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CORPORATE INTEGRITY

Financial services companies depend on a foundation of trust and on effective risk management for their long-term success. We maintain trust by acting with integrity in everything we do.



Can banks ever be trusted again?



Trust

Public sentiment toward the banking sector has deteriorated as a result of worldwide financial difficulties and scandals. Governments have responded with ever-increasing regulations. In this environment, financial institutions face a host of new challenges in adapting to changes and regaining the trust of consumers.

Canadian banks have fared better than banks in many other countries, but we know we must continually work to earn the trust of our stakeholders. Over the years, we have built a foundation of trust, which we strive to maintain by behaving with integrity in everything we do.

What are you doing to promote diversity?



Gender diversity on the Board of Directors

Boards of directors derive their strength from the backgrounds, diversity, qualities, skills and experience of their members. Some socially responsible investors want increased diversity on corporate boards. In 2012, RBC™ adopted a Board diversity guideline under which at least 25 per cent of Directors should be women. In 2012, women Directors represented 29 per cent of our Board. We expect to maintain a Board that is comprised of at least 25 per cent women, and will continue to select nominees based on qualities such as integrity and ethics, business judgment, independence, business or professional expertise, international experience, and residency and familiarity with geographic regions relevant to our strategic priorities.

Corporate integrity priorities	2012 Performance highlights	2013 Plans
Govern responsibly	<ul style="list-style-type: none"> Received the Canadian Institute of Chartered Accountants' 2012 Award of Excellence in Corporate Governance Disclosure. 	<ul style="list-style-type: none"> Keep a sharp focus on strategic planning, risk management, succession planning, internal controls and governance.
Manage risk effectively	<ul style="list-style-type: none"> Increased our focus on information-technology risk, including cybersecurity. Monitored our European credit risk exposure, given the European debt crisis, supplementing our ongoing monitoring of credit risk exposure across all regions in which we do business. Monitored regulatory initiatives and their potential impact on our business models. Ensured our readiness for implementing new regulations. 	<ul style="list-style-type: none"> Promote our strong risk culture. Enhance our external risk disclosures to ensure they are in line with the Federal Stability Board's Enhanced Disclosure Task Force principles and recommendations. Improve our stress-testing capabilities.
Uphold principles, policies and procedures that promote integrity and ensure compliance with applicable regulatory requirements	<ul style="list-style-type: none"> Updated our framework for managing regulatory compliance risk to ensure consistency and alignment with the enterprise risk management framework. Updated our Anti-Money Laundering Framework and related policies. Created a stand-alone economic sanctions policy highlighting the increasing expectation of regulators to separate economic sanctions from other anti-money laundering requirements. 	<ul style="list-style-type: none"> Ensure policies and procedures are updated to comply with new regulatory requirements, industry developments and business processes.

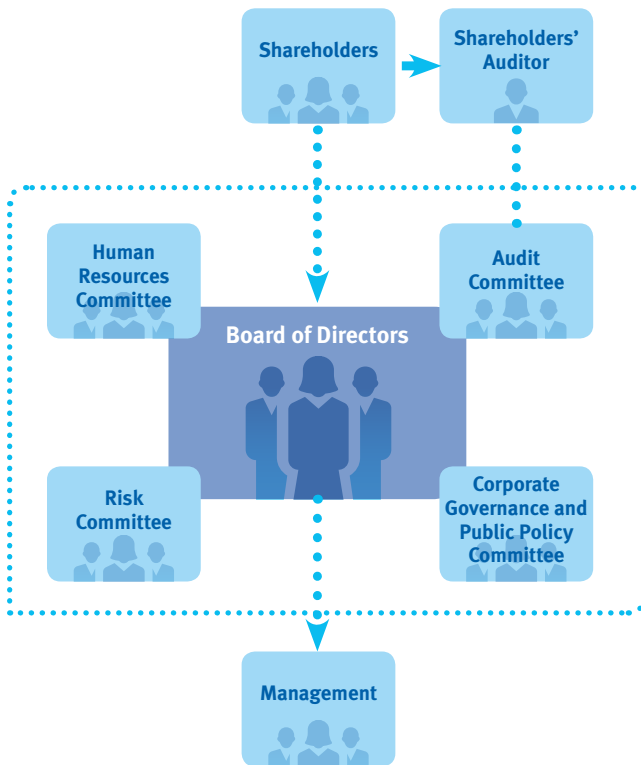
Corporate governance

Corporate governance promotes fairness, transparency and accountability by setting out the rights and responsibilities of the Board, management and shareholders.

