System-wide installation of sophisticated software technology allows quick and easy access to up-to-date information on all parts of our global network. Other benefits include consistent governance oversight, which mitigates both the risk of loss due to governance failure and the risk of non-compliance with regulation. The launch of the SGO has also paved the way for a thorough review of each business, leading to a streamlining of the corporate organization, which will yield a more economical and sharply focused group structure.

## Summary of Mandates 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. Each committee annually evaluates its effectiveness in carrying out its mandate.

### Audit Committee

- Reviews matters prescribed by the *Bank Act*, including annual and quarterly financial statements, and returns specified by the Superintendent of Financial Institutions Canada
- At least quarterly, meets separately with the external auditors, the Chief Internal Auditor and senior 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 non-audit services provided by the external auditors
- Oversees the work of the external auditors, 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 external 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 the bank that may impact on such independence and objectivity, and recommends actions that the board should take to satisfy itself of the independence 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, 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
- Reviews investments and transactions that could adversely affect the well-being of the bank, reports on significant litigation and regulatory compliance matters and prospectuses relating to the issue of securities of the 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)

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 to directors or entities in which they are partners, directors or officers
- 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 bank's 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 bank 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: J.T. Ferguson (Chair), L.Y. Fortier, P. Gauthier, B.C. Louie, H.T. Richardson, K.C. Rowe

### 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 bank's 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 the bank's business is ethical and socially responsible
- Oversees the bank's communications policy, including processes for communicating with clients, employees, shareholders and the community
- Reviews policies designed to create a positive corporate image
- Reviews the bank's policy on and budget for political donations
- Reviews the charitable contributions policy and budget

Members: G.A. Cohon, L.Y. Fortier, J.E. Newall, D.P. O'Brien, 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 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 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 the bank's pension plan performance and funded status
- Approves an annual report on executive compensation for inclusion in the management proxy circular

Members: W.G. Beattie, D.T. Elix, P. Gauthier, D.P. O'Brien (Chair), R.B. Peterson, G. Saint-Pierre