Governance structure

The fundamental relationships among and between members of the Board, management, shareholders and other stakeholders are determined by our governance structure. This structure is the context in which we set ethical values, corporate strategies and objectives.

The strength of our governance starts at the top, with an independent chairman and experienced and well-informed directors. They ensure that we have, and enforce, standards of ethical behaviour throughout RBC, and they work to continually improve our governance practices.



We provide our primary disclosure about corporate governance in our Management Proxy Circular and on our website. For more information, see “Corporate Governance” at rbc.com/governance. In this section of our Corporate Responsibility Report, we focus on content that is typically requested by the socially responsible investment community. It includes a list of key policies, governance improvements, risk management practices and affiliations.

The following governance-related documents are available at rbc.com/governance.

- President and CEO Mandate
- List of Group Executive Members
- Board of Directors and Board Committee Memberships and Mandates
- Statement of Corporate Governance Practices
- Director Independence Policy
- Charter of the Board of Directors
- Non-executive Chairman Mandate
- Committee Chair Mandate
- Management Proxy Circular

Governance practices

Our governance practices and policies enable directors to supervise management and enhance long-term shareholder value. Our Board of Directors has long been proactive in adopting leading corporate governance practices and enhancements over the years, which, among others, include:

- Adoption of a Board diversity guideline under which at least 25 per cent of RBC directors should be women.
- Adoption of a policy for a shareholder advisory vote on our approach to executive compensation.
- Requirement for Director resignation following the annual meeting, if majority shareholder support is not received.
- Comprehensive Director Independence Policy.
- More stringent independence criteria for members of the Audit Committee.

- Every committee of the Board is comprised only of independent directors.
- Meetings of independent Directors following each regularly scheduled Board meeting.
- Sole authority for every Board committee to retain and approve the fees of independent, external advisors.
- Director minimum share ownership requirement of \$500,000.
- Explicit oversight responsibility for corporate citizenship in the Corporate Governance and Public Policy Committee mandate.
- Limiting the service¹ of our Audit Committee members on the audit committees of other companies.
- Annual Board assessments, individual director evaluation procedures, peer review and one-on-one interviews with the Chairman to assess effectiveness.
- Permanently discontinuing grants under the Director Stock Option Plan.
- Limiting interlocking directorships of Board members.
- Separating the Chairman and CEO positions; RBC was the first Canadian bank to do this.

¹ The Audit Committee mandate states that “No member of the Committee may serve on the audit committees of more than two other public companies, unless the Board of Directors determines that this simultaneous service would not impair the ability of the member to serve effectively on the Committee.”



For more information, visit rbc.com/governance.

Conduct

Our Code of Conduct (the Code) is a set of written standards that make explicit our expectations regarding integrity and ethical behaviour. It applies to the chairman and members of the Board of Directors, senior management and all employees, and shapes the organization’s business activities globally. It has been filed with securities regulators at sedar.com and sec.gov. For more information on the Code, see page 29.

Executive compensation

Accountability and transparency around executive compensation remains an important focus for issuers, shareholders, regulators and the general public.

Our approach to compensation, and executive compensation in particular, is designed to pay for performance as measured against our goals and with a clear view to creating significant and sustainable value for our shareholders. It is designed to align with sound risk management principles, including the Financial Stability Board’s Principles for Sound Compensation Practices and Implementation Standards, and supports our ability to attract, retain and motivate the talent we need to succeed.

Through our Board of Directors and our Human Resources Committee, we are always working to ensure our approach is aligned with the interests of our shareholders and evolving best practices. This includes engaging with independent experts and listening to our shareholders. Each RBC shareholder has a voice in the discussion of executive compensation, and in 2009 the Board voluntarily adopted a policy to hold at each annual meeting a non-binding advisory vote on the approach to executive compensation as disclosed in the Management Proxy Circular. This shareholder advisory vote forms an important part of the ongoing process of engagement between shareholders and the Board on compensation.

For more information about executive compensation at RBC, including a detailed description of our approach to compensation and the principles on which it is based, see page 22 of our 2013 Management Proxy Circular.

Transparency and accountability

Transparency and accountability are cornerstones of responsible governance and major components of new, global regulatory frameworks being developed to address some of the causes and fallout of recent financial crises.

We believe in transparency and accountability and will continue to improve our practices and reporting in response to both regulatory changes and emerging best practices. The fundamental principles of respect and protection of stakeholder interests have been part of the fabric of RBC for more than a century.

Risk management

Sound risk management practices are fundamental to our long-term success, as risk is present in virtually all aspects of a financial services company's business. Risk management is a core competency for RBC. We seek to ensure that our business activities and transactions provide an appropriate risk-return and remain within our risk appetite, which is collectively managed through adherence to our Enterprise Risk Appetite Framework.

Enterprise risk management (ERM) framework

Our ERM framework helps us identify, measure, control and report on the significant risks that we face. This enterprise-wide approach enables us to meet the expectations of our home regulator, the Office of the Superintendent of Financial Institutions (OSFI) and other relevant regulators around the world wherever we operate. The Risk Committee of our Board reviews and approves our ERM framework annually.

The ERM framework promotes a good understanding of the roles, responsibilities and authorities for managing risk throughout RBC. It also outlines our core enterprise-wide principles for managing risk and establishes a common risk language.

We believe it is important to be able to articulate what our risks are and how they are measured and managed so that everyone in the organization can understand them. We ensure an accurate and consistent view of risk across the organization through a variety of reporting and disclosure mechanisms. We also have a number of frameworks to address specific risks, such as operational risk and reputation risk.

Enterprise Risk Appetite Framework

Our risk appetite is the amount and type of risk we are able and willing to accept in pursuit of our business objectives. We have the Enterprise Risk Appetite Framework to determine and manage our risk capacity, self-imposed constraints, limits and tolerances, and risk profile relative to our risk appetite.

Reputation risk framework

A company's reputation is one of its most important assets. Reputation risk is the risk that an activity of RBC or its representatives will impair our image in the community or public confidence, and that this will result in the loss of business, legal action, or lead to additional regulatory oversight.

We operate under the expectation that the value of our reputation should supersede transaction, loan, deal, client or profit opportunity at all times. We are proactive in our efforts to protect our reputation using a combination of preventive and responsive measures. Our reputation risk framework is reviewed annually by the Risk Committee of our Board of Directors, and includes:

- Principles that are integral to the management of reputation risk
- Potential sources of reputation risk
- Organizational and oversight responsibilities
- Mechanisms and protocols for mitigating reputation risk

Our organizational culture and values are the foundation of our reputation and serve us well in protecting it. Our comprehensive Code of Conduct, risk identification and mitigation practices, proactive stakeholder engagement, escalation protocols established through our Enterprise Compliance Management program, and Business Continuity and Crisis Management approach help us protect our reputation.

Regulatory compliance management (RCM) framework

In order to achieve compliance with governing legislation, applicable laws, regulations and regulatory expectations, we have a comprehensive RCM framework, consistent with regulatory guidance from OSFI and other regulators globally. The framework promotes the proactive, risk-based management of regulatory compliance risk. It applies globally to all of our businesses, operations, legal entities and employees. It confirms the shared accountability of all our employees to ensure we maintain effective controls that mitigate regulatory compliance risk. It is reviewed and approved annually by the Risk Committee of our Board.

Business continuity and crisis management

We use a Business Continuity Management program to ensure that our businesses are prepared to deal with any disruption of operations or service to clients. We conduct risk assessments of all areas annually, in addition to contingency plan development and periodic testing of our resilience capabilities.

Our Enterprise Crisis Management team includes senior executives from across the organization and around the globe. It is responsible for ensuring continued service to our clients during any crisis/incident or major service interruption. The team is supported by a global network

of regional, business-line and local incident management teams, who are on call around the clock to address any situation that could pose material risk to our employees, our reputation or our ability to serve clients.

We conduct regular crisis simulations to test our readiness and ensure a timely and coordinated response to emergency situations, including departmental disruptions; building, city-wide or regional disruptions; or external events such as pandemics or natural disasters.

Policies and procedures

Financial services companies, perhaps more than any other type of business, depend on confidence and trust. We strive to operate with integrity every day and in every transaction or interaction to maintain that trust.

As a global organization, RBC and our employees are expected to comply with laws and regulations that govern our businesses in the jurisdictions in which we operate. We regularly review our internal policies and controls to ensure they are effective and aligned with relevant laws and regulations. This section covers our key principles, codes and policies that ensure integrity in everything we do.

Code of Conduct

We have a strong culture of integrity grounded in our Code of Conduct, which broadly addresses a variety of ethical and legal concerns that face our employees on a day-to-day basis.

First formally adopted in 1980, our Code of Conduct outlines our commitment to, and expectation of, ethical behaviour. We review and update the Code regularly to ensure it covers all aspects of our activities. Each RBC employee must confirm his/her understanding of and commitment to the Code of Conduct at least every two years. Directors, Group Executive Members and employees who have financial oversight roles must also review and acknowledge they have reviewed the Code of Conduct annually.

Our Code of Conduct includes the following principles:

- Upholding the law
- Confidentiality
- Fairness
- Corporate responsibility, including environmental sustainability
- Trust
- Objectivity
- Integrity
- Individual responsibility

In 2012, our Human Resources and Global Compliance groups began a formal review of the RBC Code of Conduct to ensure it addresses all appropriate risk factors; is applicable globally; and aligns with our values and best practices for Code of Conduct governance. The updated Code of Conduct will be implemented in 2013.

Compliance with Code of Conduct

We track and report internally on any significant violations of the Code of Conduct. We report any breach to the appropriate authorities as required by law, and we formally report semi-annually to various senior management and Board committees on:

- The completion rates of our employee Code of Conduct learning program;
- An analysis of Code of Conduct breaches and remedial actions taken;
- A description of any waivers granted in respect of the Code of Conduct; and
- A description of initiatives relating to employee awareness of the Code of Conduct.

Policies

We support our Code of Conduct with a number of enterprise-wide, business-specific global and regional policies. They cover issues such as privacy, money laundering, terrorist financing, economic sanctions and lending to political parties. Some of our key policies are highlighted here.

Policies	
Background and description	Implementation
Privacy	
<ul style="list-style-type: none"> Our Privacy Policy contains principles that describe how we collect and use client information, how it may be shared and with whom, and our security practices. We follow comprehensive privacy policies and security practices in compliance with laws to support our value of “trust through integrity in everything we do.” 	<ul style="list-style-type: none"> All employees must complete the privacy fundamentals course and the Code of Conduct. Privacy Officers are assigned to each business line to provide oversight with respect to the Privacy Principles.
Anti-bribery/anti-corruption	
<ul style="list-style-type: none"> Our global Anti-Bribery/Anti-Corruption Policy supports the efforts of governments and other groups around the world who are working hard to fight corruption through legislation that prohibits corrupt and other payments, such as facilitation payments. To support these efforts and our commitment to operate with integrity, we continue to enhance our enterprise-wide, global Anti-Bribery/Anti-Corruption Policy. 	<ul style="list-style-type: none"> RBC employees learn about this policy in our mandatory Code of Conduct training (see page 29). We also require certain employees to complete additional anti-bribery/anti-corruption training because of the nature of our business, the specific business activities performed by the employee and/or the geographic regions in which RBC conducts business. Employees assigned the enterprise anti-bribery/anti-corruption course are trained on the relevant policies and procedures. In 2012, we conducted an anti-bribery/anti-corruption (ABAC) risk assessment to review client risk and country risk. As well, we completed a self-assessment to determine the controls that businesses have in place to mitigate potential risks, and the resulting ABAC residual risk posed to the organization. The enterprise ABAC training assignment profile remains in place, and employees in higher-risk jurisdictions or higher-risk businesses are subject to training.

Policies (continued)

Background and description	Implementation
Anti-money laundering (AML) and anti-terrorist financing	
<ul style="list-style-type: none"> ■ Our enterprise-wide AML and Anti-Terrorist Financing Policy and compliance program are designed to deter, detect and report suspected money laundering and terrorist financing. The program applies appropriate scrutiny and monitoring measures to clients, particularly those whose business activities are known to be susceptible to criminal activity or who have been designated as higher-risk for money laundering and/or terrorist financing. ■ We continually develop and maintain robust policies, guidelines, training and risk-assessment tools and processes to help our employees deal with ever-evolving money laundering and terrorism financing risks. 	<ul style="list-style-type: none"> ■ All RBC employees must follow our compulsory AML and Anti-Terrorist Financing training program. ■ We have robust automated systems and analytical processes to detect, track and assess transactions for suspicious activities. ■ Eighty-five per cent of our transactions are tracked via a centralized system. ■ Over 95 per cent of clients are estimated to be subject to some form of automated transaction monitoring. ■ We have automated systems and other processes for ongoing scanning of client names and payment information against applicable terrorist and control lists. ■ We actively participate in and consult with global industry groups and intelligence units in order to stay informed about reporting trends for prescribed transactions.
Economic sanctions	
<ul style="list-style-type: none"> ■ Our enterprise-wide Economic Sanctions Policy establishes the minimum standards to be followed by all businesses and global operations with respect to compliance with economic sanctions globally. 	<ul style="list-style-type: none"> ■ We have automated systems and other processes for ongoing scanning of client names and payment information against applicable sanctions and control lists. ■ We continue to keep informed of industry best practices and regulatory expectations with respect to economic sanctions requirements. ■ All RBC employees must comply with applicable economic sanctions obligations that are imposed by the country in which they are located, or that otherwise apply to them because of their nationality, the place of incorporation or the currency where those services are provided.
Fiduciary risk	
<ul style="list-style-type: none"> ■ Under this policy, our businesses and subsidiaries must identify, assess, manage and mitigate any fiduciary risk inherent in our operations or arising from our specific activities and relationships with clients. 	<ul style="list-style-type: none"> ■ Employees engaged in fiduciary relationships must have the appropriate level of knowledge and training necessary to carry out their fiduciary duties, and must meet all applicable legal, regulatory, licensing or registration requirements.
Client due diligence	
<ul style="list-style-type: none"> ■ Our enterprise-wide standards for conducting due diligence on new and existing clients and for performing enhanced due diligence on those clients who may introduce potential risks to RBC due to higher risk of money laundering, terrorist financing or violation of economic sanctions are designed to ensure on a reasonable and practicable basis that we know with whom we are conducting business. Representatives of Global AML Compliance review our business units' client due diligence policies and procedures to ensure their alignment with our enterprise-wide standards. 	<ul style="list-style-type: none"> ■ We require our employees to undergo extensive training and make all the necessary efforts to understand who our clients are and what their personal and financial objectives are.

Policies (continued)

Background and description

Implementation

Development of products and services

- Our Enterprise Product Risk Review and Approval Policy sets out a defined, rigorous process for the initial and subsequent risk assessment and approval of financial products and services. We evaluate products for a range of risks and ensure they align with our risk appetite and with applicable laws and regulations.
- Risks of new and existing products must be classified as low/medium/high, with approval processes aligned to each product's risk level.

- Senior management monitors and reviews new and amended product reporting quarterly.
- We perform risk assessments on a regular basis, depending on their specific risk levels.

Environmental and social risk management

- Our enterprise-wide Environmental and Social Risk Management Policy applies to all RBC activities, including non-financing ones.
It is complemented by a suite of environmental and social risk management policies that require enhanced due diligence on specific types of transactions and business activities where these may give rise to credit, legal or reputational risk. The following table lists the complementary policies and where they are applicable.

- In 2012, we performed detailed environmental credit risk assessments on over 1,200 transactions in Canada and the U.S., a 10 per cent increase over 2011.
- We trained over 800 lenders, investment bankers and risk managers on environmental and social risk management.
- We participated as an advisor and provided project finance for 10 projects that qualified under the Equator Principles.

RBC environmental and social risk management policies

	Canada	United States	Global
Residential mortgage lending	■		
Small business and commercial loans; mortgages	■	■	
Agriculture lending	■		
Corporate lending and investment banking	■	■	■
Large project financing (Equator Principles)	■	■	■
Public sector lending	■		
Environmental investigations (use of third-party consultants)	■	■	

See pages 89 to 90 for information on how these policies are applied.

Policies (continued)**Background and description****Implementation****Responsible procurement**

- Our enterprise-wide Responsible Procurement Policy is intended to ensure that we gather the appropriate environmental and social information regarding prospective suppliers and the products and services they offer, and incorporate that information in procurement decisions. Screening criteria include:
 - Responsible environmental management
 - Employee health and safety
 - Ethical business practices
 - Compliance with applicable labour laws
- All RBC requests for quotes (RFXs) include mandatory questions based on our responsible procurement screening criteria. In higher-risk categories, due diligence is enhanced through additional RFX questions tailored to the specific industry or product/service, as well as site visits or other mechanisms.
- In 2012, we included responsible procurement screening questions in 147 electronic requests for information, representing 97 per cent of transactions done through our web-based sourcing tool.

Political contributions

- Our enterprise-wide policy on political contributions allows for only those contributions permitted by law to a political party, candidate or campaign and only as an expression of responsible citizenship — not to “purchase” favours or to gain improper advantage. We do not permit contributions to political parties, riding associations and candidates through our corporate philanthropy program.

Canada

- We do not make corporate contributions to federal political parties through any part of our company in Canada, and political donations to municipal politicians are not permitted.
- We make political contributions to provincial parties to the extent permitted by law and by our internal policy. Our provincial political contributions are limited and restricted, depending on the respective province and territory. Limits are published on respective provincial government websites.

United States

- Our Capital Markets and Wealth Management groups in the U.S. are planning a 2013 launch of a U.S. federal Political Action Committee (PAC). As required by law, the PAC will be funded by non-reimbursable, voluntary personal contributions from eligible U.S. employees (corporate contributions are prohibited). The PAC will make political donations only at the federal level, in the manner and to the extent permitted by law. PACs and political contributions are highly regulated activities; our preparations have focused on ensuring initial and sustainable compliance with the relevant regulatory regime.

United Kingdom and Channel Islands

- Our Capital Markets and Wealth Management groups in the British Isles do not make any corporate contributions to political parties, and we have policies and controls to ensure that employees do not make political contributions on behalf of RBC or in their capacity as RBC employees.

Caribbean

- In the Caribbean, we do not provide political contributions to any party at any level of government or to any political action committees.

Policies (continued)

Background and description

Implementation

Lobbying

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| <ul style="list-style-type: none"> ■ Our global policy on lobbying applies to all RBC businesses and operations that have contact with public officials or employees who influence legislation, regulations or other government actions. Where such contact exists, the policy requires that appropriate processes and controls are in place to ensure legislative requirements are met. | <ul style="list-style-type: none"> ■ In Canada, a full list of RBC lobbyists — firms that lobby on our behalf — can be viewed by searching for “RBC” in the Registry of Lobbyists at ocl-cal.gc.ca. ■ In the U.S., lobbying reports are publicly available at OpenSecrets.org. |
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Anti-competitive behaviour

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| <ul style="list-style-type: none"> ■ Our enterprise-wide anti-trust and competition guidelines are applicable to all RBC employees and companies. The document addresses common elements in anti-trust and competition laws that apply in the major jurisdictions in which we do business. | <ul style="list-style-type: none"> ■ Our Code of Conduct training also addresses our commitment to fair competition. This is complemented by region-specific requirements, guidelines and policies. All RBC employees across the globe must complete a Code of Conduct training course once every two years as a condition of employment. ■ The RBC Global Compliance group is undertaking a comprehensive review of our current competition policies and related training. The enterprise-wide guidelines are scheduled for their next bi-annual update in 2013. |
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Identification and management of conflicts of interest

The *Bank Act* (Canada) and other governing legislation and regulations require us to maintain appropriate controls and processes to identify and manage any conflicts between the interests of RBC and its employees and clients or other third parties. Where a conflict exists, or appears to exist, appropriate steps must be taken to manage the conflict, including, in certain circumstances, eliminating it entirely. If more than one conflict of interest exists for a particular situation, the conflicts must be addressed and managed together.

Where the personal or business relationships or interests of directors and executive officers may conflict with those of RBC, the individuals concerned are

required to disclose in writing, or by requesting to have it entered in the minutes of the applicable Board meeting, the nature and extent of any interest they have in a material contract or material transaction with RBC. 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. For all other employees, management of conflicts of interest is covered in our Code of Conduct.

The Audit Committee of our Board of Directors has a policy that requires their pre-approval for audit services and other services (within permissible categories of non-audit services) performed by our Auditor. The policy prohibits RBC from engaging the auditor for “prohibited” categories of non-audit services.

Reporting suspected irregularities

All RBC employees have a duty to report suspected breaches of our Code of Conduct, other irregularities and dishonesty. We have long-established accessible processes that enable employees to do so, and our Code of Conduct protects employees from retaliation for any report made in good faith.

The RBC Reporting Hotline allows employees and third parties to report suspected irregularities or wrongdoing related to accounting, auditing or internal accounting controls directly to the RBC Ombudsman. They can do this anonymously, in confidence and without fear of retaliation, on a 24-7 basis.

The RBC Ombudsman personally monitors messages received through the Hotline channel, and reports all issues raised to the Audit Committee of the Board of Directors. Names and identifying features are removed from the report, and all information reported is retained in strict confidence. The Ombudsman has independent and sole authority to determine appropriate action with regard to messages received, and to initiate contact with the employee for further information.